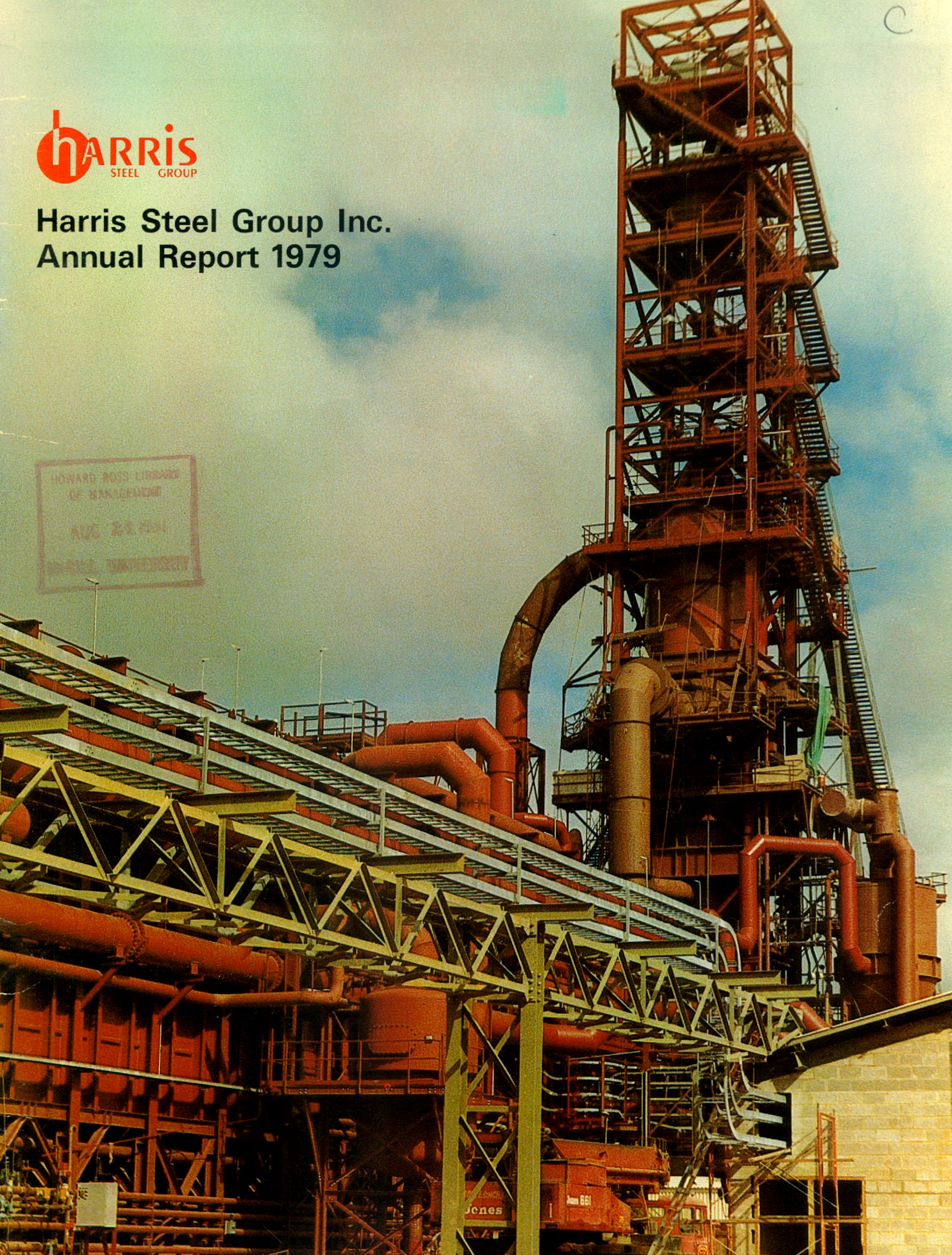
harris
STEEL GROUP

Harris Steel Group Inc.
Annual Report 1979



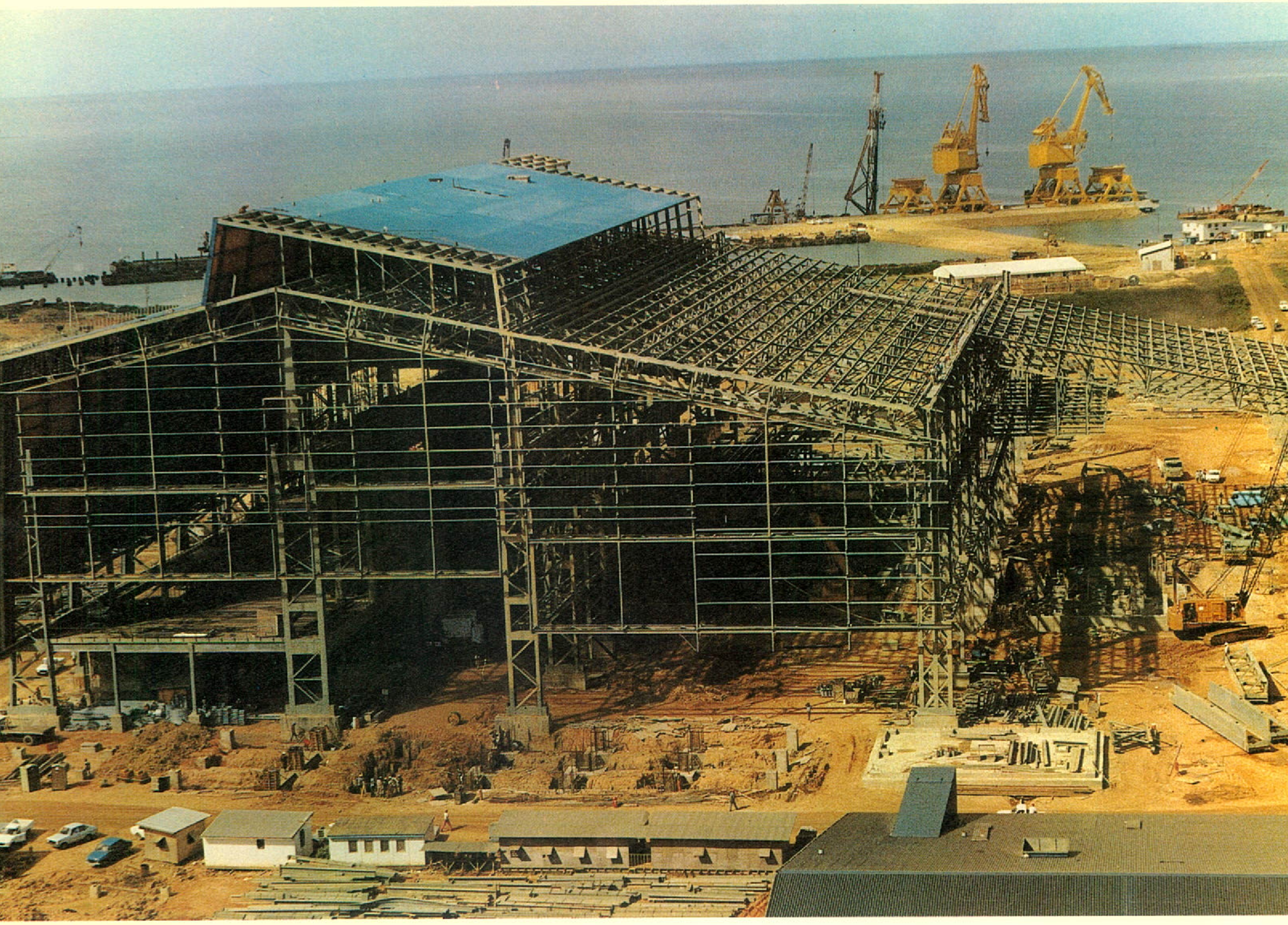
Cover picture:
Direct Reduction Facilities, Iron and Steel Company of Trinidad and Tobago. Erected by Frankel Marshall Trinidad Ltd., (A Frankel Steel Limited Joint Venture).

