ALGOMA STEEL

ANNUAL REPORT 1989

Executive Offices

503 Queen Street East
Sault Ste. Marie, Ontario
P6A 5P2
(705) 945-2788

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 Bank of Montreal 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 D Debenture	$ 103.50

Auditors

Ernst & Young

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 steel product lines consisting of sheet and strip, plate, seamless tubulars, structural shapes and rails. It also produces and sells steam and metallurgical coal. Algoma employs directly and through its United States subsidiaries approximately 8,800 employees.

The Corporation's steelworks and head office are located in Sault Ste. Marie, Ontario. 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 mining locations in West Virginia.

The Corporation holds ownership interests in downstream operations which finish and process steel into higher valued products.

Dofasco Inc. acquired control of the Corporation on August 19, 1988, and now owns all of Algoma Steel's common shares.

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Net earnings of $8.4 million in 1989 declined from $81.2 million, as restated, in 1988. Falling prices and weakening demand for many of the Corporation's products in the second half of the year were major causes for the decline in 1989 performance. The strong Canadian dollar restricted the Corporation's ability to export to the United States and, at the same time, attracted steel imports to Canada.

Accounting policy changes implemented in 1989 are described in Note 1 to the financial statements. In particular, the Corporation adopted the proportionate consolidation method of accounting for certain investments. The comparative financial statements for 1988 have been restated to reflect this change. The projected benefit method of accounting for post-employment health and insurance benefits was adopted in 1989, resulting in an additional $6.4-million charge to operating costs in the year. The 1989 results also include a significantly higher pension expense resulting from conformance to the pension cost assumptions used by the Corporation's parent, Dofasco Inc.

Despite a $94-million reduction in operating working capital, total debt rose from $711 million at the end of 1988 to $768 million at the end of 1989. This increase was principally due to a $186-million capital-expenditure program in 1989.

The 1989 capital program included improvements to the No. 6 blast furnace during its reline, a ladle metallurgy station in No. 2 steelmaking shop, initial construction of a roundcaster and a ladle metallurgy station in No. 1 steelmaking shop and $40 million on environmental projects. Capital expenditures are expected to total $80 million in 1990.

Demand for seamless tubular products was weak throughout the year as a result of low levels of oil and gas exploration in North America. At the end of the year the Corporation announced the intention to merge Algoma's tubular business with that of Prudential Steel in Calgary, a Dofasco subsidiary. The new entity, to be headquartered in Calgary, will combine Algoma's seamless tubulars with Prudential's welded tubulars to provide customers with a complete range of products sold by a single commercial organization.

The 1989 sales of Algoma's rail and structural products were close to 1988 levels. Premium rails continued to take a greater share of the North American rail market. The high value of the Canadian dollar led to increased competition from structural imports.

Demand for Algoma's sheet products was favourable for the first half of the year, but declined later in the year. Since January 1, 1990, Algoma's marketing and sales functions for flat-rolled products, other than heavy plate, have been integrated with those of Dofasco Steel in Hamilton.

The plate market was weak throughout the year. The strong Canadian dollar and high interest rates were negative factors.

The Corporation instituted a cash-conservation program during the fourth quarter which included the suspension of construction on some capital projects including the new roundcaster. Necessary capital expenditures relating to the environment are continuing. New emission-control equipment was installed on two coke oven batteries. The filtration plant for the treatment of waste water and the phenol treatment facility will be completed in 1990.

The Corporation will require additional capital for general purposes and to repay approximately $170 million of term loans maturing during 1990. These cash requirements will be met through existing lines of credit, other sources of financing and the possible divestment of non-essential assets.

Studies continue on the viability of a restructured iron ore operation at the Algoma Ore Division in Wawa. A decision is expected by the end of 1990 on whether the mining and sintering operation will continue or be shut down in 1992. The Tilden magnetite iron ore pellet project in Michigan commenced operation in mid year.

The Cannelton coal operations in the United States performed well in 1989, despite a brief disruption resulting from an unrelated labour dispute. Sales volume and profitability from the West Virginia coal mines exceeded 1988 levels. Sales of steam coal continue to expand.

Net earnings of Ferrum Inc., which produces hollow structural and welded tubular products, declined from 1988, but are expected to improve in 1990. The Huron Steel group, a manufacturer of automotive parts, had a difficult year in 1989.

