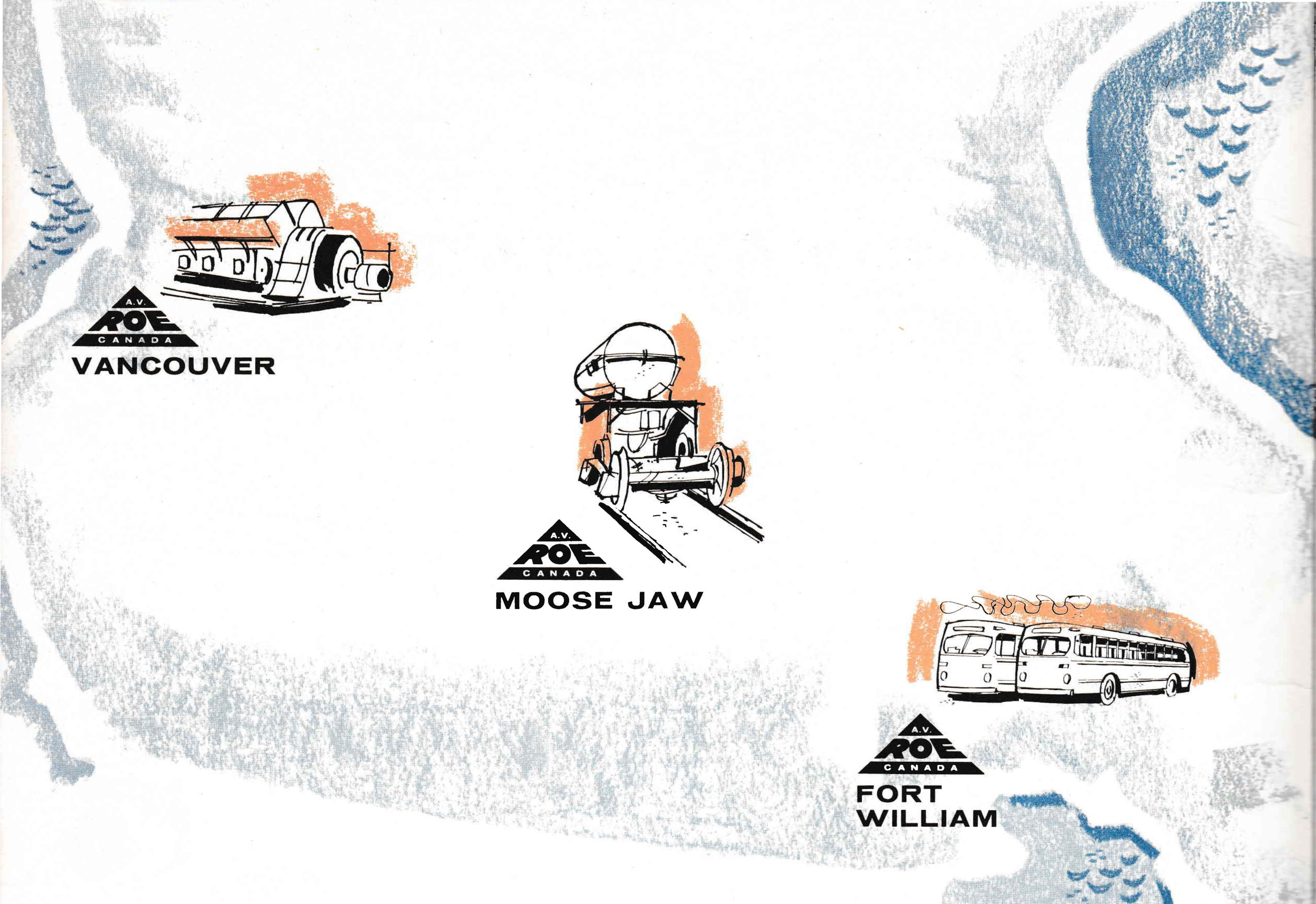
A. V. ROE CANADA LIMITED

A.V. ROE CANADA

ANNUAL REPORT - 1959



WHOLLY-OWNED SUBSIDIARIES

Avro Aircraft Limited, Malton, Ont.
Canadian Applied Research Limited, Toronto
Canadian Car Company Limited, Montreal and Fort William, Ont.
  Canadian Car (Pacific) Limited, Vancouver
  (wholly-owned subsidiary of Canadian Car Company Limited).
Canadian Steel Foundries Limited, Montreal
Canadian Steel Improvement Limited, Etobicoke
Canadian Thermo Control Company Limited, Montreal
Orenda Engines Limited, Malton, Ont.
  Orenda Industrial Limited, Toronto, Montreal and Vancouver
  Orenda Industrial Inc., New York City
  (wholly-owned subsidiaries of Orenda Engines Limited)

PARTLY-OWNED SUBSIDIARIES

Canadian General Transit Company, Limited, Montreal and Moose Jaw (55%)
Dominion Steel and Coal Corporation, Limited, head office Montreal
  and its subsidiary companies (77%)

ASSOCIATED COMPANY

Canadian Steel Wheel Limited, Montreal (50%)

A. V. ROE CANADA LIMITED ANNUAL

Some of the principal products sold by the A. V. Roe Canada Group of Companies:—

Steel

Steel ingots, blooms and billets
Bars and shapes
Reinforcing bars
Steel castings
Bridges—transmission towers
Steel structures
Pipe and pipe nipples
Bolts, nuts and rivets
Wire (coarse and fine gauges, all qualities and finishes)
Wire (core, rope and spring)
Barbed wire
Wire rods
Cut nails
Wire nails (steel and aluminum)
Screws (machine, wood and sheet metal)
Special fasteners
Bale ties
Triangle mesh and welded fabric
Fencing, (chain link, farm, lawn, ornamental)
Rails and track fastenings
Railway axles
Forgings
Mining equipment
Metal lath
Steel joists
Steel sash
Dosco Miner

Mining

Iron ore
Coal
Limestone
Coke and by-products

Electro-Mechanical Equipment

R-Theta Computer
Aerial survey and portrait cameras
Radio-activity detectors
Airborne magnetometers
Airborne profile recorders
Radar equipment
Aerial navigation equipment
Aircraft icing detectors and control equipment
Automatic film processors
Aircraft instrument repair and overhaul

Transportation

Automotive trailers and buses
Railway rolling stock
Ships and ship repair
Railway tank car rentals

Light Alloys

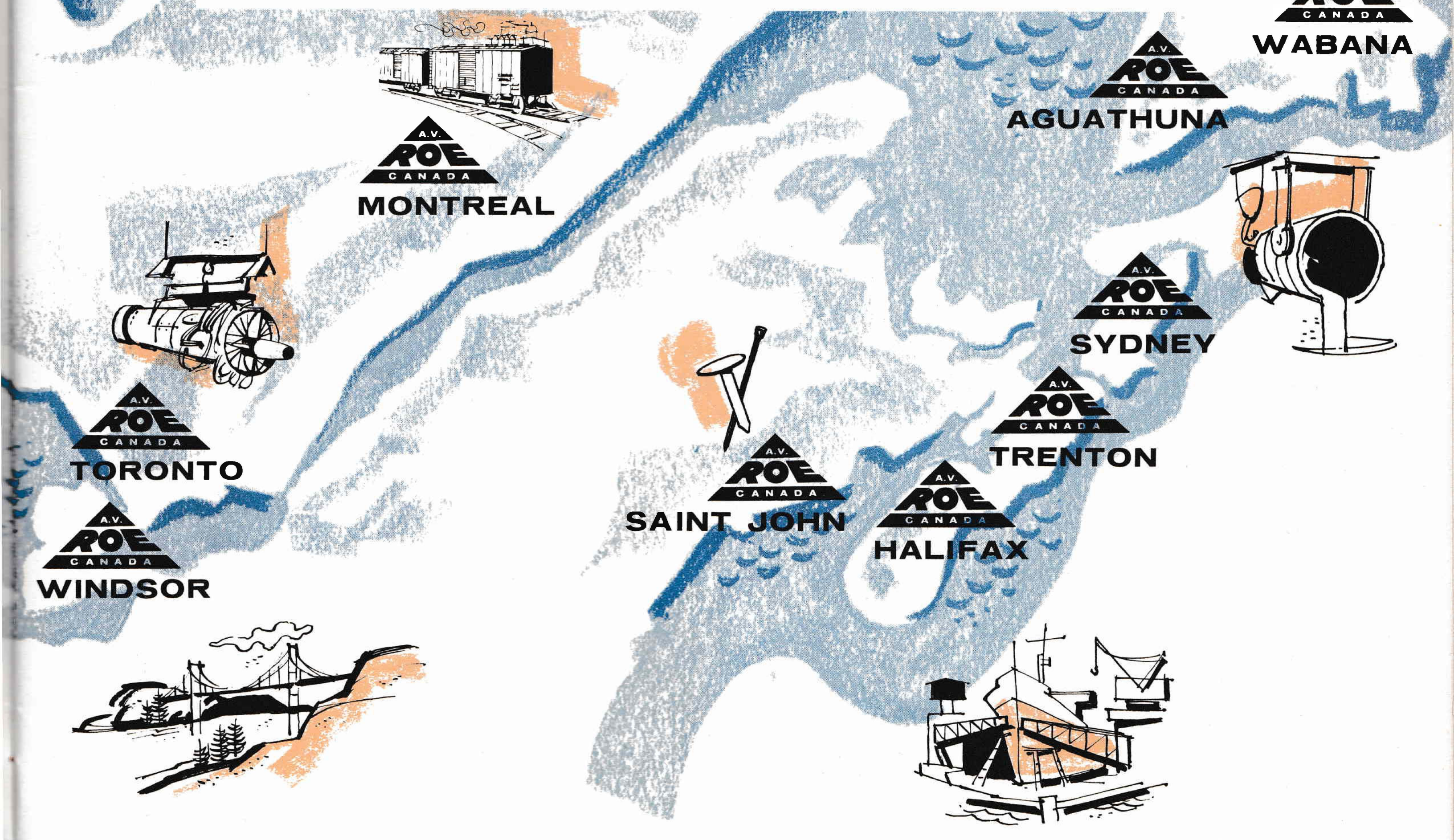
Forgings and castings in light and special alloys