At right:
Meltshop, Iron and Steel Company of Trinidad and Tobago, Structural steel supplied by Frankel Steel Limited and Marshall Steel Ltd. Erected by Frankel Marshall Trinidad Ltd., (A Frankel Steel Limited Joint Venture).

Financial highlights

(Dollars in thousands except per share amounts)

	1979	1978
Sales	$ 118,668	$ 64,427
Net income	$ 3,049	$ 154
Per share	$ .65	$ .03
Dividends to shareholders	$ 784	$ 750
Per share	$ .17	$ .16
Shareholders' equity	$ 19,652	$ 17,387
Per share	$ 4.18	$ 3.70
Return on average equity	16.5%	.8%
Average number of shares outstanding	4,701,648	4,699,777



Corporate directory

Harris Steel Group Inc.

Head Office:
First Canadian Place
Suite 6455,
P.O. Box 163
Toronto, Ontario M5X 1C7
Telephone: 416-862-0061
Telex: 06-217789

Registrar and Transfer Agent

National Trust Company
Toronto, Ontario

Counsel

Goodman & Goodman

Auditors

Clarkson Gordon

Bankers

Royal Bank of Canada
Toronto Dominion Bank

Stock Exchange

Toronto

Stock Listing

Harris A
Harris B

Corporate officers

Milton E. Harris
Chairman of the Board and President

Geoffrey J. Jackson
Vice President

James Wilson
Vice President Marketing

Glenn Riddell
Vice President Manufacturing

Bruce Timmerman, C.A.
Vice President Finance

Lorie Waisberg
Secretary – Treasurer

Annual meeting
June 23, 1980 3:00 P.M.
Essex Room, Sheraton Centre, Toronto

Board of directors

Milton E. Harris*
Chairman of the Board, President
Harris Steel Group Inc.
Director since 1953

Gordon Atlin, Q.C.
Senior Partner,
Atlin, Goldenberg, Cohen & Armel
Director since 1970

Cecil H. Franklin*
Chairman and Chief Executive Officer
Algonquin Mercantile Corporation;
Chairman of the Board
Hardee Farms International
Director since 1973

Joseph Godfrey
President and Director of York Wood Investments Limited, Jonat Construction Company Limited and Joseph Godfrey Investments Limited
Director since 1974

Neil B. Ivory*
President of Pembroke Management Ltd; Vice President of GBC Capital Ltd.
Director since 1977

Geoffrey J. Jackson
President Frankel Steel Limited
Director since 1976

Barrie D. Rose, C.A.*
Chairman and Chief Executive Officer
Androck Inc.
Director since 1973

*A member of the Audit Committee.

Harris Steel Group Inc.

Operating divisions:
Harris Steel/VSL Canada
Main fabrication plant, marketing and administration offices – Stoney Creek, Ontario Tel. 416-561-5611
Branches – Windsor, Thunder Bay, Halifax, St. John's, Calgary, Edmonton
Supply, fabrication and erection of reinforcing steel bars, post tensioning systems, and epoxy coated reinforcing steel bars under the trade name "Epoxicote".

Frankel Steel Limited
Fabrication plant – Milton, Ontario
Marketing and administration offices – Toronto, Ontario Tel. 416-675-1722
Supply, fabrication and erection of structural steel.

Laurel Steel Products Ltd.
Manufacturing plant, marketing and administration offices – Burlington, Ontario Tel. 416-364-4912
Manufacture of low carbon wire, shaped wire, welded wire mesh, reinforcing steel bar supports, cold finish bars.

Fisher & Ludlow Limited
Manufacturing plant, marketing and administration offices – Burlington, Ontario Tel. 416-632-2121
Branch offices and warehouses – Vancouver, Calgary and Montreal.
Manufacture and fabrication of heavy steel grating.

Quecor Steel Limited
Warehouse, reinforcing steel fabrication plant, marketing and administration offices – Montreal, Quebec Tel. 514-670-7011
Distribution and processing of general carbon steel products; supply, fabrication and erection of reinforcing steel bars.

Thomsson Steel Company Incorporated
Fabrication plant, marketing and administration offices – Beltsville, Maryland (near Washington, D.C.)
Tel. 301-953-2080
supply and fabrication of reinforcing steel bars, welded wire mesh.

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1. EPOXICOTE steel bars reinforce these typical precast concrete sections. **2.** World Headquarters – Owens Illinois Corp., Toledo, Ohio. Structural steel supplied and erected by Frankel Steel Limited.

