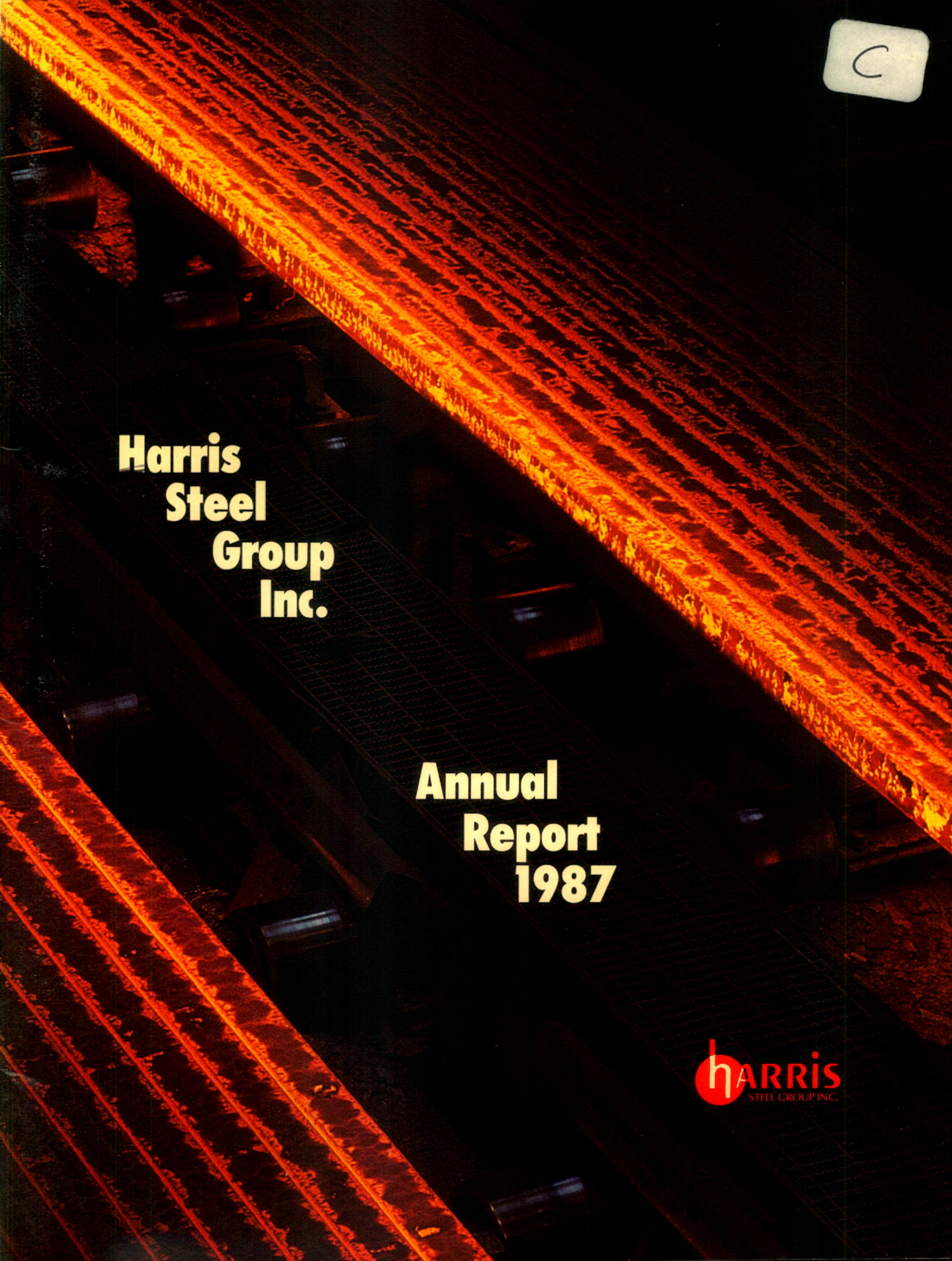


Harris Steel Group Inc.

Annual Report 1987

HARRIS
STEEL GROUP INC.

DESCRIPTION OF THE BUSINESS

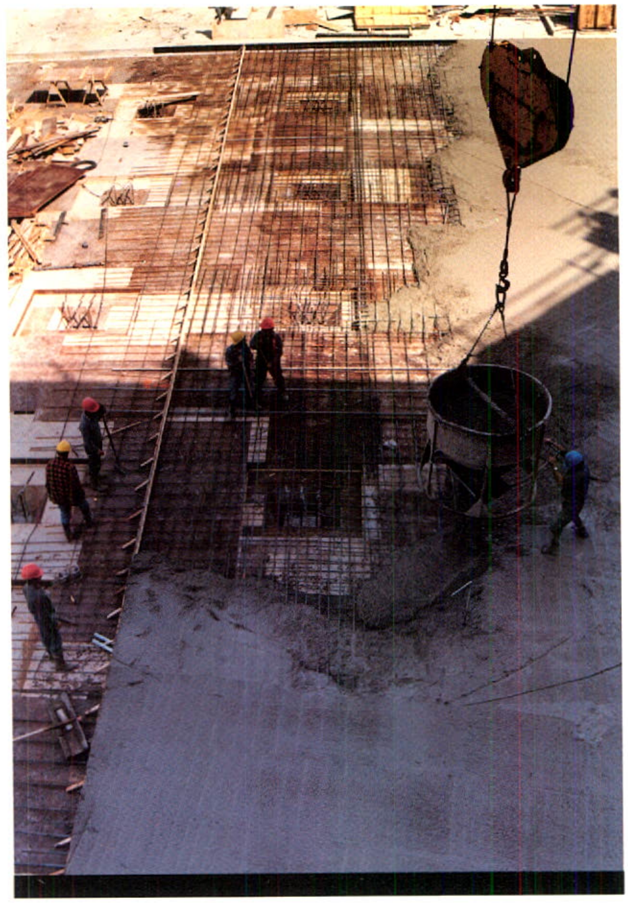
Harris, through its subsidiaries, is engaged in the manufacture of concrete reinforcing steel and merchant steel; the fabrication and placing of concrete reinforcing steel; the production and marketing of epoxy-coated reinforcing steel; the design and installation of concrete post-tensioning systems; the manufacture and distribution of wire and wire products, welded wire mesh and cold finished bar; the manufacture and distribution of heavy industrial steel and aluminum grating; and the fabrication and erection of structural steel.

The company serves all of Canada, the north-eastern and central United States.

Harris became a public company in 1967 and has paid dividends since 1972.

Annual Meeting

All shareholders are cordially invited to attend the annual meeting on Wednesday, June 22, 1988, 3:00 p.m. in the Essex Room of the Sheraton Centre, 123 Queen Street West, Toronto.



Cement being poured over some of the 3,600 metric tons of fabricated reinforcing steel supplied by Harris Rebar for this condominium project in Etobicoke, Ontario.