Joint Union and Management Health and Safety Committees continue to work effectively towards providing a safer work place for all employees. Quarterly communications meetings with Local and International union officials are continuing. Existing labour agreements with unions representing Canadian employees will expire on July 31, 1990.

Having reached normal retirement age, the Corporation's Chairman, Dr. John Macnamara, retired on April 1, 1990. Dr. Macnamara's distinguished career at Algoma spans more than 38 years, with the last nine served as Chairman. His outstanding dedication and contribution are acknowledged with thanks. His wisdom and counsel will be missed.

Charles H. Hantho and Thomas Van Zuiden left Algoma's Board of Directors during 1989. Their contributions are appreciated. Gary S. Lucenti was appointed Executive Vice President and Chief Operating Officer in September 1989 and became a Director on February 6, 1990. Paul J. Paciocco was appointed Vice President and Works Manager - Steelworks in September 1989.

The planned merger of Algoma's treasury and corporate accounting functions with those of Dofasco Inc. in Hamilton has been announced. This action, the integration of Commercial Departments for flat-rolled products, other than heavy plate, and the intended combination of Algoma's tubular business with Prudential's are examples of steps taken to access opportunities for improved efficiency that are available through a co-operative approach with Dofasco Inc.

Major improvements in the markets for the Corporation's products are not anticipated in 1990. The dedicated efforts of all of Algoma's employees during 1989 are appreciated and will be even more important in the challenging year ahead.

Peter M. Nixon
President and
Chief Executive Officer

Sault Ste. Marie, Ontario
April 1990

Summary of Significant Accounting Policies

Accounting Policies	The consolidated financial statements for 1989 and 1988 have been prepared by the Corporation in accordance with generally accepted accounting principles and are within the framework of the accounting policies summarized below:
Basis of Consolidation	The consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and the proportionate share of the assets, liabilities and results of operations of its integrated joint venture activities. Other long-term investments are carried at cost.
Inventories	Inventories of raw materials, supplies, work in process and finished products are valued at the lower of average cost and net realizable value. Physical inventory quantities are determined at least annually by actual examination or, for certain raw materials, by aerial survey.
Fixed Assets	Fixed assets are recorded at their historical cost. Depreciation of manufacturing plant and equipment 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 initial development and construction.
Repair and Maintenance Costs	Repair and maintenance costs are expensed as incurred except for the estimated cost of relining blast furnaces which is accrued over the period between relines.
Income Taxes	The Corporation follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income result in deferred income taxes.
Translation of Foreign Currencies	The financial statements of the Corporation's foreign operations and foreign currency balances of domestic operations are translated using year end exchange rates for monetary items. All non-monetary assets and liabilities are translated using historical rates. Revenues and expenses are translated using average exchange rates prevailing during the year except for depreciation and amortization which are translated at historical rates. Exchange gains and losses on translation of long-term debt are deferred and amortized over the remaining life of the debt. Exchange adjustments resulting from the translation of other balances and transactions are included in the statement of Earnings.
Pensions and Other Post-employment Benefits	The employees of the Corporation and its associated operations are covered under defined benefit or contribution pension plans providing benefits which vary with the respective employee groups. The costs of pension benefits earned by employees for the defined benefit plans are determined using the projected benefit method pro rated on service and management's assumptions for the factors required in the calculation. The pension costs for defined contribution plans are employer contributions determined using factors negotiated with the employee groups. The funding obligation for defined benefit pension plans is determined by an independent actuary. The actuary's assumptions for funding may differ from those used by management for determining pension costs and consequently, the pension costs included in the statement of Earnings may differ from amounts funded. The Corporation also provides for other post-employment benefits including certain health and insurance benefits for retired employees and their dependents. The cost of such benefits is accrued over the service lives of the employees based on actuarial estimates. There is no funding for this obligation in excess of current payments.

