ANNUAL REPORT 1985

ALGOMA STEEL

"Productivity through people"

Corporate Profile

Algoma Steel was formed in 1901 as a rail producer supplying the rapidly expanding Canadian and United States railroads. The Corporation was reorganized by Sir James Dunn in 1935 and began to expand its range of products. Today, Algoma is a fully integrated steel producer with five principal product lines consisting of sheet and strip, plate, seamless tubulars, structural shapes and rails. It also produces and sells both steam and metallurgical coal. Algoma employs directly and through its United States subsidiaries approximately 9,500 employees.

The Corporation's steelworks and head office are located in Sault Ste. Marie, Ontario. It has regional sales offices in five centres across Canada and in two United States locations. Through direct ownership, Algoma can satisfy all its iron ore and the majority of its coal requirements. Iron ore is obtained from mines in Wawa, Ontario and Ishpeming, Michigan and coal from four mining locations in West Virginia. The United States mining operations and tubular sales are conducted through Algoma's principal subsidiary, Cannelton Industries, Inc.

Algoma owns 34 percent of AMCA International Limited, a world-wide producer of a broad range of industrial products and machine tools, construction equipment and engineering and construction services.

Canadian ownership of Algoma Steel exceeds 99 percent. Canadian Pacific Enterprises Limited, with a 61 percent interest, is the principal shareholder.

A special project task force, including Wayne Locke, General Manager – Corporate Accounting, Jim McClure, Director – Commercial Planning, Bill Suhay, Superintendent – Operations Technology – Steelmaking & Casting, and Ed Rowe, General Manager – Engineering & Construction, discusses plans for future improvements to steelmaking operations with Henry Winters, Vice President – Marketing & Planning.

THE ALGOMA STEEL CORPORATION, LIMITED

Highlights

Tons and dollars in millions except per share data	1985	1984
Shipments of steel products (tons)	2.063	1.951
Sales	$1,176.7	$1,104.3
Earnings from operations	$ 52.1	$ 14.9
Earnings (loss) before income taxes and equity in earnings of AMCA International Limited	$ (17.4)	$ (61.8)
Net earnings (loss)	$ (3.0)*	$ (45.7)
– from integrated steel operations	$ (0.3)*	$ (40.2)
– from AMCA International Limited	$ (2.7)	$ (5.5)
Per common share data		
Net earnings (loss)	$ (1.35)*	$ (4.30)
Dividends paid in cash	$ —	$ —
Book value	$ 40.31	$ 41.66
Cash provided from operations	$ 102.4	$ 73.6
Long term debt as a percent of capitalization	45%	41%
Return on average total investment	2.0%	(1.4)%
Return on average common shareholders' equity	(3.3)%	(9.8)%
Closing market price		
– 8% tax deferred preference share	$ 25.00	$ 24.50
–class B convertible preference share	$ 23.50	$ 23.75
– common share	$ 20.00	$ 18.75

*Includes an extraordinary credit of $6.8 million (47 cents per share)

Annual Meeting

The Annual Meeting of Shareholders will be held at the Algoma Steel Club, 89 Foster Drive, Sault Ste. Marie, Ontario, Wednesday, April 16, 1986 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, Aciers Algoma Limitée, Sault-Sainte Marie, Ontario.

Executive Offices

503 Queen Street East
Sault Ste. Marie, Ontario
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Contents

Report to Shareholders

The 1985 net loss of $3 million was well below the $46 million and $127 million net losses in the prior two years, but fell short of the 1985 objective of profitability. The Corporation must restore profitability and move to higher profit levels if it is to fund the capital programs on which its future depends. We must use existing facilities, and those that will begin operation in 1986, to generate earnings and achieve improved cash flow, even at the low steel prices that exist today.

The 1985 loss included a $3 million loss from Algoma's 34 percent equity interest in AMCA International Limited compared with a $6 million loss from AMCA in 1984. After providing for preference share dividends, the Corporation's loss per common share was $1.35 compared with a loss of $4.30 per share in 1984. In the fourth quarter, 213,732 common shares were issued as a stock dividend and 50,000 common shares were reserved to finance participation by a subsidiary in a gold exploration program.

Canadian demand improved in 1985 for Algoma's tubular, sheet and strip and wide flange products and our domestic sales increased. However, highly competitive United States markets and cognizance of that country's fair trade laws restricted the Corporation's United States sales, particularly in seamless oil country tubular products. It is evident that excess steel production capacity still exists in North America and world-wide and there will be little potential for real price increases in the foreseeable future. In this environment, relentless pursuit of cost reduction is not only necessary, it is a condition for survival.

Chaotic conditions in world steel trade prevailed throughout 1985 and have not yet stabilized. United States steel imports are well above the President's guidelines and the tonnage of offshore steel entering the Canadian market is growing. The obvious targeting of North American markets by offshore producers emphasizes the need for a co-operative approach by Canada and the United States to achieve a bilateral understanding on steel trade. It is not Canada/U.S. trade which has caused the problems for North American steel companies, but rather aggressive import penetration by offshore steel producers, often at predatory and unfair prices.

Although the volume of Algoma's 1985 steel product shipments increased 6 percent from 1984, we see little evidence of sustained growth in North American steel markets. Steel intensity in our economy has been on a downward trend and offshore imports of finished goods and component parts have reduced domestic steel demand. Low oil prices over an extended period would curtail Canadian and United States oil and gas drilling programs and reduce seamless tubular demand.

The ongoing task for Algoma is to establish a niche for each of its products in a highly competitive world steel environment where quality and service demands have intensified and little market growth can be expected. Strategic planning, currently underway, is directed towards better identification and enhancement of those niches through reanalysis of each product line, restructuring of operating facilities for improved cost efficiency and redirection of resources towards the products and markets which offer the greatest potential for success. Start-up of facilities to produce 78-foot rails in the second quarter of 1986 will increase sales opportunities in carbon and intermediate rail grades. The start-up of Algoma's new world-class tube mill in the fourth quarter will increase Algoma's seamless tubular product range and offer opportunities for cost reduction and quality improvement.

We know that our continuous casting capability must increase so that more of the cost and quality benefits of this process can be realized. Despite achieving two-thirds of our total raw steel continuously cast in 1985, we need to consolidate steelmaking and continuous casting operations, add ladle refining capability and move towards 100 percent continuous casting. However, the capital cost necessary to accomplish these changes cannot be totally funded by debt. The needed capital must come primarily from cash flow, innovative financing, additional equity, or the sale of assets.

We look to government leaders in Ottawa and Toronto to recognize the difficulty faced by the North American steel industry and our company, particularly as it relates to maintaining badly needed jobs in Northern Ontario. We recognize our environmental responsibilities but we question the ordered preferencing of some environmental expenditures over other essential capital projects. We are aware that unemployment problems also exist elsewhere in Canada, but potential government subsidization of a domestic competitor's uneconomical products, in an already fully supplied market, would directly threaten the jobs of Algoma's employees. We cannot let these actions go unchallenged.

Walter G. Ward retired from the Board of Directors in 1985, having reached the mandatory retirement age. Mr. Ward served as Chairman of the Corporation from August, 1977 to April, 1981 and provided a valued contribution as an Officer and as a Director. Charles H. Hantho joined the Board during the year.

In August 1985, Gerry B. Hudson was appointed Vice President – Sales and Henry C. Winters was appointed Vice President – Marketing and Planning. The appointment of Mr. Winters recognizes the greater need for more formalized planning within the Corporation.

These are demanding times for Algoma. The practices and performance that have served us in the past will not meet today's needs nor those of the future. Careful planning, wise allocation of resources, innovative management and the participation, understanding and team effort of all employees will be needed to achieve the higher performance levels required to assure success.

The determined efforts of employees during 1985 are acknowledged with appreciation. We also recognize the support of customers, suppliers and shareholders. Algoma has made progress, but the improvement must continue until profitability is restored and can be assured in the years to come.

Chairman and Chief Executive Officer

President and Chief Operating Officer

Sault Ste. Marie, Ontario
February 12, 1986

REVIEW OF 1985
Marketing and Sales

Consolidated sales of $1.2 billion were 7 percent higher than in 1984. For the third consecutive year shipments of steel products increased, as did total domestic steel shipments from Canadian producers. However, this volume increase did not bring with it the margins necessary to achieve profitability.