Power

Imported industrial and marine diesel units from $1\frac{1}{2}$ h.p. to 4,000 h.p.
Electric power for industrial and domestic use

Military

Jet engines
Naval vessels
Army tracked vehicle
Mortars
Aircraft and components
Repair and overhaul of aircraft and jet engines



REPORT YEAR ENDED JULY 31, 1959

DIRECTORS AND OFFICERS

DIRECTORS

Sir Roy H. Dobson
Air Marshal W. A. Curtis
Sir Thomas Sopwith
A. A. Bailie
A. L. Fairley, Jr.,
A. C. MacDonald
W. P. Scott
H. R. Smith
J. S. D. Tory
Colin W. Webster

OFFICERS

Sir Roy Dobson, *Chairman of the Board*
Air Marshal W. A. Curtis, *Vice-Chairman of the Board*
J. S. D. Tory, *Vice-President*
A. C. MacDonald, *Executive Vice-President, Industrial*
H. R. Smith, *Executive Vice-President, Aeronautical*
A. A. Bailie, *Vice-President (Finance) and Treasurer*
John H. Campbell, *Secretary*
George Caton Jones, *Comptroller*

AUDITORS

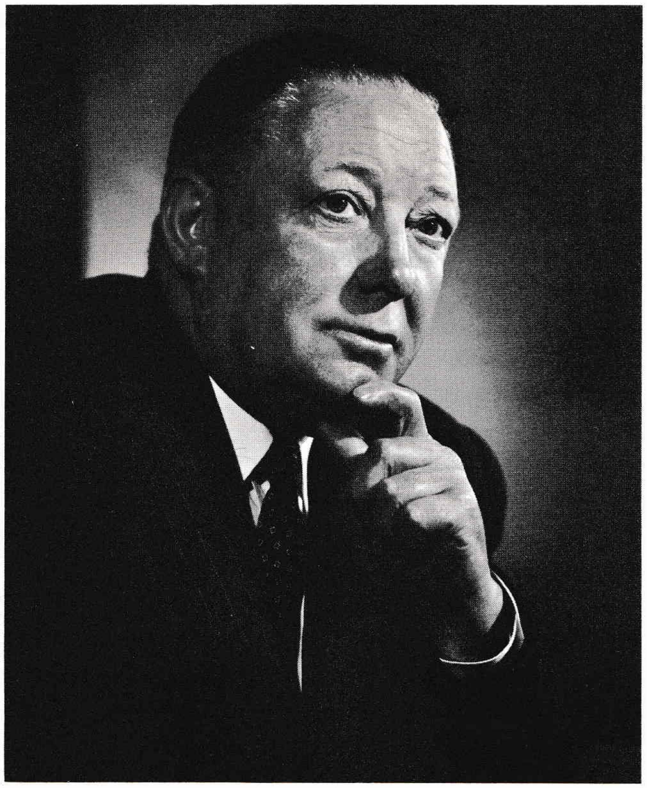
Price Waterhouse & Co., Toronto, Canada

REGISTRAR AND TRANSFER AGENT

National Trust Company, Limited
Toronto, Montreal, Winnipeg and Vancouver, Canada.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Tudor Room, Royal York Hotel, Toronto, at 11:00 a.m., October 26, 1959. Notice of the meeting is enclosed with this report, together with a proxy form for the convenience of Shareholders.



Sir Roy Dobson

TO THE SHAREHOLDERS

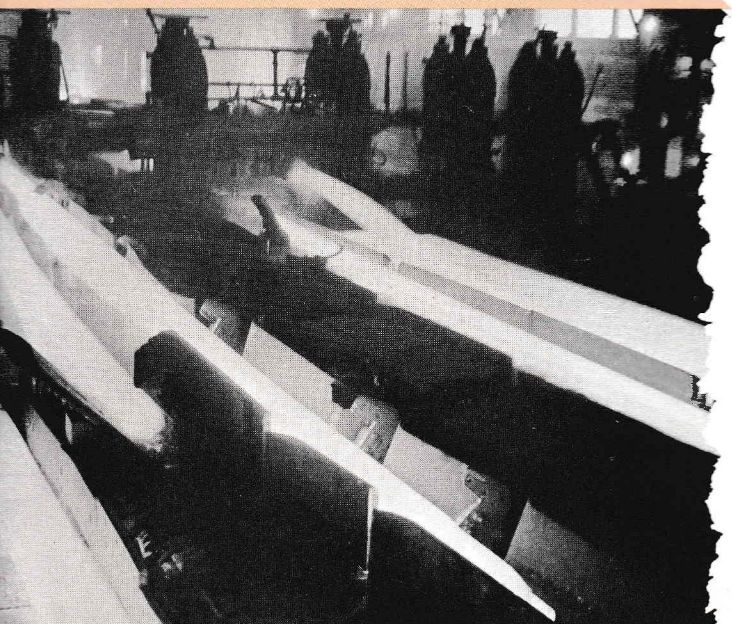
Submitted herewith is the Annual Report of the Company for the fiscal year ended July 31, 1959.

Operations were adversely affected by the reduced level of economic activity prevalent through much of the period under review. In addition, results were further affected unfavorably by certain special factors peculiar to our fields of activity.

First, there was the cancellation of the Arrow and Iroquois programs. This was a most serious blow, although the major impact on the accounts will not be felt until next year. However, I am glad to report that the overall effect has been lessened by a substantial contract which the Canadian Government has indicated will be awarded to Orenda Engines Limited in connection with the production of the engine for the F-104 interceptor aircraft. This matter is dealt with in greater detail later in this report.

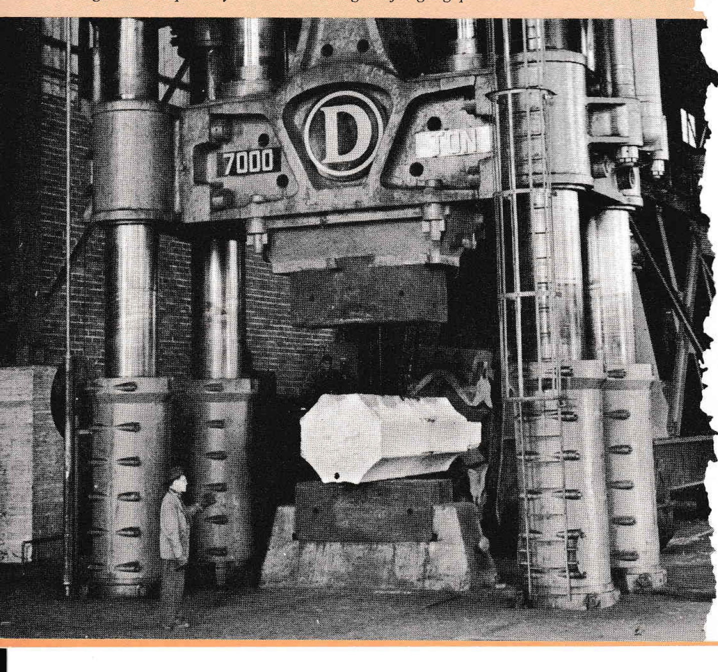
Secondly, the level of activity in the railway equipment field in which your Company is vitally interested continued to be far below that of business generally. Railway car loadings were and are still at a relatively low level and this

One of the blast furnaces at Dosco's Sydney plant.



In Sydney steel mill white hot blooms are formed into rails.

Ingot is shaped by Canada's largest forging press at Trenton.



resulted in minimum purchases of freight cars. Canadian Car Company Limited and related companies have suffered seriously as a consequence. This is discussed in greater detail in the section on Transportation Equipment.

The third special factor was the situation affecting Dosco. This was the return of very strong international competition in steel and steel products in the markets served by that Company, reduced prices and demand for its iron ore production, together with low levels of rail car operations at Trenton, N.S. Another factor is that Dosco does not share in the rapidly growing market for flat rolled steel products which at present in this country amounts to about 50% of steel usage. In this connection, engineering and market studies are continuing, looking toward the establishment of facilities for the production of hot and cold rolled sheet and strip.

The combination of all the above brought about a reduction in profits greater than that attributable solely to the recession. The extent of the downswing is indicated by the fact that consolidated net sales totalled $331,194,291 in 1959 against $370,751,856 in 1958, despite the fact that the 1959 figure includes a full 12 months of Dosco operations while the 1958 figure included only 10 months.

For the year ended July 31, 1959, consolidated profit from operations was $3,845,308. In addition $1,929,912 of profit arose from the sale of investments which together with minor adjustments relating to prior years, brought the total net profit to $5,820,937 as compared with profit from operations of $8,283,071 in 1958. Dividends paid during the year on preferred and common shares totalled $5,672,494.

In view of reduced earnings, it was considered prudent in the last half of the year to reduce the dividend rate on the common shares of the Company from the previous level of 20c a quarter to 10c a quarter, and in the light of immediate earnings prospects, your directors omitted the common dividend in the first quarter of the current fiscal year.

A special highlight is the substantial increase in working capital from $39,541,283 to $56,546,059 at July 31, 1959. This is largely attributable to the sale of our investment in Algoma Steel Corporation Limited. This investment was originally made as part of your Company's policy to expand and diversify its interests. After acquiring approximately 77% of the common shares of Dosco, it was decided to dispose of our Algoma investment and Dosco now represents your Company's interest in the Canadian steel industry.

INDUSTRIAL OPERATIONS

The Industrial operations followed fluctuations of the economy, except for the special adverse factors previously mentioned.