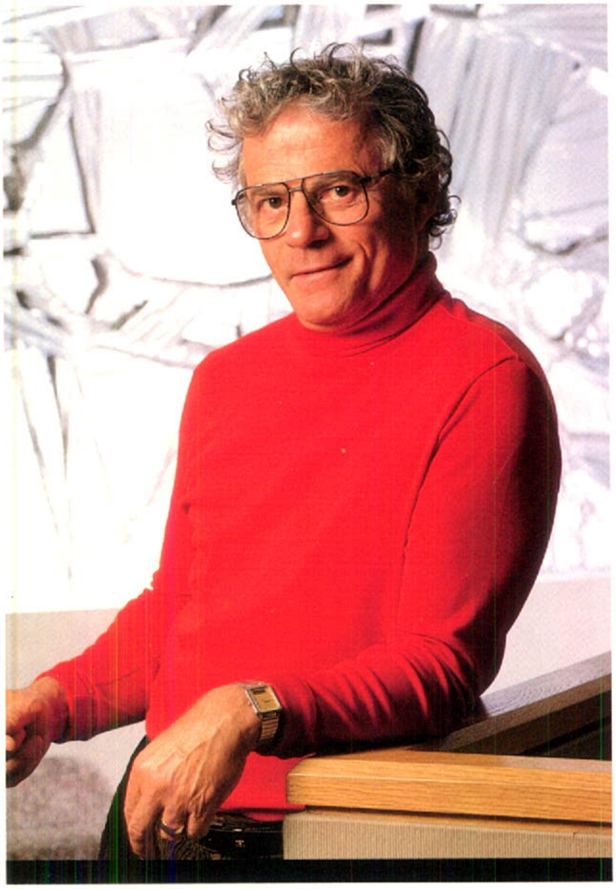
Cover Photo: Four inch square steel billets produced by Courtice Steel's continuous caster at Cambridge, Ontario.

FINANCIAL HIGHLIGHTS

Years ending December 31

(Dollars in thousands except per share amounts)	1987	1986
Operating results		
Sales from continuing operations	**$212,062**	$164,894
Earnings from continuing operations	**6,628**	5,419
Return on sales	**3.1%**	3.3%
Earnings (loss) from discontinued operations	**(6)**	(798)
Earnings before extraordinary item	**6,622**	4,621
Return on average equity	**10.5%**	7.4%
Per Share		
Earnings from continuing operations	**$.54**	$.44
Earnings (loss) from discontinued operations	**–**	(.06)
Earnings before extraordinary item	**.54**	.38
Dividends	**.24**	.24
Shareholders' equity	**4.87**	5.42
Average shares outstanding	**12,340,530**	12,271,489
At year end		
Total assets	**$204,890**	$183,780
Long-term debt	**37,084**	15,149
Shareholders' equity	**60,112**	66,451
Long-term debt/Total capital	**38.2%**	18.6%
Current ratio	**1.2:1**	1.2:1
Number of employees	**1,859**	2,109
Number of shareholders – Class A	**461**	606
– Class B	**235**	314

REPORT TO SHAREHOLDERS



Brian Willer/Maclean's

1987 was the first year of the Two-Year Plan to strategically re-position the Harris Steel Group. We intend to climb onto a new earnings plateau from which we can thrust upwards to further higher earnings levels. We are confident this goal will be achieved by the end of 1988. By then we expect our new steel production facilities will be performing at target levels, and the divestiture of our structural steel assets will be substantially complete.

The Harris Steel Group of Companies can now be easily understood as a state-of-the-art, continuous-cast steel meltshop and bar rolling mill at the centre feeding bar products into a satellite group of downstream fabricating and processing companies.

Looked at in the context of the Two-Year Plan, 1987 was a transition year that reached its continuing earnings and operating targets. We fully expect that 1988 will place us firmly on a new earnings plateau.

Our 20-year history as a public company has been one of constantly building an ever-higher base of earnings. Our continuing earnings in 1987 were 28 times higher than the $222,000 of 1968, and our present stock price is 32 times greater than our issue price of 29¢ in 1967.

Inherent in our new strategic configuration is a greatly-enlarged potential to further enhance value for the shareholders.

Although it was a very difficult decision to divest ourselves of our structural steel assets, which produced half of our sales, the final result of our re-positioning in 1988 and future years will be much higher earnings per share and substantially-lower overall debt. Despite the ten million dollar write-off that we have taken, we expect to return to our 1986 equity position before the end of 1988.

All of our Divisions achieved, or exceeded, planned targets in the transition year of 1987.

Courtice Steel expended most of their management energy last year in bringing on the new in-line bar mill in Cambridge, and organizing for new steel capacity in the meltshop for 1988.

The new mill began to roll limited amounts of steel in August as we began to phase out our Bowmanville mill. By the end of the year we had moved the Bowmanville crews to the new mill in Cambridge, and had closed down Bowmanville as planned.

Initial production bugs have been resolved in the new mill, one by one. The break-in of this very sophisticated, high-speed rolling mill has been an extraordinary success. On behalf of the shareholders, I would like to pay special tribute to the outstanding skills and dedication of the total management team and employees of Courtice Steel who have proven that this mill will do everything we have planned for it in the future.

Opportunities in 1988 and Beyond

Steel markets in North America and, indeed, the whole Western World, have become more and more robust, week by week in 1988. Supply shortages have emerged in many product lines. Prices of imported steel are now mainly above domestic prices so that imports coming in are primarily to fill gaps in Canadian supply. After a five-year steel depression many producers are reluctant to bring older, higher cost facilities back into production, and lower maintenance budgets have resulted in equipment breakdowns under the pressure of full production. This has exacerbated supply shortages.

On the demand side we are seeing a ''re-industrialization'' in North America. The manufacturing of steel-containing products has begun to shift back to this continent in response to the radical change in currency valuations. Many of our end-use customers are reporting the largest backlogs in their history.

Obviously, the current boom has been fuelled by the devaluation of the U.S. dollar. It is very difficult to envision a scenario that would cause a recovery in the American dollar for several years. The American System of Government is ill-equipped to face the political consequences that would flow from a resolute effort to quickly turn around their budgetary deficit. This would seem to be a first pre-requisite to eliminating their enormous trade deficit. Only then will the U.S. dollar make a comeback.

Robust steel markets have brought escalating scrap prices. Our scrap costs at Courtice have gone up over 60% since last summer. As well, the rising Canadian dollar has put pressure on pricing. In general, increasing prices in the U.S., and in products where Courtice does not compete with local mini-mills, have more than compensated for rising scrap costs and the strengthened Canadian dollar. On some products rolled by other mini-mills in Ontario, selling prices have not offset increased scrap costs. We have decreased our rollings of these products and the Harris companies have been buying from the other mills, where available.

Harris Rebar has entered the year with the largest backlog in their history. Since the beginning of the year every region in Canada has shown an increased volume of work, and forecasts are being continually revised upwards. It is our belief that other suppliers have underestimated the volume of rebar in Eastern Canada, and the potential exists for severe shortages periodically throughout the building season.

The extent of the backlogs in the reinforcing steel (''Rebar'') industry and the rising volume of work coming to market already assure a strong rebar market in 1989. Harris Rebar is in an excellent position to exploit the opportunities that will present themselves in 1988 and 1989.

Laurel Steel is also experiencing great strength in most of their product areas. Only carbon wire has lagged behind the rest of the market. The rising Canadian dollar has been more than compensated for by price increases.

Laurel's great advantage is their ability to supply and to service a marketplace that is plagued with numerous product shortages. Demand for Laurel's main product lines is the highest in their history.

We are looking for great things from Laurel in 1988.

Fisher & Ludlow are, as always, performing at a very high level. Demand for their product is excellent.

Their sheet steel raw material is presently in very short supply, and the cost has risen sharply. We have been able to relieve this situation by supplying flats from the new mill at Courtice.

We are expecting another record year at Fisher & Ludlow.

The new rolling mill at Cambridge has come on better than planned. However, our forecast for the first quarter did not contemplate sufficient billet steel for rolling until the planned start up of our new furnace on April 1. That furnace is now producing but did not melt its first steel until April 29. This will cost some steel sales, but we are confident that we will make up the shortfall in the second half of the year.

At the time of writing the whole steel market is very volatile: strong steel demand, rising prices and high scrap costs. However, steel markets and, in particular, capital spending appear to have enough strength to sustain themselves at least until the end of the year.