North American customers have a variety of potential suppliers ready to meet their needs and there will be no let-up in price, service and quality demands. At the same time, depressed pricing in North American markets detracts from the cash flow which is essential for investment in the new facilities and new technology needed to respond to the more stringent customer demands. This dilemma can only be resolved through an overall team effort to make more efficient and productive use of existing facilities and those that will commence production in 1986.

In many instances, Algoma faces a geographic disadvantage in meeting the "just in time" delivery requirements of its customers. Innovative inventorying and processing programs have been devised to overcome this geographic disadvantage and remain competitive at customers' plants, but not without a cost penalty. The added cost of these programs must be offset by higher sales and lower production costs.

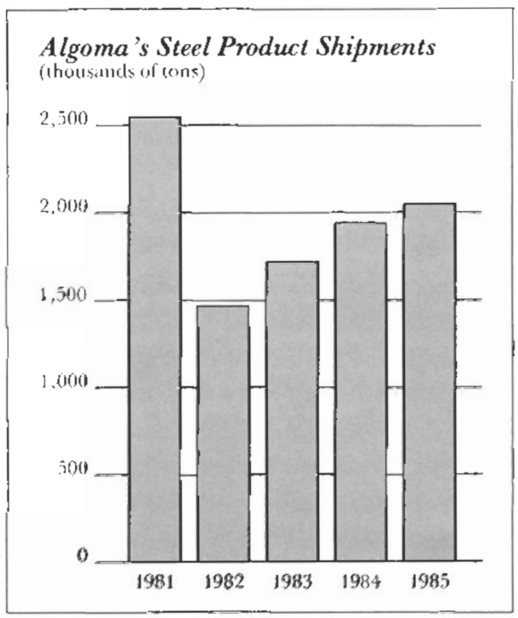
Algoma's Finished Steel Product Shipments By Product Classification

	1985	1984
Plate and Sheet	64%	64%
Structural Shapes	17%	14%
Seamless Tubulars and Skelp	14%	15%
Rails and Fastenings	5%	7%
	100%	100%

The strong 1985 automotive market and the increasing acceptance of Algoma's continuously cast product permitted improved sales of sheet and strip products. Demand also improved for the Corporation's structural products, due to increased Canadian construction activity. These improvements were not reflected in Algoma's plate business where depressed markets and intense competition forced low operating levels and unacceptable profitability, despite the growing acceptance of Algoma's quenched and tempered plate products.

The strong Canadian market for Algoma's seamless oil country tubular

John Wood, Group Sales Manager – Automotive & Light Manufacturing, Bob Dool, General Manager – Corporate Order Acceptance & Control, Bill Davey, Assistant to the Vice President – Marketing and Planning, and Bob Turpin, General Manager – Product Control, discuss strategy for reorganization of the order entry function to improve response time to customers.



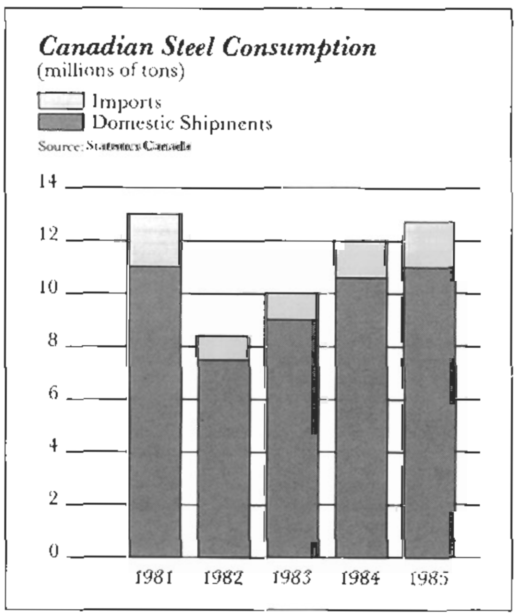
products contrasted with the United States market where oil and gas drilling declined, seamless tubular inventories increased and competition became so intense that the Corporation chose not to participate in the suicidal price discounting. The start-up of No. 2 seamless tube mill in late 1986 will give Algoma a new quality and cost capability, increase its product range and enhance its competitive position in North American seamless markets.

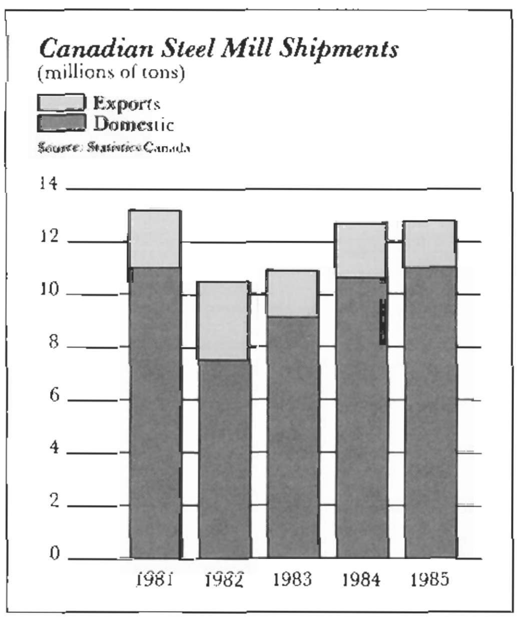
In 1985, North American railways moved even more rapidly towards their preference for 78-foot rails in higher quality grades. Rails with superior wear characteristics are the products of the future and Algoma is moving rapidly to meet these needs. New facilities to produce ultrasonically tested 78-foot rails in carbon and intermediate grades will commence operation in second quarter 1986.

Reorganization of the order entry function commenced in 1985 to improve response time to customers and provide for on-line order profitability analysis. Competitive pricing requires improved understanding of production costs and a new computerized system is being developed to provide this capability.

Reorganization of sales offices is also underway to improve the efficiency of the sales group and still maintain good contact with customers. The increased involvement of non-sales people in the product "businesses" will provide better understanding of customer requirements and emphasize the need for a team effort to increase sales and improve profitability.

It is now apparent that Canadian steel producers cannot rely on the North American steel buying practices that typified periods prior to the 1980's. Customers are demanding world-competitive standards of price, quality and service. Algoma must create a competitive edge for each of its products which will attract and maintain customers, despite competition. We must work to retain access to United States markets and we must ensure that Canadian fair trade laws are rigorously enforced. In combination, these actions can bring Algoma through this difficult period and assure its continued role as a successful North American steel company.





Operations

The productivity levels achieved at Algoma's mines and plants in 1985 would have assured profitability in prior years. However, the increased efficiency at Algoma's operations has been duplicated by competitors and is part of a pattern that is essential for survival in today's difficult steel markets. The improving productivity trend must be maintained in 1986 and future years and, at the same time, new standards of quality and customer service must be achieved. To accomplish this difficult task we must maintain positive employee attitudes and adopt new management techniques.

Mining

During 1985, it would have been possible to purchase iron ore in North America at prices lower than the combined costs from Algoma's captive iron ore sources, the Algoma Ore Division and the Tilden Mine. The goal must be to restructure these operations and improve their costs so that Algoma will not be penalized in comparison to potential alternate iron ore sources.

The Algoma Ore Division in Wawa, Ontario, and the Tilden Mine in Michigan each operated at about two-thirds capacity in 1985. Productivity and quality improvements were achieved at both operations and research programs underway are directed towards further product improvements.

The Ontario Ministry of the Environment imposed new sulphur dioxide (SO_2) emission standards on the Algoma Ore Division which require major reductions in emissions by 1994. No technology presently exists that would permit the Algoma Ore Division to operate at anything near its capacity and still maintain a cost viable operation under the proposed SO_2 restrictions. This impasse must be resolved.

Coal production at the West Virginia operations of Cannelton Industries, Inc. surpassed the 1984 record by 18 percent and there were accompanying productivity and cost improvements. However, as with iron ore, further cost reductions must be achieved to match the declining price structure for North American metallurgical coal.