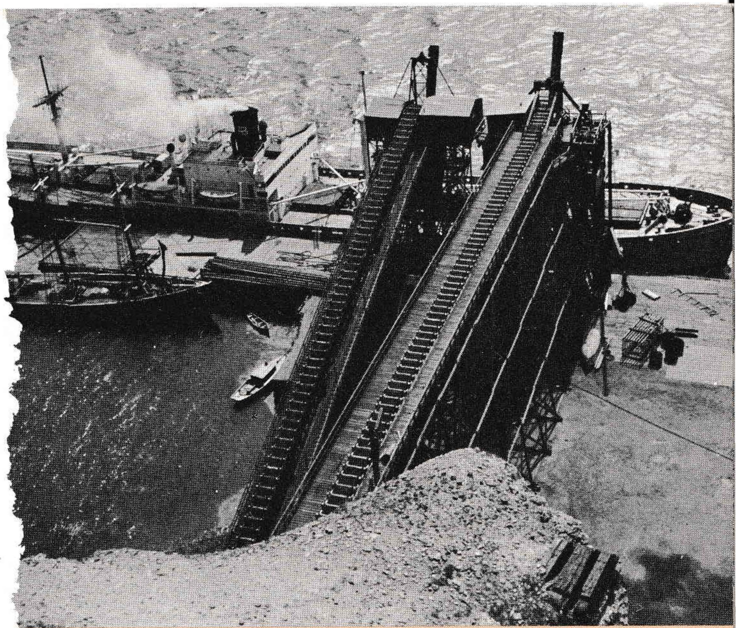
Dosco's primary iron and steel mill at Sydney, N.S., operated throughout the fiscal year at an average rate of 67.4% of capacity. However, reflecting the upswing in business activity, the rate reached 73.7% in July. At the same time, there were signs of improvement in other phases of Dosco operations. Canadian Bridge Company was recently the successful bidder for a number of important bridge and structural contracts, but contract prices in the steel fabricating business continued abnormally low and unattractive.

Halifax Shipyards had a much greater volume of repair work than was anticipated. The Yard has been assured by the Department of Defence Production of a major new construction contract to build another destroyer escort vessel for the Royal Canadian Navy. Construction on this vessel is due to start in April, 1960. By December, 1959, the Yard will have delivered a Buoy vessel and a large Calibration barge for the Canadian Government and also the Destroyer Escort "Chaudiere" for the Royal Canadian Navy, the latter being the seventh destroyer type vessel to be built by Halifax Shipyards.

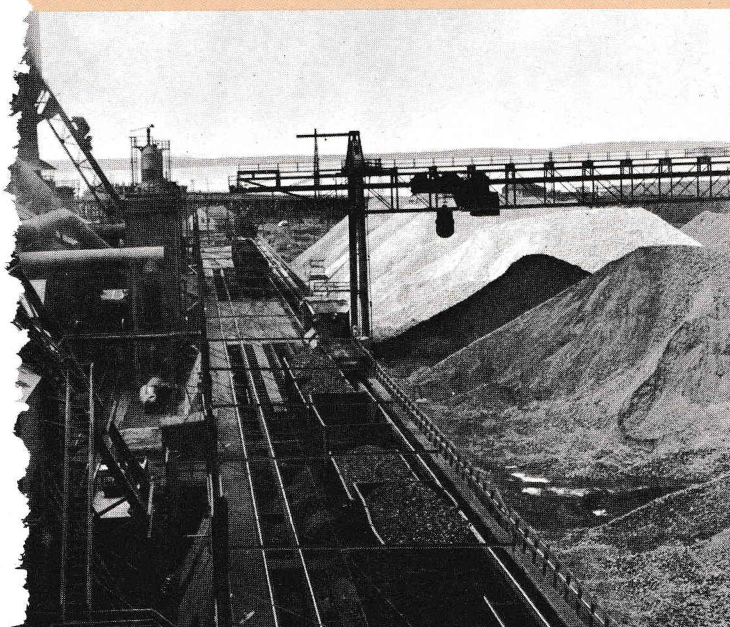
Dosco's operations at Trenton were depressed due to their large dependence upon railway car business. This matter is dealt with further in the section of the report dealing with Transportation Equipment.

The Montreal Works (formerly Canadian Tube, Stowell Screw and Aluminum Industries), which produces light steel products, pipe, reinforcing bars, wire, nuts, bolts, industrial fasteners, fencing, etc., largely for the domestic market, was operating at nearly peak capacity at the end of the fiscal year. Previously, operations were affected quite seriously by general business conditions.

The Truscon Steel Division of your Company and Dosco's two nail plants had to face stiff competition from foreign imports and this is reflected in their earnings.

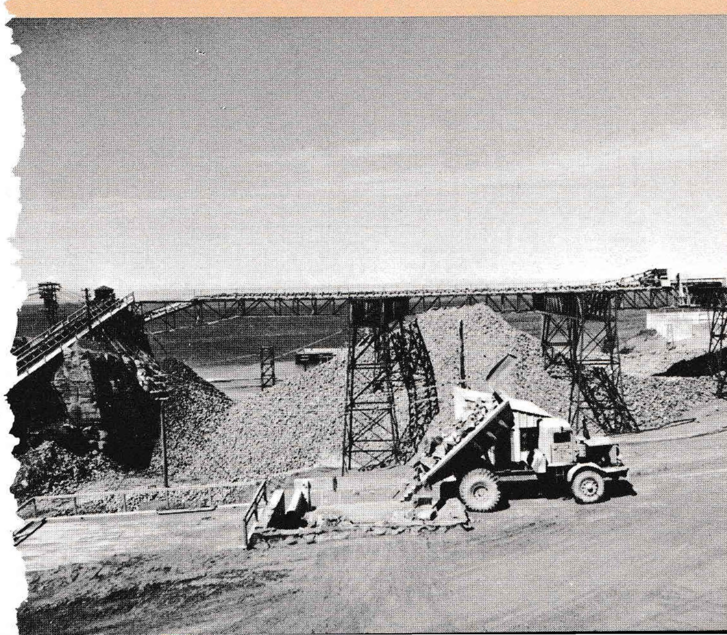


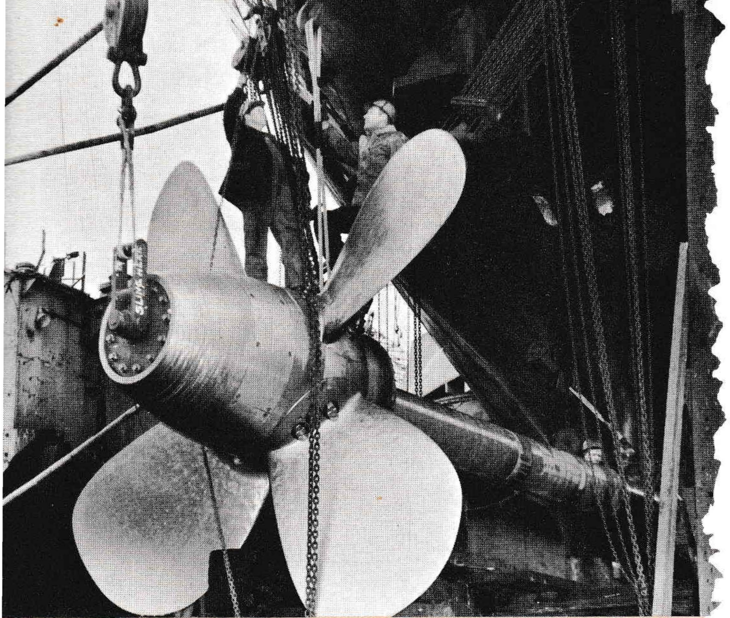
Bell Island ore can be loaded at several tons a minute.



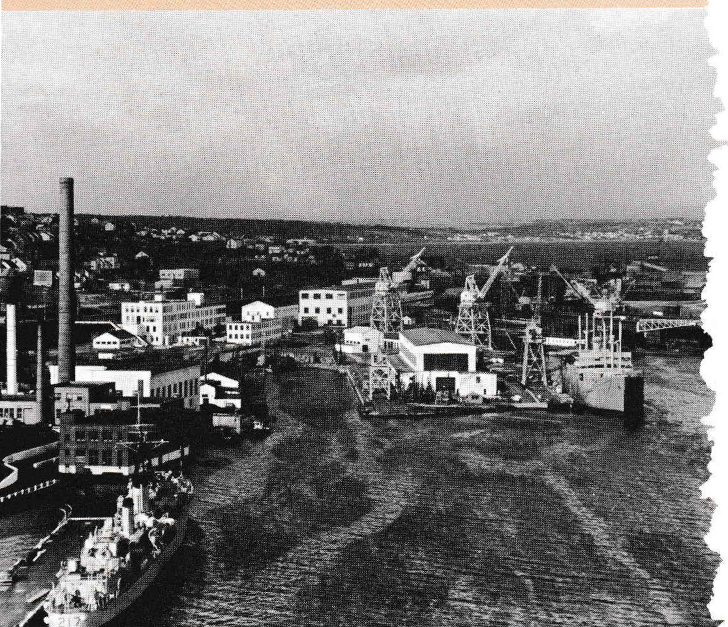
At Sydney, stockpiles are ready for furnace demands.

Dosco's Aguathuna quarries provide limestone for steelmaking.



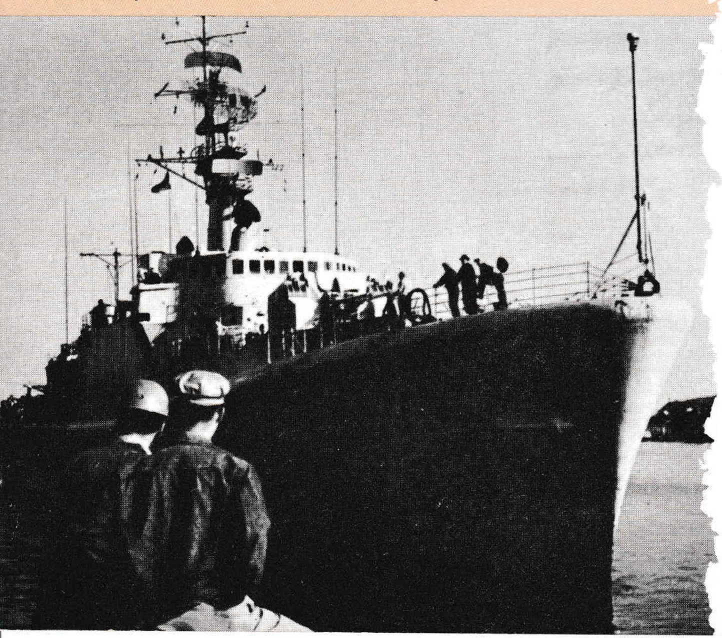


Ship repairs underway at the Halifax Shipyards.



Halifax facilities include the nation's largest drydock.

Destroyer Escort "Chaudiere" on return from sea trials.



MINING OPERATIONS

The coal situation remained most unsatisfactory. Despite higher sales in Ontario, the Dominion Coal Company Limited (a non-consolidated, subsidiary of Dosco) and its subsidiaries, sustained a heavy loss of $1,805,345. Production for the 12 months ended July 31, 1959 for Dominion Coal and other collieries, was 3,866,454 net tons against 5,328,398 for the same period ended July 31, 1958.