Earnings and Retained Earnings

For the years ended December 31

	Thousands of Dollars	1989	Restated 1988
Revenue	Sales	**$ 1,491,892**	$ 1,449,798
Operating Expenses	Cost of sales	**1,340,438**	1,203,467
	Depreciation and amortization	**85,255**	81,349
		1,425,693	1,284,816
	Earnings from operations	**66,199**	164,982
Financial Expense (Income)	Interest on long - term debt	**73,164**	64,072
	Other interest - net	**3,553**	295
	Exchange gain on foreign currencies	**(3,899)**	(3,913
		72,818	60,454
Earnings (Loss)	Before income taxes	**(6,619)**	104,528
	Income tax expense (recovery) (note 2)	**(15,031)**	23,314
Net Earnings		**$ 8,412**	$ 81,214
Earnings Per Common Share	Provision for dividends on preference shares	**$ 10,695**	$ 10,641
	Net earnings (loss) applicable to common shares	**$ (2,283)**	$ 70,573
	Earnings per common share	**$ (0.13)**	$ 4.08
Retained Earnings	Balance at beginning of year as restated (note 1)	**$ 426,555**	$ 355,937
	Net earnings	**8,412**	81,214
	Dividends declared (note 13)	**(10,724)**	(10,596)
	Balance at end of year	**$ 424,243**	$ 426,555

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

The Algoma Steel Corporation, Limited

Consolidated Financial Statements

Financial Position

As at December 31

	Thousands of Dollars	1989	Restated 1988
Current Assets	Cash and short-term investments	$ 5,996	$ 3,147
	Accounts receivable	181,193	225,729
	Inventories (note 3)	425,411	453,777
	Prepaid expenses	11,138	19,215
		623,738	701,868
Current Liabilities	Bank loans - security pledged	21,113	28,823
	Promissory notes - parent company	80,000	—
	Accounts payable and accrued liabilities	227,796	220,093
	Provision for relining blast furnaces	—	38,146
	Taxes payable	12,069	14,517
	Long-term debt due within one year	169,677	50,578
		510,655	352,157
Working Capital	Current assets less current liabilities	113,083	349,711
Other Assets	Long-term investments (note 4)	12,762	12,919
	Net fixed assets (note 6)	1,213,026	1,100,530
	Unamortized goodwill	7,507	6,101
	Unamortized debenture expense	1,261	1,595
		1,234,556	1,121,145
Total Investment	Working capital plus other assets	1,347,639	1,470,856
Other Liabilities	Long-term debt (note 8)	497,694	631,927
	Deferred income taxes	95,804	115,529
	Accrual for pension and other post-employment benefits (note 9)	31,555	13,067
	Provision for relining blast furnaces	33,246	10,996
	Unamortized exchange gains on foreign currencies	2,820	8,395
		661,119	779,914
	Excess of total investment over other liabilities	$ 686,520	$ 690,942
	Commitments (notes 7, 10 and 11)		
Shareholders' Equity	Capital stock (note 12) Preference shares	$ 127,575	$ 129,685
	Common shares	134,702	134,702
	Retained earnings	424,243	426,555
		$ 686,520	$ 690,942

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

On behalf of the Board:

P. M. Nixon
Director

L. N. Savoie
Director

Changes in Financial Position

For the years ended December 31

	Thousands of Dollars	1989	Restated 1988
Cash Provided From (Used For)			
Operating Activities	Operations (note 14)	$ 66,943	$ 129,878
	Decrease (increase) in operating working capital	94,128	(102,542)
		161,071	27,336
Investment Activities	Fixed assets - manufacturing plants	(158,687)	(63,119)
	- raw material properties	(26,915)	(17,778)
		(185,602)	(80,897)
	Business acquisitions (note 5)	(16,589)	(31,885)
	Long-term investments	(478)	(6,450)
		(202,669)	(119,232)
Financing Activities	Dividends	(10,724)	(10,596)
	Repayment of long-term debt	(53,729)	(25,695)
	Capital stock purchased for cancellation	(2,110)	(2,893)
	Net proceeds from long-term loans and loan from parent company	118,720	133,005
		52,157	93,821
Cash (Loan) Position	Increase during year	10,559	1,925
	Balance at beginning of year	(25,676)	(27,601)
	Balance at end of year	$ (15,117)	$ (25,676)

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

1. Changes in Accounting Policies and Restatement of Prior Years' Financial Statements

Effective January 1, 1989, the Corporation changed its accounting policies as follows:

1) The Corporation changed its method of accounting for its investments in partnerships and joint ventures in which it holds a significant interest. Such investments, which were previously accounted for using the equity method, are now accounted for using the proportionate consolidation method. The comparative financial statements for 1988 have been restated with no effect on earnings.
2) The Corporation changed its policy regarding costs included in inventory. Certain costs previously included in inventory are now charged directly to earnings when incurred. The comparative financial statements for 1988 have been restated. Consequently, net earnings for 1988 increased by $1.2 million and retained earnings at January 1, 1988 decreased by $7.8 million as a result of an inventory adjustment relating to prior years.
3) The Corporation prospectively changed its accounting policy for the determination of expenses and obligations of post-employment benefits other than pensions. The change from the cash payment method to one outlined under "Summary of Significant Accounting Policies" resulted in a charge of $12.3 million to 1989 operating costs, an increase of $6.4 million over the previous cash payment method.
4) The Corporation adopted the revised recommendations of the Canadian Institute of Chartered Accountants respecting extraordinary items. Accordingly, income tax benefits from loss carry-forwards not previously recorded by United States subsidiaries, of $2.0 million and $7.3 million in 1989 and 1988 respectively, are included with income taxes in the statement of Earnings. Previously, such tax benefits were disclosed as extraordinary items. There is no effect on net earnings.

The provision for income taxes and capital taxes relating to years prior to 1988 has been adjusted by a net amount of $16.7 million resulting from the resolution of outstanding tax issues during 1989. Accordingly, taxes payable and deferred income taxes for 1988 have been restated and retained earnings has been increased by a corresponding amount.

2. Income Taxes

The provision for income taxes in the statement of Earnings is comprised of:

Thousands of Dollars	**1989**	1988
Current	**$ 5,757**	$ 4,430
Deferred		
Provision for current year	**(18,753)**	26,206
Benefit resulting from application of prior years' losses	**(2,035)**	(7,322)
	$ (15,031)	$ 23,314

A reconciliation of the provision for income taxes to amounts computed by applying the income tax rates of the various jurisdictions in which the Corporation operates to earnings and losses before income taxes is as follows:

Thousands of Dollars	**1989**	1988
Income taxes computed at statutory income tax rates	**$ (6,298)**	$ 44,405
Increases (decreases) resulting from:		
Non-recognition of tax benefit of current years' losses for tax purposes	**1,497**	—
Interest expense on income debentures	**2,913**	2,961
Application of prior years' losses	**(2,035)**	(7,322)
Manufacturing and processing allowance	**616**	(3,001)
Federal and provincial resource allowances	**(16,610)**	(11,163)
Canadian and United States minimum taxes	**3,543**	1,085
Other	**1,343**	(3,651)
	$ (15,031)	$ 23,314

As at December 31, 1989, a Canadian subsidiary of the Corporation had operating losses of approximately $3.5 million, the income tax benefit of which has not been reflected in these financial statements.

3. Inventories

Thousands of Dollars	1989	1988
Finished products	$ 99,353	$ 128,907
Work in process	103,493	111,399
Raw materials and supplies	222,565	213,471
	$ 425,411	$ 453,777

4. Long-Term Investments

Thousands of Dollars	1989	1988
Loans to associates	$ 6,492	$ 6,440
Other investments	6,270	6,479
	$ 12,762	$ 12,919

5. Business Acquisitions

In January, 1989, the Corporation acquired the remaining interest in the Huron Group of limited partnerships. Also, during the year, Ferrum Inc., a 50% owned company, acquired certain net assets of the Hallmark Tube and Westube divisions of Hallmark Alloys Ltd. The Huron Group processes steel stampings and manufactures component parts, primarily in the automotive industry; Hallmark is a distributor of specialty steel tubing. These acquisitions were financed by promissory notes in the amount of $5.2 million and bank loans.

In December, 1988, Ferrum Inc. purchased all of the common shares of TI Canada Inc., a manufacturer of welded and fabricated tubular products based in Woodstock, Ontario. Ferrum financed the purchase with long-term loans from its shareholders and a term bank loan.

The Corporation's share of these acquisitions, which have been accounted for by the purchase method, is as follows:

Thousands of Dollars	1989	1988
Working capital (after deducting bank indebtedness of $4,646 in 1989)	$ 2,381	$ 8,262
Investments and other	180	3,878
Fixed assets	13,060	15,319
Goodwill	1,597	6,062
	17,218	33,521
Deferred income taxes	1,063	1,636
Long-term debt	4,212	—
	5,275	1,636
Total consideration	$ 11,943	$ 31,885

6. Net Fixed Assets

Thousands of Dollars	1989	1988
Property, plant and equipment		
Manufacturing plants	$ 1,703,794	$ 1,640,790
Raw material properties	479,128	453,443
	2,182,922	2,094,233
Accumulated depreciation and amortization		
Manufacturing plants	846,618	771,945
Raw material properties	289,101	278,437
	1,135,719	1,050,382
	1,047,203	1,043,851
Construction in progress	165,823	56,679
	$ 1,213,026	$ 1,100,530

7. Joint Ventures

The Corporation, as a joint venture participant in the Tilden mining operation, is entitled to receive its share of iron ore pellet production and is committed to pay 50% of fixed costs. The Corporation is entitled to receive 50% of magnetite pellet production capacity and 25% of hematite pellet production capacity. The production expenses incurred are included in the cost of pellets produced and ultimately are reflected as a cost of sales when products are sold.