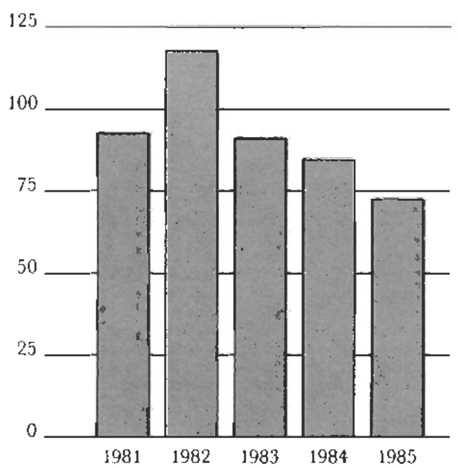
A new ten-year steam coal contract with a large United States utility company provides for the sale by Cannelton of approximately 550,000 tons of steam coal annually which will be shipped by barge directly from the Kanawha steam coal operation. This sales contract helped increase total 1985 steam coal shipments by Cannelton to over 1.3 million tons and even greater tonnages are anticipated in future years.

The gold exploration program by Canamax Resources Inc. on the lands of Algoma's 79 percent owned subsidiary, Kremzar Gold Mines Limited, continued in 1985 with encouraging results. Through its exploration expenditures, Canamax has earned a 50 percent interest in the Kremzar lands. Kremzar and Canamax have jointly undertaken a $4 million exploration program designed to increase reserves and determine if a mining operation can be justified on the property.

Manufacturing

The improvement in steel orders led to higher operating levels in cokemaking, ironmaking and steelmaking. A mishap on No. 7 blast furnace in July resulted in the loss of almost 100,000 tons of raw steel production with a subsequent adverse impact on rolling mill operations and shipments.

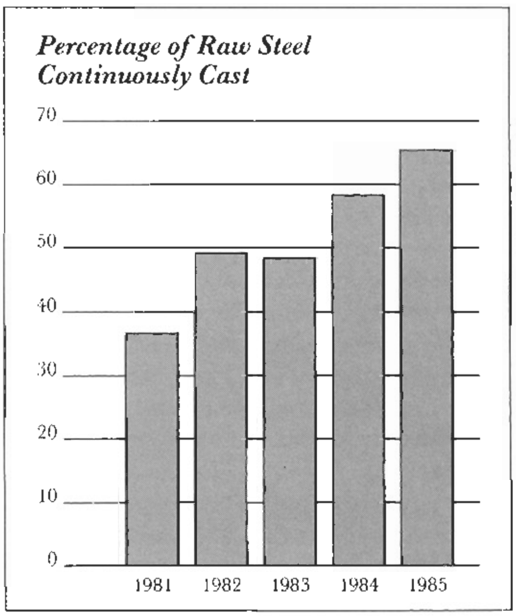
Index of Man-Hours per Ton of Finished Steel Product
1972 = 100



Of the 2.7 million tons of raw steel produced during 1985, approximately two-thirds was continuously cast. The proportion of continuously cast product has been steadily increased over the last five years through improved operating and scheduling techniques which permitted the performance gains to be achieved without any major change in facilities.

Co-ordination of 1985 rolling mill operations was difficult because of the more stringent customer specifications and the need for improved customer service and greater shipment reliability. The difficulty was particularly apparent in the seamless tube mill operation where modifications to the mill, as well as construction on the adjacent No. 2 seamless tube mill, were added complications. In these circumstances, the improvement in rolling mill productivity was not as great as anticipated.

Construction of the new No. 2 seamless tube mill is on schedule and trial rollings are scheduled for the fourth quarter of 1986. Modifications to the rail mill and construction of a new rail mill finishing facility will permit the production of 78-foot, roller straightened, ultrasonically tested rails in the second quarter of 1986. At that time, intermediate grade rails will be available to meet the demands of North American customers. Trials of premium grade rails produced on Algoma's prototype equipment using patented Algoma technology are underway in the rocky mountain region of Canada. Results are encouraging and it is expected that this technology will be successful for use in Algoma's plant and for sale to others.



Statistical process control (SPC) projects are underway in a number of operating areas and demonstrated benefits associated with the program have ranged from marginally improved results to operating breakthroughs. The adoption by the Corporation of statistical process control requires increased employee co-operation and participation in developing more meaningful statistical information and using new techniques to identify and solve problems. A director of statistical process control, reporting to the President, has been appointed to act as a catalyst in the acceleration of SPC adaptation throughout the Corporation.

In 1986, we must accelerate the improvement program in operating areas and further the realization by all employees that there can be no let-up in the absolute need for cost reduction and productivity gains. There is no room for any North American steel producer who cannot demonstrate a capability and determination to relentlessly pursue new performance objectives. The future of our steel business and all those who rely on it will depend on the extent to which these goals are achieved.

Eric Greaves, By-Product Plant Operator, Glyn Morris, Corporate Director – Statistical Process Control, and Wayne Jonasson, Superintendent – Cokemaking Operations, review SPC control charts in the cokemaking area.

Employee Relations

The stresses that are part of today's North American steel industry were evident at all levels in Algoma's organization in 1985. The remote location of Algoma's plants and mines makes it difficult for employees to understand there is no alternative to the increasing demands that are placed on Algoma by the marketplace. Achieving this new level of understanding is a major communications task. An internal group has been formed to expand employee information and to enhance communication within every part of the Corporation.

Surveys conducted in 1985 have confirmed the desire of all employees to be better informed on the Corporation's affairs and to participate in finding the solutions to the problems which are typified by Algoma's four consecutive loss years. It is understood that without profitability there is no job security, but there is not sufficient understanding or acceptance of the difficult demands that must be placed on every Algoma employee to achieve satisfactory profitability levels.

A deteriorating 1985 safety performance at Algoma's Canadian operations prompted the joint health and safety committees to intensify their efforts and look for new solutions to counteract the unacceptable trend. In-house physiotherapy and rehabilitation facilities, modified work programs, counselling for employees with unsatisfactory safety records, an expanded communications safety program and reinforcement of safety committees are some of the measures that have been adopted to improve health care and decrease the number of injuries to Algoma employees. It is recognized that emphasis on safety is particularly important during periods of change which employees believe could threaten their job security.

Publications by the international office of the United Steelworkers of America have demonstrated recognition by that organization that the North American steel industry is threatened and must respond to competitive world pressures. The same understanding must be achieved by Algoma's employees and their elected union representatives. There must be common understanding of the serious challenge that faces our industry and our company.

An example of the common purpose that can be achieved between union and management was demonstrated by the May, 1985 Canadian steel conference that was hosted in Sault Ste. Marie. The Canadian director of the United Steelworkers of America and fifty-six representatives from three union districts met with senior officials of the Canadian steel industry to discuss problems concerning the Canadian steel industry. Four joint study groups were formed to examine problems relating to steel trade, technological change and market change with reports to be tabled at a second conference scheduled for Sault Ste. Marie in May, 1986. This type of co-operation typifies the joint actions that are necessary in the Canadian steel industry.

The 1985 levels of production and construction resulted in higher employment levels than at any time since the first half of 1982. The table below shows a comparison with 1984 and indicates the increase in Algoma's total employment costs. However, it must be recognized that employment will reduce as the construction projects end and that future employment levels will be directly dependent on Algoma's competitive performance.

Major Employment Cost Elements

(millions of dollars)	**1985**	1984
Wages and Salaries		
For time worked	**$295**	$254
For vacation and statutory holidays	**49**	46
Benefits		
Company pension plans	**35**	42
Workers' compensation	**14**	13
Unemployment insurance	**7**	6
Group insurance plans and other benefits	**36**	30
	$436	$391

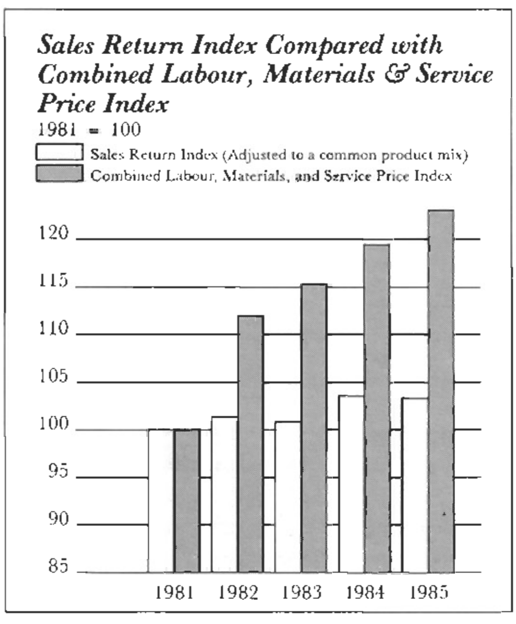
Finance

The 1985 net loss of $3 million was the fourth consecutive annual loss for the Corporation. There were improvements in sales, product mix and productivity but inflation in the unit costs of labour, material and services purchased by the Corporation was not matched by increases in sales returns.