This drop in production was due to lower demand and to the pit shutdowns which were necessary to reduce excessive stockpiles. July 31, 1958 coal stock's stood at 1,478,485 tons while at July 31, 1959, they had been reduced to 892,185 tons.

A major sales campaign has been launched to capture a larger share of the big Ontario market which is currently supplied to the extent of 95% with American coal. For example, in 1958, the coal company sold 262,033 tons in Ontario. By July 31, 1959 this had risen to 645,592 tons as a result of the sales drive launched earlier in the year. Beyond 1960, the coal situation in Ontario will offer still greater opportunities.

However, a continuing program of Government subventions will be necessary to allow the movement of Nova Scotia coal into the Ontario market.

The overall outlook for coal furthermore is seriously obscured, due to increasing and heavy competition from other energy fuels, particularly in the Province of Quebec, which has been a large user of Nova Scotia coal. As a result, the outlook for coal sales during the next two years is not good. Arrangements have been made by the Government to set up a Royal Commission to examine the whole Canadian coal mining industry, to which representations and suggestions will be offered by your Companies.

Wabana iron ore operations at Bell Island, Newfoundland, were also adversely affected by economic conditions in Canada and by the abundant supply of ores in the world market. This second factor is highly important to Dosco which has had a traditional and profitable market for Wabana ore in the United Kingdom, Germany, Belgium and the Netherlands. As a result, lower prices were obtained and tonnages were reduced. This resulted in the closing of one pit employing 500 men. The overall effect is indicated by a decrease in total annual production from 2,645,629 gross tons in 1958 to 1,997,861 gross tons in 1959.

TRANSPORTATION EQUIPMENT OPERATION

Throughout virtually all the 1959 fiscal year, activity in the Company's railway car-building shops, both at Montreal and Trenton, Nova Scotia, was at a low ebb. The slow rate of increase in rail car loadings in Canada indicates little prospect for substantial rail car fabrication orders during the first half of our 1960 fiscal year.

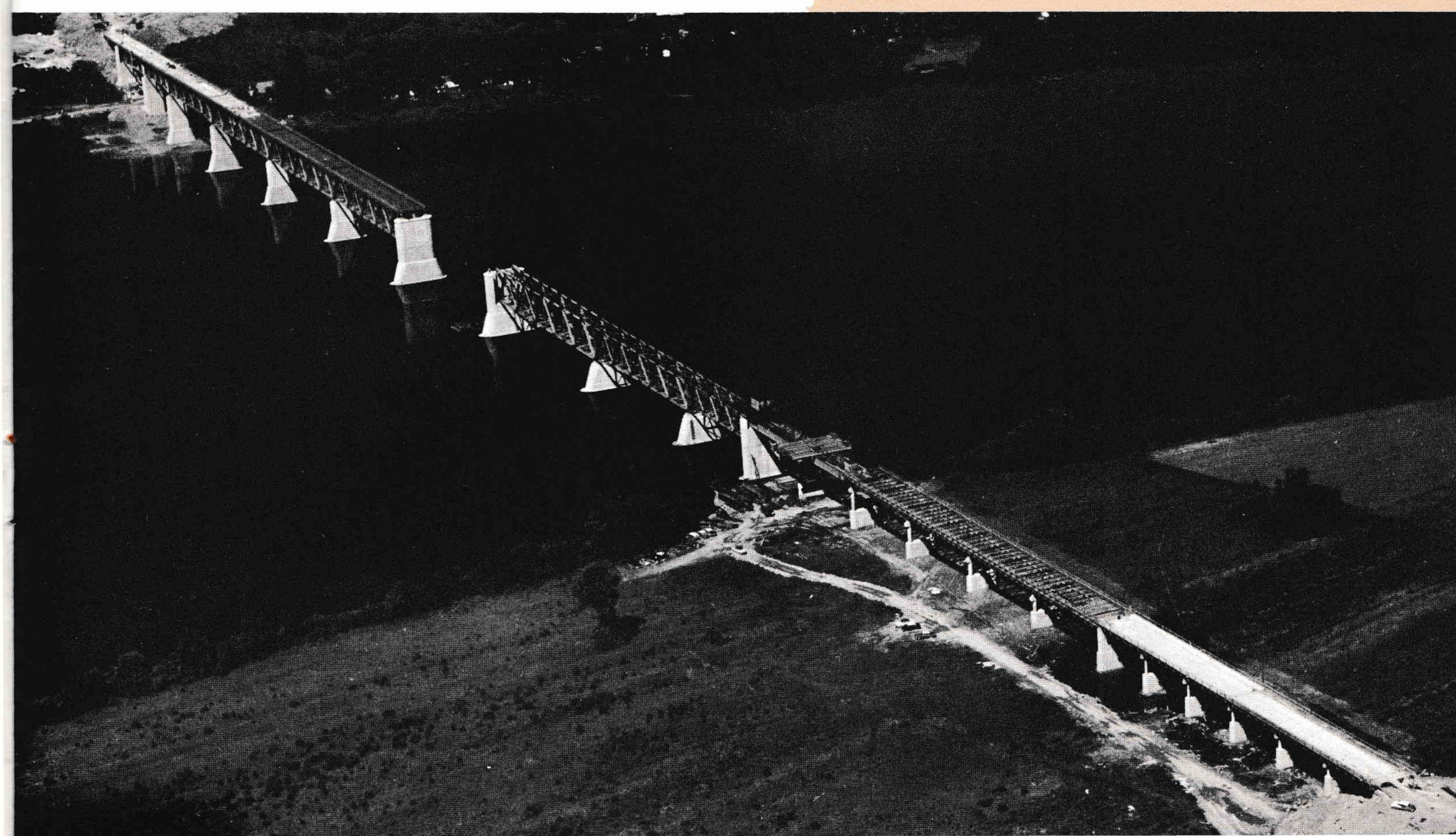
On the brighter side, Canadian General Transit Co. Limited, Montreal, in which your Company has a 55% interest, continued on an increasingly satisfactory basis. This Company leases railway tank cars to the oil, chemical and other industries.

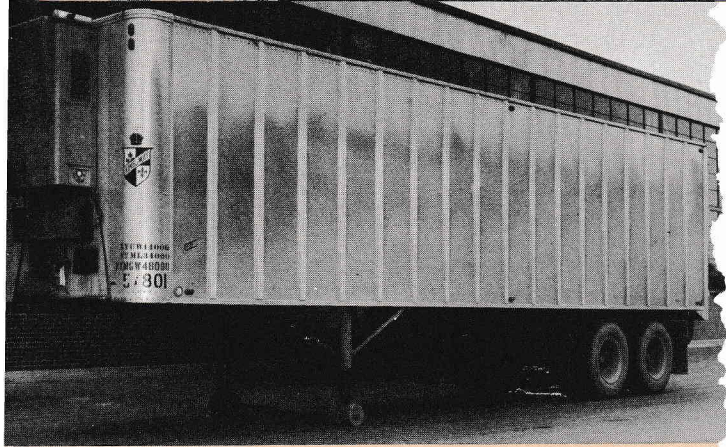
Canadian Car, while hit hard in the railway car division, continued to get a large share of the domestic market for city transit buses. During the 12 month period, some 292 buses were produced, and work is proceeding on the development of a new model. The prototype is scheduled for completion in the Fall of 1959.

Variety of small consumer products are produced by Dosco.

Boxcar built by the Trenton shops of Eastern Car.

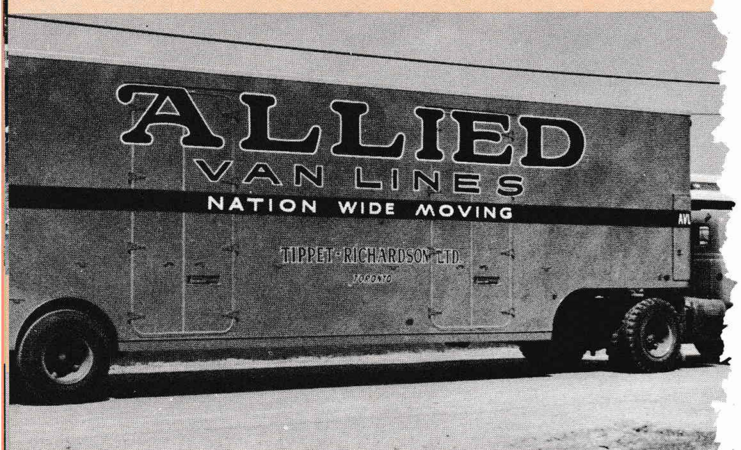
New Fredericton bridge built by Canadian Bridge Company.





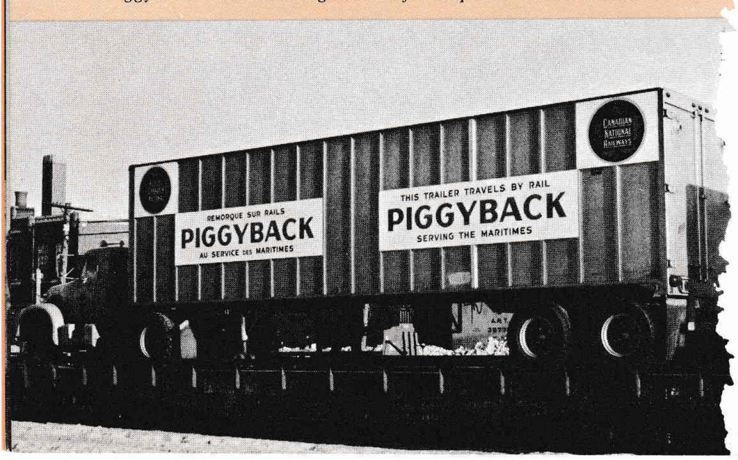
Cancar trailer equipped with "Thermo-King" refrigeration unit.

Smith Transport trailer produced by Canadian Car.



One of Cancar's custom-built furniture vans.

"Piggyback" trailers being readied for shipment to Maritimes.



Canadian Car is also making encouraging progress in the highway trailer business. In June, while still in its second year in the industry, it shipped its 1,000th trailer representing substantial market penetration against established competition.