It now appears that the strong steel markets we are experiencing will give us an easy ride into 1989, when we will be further up the ''Learning Curve'' at our new rolling mill and meltshop in Cambridge. We expect to roll 40% to 50% more steel in 1989 than we will be able to put out in 1988. With increased experience in the mill we will be looking for new, diversified, and higher margin products that exploit the low tolerance, and quick-change capability of the mill.

More tonnage and higher margins should bring a considerable increase in profitability to Courtice again next year, and once again in 1990.

Evaluation of Current Economic Conditions

Robust economic conditions prevail throughout most of our market areas. In Canada we are experiencing strong markets in Atlantic Canada, Ontario, Alberta, and British Columbia. In the northeastern and north central United States we are seeing the results of ''re-industrialization'' – a considerable increase in demand.

The important economy of southern Ontario shows worrisome signs of overheating; inflationary pressures are beginning to build. I would agree with the perception of the Bank of Canada which, for the past three months, has aimed at inflation as its major target. The rapid rise in commodity and housing prices put the current 4½% inflation rate at risk.

Of particular concern is the shortage of labour, both skilled and unskilled, in most of southern Ontario. The consequences have begun to show themselves in unrealistic expectations in both the steel and construction industries.

Particularly in steel, and other export-oriented industries, both labour and management ought to understand the effect of the rising Canadian dollar and the rapid recovery of competitiveness of large segments of U.S. industry. In the steel industry in the U.S. employment costs have been going down, not up. If we lose our ability to compete with the American steel industry many thousands of Canadian jobs will be lost to American steelworkers.

The Free Trade Agreement (''FTA'') with the United States

The next twelve months will decide the fate of the FTA between Canada and the U.S.

The battle is joined in Canada between those traditional Canadians who are mired in the morass of Canadian self-doubt, and a new, self-confident breed of Canadians who are convinced that an open North American marketplace is made to order for Canadian enterprise, and that ''we shall overcome''!

The opposition in Canada is centred on the Labour Union leadership and the leadership of the NDP and Federal Liberal Parties.

I would hope that Union membership would begin to ask their leaders where their dire predictions of massive job losses come from. How does the Union leadership know how competitive our companies would be in an open North American market? Evaluation of competitiveness is a function of management in our system, and surveys consistently show that 80% of business management in Canada favour the FTA. Are all of us consumed by a collective wish to commit suicide?

It is interesting to note that the AFL-CIO in the U.S. has come out against the FTA on the grounds that American workers will lose jobs to Canadian workers! Apparently, Union leadership on both sides of the border have no confidence in their members' ability to compete with each other!

And the leadership of the Canadian Auto Union and the Canadian Auto Parts Association are totally opposed. Can anyone believe that there would be a Canadian Auto Union, or a Magna International without the outstanding opportunity afforded Canadians by the 1965 Auto Pact with the U.S.? What makes them determined to deny to other Canadian workers the tremendous benefits they have enjoyed?

Ed Broadbent and John Turner, that new ''Odd Couple'' of Canadian politics, will ''tear up'' the Agreement if elected. No other industrialized country in the world is so dependent on exports for its standard of living (25%), or has concentrated those exports on a single market, the U.S. (78%). Anyone who understands the real world in Washington today knows what the probable response of Congress and the American public would be to Canada if we tore up an agreement that most Americans feel already gives a disproportionate share of benefits to Canada.

What alternatives are offered by the NDP/Liberals? Mr. Turner now says he will negotiate agreements sector by sector. This ignores the total failure of the Trudeau and Turner Liberal administrations to do that in 1983 and 1984. Of course, the reason why that policy failed, and must fail, is because it is politically impossible on either side of the border to bargain away the interests of a weak industry on behalf of a strong industry. Only a Comprehensive Agreement like the FTA finesses that difficulty. The combined political leverage of those opposed can be counterbalanced by consumers and the strong industries which will benefit.

I believe that the time has long passed in Canada when political merchants of fear can succeed with the electorate. The next election will determine whether we Canadians have enough confidence in ourselves to face the challenge, and opportunity, of a 12 times larger marketplace.

I believe the answer we give will be, ''Yes''!!

After 11 years as a member of our Board, Neil Ivory has advised us that the state of his health will not allow him to stand for re-election. Neil's wise counsel, based on his vast commercial and financial experience, has made him a pillar of support to our company. I would like to express to Neil the deepest gratitude of our Board and say that I, personally, will greatly miss him as a Board member.

On behalf of the shareholders and the Board, I would like to thank all of the Harris Steel Group team for their devotion and skills dedicated to making us the best in our industry.

M.E. Harris

Milton E. Harris, O.C.
Chairman of the Board and President
Toronto, Ontario, May 2, 1988

Harris Steel Group Inc. operates an electric arc furnace and produces merchant bar products and reinforcing steel rods (''rebar''). It further processes and markets the products manufactured by its own steel mill through independent operating divisions – fabricators, suppliers and subcontractors of construction steel and related products, and manufacturers of low carbon wire and cold finished bars.

Though each division operates autonomously, the combined activities of the group are mutually enhanced by:

1. Exploring new markets for downstream manufactured products that use steel from a bar mill; and
2. Developing steel mill products to exploit specific marketing opportunities identified by operating divisions.

The Harris Group intends to maximize the utilization of its steel making capacity and increase its return on capital by developing markets for specially-designed products within its own operating divisions, and outside companies.

Courtice Steel's electric arc furnace melting scrap steel at the company's Cambridge facility.

STEEL MANUFACTURING

Courtice Steel

Courtice Steel operates a melt shop and rolling mill in Cambridge, Ontario. Billets are produced from scrap steel using an electric arc furnace and automated continuous casting of molten steel. A new ''fast change'' mill, which started up in August, 1987, processes the billets into reinforcing steel (''rebar'') and merchant bars.

The Cambridge melt shop commenced production in 1981 at a site strategically located near abundant sources of scrap steel and hydro electric power. Prior to 1981 Courtice operated strictly as a re-rolling mill at Bowmanville, Ontario purchasing raw material from other steel producers.

1987 was a year of tremendous challenge and achievement for the team at Courtice Steel. A new $30 million mill was built and started up. During the construction and phase in of the new mill the Bowmanville mill continued to operate. And the company's marketing and administration offices were relocated from Bowmanville to Cambridge.