The net loss applicable to common shareholders was $20 million, or $1.35 per share, compared with a loss of $63 million, or $4.30 per share, in 1984. Results in 1985 included a $7 million, or $.47 per share, extraordinary reduction in income taxes of a United States subsidiary, resulting from the application of prior years' losses.

Pretax Earnings (Loss) by Quarter Year

(millions of dollars)	1985	1984
Quarter		
1	**$ .7**	$(26.0)
2	**(2.7)**	(14.9)
3	**(9.6)**	(15.3)
4	**(5.8)**	(5.6)
Year	**$(17.4)**	$(61.8)

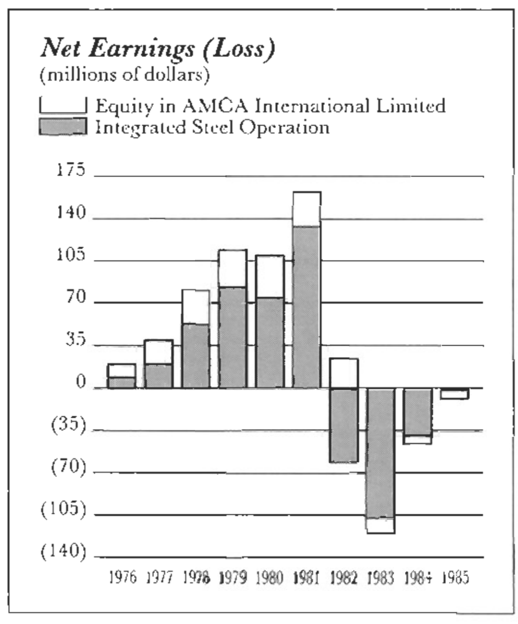


Quarterly pretax results from integrated steel operations ranged from a positive $745 thousand in the first quarter to a negative $9.6 million in the third quarter when operations were interrupted by a mishap on No. 7 blast furnace and shipments were reduced by summer shut-downs at customers' plants. The quarterly improvement trend of 1984 was not repeated in 1985, primarily as a result of price deterioration in North American markets.

AMCA International Limited reported net earnings of U.S. $17 million in 1985 compared with a net loss of U.S. $2 million in the prior year. After taking into account AMCA's preference share dividends, the 1985 loss attributable to Algoma from AMCA was $3 million Canadian compared with a $6 million loss in 1984.

As with Algoma, AMCA's 1985 results were an improvement over 1984, but were below expectations because of intense competition and price pressures. The company was successful in booking new work at a record pace during the year and the strong backlog entering 1986 should provide improved results this year, although still below normal. The company can be expected to benefit from the consolidation and cost reduction actions that have been undertaken during the past several years and from the generally strong North American economy.

Algoma's cash flow from operations of $102 million, after the investment of $34 million in higher operating working capital, was a $29 million improvement over 1984 and was more than sufficient to

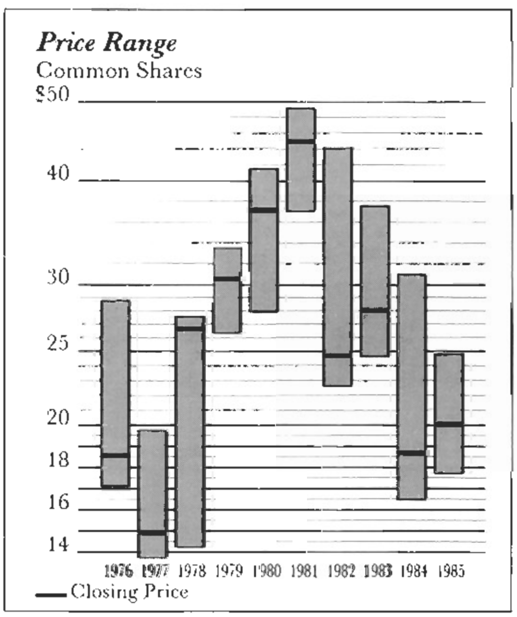


provide for debt servicing and payment of preference share dividends. However, capital expenditures of $143 million and long term investments of $15 million caused a $68 million net increase in long term borrowing, despite the Superior Limited Partnership contributions of $60 million, including $5 million in respect of investment tax credits, which came from the limited partner, Canadian Pacific Limited.

Estimated expenditures to complete projects authorized by the Board of Directors and committed by the Corporation were $110 million at year-end. A further $187 million of capital expenditures were authorized but not yet committed.

Common Share Price Range – 1985
(Dollars)

Quarter	High	Low
1	$24-3/4	$18-1/8
2	24	20-1/2
3	22-7/8	17-3/4
4	20-3/4	18-1/4



Long term debt of $670 million at December 31, 1985, including an increase during the year of $16 million resulting from changes in foreign exchange rates, represented 45.3 percent of total capitalization compared with $586 million and 41.4 percent, respectively, at the end of 1984. The ability to fund additional capital programs will depend on improving the Corporation's cash flow from operations and the potential to issue equity or sell assets. The sole use of available lines of credit or the issue of new debt do not constitute acceptable methods of financing.

Dividends paid to preference shareholders during the year amounted to $17 million. No common share cash dividends were paid in 1985, although a stock dividend equivalent to $.30 per common share, was issued in the fourth quarter.

Management's Responsibility for Financial Statements

The consolidated financial statements of The Algoma Steel Corporation, Limited have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts based upon management's estimates and judgements. Algoma's management is responsible to ensure that these statements reasonably reflect the Corporation's business transactions and financial position.

The integrity and reliability of Algoma's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. Internal accounting controls are continually monitored by an internal audit staff through ongoing reviews and comprehensive audit programs. Algoma's Code of Business Conduct policy, which is regularly communicated throughout the organization, requires employees to maintain high ethical standards in their conduct of the Corporation's affairs.

Peat, Marwick, Mitchell & Co., Chartered Accountants, the shareholders' auditors, have performed an independent examination and have attested to the fairness of presentation of financial data contained in these statements. Their examination was made in accordance with generally accepted auditing standards and accordingly included an evaluation of the Corporation's system of internal control to determine audit scope and such tests of the accounting systems and records and other audit procedures as they deemed necessary. Their report appears below.

The Board of Directors annually appoints an Audit Committee comprised solely of directors who are neither employees of the Corporation nor of companies related to the Corporation. This Committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the Audit Committee. Following its review of the financial statements and discussions with the shareholders' auditors, the Audit Committee submits its report to the Board of Directors for formal approval of the financial statements.

R. H. Lontmore

Vice President –
Finance and Accounting

February 12, 1986

PEAT MARWICK

Auditors' Report to the Shareholders

We have examined the consolidated statement of financial position of The Algoma Steel Corporation, Limited as at December 31, 1985 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for investment tax credits as explained in Note 1 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Sault Ste. Marie, Canada
February 12, 1986

Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies and The Superior Limited Partnership which was formed to complete construction of a new seamless tube mill. Inter-company transactions are eliminated. The investments in the associated company – AMCA International Limited, and in the cost sharing Tilden Mine joint venture producing iron ore pellets are accounted for by the equity method.

TRANSLATION OF FOREIGN CURRENCIES

The financial statements of foreign subsidiaries and the joint venture and foreign currency denominated balances of domestic operations are translated using year-end closing exchange rates for cash and short term investments, accounts receivable, current liabilities, long term debt and accrued past service pension cost. Historic exchange rates are used to translate inventories, prepaid expenses, fixed assets and deferred income taxes. Exchange rates in effect at the date of transaction are used to translate revenues and expenses, other than depreciation and amortization which are translated using the same historic rates applied in the translation of the related assets.