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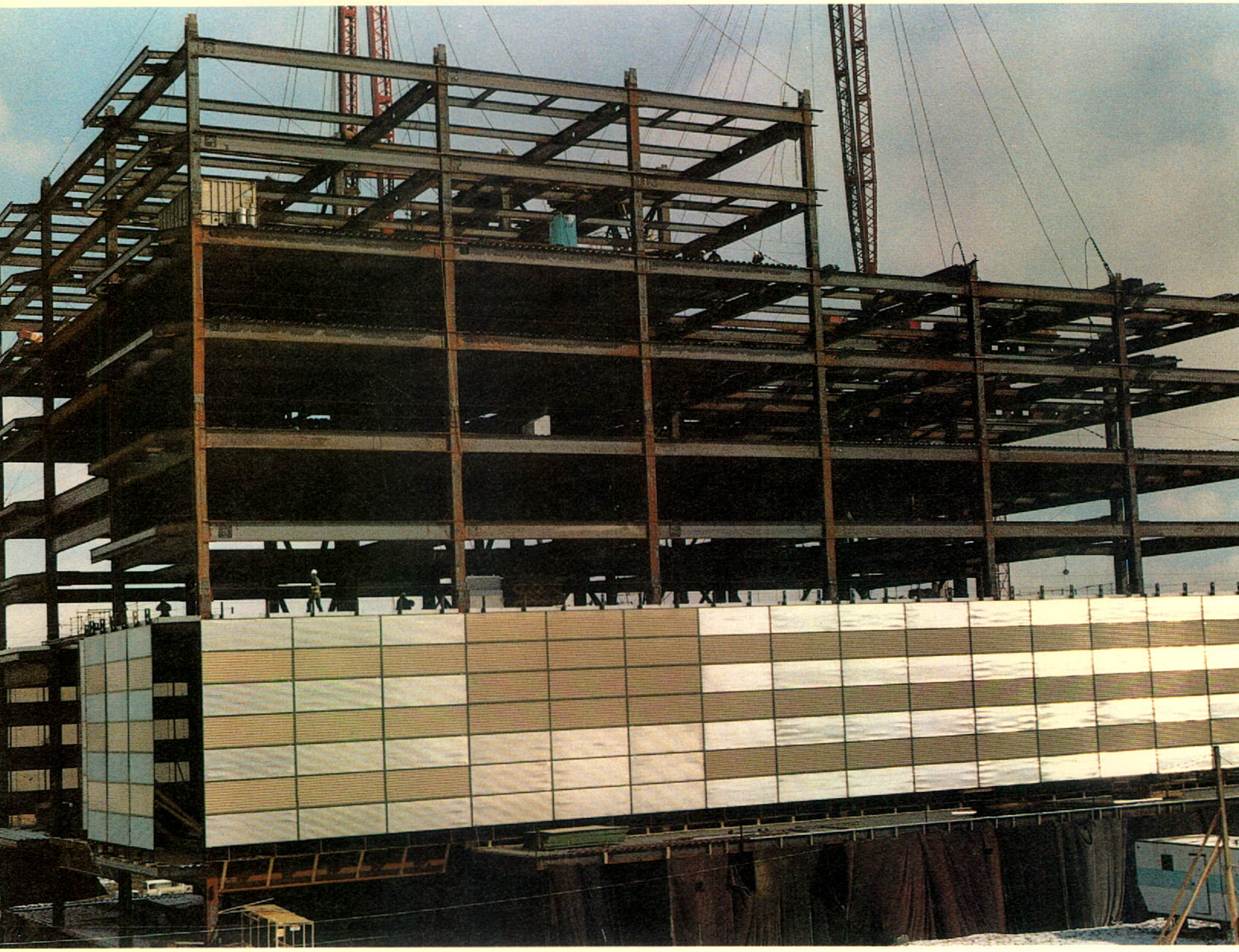
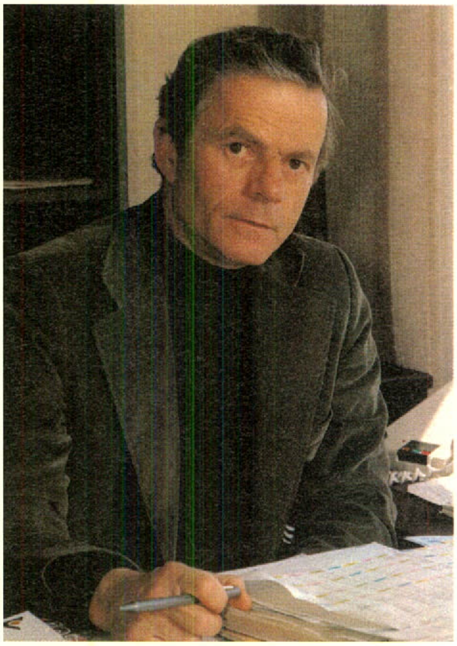


Message to shareholders



I am pleased to report that we made excellent progress in 1979 toward our company's objective of an expanded earnings base. Our sales were \$118 million compared to \$64 million in 1978 and our earnings moved to more than \$3 million or \$.65 per share. Total shareholders' equity increased to \$19.6 million or \$4.18 per share from \$17.4 million or \$3.70 per share.

Our 1979 sales increase was the result of aggressive marketing in all of our operating groups. Sales of Harris, Frankel, Laurel and Fisher & Ludlow rose 35% to \$79 million. Quecor and Thomsson, both acquired during 1978, added \$28 million. Our share of the sales of joint ventures of \$11 million increased total 1979 revenues to \$118 million.

The outstanding success story of our Group in 1979 has been Frankel Steel. Frankel's management was able to overcome the major difficulties encountered in 1978 when their entire fabrication facilities were moved to a new plant in Milton, Ontario. I am very happy to report that Frankel once again is in the forefront of the structural steel industry both in technology and productivity. The result has been a very good profit performance in 1979 and excellent prospects for 1980 and beyond.

The entire Frankel management team deserves full credit for this achievement.

Our major disappointment in 1979 was the failure of the Washington, D.C. market to develop as we had expected. We will be watching our Thomsson Steel subsidiary carefully in 1980.

Economic factors in 1979

Three factors had a strong impact on our 1979 year: firm steel markets in Canada, spotty construction activity and escalating interest costs.