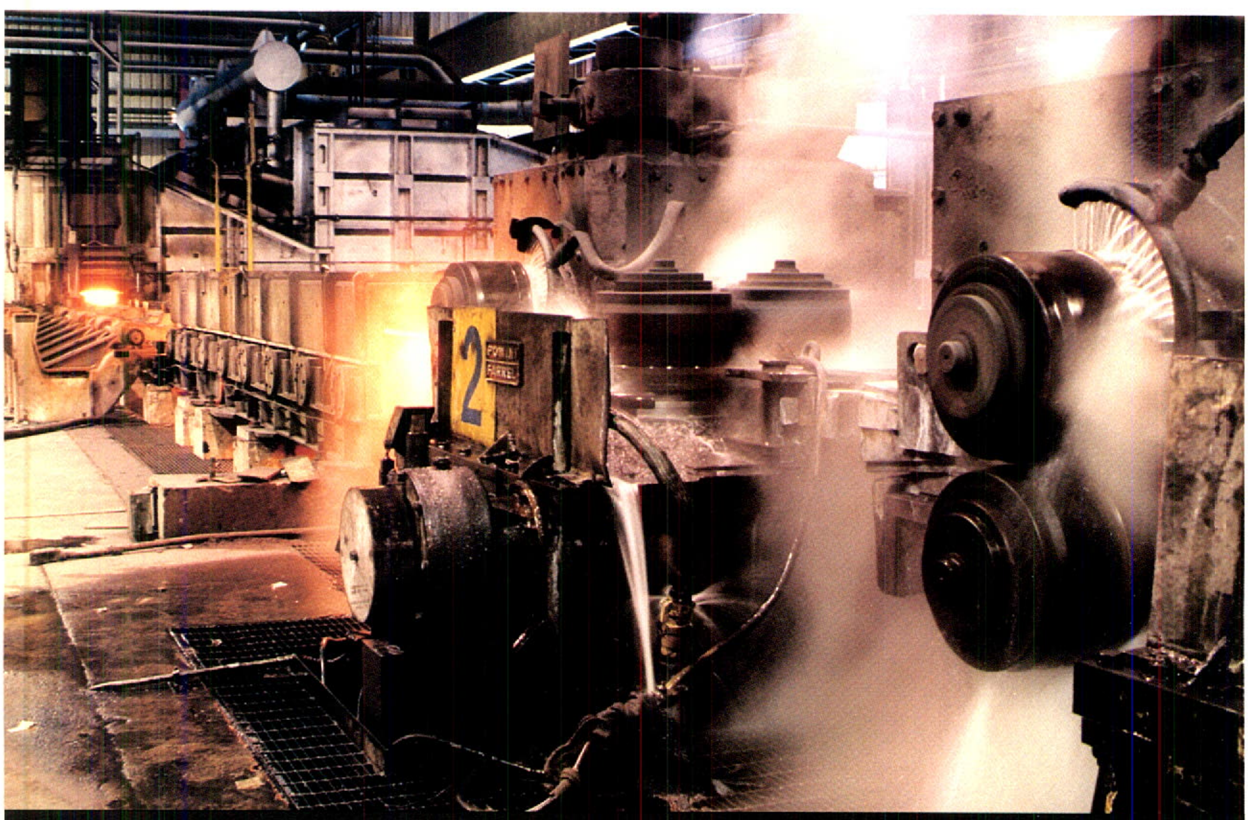
Courtice again successfully sold small merchant bar shapes into its market niche and also supplied the strong demand from Harris Rebar and other customers in 1987 for reinforcing steel.

From the commencement of start-up in August, 1987 until December the Cambridge mill was dedicated to the production of reinforcing steel. The ''breaking-in'' of the mill resumed at year end when Courtice began to roll merchant bars and shapes – including new sections for other Harris divisions.

A new $13 million furnace, incorporating the latest technological advances in steelmaking, will come on stream in the second quarter of 1988. This new furnace will produce higher quality steel at lower cost and raise steel melting capacity to meet the billet requirements of the new rolling mill.

The Harris Steel Group acquired Courtice Steel effective February 12, 1986. Since its acquisition, Courtice's production facilities have been centralized at Cambridge, Ontario and major investments have been made in flexible and efficient ''state-of-the-art'' equipment that will become the primary source of supply for the manufacturing divisions of the Harris Steel Group.

The achievements of the past two years were made possible by the skills of the Courtice people and the extraordinary effort they put forth in rising to these challenges.



The new ''fast change'' *rolling mill* installed at Courtice Steel which commenced production in August, 1987.

Laurel Steel Products

Laurel Steel manufactures wire, wire products and cold finished bars which are sold to a wide range of customers including automotive and appliance manufacturers, defence contractors and steel distributors. Laurel also makes welded mesh and other wire products used by the construction industry for the reinforcing of concrete.

Although construction activity strengthened markets in Canada for concrete accessories and wire mesh, Laurel's overall earnings, burdened by the rise in the value of the Canadian dollar, finished lower than in 1986.

Laurel relocated its American manufacturing facilities to a 56,000 square foot building in New Hudson, Michigan in 1986 where a new combined bar drawing machine was installed. Further investment was committed to the expansion of New Hudson in 1987. An in line drawing and straightening machine was transferred from the Burlington, Ontario plant.

New Hudson supplied a significant portion of Laurel's 1987 U.S. sales. Now that additional manufacturing equipment is in place and with "know-how" increasing, New Hudson is capable of producing all of the U.S. growth Laurel has planned for 1988.

A third mesh welding machine was installed at the Burlington plant in 1987 enabling Laurel to further reduce lead times for customers in the construction, mining, pre-cast and concrete pipe industries.

The steep decline in the value of the U.S. dollar has forced a dramatic rise in steel import prices after years of severe competition aggravated by unfairly priced imports into the U.S. and Canada. A shift to domestic supply has taken place allowing the North American mills to obtain substantial increases in their margins.

Cold finished bar prices have also firmed and unit margins (after discounting the effect of the stronger Canadian dollar) are now higher than in 1987. New records for orders and shipments have been set in the first quarter. We are forecasting that Laurel will see a strong increase in 1988 sales and operating earnings.

In 1987, Laurel installed a third wire mesh machine at its Burlington, Ontario plant.

Cold finished bars ready for shipment to Laurel Steel's many customers for conversion into precision fasteners, couplings and other machined fittings.

Harris Rebar/VSL Canada

Harris Rebar, VSL Canada Ltd. and VSL Ltée fabricate and erect reinforcing steel bars, post-tensioning systems and epoxy-coated reinforcing steel bars under the trade name ''Epoxicote''. Harris' epoxy-coating process, which has gained wide acceptance, prevents deterioration caused by salt and extends the life of concrete bridge decks and parking slabs from an average of 3-18 years to 50 years or more.

The Harris Concrete Reinforcing Group offers steel reinforcing service from 11 manufacturing plants located across Canada. Harris may be the only company in the world with the full range of reinforcing steel products – fabricated supply, erection, post-tension, mesh, splices and epoxy-coating.

The 1987 earnings of Harris' Concrete Reinforcing Group were well ahead of 1986's results.

Harris maintained its traditional share of the booming Ontario rebar fabrication market with the support of Courtice Steel which began to supply reinforcing steel from the new Cambridge mill at the peak of the 1987 construction season.

While demand picked up in all of Harris' markets in 1987, it was the recovery in western Canada, where volumes were double those of 1986, that made the most significant impact on operating results.

For 1988 we are forecasting another improvement in the earnings of our Concrete Reinforcing Group. Construction markets are very strong throughout Canada and our order backlogs are continuing to grow.

Harris Rebar has a contract to supply approximately 3,600 metric tons of fabricated reinforcing steel for the ''Marina Del Rey'' condominium project in Etobicoke, Ontario.

STRUCTURAL STEEL

Frankel Steel/Central Fabricators/ Steel Structures Holding Corp.

In early 1987 a strategic decision was reached to focus future developments within the Harris Steel Group on products that can be supplied by the new Courtice mill in Cambridge, Ontario.

Because the structural steel group of companies are not consumers of steel products that can be rolled in a bar mill, they became a stand-alone operation within the Harris Steel Group. Accordingly, Frankel Steel and the remaining structural steel companies were offered for sale.

1987's slow-down in large structural steel projects caused prices for heavy steel fabrication to weaken. Those contractors who bid and ''won'' the few contracts that were let did so at margins well below their break-even levels. This made the continued operation of the main plants at Milton, Ontario and Bethlehem, Pennsylvania uneconomical. With no market improvement in sight, the difficult decision was taken to close the main fabrication plants.

Paradoxically, while heavy construction was in decline, the commercial and light industrial markets were setting records. Frankel's Sarnia division had its most successful year to date. Central Fabricators Ltd. of Edmonton would have had an outstanding year had it not been for the tornado on July 31, 1987 which forced Central to move to temporary premises for three months.

Markets in southwestern Ontario and Alberta for the type of work carried out by our small shops in Sarnia and Edmonton are even stronger now than they were in 1987. Both Frankel (Sarnia) and Central Fabricators will operate very successfully in 1988.