Exchange gains and losses on translation of long term debt are deferred and amortized to earnings over the remaining life of the debt. Exchange gains and losses from the translation of other balances together with gains and losses on transactions are included in the statement of Earnings.

The financial position of the associated company, a self-sustaining entity, is translated using year-end closing exchange rates and revenues and expenses are translated using exchange rates in effect at the date of transaction.

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 for periodic relines of blast furnaces which are accrued for in advance on a unit of production basis. The provision for such expenditures is included with net fixed assets.

Depreciation of manufacturing plant and equipment, which comprises over 80 percent of fixed assets, is provided using the straight-line method applied to the cost of the assets based on their estimated useful composite life of approximately 20 years commencing with commercial operation.

Plant and equipment at raw material properties and mine development costs are either depreciated using the straight-line method at rates intended to amortize the cost of these assets over their estimated economic lives or amortized on a unit of production basis over the estimated recoverable raw material reserves.

Interest incurred on funds borrowed to directly finance the development of new raw material properties and the construction of new manufacturing facilities is capitalized during the period of construction and initial development.

EXPLORATION, RESEARCH AND START-UP EXPENSES

Expenses in exploring for raw materials, investigating and holding raw material properties and costs of research 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 coincide with amounts recorded for financial reporting purposes, such differences, principally relating to depreciation, give rise to deferred income taxes in the financial statements.

Investment tax credits on qualifying expenditures for production facilities and for research are deducted from such costs provided there is reasonable assurance that the credits will be realized.

Earnings and Retained Earnings

FOR THE YEARS ENDED DECEMBER 31

Thousands of Dollars	1985	1984
Sales	**$1,176,694**	$1,104,292
Expenses		
Cost of sales	**1,070,472**	1,033,938
Depreciation and amortization	**54,120**	55,489
	1,124,592	1,089,427
Earnings from operations	**52,102**	14,865
Financial Expense (Income)		
Interest expense (note 6)	**54,453**	67,390
Interest and other income	**(1,737)**	(2,692)
Exchange loss on foreign currencies	**16,747**	11,938
	69,463	76,636
Earnings (loss) before income taxes and equity earnings	**(17,361)**	(61,771)
Income taxes – deferred (credit) (note 7)	**(10,258)**	(21,590)
Earnings (loss) before equity earnings	**(7,103)**	(40,181)
Equity in earnings (loss) of associated company	**(2,692)**	(5,525)
Earnings (loss) before extraordinary item	**(9,795)**	(45,706)
Reduction in income taxes from application of prior years' losses	**6,820**	—
Net earnings (loss)	**$ (2,975)**	$ (45,706)
Provision for dividends on preference shares	**$ 16,746**	$ 17,162
Net earnings (loss) applicable to common shares	**$ (19,721)**	$ (62,868)
Per common share		
Earnings (loss) before extraordinary item	**$ (1.82)**	$ (4.30)*
Net earnings (loss) applicable to common shares	**$ (1.35)**	$ (4.30)*

*Restated to reflect shares issued as stock dividend in December, 1985

	1985	1984
Retained Earnings		
Balance at beginning of year	**$ 512,320**	$ 578,587
Net earnings (loss)	**(2,975)**	(45,706)
Dividends declared (note 12)	**(21,182)**	(20,561)
Balance at end of year	**$ 488,163**	$ 512,320

See summary of significant accounting policies and notes to consolidated financial statements.

Financial Position

AS AT DECEMBER 31

Thousands of Dollars	1985	1984
Current Assets		
Cash	$ —	$ 832
Accounts receivable	202,666	179,549
Inventories (note 2)	378,730	349,299
Prepaid expenses	4,411	5,773
	585,807	535,453
Current Liabilities		
Bank overdraft	3,068	—
Accounts payable and accrued liabilities	208,312	195,028
Taxes payable	12,491	8,316
Long term debt due within one year	10,329	8,967
	234,200	212,311
Working Capital		
Current assets less current liabilities	351,607	323,142
Other Assets		
Long term investments (note 3)	194,295	190,472
Net fixed assets (note 4)	967,789	895,325
Unamortized exchange loss on foreign currencies	33,659	22,644
Unamortized debenture expense	2,598	2,932
	1,198,341	1,111,373
Total Investment		
Working capital plus other assets	1,549,948	1,434,515
Other Liabilities		
Long term debt (note 5)	659,475	576,832
Accrued pension cost	30,096	14,628
Deferred income taxes	51,882	13,606
	741,453	605,066
Excess of total investment over other liabilities	$ 808,495	$ 829,449
Commitments (notes 8, 9 and 10)		
Shareholders' Equity		
Capital stock (note 11)		
Preference shares	$ 218,483	$ 219,608
Common shares	101,849	97,521
Retained earnings	488,163	512,320
	$ 808,495	$ 829,449

See summary of significant accounting policies and notes to consolidated financial statements.

On behalf of the Board:

J. Macnamara
Director

W. E. McLaughlin
Director

Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31

Thousands of Dollars	1985	1984
Cash Provided From (Used For)		
Operations		
Earnings from operations	$ 52,102	$ 14,865
Items included in earnings not resulting in an outlay of cash	84,032	68,388
Decrease (increase) in operating working capital	(33,727)	(9,702)
	102,407	73,551
Investment Activities		
Fixed assets – manufacturing plants	(128,782)	(12,006)
– raw material properties	(14,401)	(12,407)
	(143,183)	(24,413)
Long term investments	(14,910)	(6,482)
Dividends from associated company	—	14,909
Interest and other income	1,737	2,692
	(156,356)	(13,294)
Dividends	(16,854)	(16,772)
Financing Activities		
Interest on debt	(54,119)	(67,056)
Reduction of long term debt	(9,016)	(22,296)
Preference shares purchased for cancellation	(1,125)	(3,117)
Other	(465)	3,764
Additional financing		
Funds received for seamless tube mill construction	55,081	—
Proceeds from long term loans	76,547	36,438
	66,903	(52,267)
Cash (Loan) Position		
Decrease during year	(3,900)	(8,782)
Balance at beginning of year	832	9,614
Balance at end of year	$ (3,068)	$ 832

Changes in Operating Working Capital		
Decrease (increase) in accounts receivable	$ (23,117)	$ (24,656)
Decrease (increase) in inventories	(29,431)	(5,860)
Decrease (increase) in prepaid expenses	1,362	894
Increase (decrease) in accounts payable and accrued liabilities	13,284	20,997
Increase (decrease) in taxes payable	4,175	(1,077)
Decrease (increase) in operating working capital	$ (33,727)	$ (9,702)

See summary of significant accounting policies and notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Change in Accounting Policy

Effective January 1, 1985, the Corporation prospectively changed its accounting policy respecting investment tax credits to adopt the new recommendations of the Canadian Institute of Chartered Accountants. Details of the new policy are provided in the Summary of Significant Accounting Policies preceding the financial statements.

The adoption of the new policy reduced 1985 net earnings by approximately $3.6 million and will increase net earnings in future years by a corresponding amount.

2. Inventories

Thousands of Dollars	1985	1984
Finished products	$ 108,494	$ 90,292
Work in process	92,946	78,913
Raw materials and supplies	177,290	180,094
	$ 378,730	$ 349,299

3. Long Term Investments

Thousands of Dollars	1985	1984
Associated company	$ 136,619	$ 139,311
Joint venture	49,951	47,664
Other	7,725	3,497
	$ 194,295	$ 190,472

4. Net Fixed Assets

Thousands of Dollars	1985	1984
Property, plant and equipment:		
Manufacturing plants	$1,500,691	$1,375,633
Raw material properties	238,918	228,388
	1,739,609	1,604,021
Accumulated depreciation and amortization, and provision for blast furnace relines	771,820	708,696
	$ 967,789	$ 895,325

5. Long Term Debt

Thousands of Dollars	1985	1984
Debentures (a)		
7 3/8% series C maturing 1987	$ 12,000	$ 13,200
8 3/4% series D maturing 1991	22,322	24,400
10 3/8% series E maturing 1994	32,000	35,000
11 % series F maturing 1995	49,310	49,400
17 3/8% series L maturing 1997	50,000	50,000
Floating rate series G maturing 1999 (b)	60,000	60,000
Floating rate series I maturing 1994 (b)	55,932	52,868
14.27% series M maturing 1990 (c)	139,830	132,170
Floating rate series K maturing 1995 (d)	181,779	90,000
Bank loans (d)	14,682	21,466
Short term promissory notes (d)	10,000	15,000
9.65% note maturing 2000 (e)	41,949	42,295
Total amount outstanding	669,804	585,799
Less due within one year	10,329	8,967
	$ 659,475	$ 576,832

Sinking fund and other repayment requirements for each of the next five years, commencing in 1986, are (in millions of dollars) $10.3, $32.8, $32.8, $50.1 and $183.0.