Protective steel import policies of the American and Canadian governments, the world class status of steel producers in Canada and the cheaper Canadian dollar combined to make a good year for Canadian steel manufacturers and steel distributors. As the automotive market fell off in the second half of the year some steel products weakened; however, our company more than made up for the reduced automotive orders with sales to new customers of our expanded line of wire products.

Although construction markets in Western Canada remained firm, activity in Ontario, Quebec, Atlantic Canada and Washington, D.C. was disappointing. We sought opportunities outside our traditional products and market areas. Frankel Steel has developed an international steel construction capability and in 1979 was active in very large projects in the Caribbean and the United States. Harris successfully marketed epoxy coated reinforcing steel in many provinces of Canada and in late 1979 expanded capacity to meet the increased demand for this new product.

The rapidly rising cost of money during 1979 caused interest costs to substantially overrun our forecasts. Total interest amounted to \$3.5 million—an increase of \$3 million over 1978 interest costs. Despite this burden on profitability, we were able to exceed our budgeted earnings for the year by 12%.

Financial position

In 1979 our long-term debt increased to \$9 million from \$2 million. These funds were used to finance the new Frankel plant in Milton, Ontario, the new Laurel plant in Burlington, Ontario and to build and equip the new Epoxicote plant in Stoney Creek, Ontario.

No major capital expenditures are planned for 1980, although we will continue to be alert to acquisition opportunities.

Our short-term borrowings were higher than anticipated at year end because of excess inventories at Quecor Steel. Quecor's inventory is being reduced by restricting purchases. We expect inventory levels to be in balance by the end of June, 1980.

Changes in management at Quecor have been made and control systems are now operating much more effectively.

Quecor has attained an excellent position in the Quebec warehouse market. We intend to maintain this position.

Share reorganization

In 1979 we reorganized our outstanding shares and exchanged each of our old common shares for one new non-voting class A share and ½ new voting class B share. The purpose of the restructuring of our shares is to provide the company with the flexibility to issue non-voting shares to finance acquisitions, raise long-term capital and increase the public distribution of our shares, without disturbing the present management control of the company.

It is our intention in the future to widen the distribution of the stock so that institutional investors will have confidence in the liquidity of large blocks of shares.

Company strategy

We aim to expand our business, both internally and through further acquisitions. New members acquired for the Group must enhance the total Group's buying power, or marketing strength, or preferably both.

We believe that weaker steel markets and radically-increased interest rates should present excellent acquisition opportunities in the next eighteen months. As always, we look to broaden our earnings base. Past experience has shown us that the volatility of steel markets can be counterbalanced with the stability of long-term heavy construction projects. We expect to prove this in 1980 and beyond.

In order to maximize the advantages of our size and position in the steel industry we will be dealing with each of the major steel suppliers on the basis of the Group as a whole.

Outlook for 1980

Major economic cross-currents make forecasting a very hazardous activity. It seems clear that high interest rates are finally causing the planned recession in the U.S. and, hopefully, will moderate an intolerable 18% American rate of inflation. The rapid rise in energy costs in the U.S., and an eventual facing up to reality on pricing of energy in Canada, as well as the favourable effect of the cheap dollar on the Canadian manufacturing industry should bring a strong capital expenditure program.

We have already seen the beginnings of the anticipated capital expenditure boom. Our construction backlogs are higher than at any year end since 1974, and this will have a positive impact on our 1980 year.

The recession in the U.S. will cause a weakening in steel markets. However, our broadened coverage and expanded product lines will enable us to offset the effect of a slowdown in the economy.

We believe there are many export opportunities and we will be expanding on our successful 1979 export business.

Despite the conflicting economic influences ahead we expect sales and profits to increase for the total Harris Steel Group in 1980.

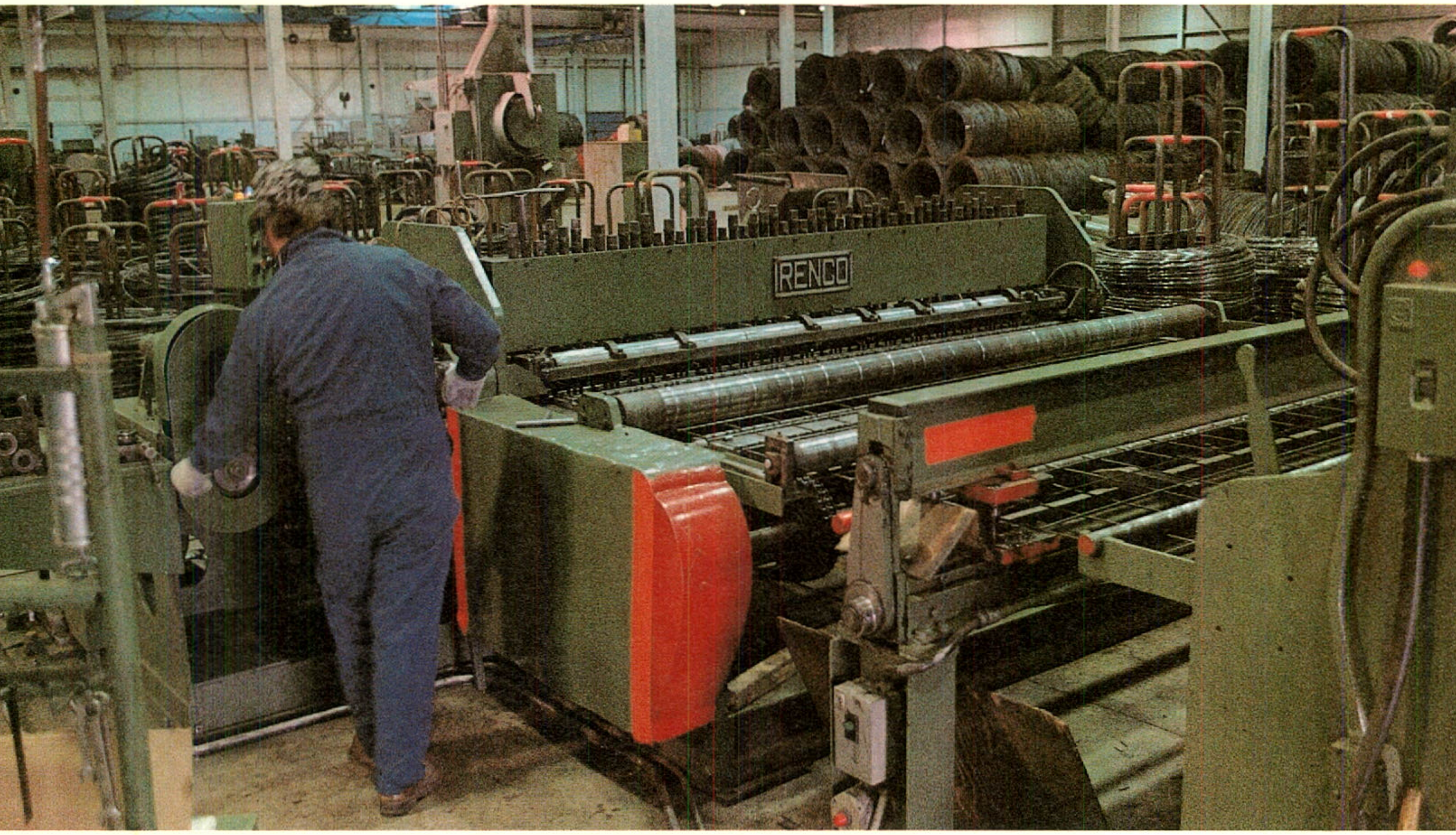
1979 was a very complex year. Nevertheless, we were able to achieve a good level of profits and substantial increase in sales. The Board of Directors, on behalf of the Shareholders, would like to thank our Management and Staff who have made this result possible.