STEEL AND ALUMINUM GRATING

Fisher & Ludlow

Fisher & Ludlow manufactures and fabricates heavy steel and aluminum grating for various industrial applications such as walkways, landings, working platforms and stairways. With three steel grating machines in service, Fisher & Ludlow is the only grating manufacturer capable of responding immediately to customer requirements for special sizes.

Fisher & Ludlow also produces a lighter plank grating or ''safety grating'' in two designs marketed under the trade names ''Deck Span'' and ''Shur Grip''.

Sales offices in Montreal, Edmonton and Vancouver, as well as the main plant in Burlington, Ontario, stock and market the full range of the company's grating products and provide fabrication services to Fisher & Ludlow's customers.

1987 was highlighted by a further increase in Fisher & Ludlow's American business, the resurgence of activity in western Canada and continuing strong demand in Ontario and Quebec. The additional volume which was generated enabled production runs to be lengthened and manufacturing efficiencies to be achieved. The resulting improvement in operating profit made 1987 a very successful year for Fisher & Ludlow.

Fisher & Ludlow took its place as a consumer of Courtice Steel production in the first quarter when Courtice began to supply the main ''bearing bar'' for F & L's steel grating product.

1988 has all the makings of another fine year. Fisher & Ludlow's reputation as a reliable supplier of quality grating is gaining it a steadily increasing share of the North American market.

CONSOLIDATED BALANCE SHEET

As at December 31, 1987

Assets	1987	1986
Current Assets		
Accounts receivable	**$68,136,457**	$70,982,987
Inventories (note 3)	**45,167,651**	37,209,302
Unbilled contract costs	**2,585,351**	7,301,485
Prepaid expenses and deposits	**779,596**	879,616
Fixed assets held for sale (note 11)	**6,800,000**	–
	123,469,055	116,373,390
Fixed Assets (note 4)	**77,000,053**	62,613,535
Goodwill	**4,420,710**	4,793,349
	$204,889,818	$183,780,274

Liabilities		
Current Liabilities		
Bank indebtedness (note 5)	**$43,380,148**	$39,968,446
Accounts payable and accrued liabilities	**51,832,651**	39,113,150
Income and other taxes payable	**2,392,969**	5,918,855
Deferred income taxes	**3,440,000**	7,140,000
Current portion of long-term debt (note 5)	**967,812**	959,420
	102,013,580	93,099,871
Long-Term Debt – less current portion (note 5)	**37,084,497**	15,148,993
Deferred Income Taxes	**5,680,000**	9,080,000
	144,778,077	117,328,864

Shareholders' Equity		
Capital stock (note 6)	**28,935,374**	28,935,374
Retained Earnings	**31,176,367**	37,516,036
	60,111,741	66,451,410
	$204,889,818	$183,780,274

SIGNED ON BEHALF OF THE BOARD

M. Harris

Director

B. D. Roe

Director

CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

For the Year Ended December 31, 1987

HARRIS STEEL GROUP INC.

	1987	1986
Continuing Operations		
Sales	$212,062,489	$164,894,112
Cost of Sales	178,588,277	136,273,302
Gross Operating Profit	33,474,212	28,620,810
Expenses		
Selling and administrative	16,099,303	14,313,170
Interest (note 5)	1,893,842	902,876
Depreciation (note 1(e))	2,721,451	2,777,757
Amortization of goodwill	119,338	108,129
	20,833,934	18,101,932
Earnings From Continuing Operations Before Income Taxes	12,640,278	10,518,878
Provision For Income Taxes (note 7)	6,012,133	5,099,471
Earnings From Continuing Operations	6,628,145	5,419,407
Loss From Discontinued Operations (note 2)	6,088	798,207
Earnings Before Extraordinary Item	6,622,057	4,621,200
Extraordinary Loss on Discontinuance of Operations (note 2)	10,000,000	300,509
Net Earnings (Loss) For the Year	$(3,377,943)	$4,320,691
Earnings (Loss) Per Share (note 1(j))		
Continuing operations	.54	.44
Discontinued operations	–	(.06)
Before extraordinary item	.54	.38
After extraordinary item	(.27)	.35

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31, 1987

	1987	1986
Balance – Beginning of Year	$37,516,036	$36,157,071
Net earnings (loss) for the year	(3,377,943)	4,320,691
	34,138,093	40,477,762
Dividends (note 6)	2,961,726	2,961,726
Balance – End of Year	$31,176,367	$37,516,036

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1987

	1987	1986
Operating Activities		
Cash provided from (used in) continuing operations –		
Earnings from continuing operations	$6,628,145	$5,419,407
Depreciation and amortization	2,840,789	2,885,886
Deferred income taxes – long-term	777,614	196,047
Loss (gain) on sale of fixed assets	(3,972)	315,165
Imputed interest on acquisition of Courtice Steel Limited	–	25,043
Increase in operating working capital	(12,403,633)	(3,053,814)
	(2,161,057)	5,787,734
Cash provided from (used in) discontinued operations	5,822,703	(9,411,899)
Investing Activities		
Acquisition of Courtice Steel Limited	–	(9,608,605)
Less: Value of Class A non-voting shares issued	–	7,050,000
	–	(2,558,605)
Additions to fixed assets (net of unpaid amounts)	(27,587,206)	(10,767,817)
Proceeds from sale of fixed assets	364,617	834,650
	(27,222,589)	(12,491,772)
Financing Activities		
Proceeds from long-term debt	28,931,925	4,302,136
Reduction of long-term debt	(5,820,958)	(16,120)
	23,110,967	4,286,016
Dividends	(2,961,726)	(2,961,726)
Increase in Bank Indebtedness	(3,411,702)	(14,791,647)
Bank Indebtedness – Beginning of Year	(39,968,446)	(21,120,804)
Bank Indebtedness of Courtice Steel Limited at Date of Acquisition	–	(4,055,995)
Bank Indebtedness – End of Year	$(43,380,148)	$(39,968,446)

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Harris Steel Group Inc. as at December 31, 1987 and the consolidated statements of earnings (loss), 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, 1987 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.

Coopers & Lybrand
Chartered Accountants

Toronto, Ontario, April 29, 1988

For the Year Ended December 31, 1987

1. Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and all its subsidiaries at their respective year-ends.

(b) Foreign exchange

The company applies the temporal method of accounting for the translation into Canadian dollars of foreign currency amounts and the accounts of its U.S. subsidiaries, all of which are integrated operations. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and related depreciation expense are translated at historic exchange rates. Revenues and expenses, other than depreciation, are translated at the average exchange rate for the year.

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts are reflected in earnings.

(c) Inventories

The company values its inventory at the lower of cost and market. Cost is determined on a weighted average basis for structural steel inventories and on a first-in, first-out basis for all other inventories. Market is defined as replacement cost for raw materials and net realizable value for work-in-process and finished goods.

(d) 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 included in income only when approved by the owner.

(e) Fixed assets and depreciation

Fixed assets are recorded at historical cost less applicable investment tax credits. The company depreciates its buildings, steel making facilities and equipment and machinery and equipment on a straight-line basis and its mobile equipment on a declining balance basis at the following rates:

Buildings	– 2½%
Steel making facilities and equipment	– 5%
Machinery and equipment	– 7½%
Mobile equipment	– 30%

Depreciation on steel making facilities and equipment is reflected in the financial statements after the attainment of commercial production rates.

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

(f) Preproduction costs

Preproduction costs relating to the installation of new steel making facilities and equipment at Courtice Steel in 1987 were expensed as incurred.

(g) Interest capitalization

Interest costs relating to the construction of steel making facilities and equipment are capitalized as part of the cost of such assets until construction is complete.

(h) Goodwill

Goodwill represents the excess of the cost of each investment in shares of a subsidiary over the fair value of its underlying net assets at the date of acquisition and is currently being amortized on a straight-line basis over forty years.