(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) Series G are income debentures and bear non-taxable interest at 1⅛% over one-half of the prime lending rate of a Canadian chartered bank. The Corporation is permitted to convert this obligation into series H debentures bearing taxable interest which varies from ¼% to ¾% over the prime lending rate of the bank.

Series I are income debentures in the principal amount of U.S. $40 million and bear non-taxable interest which varies from 1¼% to 1½% over one-half of the London Interbank Offering Rate (LIBOR) or, at the option of the Corporation, from 1% to 1¼% over one-half of the prime lending rate of a Canadian chartered bank on United States dollar demand loans to commercial customers resident in Canada.

The debentures are convertible, at the option of the Corporation, into a Canadian currency obligation bearing interest which varies from 1% to 1¼% over one-half of the prime lending rate of the bank. The Corporation is permitted to convert this obligation into series J debentures bearing taxable interest at various rates and, at the option of the Corporation, may be in either United States or Canadian currency. A United States currency loan would bear interest which varies from ¾% to 1% over LIBOR or, at the option of the Corporation, from .30% to .55% over the prime lending rate of the bank on United States dollar demand loans to commercial customers resident in Canada. A Canadian currency loan would bear interest which varies from .30% to .55% over the prime lending rate of the bank.

(c) Series M debentures in the principal amount of U.S. $100 million bear interest based on the London Interbank Offering Rate. Concurrent with this borrowing, the Corporation entered into an Exchange Agreement with a foreign financial institution thus enabling the Corporation to convert its floating rate liability into an effective annualized fixed rate obligation of 14.27%. The debentures mature in November, 1990 but are repayable prior to maturity in whole or in part at the option of the Corporation.

(d) An agreement with three Canadian chartered banks provides for an aggregate borrowing of up to $250 million in Canadian and/or United States dollars over a drawdown period ending December 30, 1987 to finance construction of a new seamless tube mill. Drawdowns under this line of credit total U.S. $130.0 million bearing interest at ½% over the London Interbank Offering Rate and are secured by Series K debentures. Since the Corporation has the ability to replace short term debt with term loans under this line of credit, bank loans of U.S. $10.5 million and short term promissory notes of $10.0 million are classified as long term debt.

(e) The 9.65% note, in the principal amount of U.S. $30.0 million, is an obligation of a United States subsidiary and is repayable in annual instalments of U.S. $2.0 million.

6. Interest Expense

Thousands of Dollars	**1985**	1984
Interest and expense on long term debt	**$ 66,840**	$ 66,809
Interest on short term debt	**1,066**	581
Interest capitalized on loans for seamless tube mill construction	**(13,453)**	—
	$ 54,453	$ 67,390

7. Income Taxes

The effective income tax rate for the Corporation differs from the composite income tax rate of the various taxing jurisdictions in which it operates. A reconciliation between these rates follows:

	1985	1984
Composite income tax rate	**(52.3)%**	(49.3)%
Increase (decrease) resulting from:		
Certain exchange losses on foreign currency not tax effected	**29.3**	9.0
Interest expense on income debentures	**20.6**	6.3
Manufacturing and processing allowance	**4.7**	3.8
Federal and provincial resource allowances	**(34.2)**	(1.3)
Inventory allowance	**(20.0)**	(2.6)
Other	**(7.2)**	(.9)
Effective income tax rate	**(59.1)%**	(35.0)%

8. Commitments

(a) The Corporation, as a participant in the Tilden Mine joint venture, is entitled to receive its 30% 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 $27.4 million in 1985 and will average approximately $24 million annually during the next five years.

(b) The estimated amount required to complete approved capital projects is $297 million which includes $107 million for the construction of a new seamless tube mill and $126 million for a new coke oven battery. At December 31, 1985 contractual commitments amount to $63 million for the coke oven battery, construction of which has been deferred, and $47 million in respect of all other projects.

9. Long Term Leases

Rentals under long term leases amounted to $11.5 million in 1985. Future minimum rentals will aggregate $51.5 million and in each of the next five years will be (in millions of dollars) $7.7, $7.3, $6.3, $5.8 and $5.3. 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.

10. Pensions

The unfunded liability for pensions in respect of past service is $152 million, as estimated by independent actuaries, of which $39.5 million is accrued and recorded in the statement of Financial Position. It is expected that planned payments will discharge this liability by the year 2000. Pension costs charged to earnings were $35.1 million in 1985 ($41.5 million in 1984).

11. Capital Stock

(a) Preference shares

Authorized – 7,339,300 Preference Shares, which rank prior to Class B Preference Shares and are issuable in series, of which 1,739,300 shares are reserved for conversion of series A shares into series B shares.

– 12,000,000 Class B Preference Shares, issuable in series.

Thousands of Dollars	1985	1985	1984
Issued at December 31	Number of Shares	Stated Capital	
Preference Shares			
8% cumulative redeemable tax deferred series A	1,739,300	$ 43,483	$ 44,608
Floating rate cumulative redeemable retractable series C	2,000,000	50,000	50,000
Floating rate cumulative redeemable retractable series D	1,200,000	30,000	30,000
Class B Preference Shares			
$2.00 cumulative redeemable convertible series 1	3,800,000	95,000	95,000
		$218,483	$219,608

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 at the option of the Corporation at $25.00 per share and a premium of $.25 until June 1, 1986 and at par 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. The Corporation is obligated to purchase in each twelve month period ending May 31 up to 120,000 series A or B shares to the extent that they are available at market prices not exceeding $25.00 per share. The Corporation purchased for cancellation 45,000 series A shares in 1985 at prices averaging $24.56 per share.

Series C shares are entitled to quarterly dividends at a rate equal to 1½% over one-half of the mean prime lending rate of five Canadian chartered banks. They are redeemable at the option of the Corporation at $25.00 per share. 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 except that they are entitled to quarterly dividends at a rate equal to 1⅜% over one-half of the mean prime lending rate of five Canadian chartered banks. The Corporation is similarly required to invite tenders for the purchase of these shares and to purchase shares so tendered at December 31, 1987.

Class B series 1 shares are entitled to annual dividends of $2.00 per share payable quarterly. Subject to certain conditions, they are redeemable after December 1, 1986 at the option of the Corporation at $25.00 per share and a premium of $1.50 which reduces annually. They are convertible at the option of the holder into .8347 of a common share at any time up to December 1, 1990. Commencing January 1, 1991 the Corporation is obligated to purchase annually 4% of the balance of Class B series 1 shares outstanding at December 2, 1990, to the extent that they are available at market prices not exceeding $25.00 per share.

(b) Common shares

Authorized – 30,186,632 shares of which 3,171,860 are reserved for conversion of Class B preference shares series 1 into common shares and 50,000 are reserved for the financing of exploration activities.

Issued – 14,606,206 shares at December 31, 1985 of which 213,732 shares, valued at $20.25 per share, were issued in December 1985 as a stock dividend.