M E Harris

Milton E. Harris
President and Chief Executive Officer

April 22, 1980

Review of operations and growth



In 1978 the Harris Steel Group embarked on a major expansion program.

We purchased a steel warehouse in Quebec (Quecor Steel) and a reinforcing steel fabricator in Washington, D.C. (Thomsson Steel).

We took decisions to produce epoxy coated reinforcing steel and to expand our wire product lines.

The impact of these moves on our 1979 sales results is shown below:

	Sales ($'000's)		
	1979	1978	Increase
Sales increases resulting from			
– Internal expansion Harris, Frankel, Laurel, Fisher & Ludlow	$ 78,785	$58,245	$20,540
– Acquisition Quecor Steel and Thomsson Steel	28,456	6,182	22,274
– Frankel's involvement in joint ventures	11,427		11,427
	$118,668	$64,427	$54,241

In 1980 we will continue to widen our earnings base as a result of

1. further development of markets for the new products introduced by Harris and Laurel in 1979
2. Frankel operating at better production levels, productivity and margins than 1979
3. Fisher and Ludlow adding to its production capacity

Quecor and Thomsson have achieved the optimum shares of their markets. We are not planning to enlarge these two divisions in 1980 but will concentrate instead on improving their profitability.

Frankel Steel Limited

Frankel Steel, which last year suffered losses approximately equal to the total profits of the remaining companies, is once again the leading profit earner in the Group.

Frankel's direct sales were up $7 million in 1979. Joint ventures added another $11 million in revenues. Over all, Frankel's volume (including joint venture sales) increased by 85%.

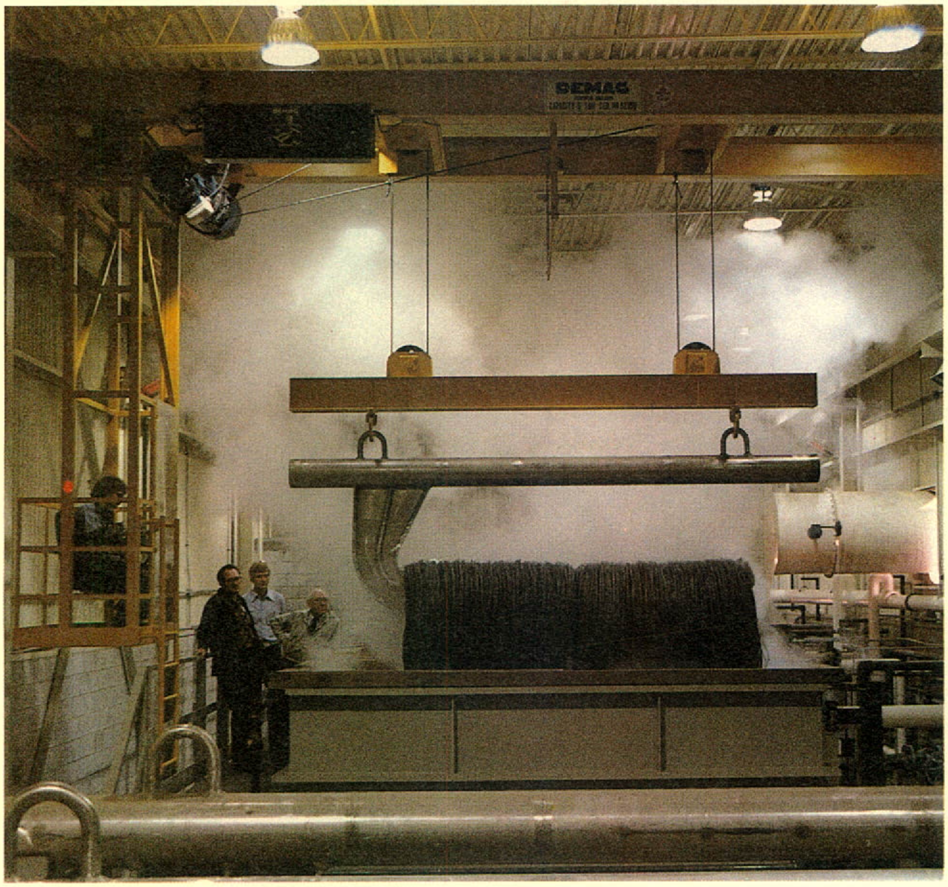
Frankel has strengthened its operations in several ways.

The Milton facility has been completed; the company's work force has been enlarged and productivity, quality and technology are once again in the forefront of the industry.

The company's specialized engineering skills and its experience in managing large scale structural steel construction projects have led to successful international contracts. During 1979 Frankel (and joint ventures in which Frankel is a full partner) carried out major construction work in Trinidad and the United States.