The Corporation also has a 50% interest in Ferrum Inc., a manufacturer of welded and fabricated steel tubular products.

The Corporation's net investment in these joint ventures (included in the statement of Financial Position categories to which they relate) is summarized below:

Thousands of Dollars	1989	1988
Working capital	**$ 5,285**	$ (6,921)
Fixed assets	**185,395**	173,361
Investments and other	**12,880**	10,688
	203,560	177,128
Long-term liabilities	**41,406**	25,092
Deferred income taxes	**6,119**	6,367
	47,525	31,459
Net investment	**$ 156,035**	$ 145,669

The Corporation's share of revenue and expenses, before the elimination of inter-corporate transactions, of these joint ventures included in the statement of Earnings for 1989 was $227.3 million and $221.5 million respectively and for 1988 was $179.9 million and $150.4 million respectively.

8. Long-Term Debt

Thousands of Dollars	1989	1988
The Algoma Steel Corporation, Limited		
Debentures (a)		
8 3/4% series D maturing 1991	**$ 13,400**	$ 15,600
10 3/8% series E maturing 1994	**25,000**	25,000
11 % series F maturing 1995	**35,980**	36,040
17 3/8% series L maturing 1997	**36,400**	39,800
Floating rate series G maturing 1999 (b)	**60,000**	60,000
Floating rate series I maturing 1994 (b) (d)	**28,963**	41,738
11.71 % series M due 1990 (d)	**115,850**	119,250
Bank lines of credit		
Revolving loans (a) (c)	**240,000**	260,000
Short-term loans - security pledged (c)	**—**	17,821
- other (c) (d)	**—**	13,118
Promissory notes - parent company (c)	**20,000**	—
Promissory notes maturing 1995	**5,157**	—
Subsidiaries and associated operations		
Cannelton Industries Inc.		
9.65 % note maturing 2000 (d)	**25,487**	28,620
Bank line of credit		
Revolving loans maturing 1996 (d)	**17,377**	—
Ferrum Inc.		
11.9% first mortgage bonds maturing 1993	**12,913**	14,095
Floating rate bank loan due 1993 - security pledged	**15,000**	—
Floating rate loan from affiliated company due 1998	**6,250**	6,250
Huron Steel Limited Partnerships - security pledged	**9,533**	5,094
Other	**61**	79
Total amount outstanding	**667,371**	682,505
Less due within one year	**169,677**	50,578
	$ 497,694	$ 631,927

8. Long-Term Debt, cont'd

Sinking fund and other repayment requirements for each of the next five years, commencing in 1990, are (in millions of dollars) $169.7, $77.6, $73.8, $96.8 and $76.2.

(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 income debentures bear non-taxable interest at 1 1/8% 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 3/8% to 3/4% over the prime lending rate of the bank.

Series I income debentures bear non-taxable interest which varies from 1 3/8% to 1 1/2% over one-half of the London Interbank Offering Rate (LIBOR) or, at the option of the Corporation, from 1 1/8% to 1 1/4% over one-half of the U.S. base 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 1/8% to 1 1/4% 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 7/8% to 1% over LIBOR or, at the option of the Corporation, from .42% to .55% over the U.S. base 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 .42% to .55% over the prime lending rate of the bank.

(c) An agreement with three Canadian chartered banks provides a declining revolving line of credit, secured by series N debentures, aggregating $260.0 million, in Canadian or equivalent United States funds. The funds available decline annually until maturity at December 31, 1995. Loans under this line, in the form of bankers' acceptances, are $240.0 million.

Since the Corporation has the ability to replace short-term debt with term loans under this line of credit, short-term promissory notes and bank loans are classified as long-term debt.

At December 31, 1989, unused lines of credit of the Corporation and its associated operations total $119.8 million.