(i) Income taxes

The company follows the income tax allocation method of accounting for income taxes. Under this method, income taxes in the consolidated statement of earnings are based upon the revenues and expenses recorded in the accounts, which may differ from income taxes actually paid or payable. The cumulative effect of these differences is shown in the consolidated balance sheet as ''deferred income taxes''.

(j) Earnings per share

Earnings per share are calculated on 12,340,530 shares (1986 – 12,271,489 shares), being the weighted average number of shares outstanding during the year.

2. Discontinued Operations

The operations of Frankel Steel Limited at Milton, Ontario and of Steel Structures Holding Corp. were discontinued effective from September 23, 1987.

The operations of Secord Manufacturing Limited were discontinued effective from November 14, 1986. The remaining assets of these operations were written down to estimated realizable value.

Net assets of the discontinued operations included in the balance sheet consist of the following:

	1987 $	1986 $
Current assets	43,052,791	56,332,858
Fixed assets	10,542,943	21,001,395
Goodwill	–	253,300
Liabilities	(46,039,550)	(50,875,795)
Deferred income taxes – long-term	(194,445)	(4,372,059)
	7,361,739	22,339,699

The company incurred and/or provided for costs on the discontinuances of $19,094,826 (1986 – $367,909). These amounts, less tax recoveries, are reported as extraordinary items as follows:

	1987 $	1986 $
Asset disposals	2,527,849	155,175
Provision for severances, termination of contracts and other costs	16,463,677	154,000
Write-off of goodwill	103,300	58,734
	19,094,826	367,909
Income tax recovery	(9,094,826)	(67,400)
Extraordinary item	10,000,000	300,509

The results of the discontinued operations were as follows:

	1987 $	1986 $
Sales	116,261,214	162,041,608
Cost of sales	108,791,151	150,503,500
Gross profit	7,470,063	11,538,108
Selling and administrative expenses	5,069,705	8,808,989
Interest – current	906,140	2,084,175
Interest on long-term debt (note 5)	418,843	570,992
Depreciation	1,335,037	1,733,040
Amortization of goodwill	–	6,710
	7,729,725	13,203,906
Loss from discontinued operations before income taxes	(259,662)	(1,665,798)
Provision for (recovery of) income taxes		
– Current	2,301,502	270,564
– Deferred	(2,555,076)	(1,138,155)
	(253,574)	(867,591)
Loss from discontinued operations	(6,088)	(798,207)

3. Inventories

	1987 $	1986 $
Raw materials and work-in-process	36,334,661	29,886,651
Finished goods	8,832,990	7,322,651
	45,167,651	37,209,302

4. Fixed Assets

	1987 $	1986 $
Land	4,150,910	3,105,828
Buildings	8,955,285	8,382,133
Steel making facilities and equipment	40,613,094	12,469,264
Machinery and equipment	25,031,153	22,483,237
Mobile equipment	2,116,737	1,960,070
Facilities under construction	5,744,963	10,373,226
	86,612,142	58,773,758
Less: Accumulated depreciation	20,155,032	17,161,618
	66,457,110	41,612,140
Fixed assets of discontinued operations (note 2)	10,542,943	21,001,395
	77,000,053	62,613,535

The company plans to invest approximately $13 million in new steel making equipment. Of this amount, $5,744,963 is included above as ''facilities under construction''.

5. Long-Term Debt and Bank Indebtedness

	1987 $	1986 $
Term bank loan, due June 1, 2000, callable at the lender's option in 1992, net of unamortized deferred finance charges of $91,365 (1986 – $123,714). Effective January 1, 1988, the interest rate will increase from 77.78% to 85.56% of U.S. bank prime lending rate	4,360,320	4,784,725
Loan payable at 13.25%, due November 1, 1988	693,393	1,361,179
Term bank loan at bank prime lending rate, due December 31, 1990	24,941,877	–
Revolving term bank loan	7,957,770	9,712,409
Other	98,949	250,100
	38,052,309	16,108,413
Less: Current portion	967,812	959,420
	37,084,497	15,148,993

The revolving term bank loan of $7,957,770 bears interest at the bank prime lending rate. The company has opted to have the loan remain a revolving credit facility at least until the next annual review in 1988. Should the company opt to convert the loan to a term facility, principal repayments of $2,000,000 in annual instalments would commence on May 28, 1989, and the interest rate would rise to prime plus ½%.

Fixed and floating charge debentures totalling $44,000,000 have been registered against the assets of the company. Specific fixed assets, with a carrying value of approximately $4,500,000, have also been pledged. In addition, inventories and accounts receivable are pledged as security for the company's bank indebtedness.

Interest incurred on long-term debt for the year amounted to $2,178,639 (1986 – $1,049,790).

Interest amounting to $899,269 (1986 – $154,784) was capitalized during the year.

Minimum principal repayments during the next five fiscal years are as follows:

	$
1988	967,812
1989	10,206,683
1990	15,282,633
1991	292,185
1992	323,504

6. Capital Stock and Dividends

	1987 $	1986 $
Capital stock (without par value) –		
Authorized –		
An unlimited number of Class A non-voting shares		
An unlimited number of Class B shares		
100 common shares		
Issued and fully paid –		
9,234,998 Class A non-voting shares	28,143,631	28,143,631
3,105,532 Class B shares	791,743	791,743
	28,935,374	28,935,374

Voting rights

Class A non-voting shares are not entitled to vote unless the company has failed to pay dividends totalling 2½¢ per Class A non-voting share for eight consecutive fiscal quarters. Thereafter, each Class A non-voting share is entitled to one vote until, in any fiscal quarter, a dividend of 2½¢ per Class A non-voting share has been paid or declared and set aside for payment.

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

Take-over protection

The Class A non-voting shares become convertible into Class B voting shares on a share-for-share basis after a bona fide offer, which must, by reason of applicable securities laws or stock exchange by-laws, regulations or policies, be made to each holder of Class B voting shares whose last recorded address is in the jurisdiction to which the relevant requirement applies, is accepted by the holders of a majority of the outstanding Class B voting shares.

Dividends

Class A non-voting shares are eligible to receive a preferential, non-cumulative, quarterly dividend of 2½¢ per share.

Class B shares are not eligible to receive a dividend in any quarter until a dividend of 2½¢ per share has been paid on the Class A non-voting shares. Thereafter, Class B shares are eligible for a dividend of up to 2½¢ per share in any quarter.

Dividends in excess of 2½¢ per share in any quarter will be paid equally on the Class A non-voting shares and Class B shares.

During 1987, the company paid dividends of 24¢ per issued Class A non-voting and Class B share.

7. Income Taxes

The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate. A reconciliation of the two rates is as follows:

	1987 %	1986 %
Canadian and U.S. basic federal income tax rates	44.7	46.0
Provincial and state taxes net of federal deductions	4.3	4.3
Statutory tax rate	49.0	50.3
Add (deduct) the tax effect of –		
Inventory allowance	–	(0.6)
Manufacturing and processing profits deduction	(5.2)	(5.1)
Non-taxable foreign exchange losses	0.7	0.1
Non-deductible portion of purchase price of subsidiaries	2.2	1.9
Federal surtax	0.8	1.4
Other	0.1	0.5
Effective tax rate	47.6	48.5

8. Lease Commitments

The company is required to make aggregate future minimum lease payments of $6,957,000 under operating leases that have non-cancellable lease terms in excess of one year at December 31, 1987. Annual lease payments during the next five fiscal years are as follows:

	$
1988	1,776,000
1989	1,516,000
1990	1,300,000
1991	957,000
1992	415,000

9. Contingent Liabilities

The company's subsidiaries have operations throughout the United States and Canada and in the normal course of business, the company and its subsidiaries are named as defendants in various legal actions. Based on the advice of its counsel, the company is of the opinion that actions outstanding, in the aggregate, will not result in material detriment to the company.