1980 promises to be even a better year than 1979. Going into the year, the company had an excellent backlog of work taken at good prices. Recent

1. Wire mesh welding equipment and new wire cleaning and coating facility Laurel Steel Products – Burlington, Ontario. **2.** EPOXICOTE reinforcing steel bars ready for installation. **3.** On site welding. **4.** Straight lengths of finished wire.



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awards have improved the profitability of the backlog. Frankel is virtually assured of operating at full capacity throughout 1980.

Harris/VSL

Current economic factors make new construction activity uncertain in some segments of the market. However, we have a large backlog of work at good prices. We are forecasting a good year for our Harris reinforcing steel operations.

The highlight of 1979 was the bringing on stream of our epoxy coating process in a new plant adjacent to our main reinforcing steel fabrication facility in Stoney Creek, Ontario.

Epoxy coating of the reinforcing steel in a structure prevents deterioration caused by salt. Acceptance of our "Epoxicote" product has been so great that in November 1979 we expanded our epoxy coating capacity by 150%.

"Epoxicote" will make a substantial

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1. Laurel Steel Products – 95,000 sq. foot plant, Burlington, Ontario. **2.** Harris reinforcing steel fabrication and EPOXICOTE plants – Stoney Creek, Ontario. **3.** EPOXICOTE reinforcing steel bars were specified for overpass on the Queen Elizabeth Way (Toronto).

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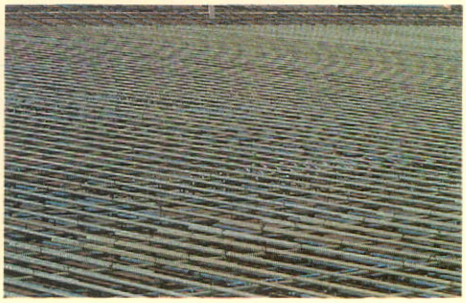
contribution to sales and earnings in 1980.

Laurel Steel

During 1979 the wire manufacturing plant of Laurel Steel was moved to a new 95,000 square foot building on 12 acres in Burlington, Ontario.

It is a tribute to the calibre of Laurel's management that the move was accomplished on schedule and with a minimum of lost production.

Laurel's new plant has a wire cleaning and coating facility capable of processing 35,000 tons per year. This has enabled us to enter the high quality cold finish bar and clean bright wire markets.



In 1979 – mainly as a result of marketing a limited range of sizes of cold finish bars for the first time – sales of Laurel Steel increased by 44%.

This year we are planning to more than double 1979's sales of cold finish bars – which should put Laurel's total 1980 sales volume 40% higher than 1979.

Fisher & Ludlow

Fisher & Ludlow sales showed an increase of 45% in 1979. The company's Burlington, Ontario, manufacturing plant operated at full capacity throughout the year.

Full service warehouse and fabrication facilities were opened in Montreal, Quebec, (Quecor premises) and Calgary, Alberta. In Montreal, Quecor's strong marketing team has given added push to Fisher & Ludlow's sales effort.

Fisher & Ludlow will add to its steel grating production capacity in 1980 and we expect to record another strong year.

Quecor Steel Limited

In its first year of operations Quecor has captured a substantial share of the Quebec steel warehousing market – a credit to the experience, reputation and ability of the company's skilled marketing team.

Quecor's 1979 sales far exceeded the levels we had planned at the commencement of the year. Profits, although in line with our original projections, did not show the increases that should have resulted from the company's higher sales volumes. Interest costs caused the disappointing profit level. Much larger warehouse inventories were carried than we required.

Management changes have been made in the Warehouse Division. New control systems have been installed. Quecor's inventory will be brought into balance by the end of June 1980. This will be done gradually by restricting steel purchases rather than by selling off excess quantities at reduced prices.

The company's Reinforcing Steel Division continues to be excellently managed and is making a good contribution to Quecor's profits.

In 1980 we will maintain our excellent market position at Quecor and will draw on the skills and experience of the Harris Group to develop improved inventory management systems.

Thomsson Steel

We incurred losses in our U.S. subsidiary Thomsson Steel during 1979.

Prices did not improve sufficiently in the Washington, D.C. market in the second half of the year to overcome the backlog of low margin contracts that had burdened Thomsson when we purchased the company in November 1978.

Although the backlog of low priced work has been reduced, an improvement in market conditions will be required in order for Thomsson to achieve profitability in 1980.

Experienced Harris personnel are overseeing the operations at Thomsson and we will be keeping a close watch on 1980 performance.

HARRIS STEEL GROUP

HARRIS STEEL GROUP INC.

(Incorporated under the laws of Ontario)
(formerly J. Harris & Sons, Limited)

Consolidated balance sheet

December 31, 1979 (with comparative figures at December 31, 1978)

ASSETS	1979	1978
Current:		
Accounts receivable	**$27,675,806**	$16,079,437
Inventories (note 3)	**25,326,342**	19,944,491
Unbilled contract costs	**4,907,711**	6,356,666
Prepaid expenses and deposits	**728,588**	418,654
Total current assets	**58,638,447**	42,799,248
Investments:		
Shares in other companies, at cost (estimated market value 1979 – $225,000; 1978 – $254,000)	**28,500**	44,259
Fixed assets:		
Land	**1,335,883**	1,039,799
Buildings	**6,618,425**	4,795,627
Machinery and equipment	**13,115,683**	9,990,517
Mobile equipment	**2,424,029**	1,936,312
	23,494,020	17,762,255
Less accumulated depreciation	**6,872,557**	5,917,769
	16,621,463	11,844,486
Other assets:		
Deferred income tax charges		400,000
Goodwill, at amortized cost	**536,411**	596,411
	536,411	996,411
	$75,824,821	$55,684,404

On behalf of the Board:

M. M. Harris

Director

C. A. Franklin

Director

(See attached notes)

LIABILITIES	1979	1978
Current:		
Bank indebtedness (inventories and accounts receivable pledged as security)	**$23,425,369**	$17,365,006
Accounts payable and accrued charges	**18,540,379**	15,086,794
Income and other taxes payable	**1,338,770**	396,748
Deferred income taxes	**3,513,000**	3,354,200
Current portion of long-term debt (note 4)	**511,293**	10,017
Total current liabilities	**47,328,811**	36,212,765
Long-term debt (note 4)	**8,573,359**	2,084,656
Deferred income taxes	**270,000**	
Shareholders' equity (note 6):		
Capital (without par value) –		
Authorized:		
25,000,000 Class A shares		
10,000,000 Class B shares		
100 common shares		
Issued:		
3,134,432 Class A shares		
1,567,216 Class B shares		
4,701,648	**2,470,295**	2,470,295
Retained earnings	**17,182,356**	14,916,688
	19,652,651	17,386,983
	$75,824,821	$55,684,404