(d) Long-term debt denominated in United States funds totals U.S. $162.0 million (1988 U.S. $170.0 million).

Forward purchase contracts for United States funds have been acquired for retirement of the 11.71% series M debenture loan in November, 1990.

9. Pensions and Other Post-employment Benefits

Pension costs charged to earnings were $55.8 million in 1989 ($25.5 million in 1988).

The status of the Corporation's accrued pension benefits at December 31 is summarized as follows:

Millions of Dollars		**1989**		1988
Present value of accrued pension benefits	**$**	**800**	$	660
Value of pension fund assets		**545**		505
Excess of present value of accrued pension benefits over fund assets	**$**	**255**	$	155
Accrued pension cost shown in the statement of Financial Position	**$**	**26**	$	13
Pension cost not recorded	**$**	**229**	$	142

Pension costs and accrued pension benefits respecting 1989 increased over 1988 as a result of revisions to management's assumptions for certain factors used in their determination and pension plan improvements.

The cost of other post-employment benefits was $12.3 million in 1989 ($4.9 million in 1988). The increase is attributable to the change in accounting policy referred to in note 1. The obligation at December 31, 1989 relating to these benefits is estimated at $78 million of which $6 million is recorded in the statement of Financial Position.

10. Commitments

The estimated amount required to complete authorized capital projects is $97 million which includes approximately $51 million for the installation of a round caster and ladle steel refining station and $10 million with respect to environmental control facilities. At December 31, 1989, contractual commitments amount to $35 million in respect of these projects.

11. Long-Term Leases

Rentals under long-term leases amounted to $11.3 million in 1989. Future minimum rentals will aggregate $41.7 million and in each of the next five years will be (in millions of dollars) $8.7, $7.4, $5.1, $4.2 and $2.6. 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.

12. Capital Stock

(a) Preference shares

Authorized - 2,700,463 Preference Shares, which rank prior to Class B Preference Shares and are issuable in series, of which 322,163 shares are reserved for conversion of series A shares into series B shares.
- 11,999,790 Class B Preference Shares, issuable in series.

Thousands of Dollars	Number of Shares 1989	Number of Shares 1988	Stated Capital 1989	Stated Capital 1988
Issued at December 31				
Preference Shares				
8% cumulative redeemable series A	**322,163**	464,087	**$ 8,054**	$ 11,602
9 3/4% cumulative redeemable series B	**981,042**	923,513	**24,526**	23,088
Class B Preference Shares $2.00 cumulative redeemable convertible series 1	**3,799,790**	3,799,790	**94,995**	94,995
			$ 127,575	$ 129,685

The 8% cumulative redeemable series A preference shares are exchangeable into 9 3/4% cumulative redeemable series B preference shares on a share-for-share basis at the option of the holder. At December 31, 1989, 1,002,742 series A preference shares have been exchanged under this provision. The Corporation is obligated to purchase proportionately, in the twelve month period ending May 31, 1990, up to 120,000 series A and series B preference shares to the extent that they are available at market prices not exceeding $25.00 per share. During 1989, the Corporation purchased for cancellation 84,395 shares at prices averaging $24.65 per share (1988 - 115,200 shares).

Class B series 1 shares are entitled to annual dividends of $2.00 per share payable quarterly. Subject to certain conditions, they are redeemable at the option of the Corporation at $25.00 per share and a premium of $.75 which reduces annually. They are convertible at the option of the holder into .8676 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 these 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 - 30,186,323 shares of which 3,296,698 are reserved for conversion of Class B Preference Shares series 1 into common shares.

Thousands of Dollars	Number of Shares	Stated Capital
Issued		
Balance at December 31, 1989 and 1988	**17,282,699**	**$ 134,702**

13. Dividends

Dividends were declared as follows:

Thousands of Dollars	1989	1988
Preference Shares		
Series A $2.00 per share in 1989 and 1988	$ 749	$ 2,463
Series B $2.44 per share in 1989 and $.61 in 1988	2,375	533
Class B Preference Shares		
Series 1 $2.00 per share in 1989 and 1988	7,600	7,600
	$ 10,724	$ 10,596

14. Cash Provided from Operations

Thousands of Dollars	1989	1988
Net earnings	$ 8,412	$ 81,214
Items not affecting cash:		
Depreciation and amortization	85,255	81,349
Other non-cash operating costs	11,339	2,311
Deferred income taxes	(20,788)	18,884
Other (net)	(8,552)	39
Blast furnace reline expenditures	(27,229)	(40,650)
Pension and other post-employment benefit expense in excess of funding	18,506	(13,269)
	$ 66,943	$ 129,878

Related Party Transactions

The Corporation is a wholly-owned subsidiary of Dofasco Inc. of Hamilton, Ontario, which acquired all of the outstanding common shares and Class B convertible preference shares of the Corporation effective August 19, 1988. Consequently, the Corporation is one of a number of steel related operations within the Dofasco group of companies.