12. Dividends

Dividends were declared as follows:

Thousands of Dollars	1985	1984
Cash dividends		
Preference Shares		
Series A		
$2.00 per share in 1985 and 1984	**$ 3,502**	$ 3,701
Series C		
$1.81 per share in 1985 and $1.83 in 1984	**3,615**	3,652
Series D		
$1.75 per share in 1985 and $1.82 in 1984	**2,094**	2,180
Class B Preference Shares		
Series 1		
$2.00 per share in 1985 and $1.90 in 1984	**7,600**	7,203
Common Shares	**43***	36*
	$16,854	$16,772
Stock dividends		
Common Shares		
For each 100 shares held, one and one-half shares equivalent to $.30 per share in 1985, and one and six-tenths shares equivalent to $.27 in 1984	**4,328**	3,789
	$21,182	$20,561

*Cash in lieu of fractional shares arising from stock dividend.

13. Related Party Transactions

The Corporation is a subsidiary of Canadian Pacific Enterprises Limited which at December 31, 1985 held approximately 61.2% of the Corporation's outstanding common shares. Canadian Pacific Enterprises Limited is a wholly-owned subsidiary of Canadian Pacific Limited, a diversified corporation with its head office in Montreal, Quebec, and consequently the Corporation is related to the numerous companies in the Canadian Pacific group.

The Corporation owns 34.5% of the common shares of the associated company – AMCA International Limited, and a 30% interest in the Tilden Mine joint venture.

In the normal course of business the Corporation sells its products at prevailing market prices and credit terms to Canadian Pacific Limited and AMCA International Limited and their subsidiary companies. Similarly, the Corporation regularly purchases iron ore pellets, transportation and other services and capital goods from the related parties. The Corporation has a revolving operating line of credit at competitive rates with Canadian Pacific Securities Limited in the amount of $40 million under which there was $10.0 million outstanding at December 31, 1985.

Transactions with related parties and balances at year end are as follows:

Thousands of Dollars	1985	1984
Transactions during year		
Sales of product	**$ 89,738**	$ 84,775
Purchases, principally iron ore pellets, transportation and capital goods	**128,532**	117,485
Interest income from short term investments	**—**	14
Interest expense on long term debt	**1,416**	1,774
Funds received for tube mill construction	**60,481**	—
Balances at December 31		
Accounts receivable	**13,719**	15,397
Accounts payable	**2,011**	1,506
Short term promissory notes	**10,000**	15,000

14. Business Segments Information

LINES OF BUSINESS

The Corporation is a vertically integrated steel producer which obtains most of its iron ore and coal requirements from properties which it owns, leases or in which it has an interest in Canada and the United States. The Corporation's revenue is derived almost entirely from the sale of rolled steel products, coal and by-products. Virtually all of the Corporation's assets, except the investment in the associated company are related to integrated steelmaking activities.

OPERATIONS BY GEOGRAPHIC AREA

Thousands of Dollars	1985	1984	1985	1984	1985	1984
	Consolidated		**Canada**		**United States**	
Sales						
External	**$1,176,694**	$1,104,292	**$1,023,054**	$ 947,424	**$153,640**	$156,868
Intra-enterprise sales between geographic areas	**298,742**	282,508	**98,461**	95,821	**200,281**	186,687
	1,475,436	1,386,800	**1,121,515**	1,043,245	**353,921**	343,555
Eliminations	**(298,742)**	(282,508)	**(98,461)**	(95,821)	**(200,281)**	(186,687)
Total	**$1,176,694**	$1,104,292	**$1,023,054**	$ 947,424	**$153,640**	$156,868
Earnings						
From operations	**$ 61,544**	$ 16,846	**$ 25,805**	$ 4,880	**$ 35,739**	$ 11,966
Eliminations	**(9,442)**	(1,981)	**2,190**	(3,699)	**(11,632)**	1,718
	52,102	14,865	**$ 27,995**	$ 1,181	**$ 24,107**	$ 13,684
Other income	**1,737**	2,692				
Interest expense	**(54,453)**	(67,390)				
Exchange loss on foreign currencies	**(16,747)**	(11,938)				
Income taxes – credit	**10,258**	21,590				
Equity in earnings (loss) of associated company	**(2,692)**	(5,525)				
Earnings (loss) before extraordinary item	**(9,795)**	(45,706)				
Extraordinary item	**6,820**	—				
Net earnings (loss)	**$ (2,975)**	$ (45,706)				
Assets at December 31						
Identifiable	**$1,647,529**	$1,507,515	**$1,469,674**	$1,344,580	**$177,855**	$162,935
Investment in associated company	**136,619**	139,311				
	$1,784,148	$1,646,826				

Intra-enterprise sales between geographic areas are at market prices for similar products. Canadian operations include export sales of approximately $207 million in 1985 ($246 million in 1984).

THE ALGOMA STEEL CORPORATION, LIMITED

Ten-Year Summary of Operating and Financial Data

Tons in thousands and dollars in millions excepting per share data		1985	1984	1983
Operations				
Production - Iron Ore (1)	G.T.	**2,978**	2,866	2,424
- Coal (2)	N.T.	**3,449**	2,918	2,490
- Coke	N.T.	**1,334**	1,246	1,042
- Iron	N.T.	**2,506**	2,307	2,155
- Raw Steel	N.T.	**2,742**	2,528	2,306
Shipments - Steel Products	N.T.	**2,063**	1,951	1,757
Earnings and Related Statistics				
Sales	$	**1,176.7**	1,104.3	859.5
Earnings Before Income Taxes and Equity Earnings	$	**(17.4)**	(61.8)	(186.4)
Income Taxes	$	**(10.3)**	(21.6)	(79.4)
Equity in Earnings of Associated Company	$	**(2.7)**	(5.5)	(19.7)
Net Earnings	$	**(3.0)(12)**	(45.7)	(126.6)
Applicable to Preference Shares	$	**16.7**	17.2	10.1
Applicable to Common Shares	$	**(19.7)(12)**	(62.9)	(136.8)
Dividends Paid in Cash				
On Preference Shares	$	**16.9**	16.8	10.0
On Common Shares	$	**—**	—	—
Earnings Retained in Business	$	**(24.2)**	(66.3)	(140.8)
Cash Provided From Operations	$	**102.4**	73.6	(56.7)
Funds Flow From Earnings	$	**83.8**	33.8	(92.3)
Per Common Share - Net Earnings (3)(4)	$	**(1.35)(12)**	(4.30)	(9.36)
- Funds Flow From Earnings (3)(4)	$	**4.59**	1.14	(7.01)
- Dividends Paid in Cash	$	**—**	—	—
Net Earnings as percent of				
- Sales	%	**(.3)**	(4.1)	(14.7)
- Average Common Shareholders' Equity (5)	%	**(3.3)**	(9.8)	(18.4)
- Average Total Investment (6)	%	**2.0**	(1.4)	(5.7)
Cost of Products Sold as percent of Sales	%	**88.8**	91.5	105.4
Depreciation and Amortization	$	**54.1**	55.5	55.4
Capital Expenditures				
Manufacturing Facilities	$	**128.8**	12.0	25.1
Mining Properties	$	**14.4**	12.4	6.5
Total	$	**143.2**	24.4	31.6
Long Term Debt				
Borrowings - Debentures	$	**—**	—	—
- Other	$	**76.5**	36.4	55.7
- Total	$	**76.5**	36.4	55.7
Repayments	$	**9.0**	22.3	7.9
Increase Due to Change in Exchange Rate	$	**16.5**	18.2	—
Interest and Expense	$	**53.4(13)**	66.8	63.4
Financial Position at Year-End				
Current Assets	$	**585.8**	535.4	514.6
Current Liabilities	$	**234.2**	212.3	194.7
Working Capital	$	**351.6**	323.1	319.9
Operating Working Capital (7)	$	**365.0**	331.3	321.6
Long Term Investments	$	**194.3**	190.5	205.7
Net Fixed Assets	$	**967.8**	895.3	944.7
Total Assets	$	**1,784.1**	1,646.8	1,668.2
Total Investment (8)	$	**1,549.9**	1,434.5	1,473.5
Long Term Debt (9)	$	**659.5**	576.8	533.8
Preference Shares	$	**218.5**	219.6	222.7
Common Shareholders' Equity	$	**590.0**	609.8	672.3
Number of Common Shares Issued (000) (10)	No.	**14,606**	14,606	14,606
Common Shareholders' Equity Per Share (11)	$	**40.31**	41.66	45.97
Number of Common Shareholders	No.	**4,929**	5,188	5,701

Notes:

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

(2) Metallurgical and steam coal.