Consolidated statement of income

Year ended December 31, 1979 (with comparative figures for 1978)

	1979	1978
Sales and construction revenue	**$118,668,006**	$64,427,386
Cost of sales and contract costs	**101,149,053**	58,602,000
Gross operating profit	**17,518,953**	5,825,386
Expenses:		
Selling and administrative expenses	**7,782,530**	4,461,109
Amortization of goodwill	**60,000**	5,900
Depreciation	**1,032,028**	686,570
Interest on long-term debt	**921,586**	58,548
Other interest expense	**2,633,532**	492,351
	12,429,676	5,704,478
Income before income taxes	**5,089,277**	120,908
Income taxes (recovery) (note 7)	**2,040,000**	(33,000)
Net income for the year	**$ 3,049,277**	$ 153,908
Earnings per share	**$0.65**	$0.03

Consolidated statement of retained earnings

Year ended December 31, 1979 (with comparative figures for 1978)

	1979	1978
Retained earnings, beginning of year	**$14,916,688**	$16,063,856
Excess of the purchase price over the paid-up value of the company's shares purchased		550,613
	14,916,688	15,513,243
Net income for the year	**3,049,277**	153,908
	17,965,965	15,667,151
Deduct:		
Taxable dividends	**783,609**	235,263
Tax-deferred dividends		515,200
	783,609	750,463
Retained earnings, end of year	**$17,182,356**	$14,916,688

(See attached notes)

Consolidated statement of changes in financial position

Year ended December 31, 1979 (with comparative figures for 1978)

	1979	1978
Source of funds:		
Net income for the year	**$ 3,049,277**	$ 153,908
Charges to operations not involving an outlay of funds –		
Depreciation and amortization	**1,092,028**	692,470
Deferred income taxes	**670,000**	(1,229,753)
Loss (gain) on disposal of fixed assets	**67,634**	(110,806)
Gain on sale of investments	**(38,241)**	
Funds from operations	**4,840,698**	(494,181)
Proceeds from sale of fixed assets	**155,878**	229,745
Proceeds from the issuance of shares		135,000
Proceeds from term bank loans	**7,000,000**	2,000,000
Proceeds from sale of investments	**54,000**	
	12,050,576	1,870,564
Application of funds:		
Additions to fixed assets	**6,032,521**	4,237,245
Dividends	**783,609**	750,463
Reduction of long-term debt	**511,293**	6,884
Purchase of shares of the company		672,550
Acquisition of subsidiary companies including working capital deficiency of $79,624 assumed at the date of acquisition		1,508,653
	7,327,423	7,175,795
Increase (decrease) in working capital	**4,723,153**	(5,305,231)
Working capital, beginning of year	**6,586,483**	11,891,714
Working capital, end of year	**$11,309,636**	$ 6,586,483

(See attached notes)

Auditors' report

To the Shareholders of
Harris Steel Group Inc.
(formerly J. Harris & Sons, Limited):

We have examined the consolidated balance sheet of Harris Steel Group Inc. as at December 31, 1979 and the consolidated statements of income, 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 company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for joint ventures as described in note 1 (b).

Toronto, Canada,
March 14, 1980.

Clarkson Gordon
Chartered Accountants

Notes to the consolidated financial statements

December 31, 1979

1. Accounting policies

a) Basis of consolidation –

The consolidated financial statements include the accounts of the company and all its subsidiaries.

b) Joint ventures –

During the year the company changed its basis of accounting for joint ventures, both incorporated and unincorporated, from the equity method to the proportionate consolidation method. The 1978 figures which are insignificant have been adjusted to reflect this change. While this method reflects the company's share of the joint ventures' assets, liabilities, revenues and expenses in the attached financial statements as indicated in note 2, the change has no effect on net income or working capital.

c) Foreign exchange –

Assets, liabilities, revenues and expenses stated in other currencies together with the accounts of the company's U.S. subsidiary are translated as follows:

Monetary assets and liabilities – at year-end rate of $1 U.S. = $1.1685 Cdn.

Non-monetary assets and depreciation expense – at historic rates;

Revenues and expenses, other than depreciation – at average exchange rates for the year.

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts, which are reflected in income, were not significant.

d) Inventories –

The company values its inventories at the lower of cost and market. Cost is determined on a weighted average basis for structural steel and steel warehouse inventories and on a first-in, first-out basis for all other inventories.

e) Unbilled contract costs –

Unbilled contract costs represent contracts in progress valued on the percentage-of-completion basis. Under the percentage-of-completion method, profit is accrued as the work is performed, and provision is made for anticipated losses to the completion of the contract. Although the company uses its best engineering estimates, the final results of jobs in progress will necessarily be dependent upon future costs and revenues. Claims for additional compensation are only included in income when approved by the owner.

f) Fixed assets and depreciation –

Fixed assets are recorded at historical cost. The company depreciates its buildings, machinery and equipment on a straight-line basis and its mobile equipment on a declining balance basis at the following rates:

Buildings	2½%
Machinery and equipment	7½%
Mobile equipment	30 %

Gain or loss on disposal of individual assets is recognized in income in the year of disposal.

g) Goodwill –

Goodwill represents the excess of the cost of investments in shares of subsidiaries over the fair values of their underlying net assets at the date of acquisition. Goodwill is being amortized on a straight-line basis over a period of ten years.

h) Income taxes –

The company follows the income tax allocation method of accounting. Deferred income taxes included in current liabilities relate to contracts in progress, investment in joint ventures and holdbacks receivable. Non-current deferred income taxes relate to fixed assets net of income tax charges relating to losses carried forward for tax purposes.

Investment tax credits relating to fixed asset purchases are accounted for as a reduction in the current year's tax provision net of the deferred income taxes where applicable. This treatment is commonly referred to as the "flow through" method.

i) Earnings per share –

Earnings per share are calculated on the weighted average number of shares outstanding during the year. The exercise of the options referred to in note 6 would not result in any material dilution of earnings per share.