10. Segmented Information and Export Sales

As a result of the discontinuance of the structural steel operations referred to in note 2, the company now operates predominantly within the steel industry in general. The company's United States operations became a reportable geographic segment in 1985.

a) Geographic segmented information

1987	Canada $	United States $	Total $
Revenues			
Sales	203,709,036	36,157,132	239,866,168
Intersegment revenue	(27,578,127)	(225,552)	(27,803,679)
	176,130,909	35,931,580	212,062,489
Net Earnings			
Operating profit	30,020,690	3,453,522	33,474,212
Selling and administrative expenses			(16,099,303)
Interest expense			(1,893,842)
Depreciation			(2,721,451)
Amortization of goodwill			(119,338)
Income taxes			(6,012,133)
Loss from discontinued operations			(6,088)
Extraordinary loss on discontinuance of operations			(10,000,000)
			(3,377,943)
Identifiable Assets			
Continuing operations	139,864,681	11,429,403	151,294,084
Discontinued operations	19,488,789	34,106,945	53,595,734
	159,353,470	45,536,348	204,889,818

1986	Canada $	United States $	Total $
Revenues			
Sales	162,623,230	31,328,306	193,951,536
Intersegment revenue	(28,913,508)	(143,916)	(29,057,424)
	133,709,722	31,184,390	164,894,112
Net Earnings			
Operating profit	27,021,132	1,599,678	28,620,810
Selling and administrative expenses			(14,313,170)
Interest expense			(902,876)
Depreciation			(2,777,757)
Amortization of goodwill			(108,129)
Income taxes			(5,099,471)
Loss from discontinued operations			(798,207)
Extraordinary loss on discontinuance of operations			(300,509)
			4,320,691
Identifiable Assets			
Continuing operations	97,354,376	8,838,345	106,192,721
Discontinued operations	31,252,293	46,335,260	77,587,553
	128,606,669	55,173,605	183,780,274

b) In 1987, the company's Canadian segment had direct sales to customers in foreign countries, primarily the United States, of approximately Cdn. $26 million (1986 – Cdn. $31 million). Aggregate direct sales to U.S. customers amounted to approximately Cdn. $62 million (1986 – Cdn. $62 million).

c) Intersegment revenues above have been determined on the same basis as similar transactions with unrelated parties.

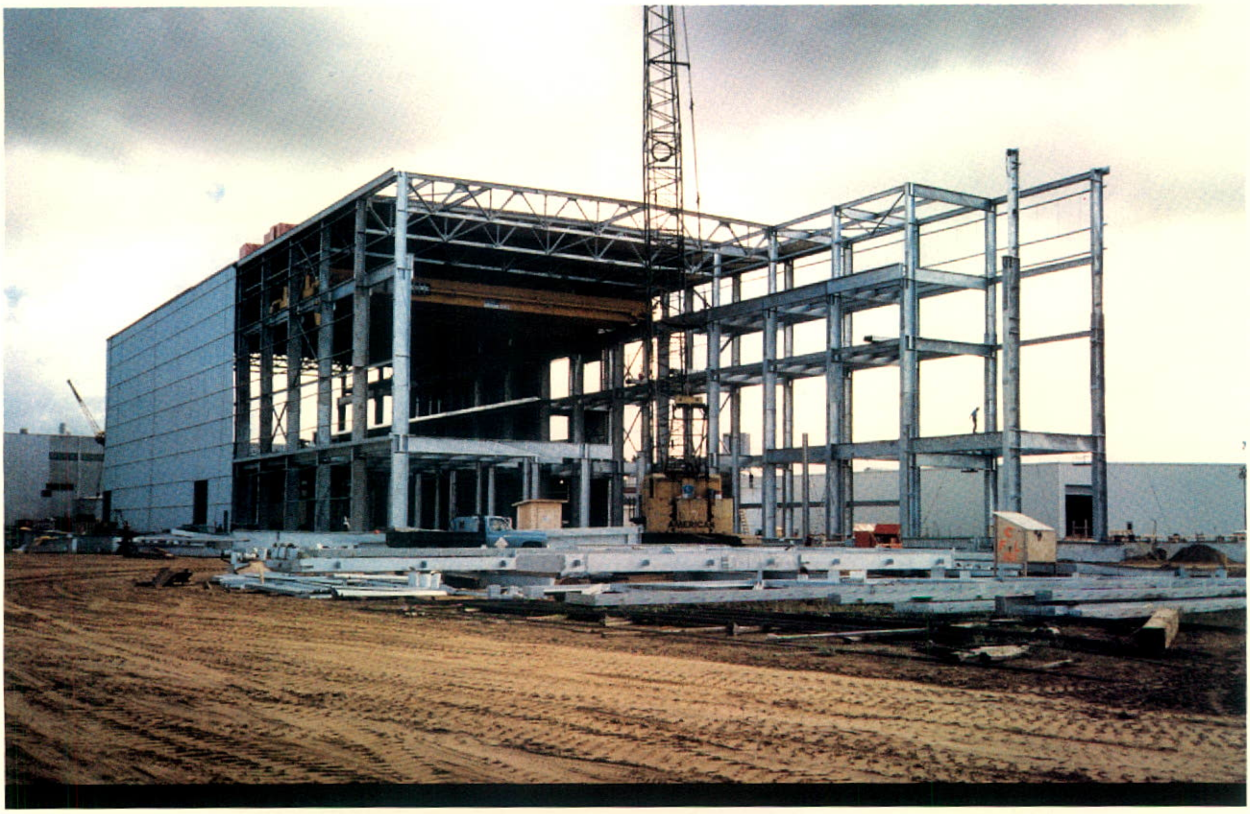
11. Subsequent Event

On February 29, 1988, the company sold the assets of Frankel Steel Limited at Milton, Ontario for cash proceeds of $6,800,000.

QUARTERLY FINANCIAL DATA (unaudited)

(Dollars in thousands except per share amounts)

1987	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Sales from continuing operations	$41,084	$53,536	$52,741	$64,701	$212,062
Earnings from continuing operations	559	1,702	1,530	2,837	6,628
Earnings (loss) from discontinued operations	163	264	(291)	(142)	(6)
Earnings before extraordinary item	722	1,966	1,239	2,695	6,622
Earnings per share:					
Continuing operations	.05	.14	.12	.23	.54
Discontinued operations	.01	.02	(.02)	(.01)	–
Before extraordinary item	.06	.16	.10	.22	.54
1986					
Sales from continuing operations	$36,482	$43,204	$42,406	$42,802	$164,894
Earnings from continuing operations	829	1,596	1,743	1,251	5,419
Earnings (loss) from discontinued operations	103	35	(1,503)	567	(798)
Earnings before extraordinary item	932	1,631	240	1,818	4,621
Earnings per share:					
Continuing operations	.07	.13	.14	.10	.44
Discontinued operations	.01	–	(.12)	.05	(.06)
Before extraordinary item	.08	.13	.02	.15	.38



Central Fabricators Ltd. fabricated and erected 3,000 metric tons of galvanized structural steel for this Weyerhaeuser Canada Ltd. project in Prince Albert, Saskatchewan, completed in December, 1987.