Demand for refrigerator units for trailers continues to increase as new markets are opened up. In Canada, we are in a favorable position in this field through our subsidiary, Canadian Thermo Control Company Limited, which sells, services and has started limited manufacturing of the established United States "Thermo-King" line of refrigerator units.

Canadian Car expects to get additional business from the new and promising "piggyback" system developed by the railways. To meet increased highway transport competition, the railways are now offering door-to-door service on long hauls by carrying trailers by rail on flat cars on the long inter-city hauls.

Canadian Car's defence project, the "Bobcat," an armoured tracked vehicle for the Canadian Army, has undergone rigid initial tests, and the Company is now engaged on its further engineering development.

Canadian Steel Foundries Limited, located in Montreal, is the largest Canadian supplier of steel castings for railway equipment. It too was adversely affected by the unsatisfactory situation in the railway equipment industry. However, this was cushioned somewhat by CSF's other industrial and commercial work.

During the year, this Company produced the two largest steel castings ever made in Canada, surpassing the previous record of 75 tons established by CSF two years ago. These castings were rolling mill housings each weighing 113 tons when shipped and requiring 193 tons of molten steel to produce.

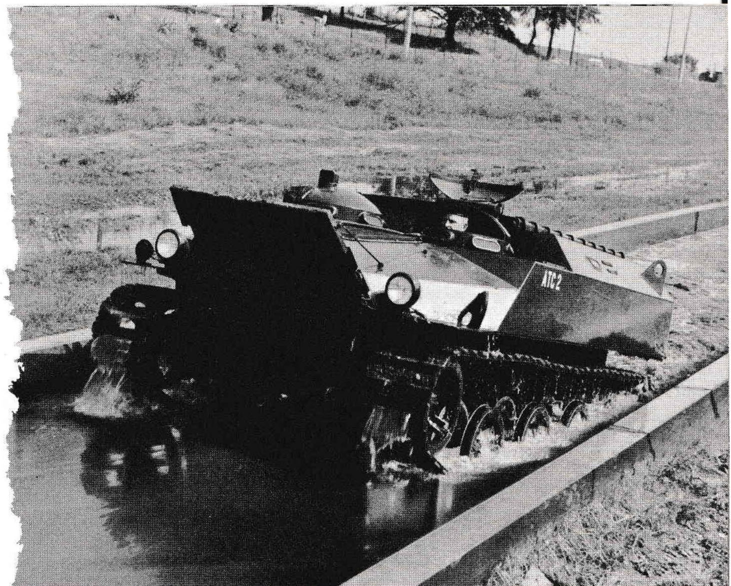
AERONAUTICAL DIVISION

In February, the Aeronautical Division received a serious setback when the Arrow aircraft and Iroquois engine programs were cancelled. Though the full impact will not be apparent in the accounts until next year, every effort is being made to obtain other work to occupy the plants at Malton, Ontario. It is gratifying to be able to report that Orenda Engines Limited, a wholly owned subsidiary, has been selected by the Canadian Government to manufacture the General

Electric J-79 engine under license. This engine will power the Lockheed F-104 fighter replacement for the Royal Canadian Air Force Division in Europe. The value of the contract will be in the region of $75,000,000 over the next three years.

Subsequent to the cancellation of the Arrow, Avro Aircraft has been engaged on orders relating to CF-100 spares, repair and overhaul, and the Calendar Aircraft Inspection and Repair program; United States contracts covering phases of the Special Projects Group, and in particular, the Avrocar vertical take-off project; Arrow contract termination requirements and miscellaneous commercial shopwork and testing. In addition, the Government shared equally the cost of maintaining for six months ending August 20, 1959, a nucleus of engineering personnel at both Avro and Orenda for research on alternative projects. Several areas of commercial work were investigated together with potential military sales relating to Canada's defence production sharing arrangements with the United States. Some of this may result in orders for the Aeronautical Division.

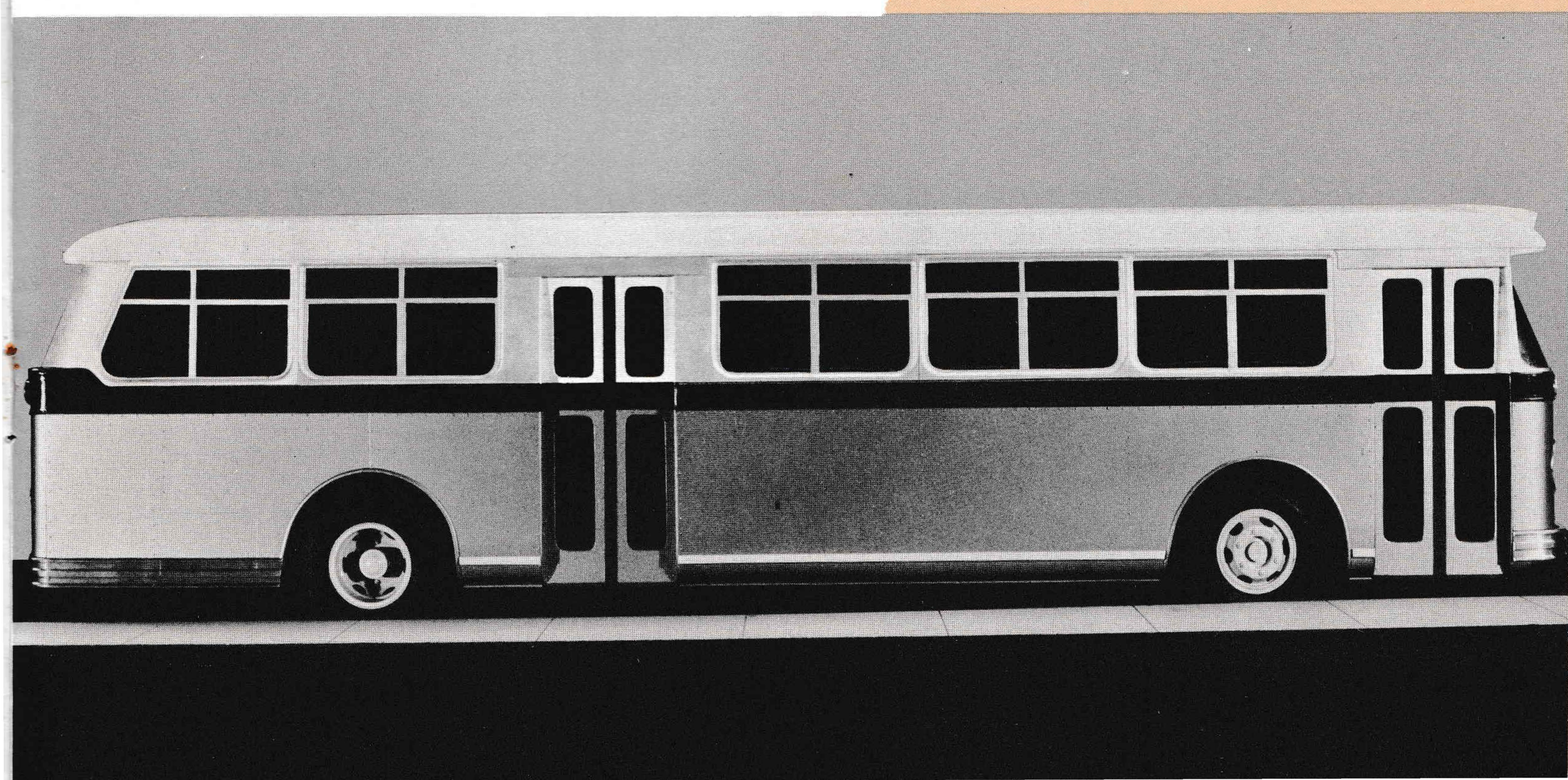
Orenda Engines Limited has been similarly engaged with contract termination work in respect of the Iroquois engine and also continuing repair and overhaul work on contracts relating to the Orenda engine, and a substantial order from West Germany for

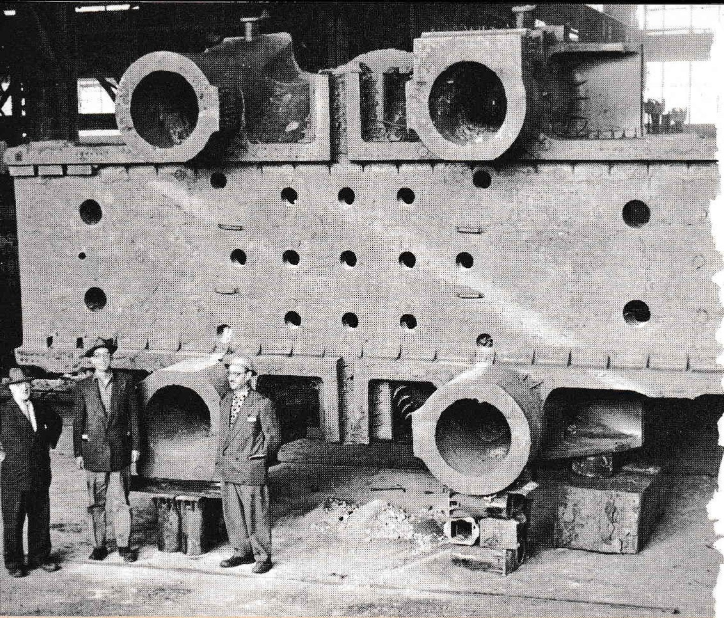


"Bobcat" vehicle for Canadian Army undergoing trials.

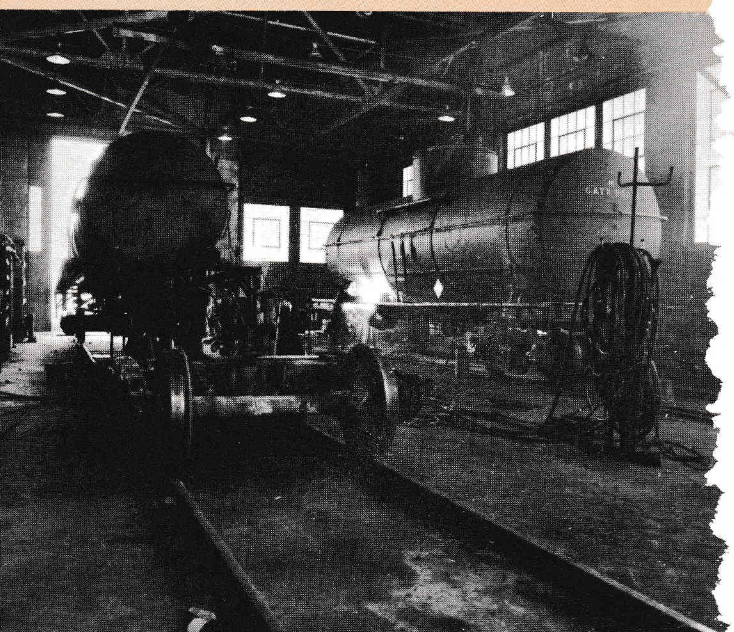
Buses from the Fort William plant's assembly line.