Earnings per share reflect the capital reorganization which took place in November, 1979 as explained in note 6.

2. Accounting for joint ventures

(see note 8 (b))

A summary of the company's pro rata share of joint venture operations is summarized below:

Assets	$ 7,050,173
Liabilities	3,193,689
Revenues	11,427,644
Expenses	8,541,184

3. Inventories

Inventories consist of the following:

	1979	1978
Raw materials	$23,765,660	$19,004,296
Work in progress	563,975	240,190
Finished goods	996,707	700,005
	$25,326,342	$19,944,491

4. Long-term debt

	1979	1978
9% mortgage loan due 1988	$ 54,566	$ 58,105
13% conditional sale agreement due 1983	30,086	36,568
Term bank loans bearing interest at bank prime plus ¾%, due 1980 to 1986 evidenced by demand notes and secured by a first mortgage together with fixed charge debentures on certain assets	9,000,000	2,000,000
	9,084,652	2,094,673
Less current portion	511,293	10,017
	$8,573,359	$2,084,656

Principal repayments during the next five fiscal years are as follows: 1980 – $511,293; 1981 – $513,000; 1982 – $2,414,000; 1983 – $1,409,000; 1984 – $1,405,000.

5. Lease commitments

The company is required to make aggregate future minimum lease payments of $2,948,00 under operating leases that have non-cancellable lease terms in excess of one year at December 31, 1979. Annual lease payments during the next five fiscal years are as follows: 1980 – $573,000; 1981 – $551,000; 1982 – $489,000; 1983 – $243,000; 1984 – $182,000.

6. Capital stock and dividends

By an amendment to the articles of the corporation dated November 5, 1979, the authorized capital of the corporation was changed as follows:

5,000,000 authorized Class A shares without par value were subdivided into and reclassified as 25,000,000 special shares without par value to be designated as Class A shares.

5,000,000 authorized Class B shares without par value were subdivided into and reclassified as 10,000,000 special shares without par value to be designated as Class B shares.

Voting –

a) Each Class A share is not entitled to vote unless the corporation has failed to pay dividends totalling 5¢ per Class A share for eight consecutive fiscal quarters. Thereafter, Class A shares shall be entitled to one vote until, in any fiscal quarter, a dividend of 5¢ per Class A share has been paid or declared and set aside for payment.

b) Each Class B share is entitled to one vote at all meetings of the shareholders.

Dividends –

a) Each Class A share is entitled to receive a preferential, non-cumulative, quarterly dividend of 5¢ per share.

b) Each Class B share is not entitled to a dividend in any quarter until a dividend of 5¢ has been paid on the Class A shares. Thereafter, Class B shares are entitled to a dividend of up to 5¢ per share in any quarter.

c) Dividends in excess of 5¢ per share in any quarter will be paid equally on the Class A shares and Class B shares.

Share exchange –

Each of the 3,134,432 Class A and Class B shares of the corporation outstanding prior to the subdivision and reclassification were exchanged for 1 new Class A share and ½ new Class B share.

Options –

Options are outstanding at December 31, 1979 for 6,000 Class A shares and 3,000 Class B shares at $.667 per share which may be exercised to June 30, 1981.

7. Income taxes

The provision for income taxes has been reduced by the 3% inventory allowance and the investment tax credits utilized during the year.

8. Contingent liabilities

a) During 1978, a judgment for $532,000 plus costs was awarded against a subsidiary of the company and another defendant relating to allegedly defective structural work completed in 1967. The judgment, as well as the allocation of the award among the defendants is under appeal. When the ultimate liability to the company has been settled, it will be reflected in the financial statements for that year as a prior period adjustment.

b) The company has guaranteed the bank indebtedness of a corporate joint venture in which it has a fifty percent interest to a maximum of $2,000,000. The bank indebtedness of the joint venture was $2,102,000 at December 31, 1979, and fifty percent of this amount is included in bank indebtedness in the attached financial statements.

9. Comparative figures

Certain of the prior year's accounts have been reclassified to conform with current year's presentation.

HARRIS STEEL GROUP

Financial summary

(Dollars in thousands except per share amounts)

	1979	1978	1977	1976	1975
Operating results:					
Sales	**$118,668**	$64,427	$55,120	$58,592	$55,216
Income before taxes and extraordinary items	**$ 5,089**	$ 121	$ 3,806	$ 3,506	$ 8,737
Income taxes	**$ 2,040**	$ (33)	$ 1,374	$ 1,511	$ 3,914
Net income from operations	**$ 3,049**	$ 154	$ 2,432	$ 1,995	$ 4,823
Return on average equity	**16.5%**	.8%	13.9%	12.6%	36.9%
Financial					
Current assets	**$ 58,638**	$42,799	$22,658	$25,244	$22,259
Current liabilities	**$ 47,329**	$36,212	$10,766	$15,832	$13,288
Working capital	**$ 11,309**	$ 6,587	$11,892	$ 9,412	$ 8,971
Current ratio	**1.2:1**	1.2:1	2.1:1	1.6:1	1.7:1
Fixed assets, less depreciation	**$ 16,621**	$11,844	$ 8,069	$ 7,954	$ 6,861
Investments and other assets	**$ 565**	$ 641	$ 44	$ 44	$ 44
Deferred income taxes (charges)	**$ 270**	$ (400)	$ 1,426	$ 905	$ 608
Long term debt	**$ 8,573**	$ 2,085	$ 58	$ 61	$ 64
Share capital	**$ 2,470**	$ 2,470	$ 2,457	$ 2,451	$ 2,445
Retained earnings	**$ 17,182**	$14,917	$16,064	$13,993	$12,759
Total shareholders' equity	**$ 19,652**	$17,387	$18,521	$16,444	$15,204
Total assets	**$ 75,824**	$55,684	$30,771	$33,242	$29,164
Per share:					
Net income from operations	**$ .649**	$ .033	$ .50	$ .407	$ .987
Dividends	**$ .167**	$ .16	$ .156	$ .136	$ .107
Shareholders' equity	**$ 4.18**	$ 3.70	$ 3.79	$ 3.37	$ 3.11

Per share amounts based on average number of shares outstanding after 3 for 2 share exchange in 1979.

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