(3) After provision for dividends on preference shares.

(4) Based on weighted average number of common shares outstanding during the year restated for stock dividends declared in 1983, 1984 and 1985.

(5) Net earnings are after deduction of amount applicable to preference shares.

(6) Net earnings are before deduction of interest on long term debt net of income taxes, and total investment is before deduction of long term debt due within one year.

(7) Includes accounts receivable, inventories and prepaid expenses, less accounts payable and accrued liabilities, and taxes payable.

1982	1981	1980	1979	1978	1977	1976
1,983	3,643	3,732	4,125	4,109	3,839	4,089
2,488	2,732	2,907	2,868	2,069	1,929	2,235
1,009	1,411	1,470	1,546	1,424	1,371	1,539
1,809	2,907	3,039	3,374	3,148	2,848	2,806
1,899	3,017	3,179	3,528	3,317	2,974	2,888
1,472	2,519	2,415	2,597	2,456	2,201	2,036
874.2	1,426.4	1,149.1	1,081.2	864.2	687.8	584.8
(123.8)	225.8	121.2	120.2	57.7	5.5	(14.3)
(57.7)	87.6	38.8	35.3	10.7	(15.8)	(25.6)
25.7	26.8	26.8	27.0	22.6	16.0	12.5
(40.4)	165.0	109.2	111.9	77.1(14)	37.3	23.8
12.3	12.8	11.6	10.7	9.5	6.9	4.0
(52.7)	152.2	97.6	101.2	67.6(14)	30.4	19.8
12.5	12.6	11.6	10.6	9.4	6.8	3.5
14.0	15.4	12.3	8.2	—	2.3	12.9
(66.9)	137.0	85.3	93.1	67.7	28.2	7.4
59.6	207.2	155.0	154.9	93.0	35.2	6.7
(33.6)	269.4	181.4	180.7	109.5	41.2	19.2
(3.61)	10.42	7.89	8.31	5.56(14)	2.50	1.63
(3.14)	17.57	13.72	13.96	8.23	2.81	1.25
1.00	1.10	1.00	.70	—	.20	1.10
(4.6)	11.6	9.5	10.4	8.9	5.4	4.1
(6.2)	18.8	14.8	19.0	15.0	7.5	5.1
(0.9)	13.6	11.0	13.2	10.5	6.2	4.9
100.5	78.2	81.2	80.9	84.1	88.2	89.8
53.5	49.7	47.3	39.9	35.7	33.6	33.0
175.5	246.6	82.4	65.2	24.2	15.1	33.5
9.9	18.1	24.8	24.1	15.0	14.5	17.0
185.4	264.7	107.2	89.3	39.2	29.6	50.5
172.4	—	—	106.9	—	—	—
34.3	—	35.0	.3	3.5	3.5	10.7
206.7	—	35.0	107.2	3.5	3.5	10.7
—	3.2	39.9	62.7	17.1	5.9	3.9
—	—	—	—	—	—	—
40.2	29.8	27.5	27.6	24.8	22.5	23.1
492.1	608.6	562.1	435.5	362.4	298.4	264.5
173.9	235.8	157.2	150.9	155.5	145.2	175.2
318.2	372.8	405.0	284.6	206.9	153.2	89.3
309.3	377.0	319.8	279.8	238.5	201.4	172.0
242.2	227.3	212.1	197.2	134.2	110.1	92.7
990.8	879.5	644.8	587.0	549.8	557.9	560.4
1,728.7	1,718.2	1,422.1	1,224.1	1,050.8	973.1	924.4
1,554.8	1,482.4	1,264.9	1,073.2	895.3	827.9	749.2
489.6	290.6	293.7	298.6	248.7	251.3	264.2
130.5	133.5	136.5	139.8	140.0	140.0	60.0
311.0	878.0	741.0	578.8	485.4	417.7	389.7
14,606	14,606	12,377	12,169	12,152	12,152	12,151
55.48	60.05	59.81	47.50	39.89	34.51	32.21
6,489	7,142	7,812	8,748	9,369	10,393	10,542

(8) Total assets less current liabilities.

(9) Excludes long term debt due within one year.

(10) At December 31 restated for stock dividends declared in 1983, 1984 and 1985.

(11) Based on common shares issued at December 31 restated as in Note (10).

(12) Includes an extraordinary credit of $6.8 million amounting to 47¢ per common share.

(13) Excludes capitalized interest of $13.4 million.

(14) Includes an extraordinary credit of $7.5 million amounting to 62¢ per common share.

Directors

#Russell S. Allison
Montreal, Quebec
President
CP Rail

*Robert W. Campbell
Calgary, Alberta
Vice-Chairman
Canadian Pacific Limited

†Stuart E. Eagles
Toronto, Ontario
Vice-President Corporate
Canadian Pacific Limited

#Charles H. Hantho
Islington, Ontario
Chairman and Chief
Executive Officer
C-I-L Inc.

*#John Macnamara
Sault Ste. Marie, Ontario
Chairman and Chief
Executive Officer
The Algoma Steel
Corporation, Limited

*¶W. Earle McLaughlin
Montreal, Quebec
Former Chairman
The Royal Bank of Canada

¶Arthur H. Mingay
Toronto, Ontario
Former Chairman
Canada Trust

*Paul A. Nepveu
Montreal, Quebec
Corporate Director

*Peter M. Nixon
Sault Ste. Marie, Ontario
President and Chief
Operating Officer
The Algoma Steel
Corporation, Limited

¶Leonard N. Savoie
Sault Ste. Marie, Ontario
President and Chief
Executive Officer
Algoma Central Railway

†Robert J. Theis
Syracuse, New York
President
Westover Holding Corp.

†Adam H. Zimmerman
Toronto, Ontario
President and Chief
Operating Officer
Noranda Inc.

*Member of Executive Committee
†Member of Compensation Committee
¶Member of Audit Committee
#Member of Nominating Committee

Principal Officers

John Macnamara
Chairman and Chief
Executive Officer

Peter M. Nixon
President and Chief
Operating Officer

Robert N. Robertson
Senior Vice President –
Commercial

Ross H. Cutmore
Vice President –
Finance and Accounting

Samuel H. Ellens
Vice President –
Administration

Gerry B. Hudson
Vice President –
Sales

Gary S. Lucenti
Vice President –
Operations

R. Gordon Paterson
Vice President –
Engineering

Henry C. Winters
Vice President –
Marketing and Planning

James T. Melville
Secretary

J. Kenneth Morano
Treasurer

William J. Reed
Controller – Steel and
Iron Ore Operations

Corporate Information

Executive Offices
Sault Ste. Marie, Ontario

Manufacturing and Mining Facilities

Canada
Sault Ste. Marie, Ontario

The Algoma Steel Corporation, Limited
- Steelworks Division
- Welded Beam Division
- Marine Division

The Superior Limited Partnership (formerly the Tube Division)

Wawa, Ontario
- Algoma Ore 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

Incorporation
Under the laws of the Province of Ontario

Share Transfer Agents and Registrars
Montreal Trust Company, Halifax, 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, Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Valuation Day Values
(for Canadian Income Tax Purposes)

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

Products and Sales Office Locations

Products

Sheet
- Hot Rolled and Cold Rolled
  - Coils and Cut to Length
- Cold Rolled Sheet for Motor Laminations

Plate
- Sheared and Gas Cut
- Floor
- Normalized
- Quenched and Tempered

Seamless Tubular Products
- Casing
- Line Pipe
- Standard Pipe
- Mechanical Tubing
- Couplings and Coupling Stock

Structural Shapes
- Wide Flange Shapes
- Welded Wide Flange Shapes
- Welded Special Shapes
- Bearing Pile Shapes
- Standard Angles, Channels and Beams

Rails
- Heavy Rails
- Tie Plates

Ingots, Blooms, Billets and Slabs
Coal
Coke
Coal Tar Chemicals

Sales Offices
Sault Ste. Marie, Ontario
Dartmouth, Nova Scotia
Montreal, Quebec
Mississauga, Ontario
Windsor, Ontario
Calgary, Alberta
Houston, Texas*
Denver, Colorado*

*Algoma Tube Corporation

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