FINANCIAL SUMMARY

(Dollars in thousands except per share amounts)

	1987	1986	1985	1984	1983
Operating results					
Sales from continuing operations	**$212,062**	$164,894	$129,580	$122,802	$125,128
Earnings from continuing operations	**6,628**	5,419	5,175	4,667	5,035
Return on sales	**3.1%**	3.3%	4.0%	3.8%	4.0%
Earnings (loss) from discontinued operations	**$(6)**	$(798)	$4,205	$(1,685)	$(1,534)
Earnings before extraordinary items	**6,622**	4,621	9,380	2,982	3,501
Return on average equity	**10.5%**	7.4%	20.8%	9.5%	11.7%
Per Share					
Earnings from continuing operations	**$.54**	$.44	$.50	$.48	$.52
Earnings (loss) from discontinued operations	**–**	(.06)	.41	(.17)	(.16)
Earnings before extraordinary items	**.54**	.38	.91	.31	.36
Dividends	**.24**	.24	.185	.14	.14
Shareholders' equity	**4.87**	5.42	5.63	3.31	3.14
Average shares outstanding	**12,340,530**	12,271,489	10,310,393	9,740,530	9,740,530
At year end					
Total assets	**$204,890**	$183,780	$141,197	$104,102	$97,545
Working capital	**21,455**	23,274	35,278	19,439	17,049
Current ratio	**1.2:1**	1.2:1	1.5:1	1.4:1	1.3:1
Fixed assets, less depreciation	**$77,000**	$62,614	$36,862	$28,002	$27,288
Goodwill	**4,421**	4,793	1,678	1,727	1,532
Deferred income taxes	**5,680**	9,080	9,430	6,690	4,680
Long-term debt	**37,084**	15,149	6,345	10,254	10,583
Shareholders' equity	**60,112**	66,451	58,042	32,224	30,606
Long-term debt/Total capital	**38.2%**	18.6%	9.9%	24.1%	25.7%

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Auditors
Coopers & Lybrand

Bankers
Royal Bank of Canada
Toronto Dominion Bank

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Chairman of the Board
and President

Bruce Timmerman, C.A.
Vice President – Finance

Lorie Waisberg, Q.C.
Secretary

Operating executives

Maurice Charlebois
President
Frankel Steel Limited

John Harris
President
Harris Rebar

James B. Kelly
President
Courtice Steel

Derek Price
Vice President and General Manager
Fisher & Ludlow

Glenn Riddell
President
Laurel Steel Products

Board of directors

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

Cecil H. Franklin
Chairman
Algonquin Mercantile Corporation
Director since 1973

James W. Leech
President
Unicorp Canada Corporation
Director since 1982

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

Alexander Kerney
Chairman
Courtice Steel
Director since 1986

Audit Committee

Milton E. Harris, O.C.
Cecil H. Franklin
Barrie D. Rose, F.C.A.

STOCK MARKET TRADING INFORMATION

The company's shares are listed on The Toronto Stock Exchange as Harris A (HSG.A) and Harris B (HSG.B).

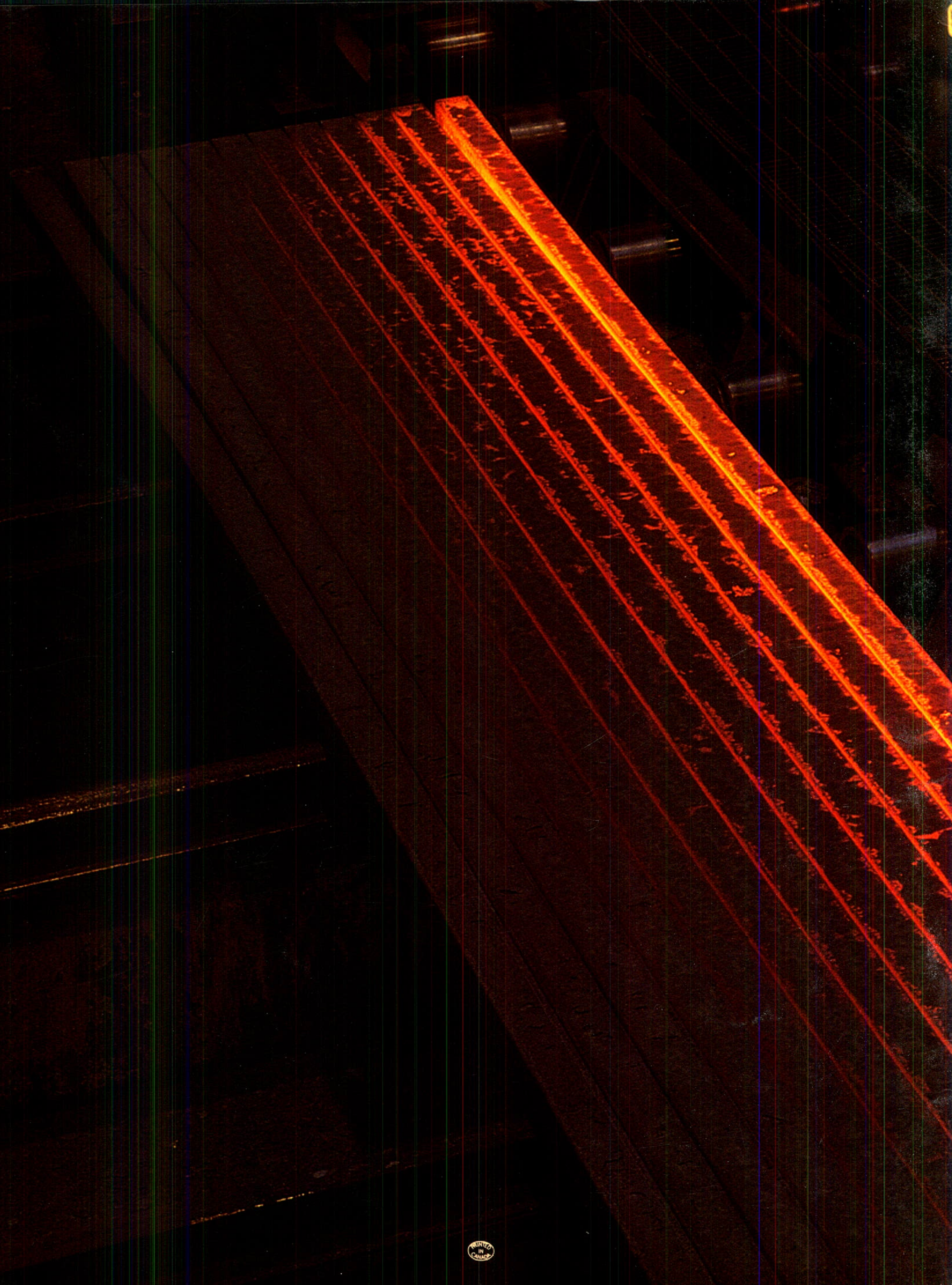
Class A shares 1987

	High	Low	Close	Shares traded	Dividend
First quarter	9.87	8.12	9.50	1,099,108	$.06
Second quarter	10.00	7.37	9.75	1,788,732	.06
Third quarter	11.00	9.00	9.75	958,145	.06
Fourth quarter	10.25	6.50	8.25	1,271,739	.06
Year	11.00	6.50	8.25	5,117,724	.24
Year 1986	16.25	8.12	8.75	4,773,267	.24

Class B shares 1987

	High	Low	Close	Shares traded	Dividend
First quarter	9.75	8.00	9.37	181,850	$.06
Second quarter	10.00	7.50	10.00	169,844	.06
Third quarter	10.87	9.25	9.62	125,710	.06
Fourth quarter	10.00	6.50	8.00	235,130	.06
Year	10.87	6.50	8.00	712,534	.24
Year 1986	15.87	9.50	9.50	469,870	.24

The ''Omega Curve'' of the Bob and Luge Track built for the Calgary Olympics. Harris Rebar/VSL fabricated and installed the reinforcing steel for this complex project, which was designed by UMA Engineering Ltd.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