Model of Canadian Car Company's new-style bus.



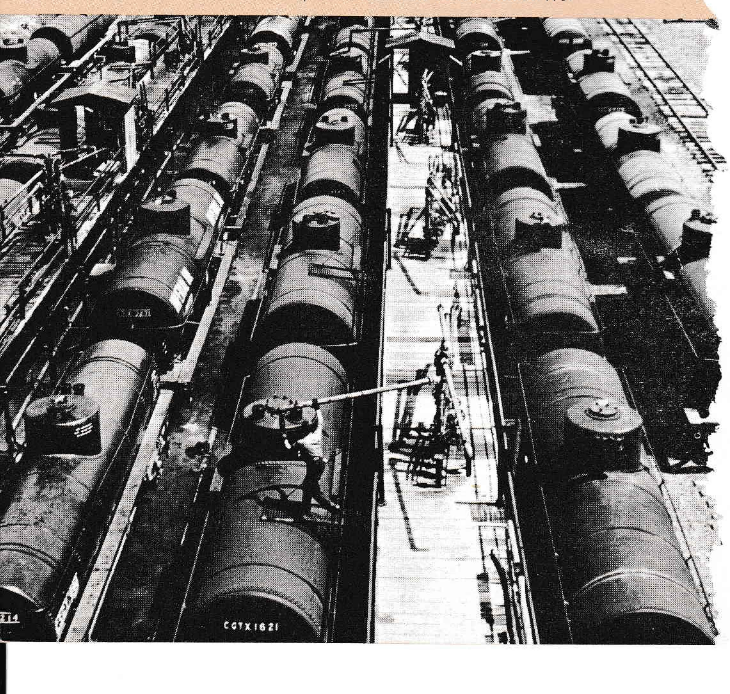


330,000 lb. casting produced by C.S.F. at Montreal.



Tank car maintenance at the Moose Jaw shops.

C.G.T. tank cars serve oil, chemical and other industries.



engine parts.

In addition to examining new military and civil aviation markets in recent months, Orenda has become increasingly active in the industrial field. Orenda Industrial Limited is making encouraging progress in the marine and industrial diesel power field and substantial orders are on hand for diesel engines and transformers and generator sets, all of which are products of group companies in the United Kingdom.

At July 31, 1959, total employment in the four aeronautical companies stood at 4,400 against approximately 14,500 prior to the cancellation. It is anticipated that at least 3,000 additional people may be re-employed on F-104 contracts.

CAPITAL IMPROVEMENTS

During the year, substantial sums were spent on modernizing existing plants and providing new and necessary additions.

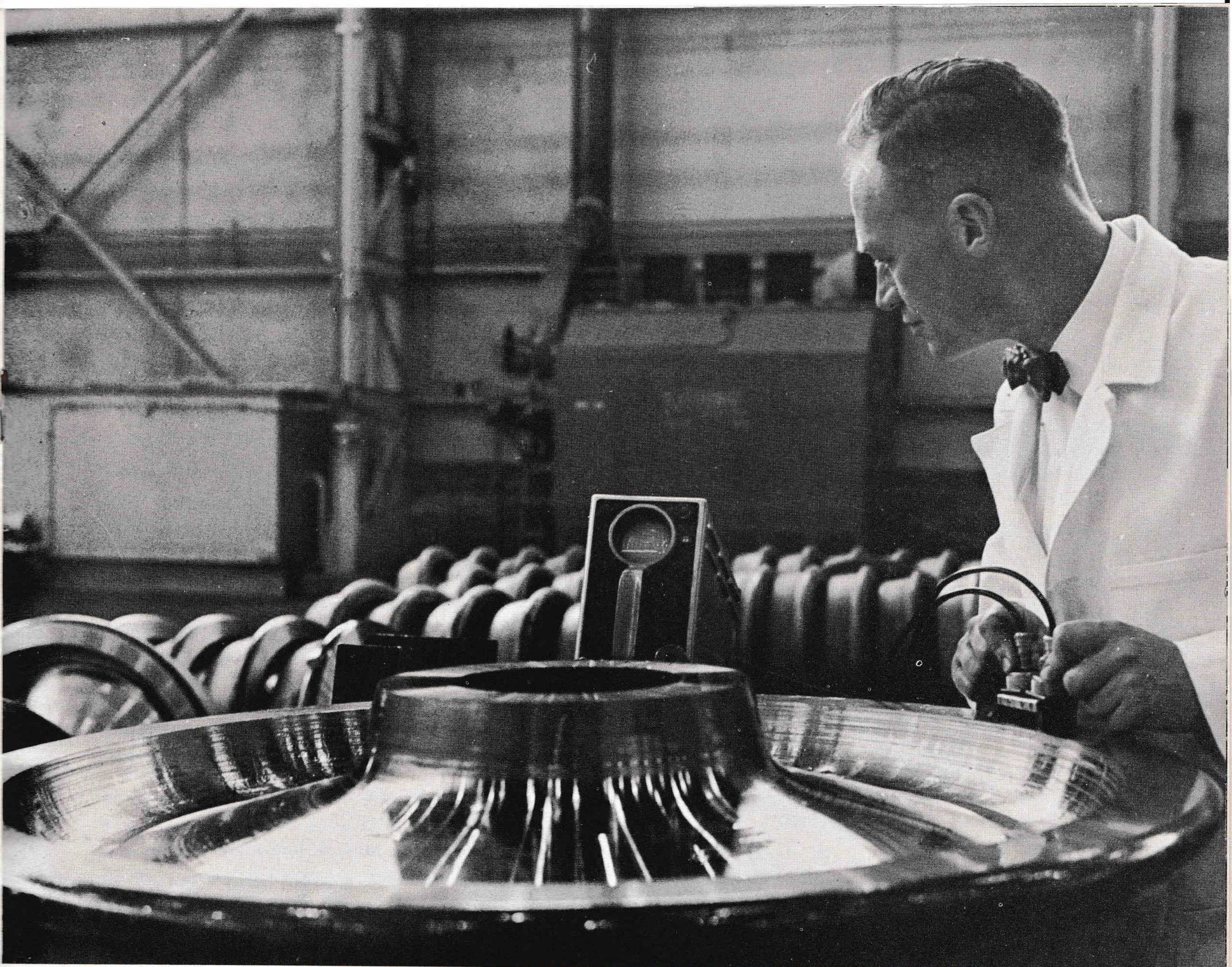
The following improvements and additions were completed at Dosco's Sydney plant: a new machine shop costing $1,000,000; a spheroidizing furnace to produce a greater variety of grades of steel for fasteners; new Bar Mill facilities for rolling 600 pound coils; and additional dock space for oil bunkering.

At Glace Bay work is nearing completion on a new $2,400,000 generating power unit for Seaboard Power, a wholly-owned subsidiary of Dosco. This company provides industrial and domestic power to large sections of Cape Breton, N.S., as well as to Dosco's own operations.

At Halifax Shipyards, an additional 300 feet of new wharves were completed as part of an expansion program. When the work is finished in July, 1960, the Yard will have approximately 1,000 feet of new wharves.

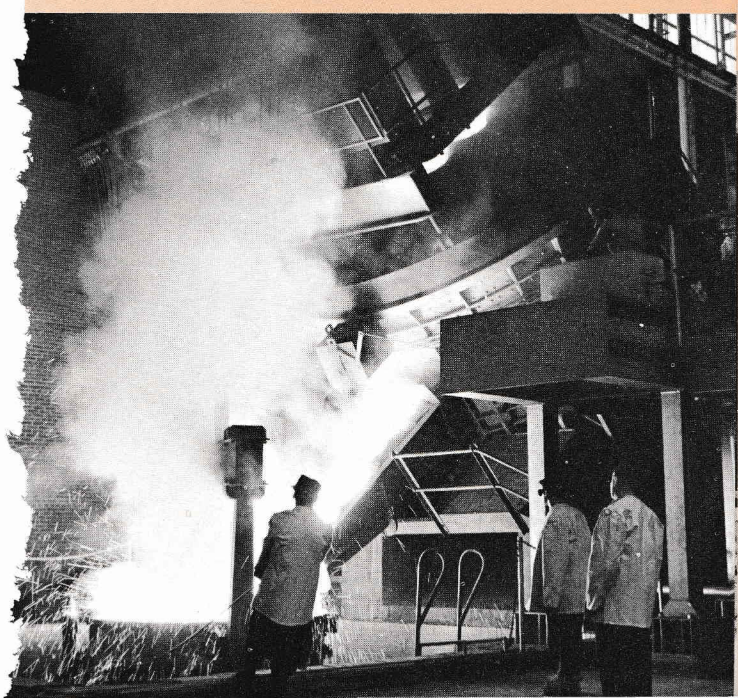
At Montreal, changes made at relatively little cost increased structural fabrication capacity at Canadian Bridge by 400 tons a month. This was achieved mainly by consolidating certain operations with those of Truscon Steel, located in an adjoining plant.

At the Montreal Works (formerly Canadian Tube, Stowell Screw and Aluminum Industries), major improvements resulted from rearranged plant layout, and the rehabilitation of manufacturing shops and offices. Operating savings and greater efficiency will



Magnetic detector checks out new steel wheels.

Pouring 50-ton ladle at Canadian Steel Wheel.