In the normal course of business the Corporation sells its products, at prevailing market prices and credit terms, to its related parties. Similarly, the Corporation regularly purchases goods and services from its related parties. Transactions with related parties and balances at year end are as follows:

Thousands of Dollars	1989	1988
Transactions		
Sales of product	$ 89,198	$ 2,416
Purchases	17,100	1,452
Preference share dividends paid	7,600	1,900
Balances at December 31		
Accounts receivable	5,805	1,243
Accounts payable	430	553
Non-interest bearing promissory notes totalling $100 million payable to parent company, classified in statement of Financial Position as:		
- current liability	80,000	—
- long-term debt	20,000	—

16. 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 and coal. Virtually all of the Corporation's assets are related to integrated steelmaking activities.

Operations by Geographic Area

	Consolidated		Canada		United States	
Thousands of Dollars	1989	1988	1989	1988	1989	1988
Sales						
External	**$ 1,491,892**	$1,449,798	**$1,334,538**	$1,258,709	**$ 157,354**	$ 191,089
Intra-enterprise sales between geographic areas	**195,585**	248,740	**43,335**	85,038	**152,250**	163,702
	1,687,477	1,698,538	**1,377,873**	1,343,747	**309,604**	354,791
Eliminations	**(195,585)**	(248,740)	**(43,335)**	(85,038)	**(152,250)**	(163,702)
Total	**$ 1,491,892**	$1,449,798	**$1,334,538**	$1,258,709	**$ 157,354**	$ 191,089
Earnings						
From operations	**$ 54,801**	$ 169,393	**$ 26,092**	$ 131,715	**$ 28,709**	$ 37,678
Eliminations	**11,398**	(4,411)	**263**	(848)	**11,135**	(3,563)
	66,199	164,982	**$ 26,355**	$ 130,867	**$ 39,844**	$ 34,115
Financial expense (net)	**(72,818)**	(60,454)				
Income taxes	**15,031**	(23,314)				
Net earnings	**$ 8,412**	$ 81,214				
Identifiable assets at December 31	**$ 1,858,294**	$1,823,013	**$1,600,316**	$1,572,655	**$ 257,978**	$ 250,358

Intra-enterprise sales between geographic areas are at market prices for similar products. Export sales originating at Canadian operations were approximately $406 million in 1989 ($287 million in 1988).

Auditors' Report to the Shareholders

We have examined the consolidated statement of financial position of The Algoma Steel Corporation, Limited as at December 31, 1989 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, 1989 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, after giving retroactive effect to the change in the method of accounting for investments in associated operations and inventories and except for the change in the method of accounting for post-employment benefits, both as explained in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

The consolidated financial statements as at December 31, 1988 and for the year then ended, prior to restatement for the change in the method of accounting for investments in associated operations and inventories and the restatement of deferred income taxes and capital taxes also as described in Note 1, were jointly examined by us and other auditors. The joint auditors' report in which an unqualified opinion was expressed was dated January 31, 1989. We have examined the adjustments that were applied to restate the 1988 consolidated financial statements and in our opinion, such adjustments are appropriate and have been properly applied.

Ernst & Young

Hamilton, Canada
February 2, 1990

Ernst & Young
Chartered Accountants

The Algoma Steel Corporation, Limited

Five-Year Summary of Operating and Employment Data

Tons in thousands and dollars in millions		**1989**	1988	1987	1986	1985
Production - Iron ore (1)	G.T.	**3,964**	3,397	2,939	2,394	2,978
- Coal - Metallurgical	N.T.	**1,557**	1,667	1,493	1,624	2,067
- Steam	N.T.	**2,996**	2,612	2,502	1,944	1,383
- Coke	N.T.	**1,096**	1,354	1,248	1,139	1,334
- Iron	N.T.	**2,656**	2,437	2,428	2,184	2,506
- Raw steel	N.T.	**2,788**	2,529	2,590	2,422	2,742
- Continuously cast	%	**77.1**	75.2	75.2	72.2	65.6
Shipments - Coal - Metallurgical (2)	N.T.	**947**	742	730	624	412
- Steam	N.T.	**3,109**	2,792	2,376	2,001	1,307
- Steel products	N.T.	**2,430**	2,132	2,125	2,032	2,063