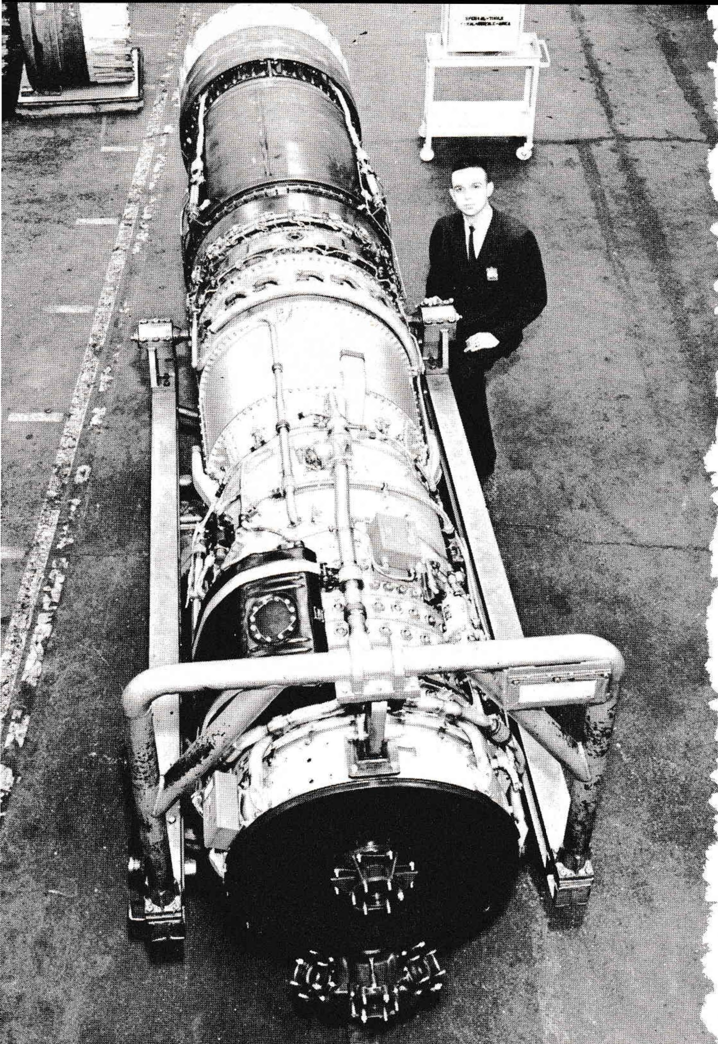


be achieved in the future by the amalgamation, which was recently effected, between separate and independent screw and fastener operations to create a consolidated Industrial Fastener Division.

Nail making facilities at the James Pender works in St. John, New Brunswick, have been renovated and modernized. In Toronto and Windsor, similar improvements in plant layout and operating methods were instituted.

As a result of these and other improvements, Dosco is in a much better competitive position.

In the transportation equipment field, the modernization program at Canadian Car was 95% complete



Orenda Engines has been selected to build the G.E. J-79.

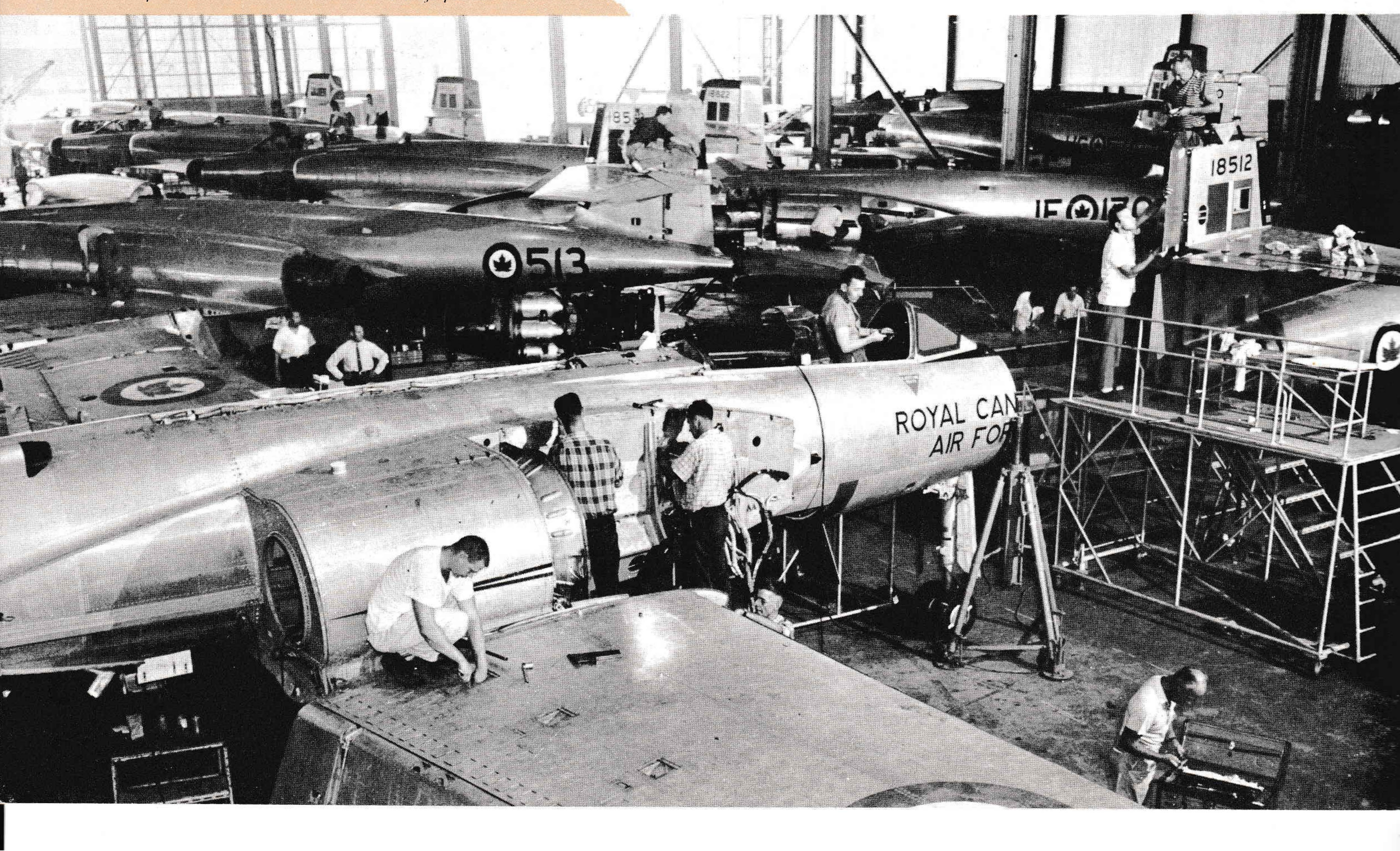
at July 31, making it the most modern car building plant in Canada.

Canadian Steel Foundries in Montreal added facilities for the radiography of steel castings up to 12 inches thick. This should stimulate the trend toward the use of steel castings for critical high stress application. CSF is the only foundry in Canada producing these highly stressed complicated alloy steel castings. One immediate result was that CSF obtained a substantial order for steam turbine casings for use in a large steam generating station being built in Ontario by the Hydro Commission.

The new $12,000,000 plant of Canadian Steel Wheel Limited is now completed and wrought steel wheels are rolling off the production line at an increasing rate. This affiliated company is 50% owned by your Company and English Steel Corporation, a member of the Vickers Group. The plant is considered to be the most fully automated steel wheel operation in the world.

On the aeronautical side, little capital expenditure was incurred apart from the acquisition of Phoenix

CF-100 repair and overhaul at the Avro Aircraft plant.



Engineered Products Ltd. of Toronto. This company specialized in the repair and overhaul of aircraft instruments. Its operations have been merged with those of Canadian Applied Research Limited which is engaged in the design, development and manufacture of airborne navigational and other electro-mechanical equipment.

MANAGEMENT CHANGES

There were several major Board and Management changes. Mr. Crawford Gordon resigned as President and General Manager, and his responsibilities were assumed by myself pending the appointment of a successor. Mr. F. T. Smye also resigned as Executive Vice-President, Aeronautical, and was succeeded by Mr. H. R. Smith. The existing Board vacancies were filled by the appointment as directors of Mr. A. A. Bailie, Vice-President (Finance) and Treasurer, Mr. A. L. Fairley, Jr., President of Dosco, and Mr. H. R. Smith.

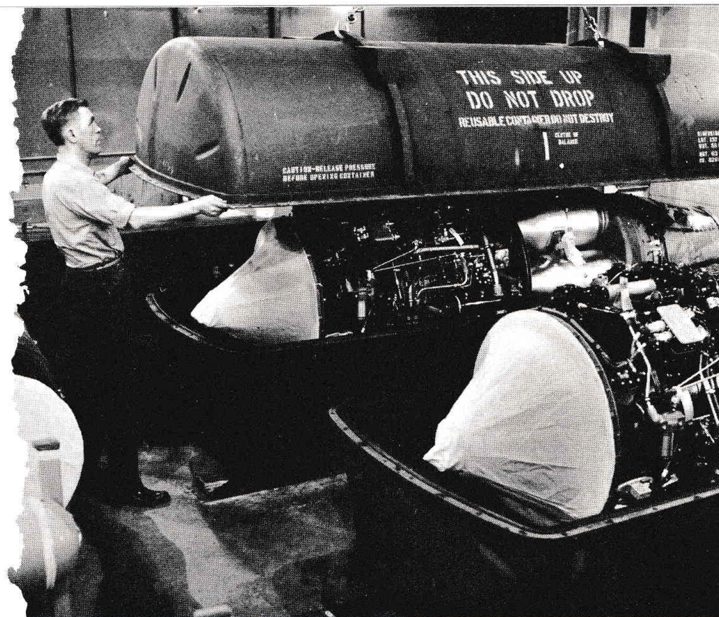
THE FUTURE

In concluding this report, may I convey to you the confidence of the Board of Directors in the future of your Company. The outlook for the fiscal year 1960 is somewhat obscured because of the delayed impact of the Arrow and Iroquois cancellation and there will no doubt be trying times ahead as the economy fluctuates. However, the general economic outlook is brighter and your Company is now in a good position in terms of improved and expanded plant facilities to take advantage of whatever opportunities present themselves.