Employment - Average number		**8,788**	9,206	8,903	8,668	9,670
- Cost elements						
- Wages and salaries						
- For time worked	$	**309**	321	289	271	292
- For vacations and statutory holidays	$	**52**	54	49	44	49
- Benefits						
- Company pension plans	$	**56**	26	28	30	35
- Workers' compensation	$	**17**	17	14	13	14
- Unemployment insurance	$	**7**	7	7	7	7
- Group insurance plans and other benefits	$	**38**	38	37	36	35
Total	$	**479**	463	424	401	432

Notes

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

(2) To third parties.

Directors

Gary S. Lucenti
Executive Vice President and Chief Operating Officer
The Algoma Steel Corporation, Limited

† **John Macnamara**
Sault Ste. Marie, Ontario
Chairman
The Algoma Steel Corporation, Limited

John T. Mayberry
Burlington, Ontario
President
Dofasco Steel

§ **Arthur H. Mingay**
Toronto, Ontario
Former Chairman
Canada Trust

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

Paul J. Phoenix
Burlington, Ontario
President and Chief Executive Officer
Dofasco Inc.

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

† **William L. Wallace**
Burlington, Ontario
Executive Vice President and Chief Operating Officer
Dofasco Inc.

† **Adam H. Zimmerman**
Toronto, Ontario
Chairman and Chief Executive Officer
Noranda Forest Inc.

† Member of Compensation Committee
§ Member of Audit Committee

Principal Officers

THE ALGOMA STEEL CORPORATION, LIMITED

John Macnamara *
Chairman

Peter M. Nixon
President and Chief Executive Officer

Gary S. Lucenti
Executive Vice President and Chief Operating Officer

Ross H. Cutmore
Vice President – Finance and Accounting

Gerry B. Hudson
Vice President – Commercial

James T. Melville
Vice President, Secretary and Treasurer

Paul J. Paciocco
Vice President and Works Manager – Steelworks

Robert Turpin
Vice President – Employee Relations

William J. Reed
Controller – Steel and Iron Ore Operations

CANNELTON INDUSTRIES, INC.

Allen S. Pack
President and Chief Executive Officer

A. Douglas Tolley
Vice President – Operations

* Retired April 1, 1990

Corporate Information

EXECUTIVE OFFICES
Sault Ste. Marie, Ontario

MANUFACTURING AND MINING FACILITIES

(Wholly Owned)

Canada

Sault Ste. Marie, Ontario
The Algoma Steel Corporation, Limited
- Steelworks Division
- Tube Division
- Marine Division
- Welded Beam Division

Wawa, Ontario
- Algoma Ore Division

Windsor, Ontario
Huron Steel Products
Mohawk Metal Products

United States

West Virginia
Cannelton Industries, Inc.
- Kanawha Division, Cannelton
- Pocahontas Division, Superior
- Indian Creek Division, Peytona

Maple Meadow Mining Company, Fairdale

(Partnerships and Joint Ventures)

Canada

Brampton, Ontario
Ferrum Inc. (50%)

Edmonton, Alberta
Superior Tube Limited Partnership (50%)

United States

Ishpeming, Michigan
Tilden Mine Joint Venture (30%)
Tilden Magnetite Partnership (50%)

Products and Sales Office Locations

PRODUCTS

Sheet
- Hot Rolled and Cold Rolled Coils and Cut to Length

Plate
- Hot Rolled
  - Sheared and Gas Cut
  - Floor (Pattern)
- Heat Treated
  - Normalized
  - Quenched and Tempered

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

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

Rails and Tie Plates

Coal
- Metallurgical and Steam Coal

SALES OFFICES *

Mississauga, Ontario
Calgary, Alberta

Algoma Tube Corporation
Houston, Texas

Cannelton Industries, Inc.
Charleston, West Virginia

* All flat-rolled products, other than heavy plate, are sold for Algoma by Dofasco under an agency agreement.

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