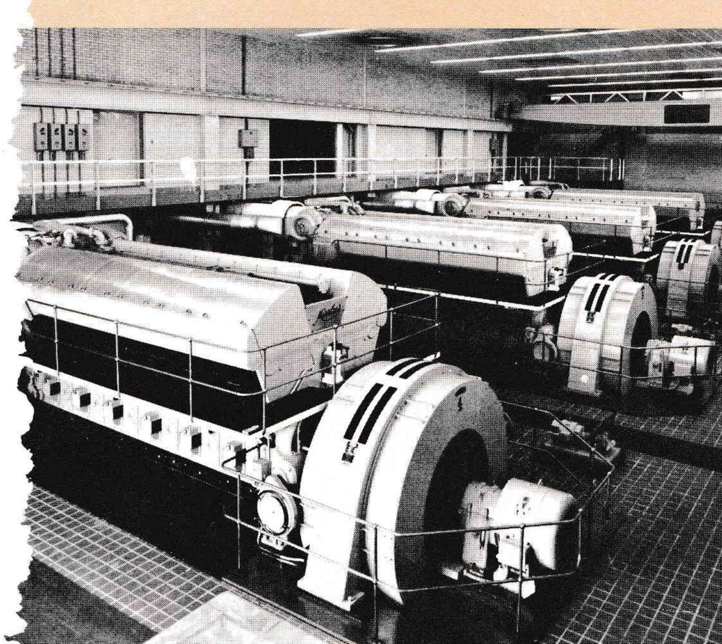
Submitted on behalf of the Board

R. H. DOBSON, *Chairman*

Toronto, Ont., September 22, 1959.

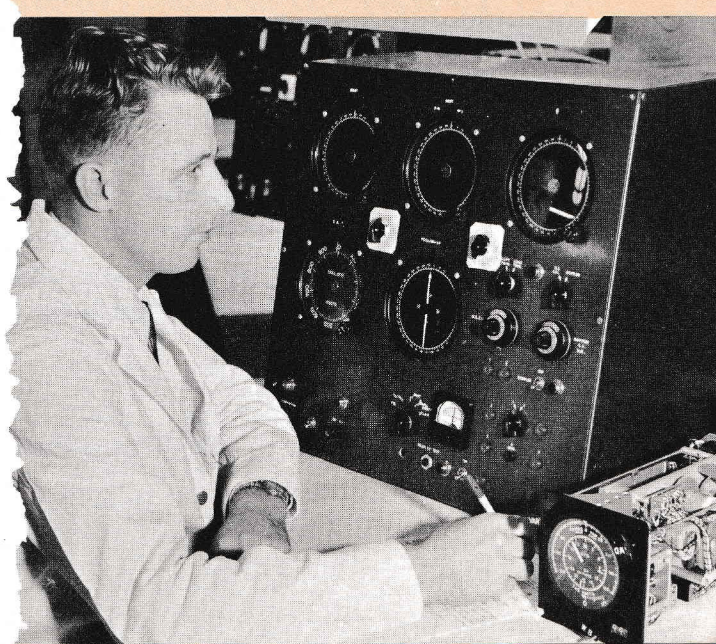


Preparing Orenda turbojet engines for shipping.



Power unit installed at Toronto pumping station.

Calibrating aircraft computing equipment at C.A.R.L.



FINANCIAL HIGHLIGHTS

	1959	1958
Consolidated net sales	$331,194,291	$370,751,856
Depreciation	15,234,922	14,930,163
Special development expenditures	314,523	827,625
Taxes on income	5,569,199	8,122,196
Profit from operations after taxes	3,845,308	8,283,071
Profit on sale of investments, etc.	1,975,629	—
Net profit for the year	5,820,937	8,283,071
Per preferred share	41.57	59.16
Per common share	.61	.92
Dividends paid	5,672,494	6,544,814
Per preferred share	5.75	4.64*
Per common share	.60	.80
Invested in capital assets	301,678,679	296,971,333
Working capital at end of year	56,546,059	39,541,283

**Initial dividend paid on January 2, 1958.*

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
A. V. ROE CANADA LIMITED:

We have examined the consolidated balance sheet of A. V. Roe Canada Limited and consolidated subsidiaries as at July 31, 1959 and the consolidated statement of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and related consolidated statement of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at July 31, 1959 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

Information with respect to a subsidiary company not consolidated, required by Section 118 of the Companies Act, is included in Note 1 of the accompanying notes to the consolidated financial statements.

September 22, 1959.
Toronto, Canada.

PRICE WATERHOUSE & CO.
Chartered Accountants

A.V. ROE CANADA LIMITED

and consolidated subsidiaries

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDED JULY 31, 1959

	1959	1958
Profit from operations before the items shown below	$26,743,089	$33,786,355
Income from investments	661,047	1,023,171
	27,404,136	34,809,526
Deduct:		
Interest on long term debt	1,297,553	1,215,756
Special development expenditures	314,523	827,625
Provision for depreciation	15,234,922	14,930,163
	16,846,998	16,973,544
	10,557,138	17,835,982
Provision for income taxes (Note 5)	5,569,199	8,122,196
Profit from operations before deducting amount attributable to minority shareholders	4,987,939	9,713,786
Deduct: Profit of subsidiaries attributable to minority shareholders	1,142,631	1,430,715
Profit from operations after taxes	3,845,308	8,283,071
Add:		
Profit on sale of investments	1,929,912	—
Adjustments (net) relating to prior years less applicable income taxes	45,717	—
	1,975,629	—
Net profit for the year	5,820,937	8,283,071
Earned surplus at beginning of year	36,596,988	34,441,639
Equity in earned surplus of subsidiary not previously consolidated	—	417,092
	42,417,925	43,141,802
Deduct: Dividends—		
Preferred shares	805,029	826,114
Common shares	4,867,465	5,718,700
	5,672,494	6,544,814
Earned surplus at end of year	$36,745,431	$36,596,988

See accompanying notes to consolidated financial statements.

A. V. ROE CANADA LIMITED and consolidated subsidiaries

CONSOLIDATED BALANCE

ASSETS

	1959	1958
CURRENT ASSETS:		
Cash	$ 4,023,013	$ 1,401,598
Marketable securities, market value $830,000	835,672	889,549
Accounts receivable, less allowance for doubtful accounts	44,356,685	44,456,957
Due from subsidiary company	2,649,231	2,499,845
Income taxes recoverable	97,024	928,605
Inventories, at the lower of cost or market, less progress payments	53,106,519	61,271,624
Prepaid expenses	2,549,823	2,792,439
	107,617,967	114,240,617
INVESTMENTS AND OTHER ASSETS:		
Shares in subsidiary company not consolidated (Note 1)	1,027,956	1,027,956
Shares in associated company (50% owned), at cost	5,570,000	2,500,000
Mortgages receivable	9,039,546	8,077,500
Other investments and sundry assets	3,632,657	2,826,587
Unamortized discount on long term debt	183,178	167,837
Common shares in Algoma Steel Corporation, Limited, at cost	—	19,787,322
	19,453,337	34,387,202
FIXED ASSETS (Note 3):		
Land, mineral deposits, buildings, machinery and equipment	301,678,679	296,971,333
Less—Accumulated depreciation	141,979,169	135,198,438
	159,699,510	161,772,895
	$286,770,814	$310,400,714

APPROVED ON BEHALF OF THE BOARD:

R. H. DOBSON, *Director*

W. A. CURTIS, *Director*

See accompanying notes to consolidated financial statements.

SHEET JULY 31, 1959

LIABILITIES

	1959	1958
CURRENT LIABILITIES:		
Bank advances	$ 6,880,495	$ 28,225,174
Accounts payable and accrued liabilities	22,873,926	24,810,455
Income and other taxes	7,941,609	9,369,347
Advances on sales contracts	4,331,638	4,237,695
Payments on long term debt due within one year	2,499,422	2,386,922
Due to associated companies	6,544,818	5,669,741
	51,071,908	74,699,334
LONG TERM DEBT (Note 2)	24,980,033	24,892,455
PROVISIONS:		
Blast furnace relining	2,622,231	2,097,082
Past service pension costs of certain subsidiaries	888,733	888,733
Contingencies (Note 4)	16,992,945	17,486,703
	20,503,909	20,472,518
DEFERRED CREDIT:		
Accumulated income tax reductions applicable to future years (Note 5)	25,791,728	26,521,332
INTERESTS OF MINORITY SHAREHOLDERS IN SUBSIDIARIES	24,649,626	24,101,117
CAPITAL STOCK AND SURPLUS:		
Share Capital–		
Preferred shares of the par value of $100 each issuable in series–		
Authorized —250,000 shares		
Issued—240,000 5¾% Cumulative Convertible Redeemable Preferred Shares		
Outstanding—140,000 shares	14,000,000	14,000,000
Common shares without nominal or par value (Note 6)–		
Authorized —10,000,000 shares		
Issued—8,112,441 shares	83,412,954	83,406,704
Earned Surplus	36,745,431	36,596,988
	134,158,385	134,003,692
Excess of book values of net assets of subsidiaries over cost of acquisition (Note 7)	5,615,225	5,710,266
	139,773,610	139,713,958
	$286,770,814	$310,400,714

NOTES TO CONSOLIDATED FINANCIAL

1. Shares in subsidiary company not consolidated of \$1,027,956 represent the investment by Dominion Steel and Coal Corporation, Limited in the share capital of Dominion Coal Company, Limited. At July 31, 1959 the book value of the net assets (primarily coal mining properties) attributable to such shares amounted to \$8,184,000.

   The profits and losses of Dominion Coal Company, Limited are not taken up in the accounts of Dominion Steel and Coal Corporation, Limited nor are they included in the accompanying consolidated statement of profit and loss and earned surplus. For the year ended July 31, 1959, Dominion Coal Company, Limited incurred a loss, of which \$1,065,730 is applicable to the indirect interest of A. V. Roe Canada Limited in that company.

2. Long Term Debt:

Dominion Steel and Coal Corporation, Limited		
First Mortgage Bonds		
3½% Series "A" due March 1, 1961	$ 1,306,000	
4% Series "B" due June 1, 1968	2,500,000	
Convertible Debentures		
4% due August 15, 1961	1,155,500	
4¼% due May 15, 1970	736,000	$ 5,697,500
Seaboard Power Corporation Limited First Mortgage Bonds Issued in Series "A" to "D", interest 4% to 5¾%, due in various amounts annually from 1960 to 1979		7,826,000
The Stowell Screw Company, Limited First Mortgage Bonds 4% due November 1, 1959-1965		120,000
Dominion Steel and Coal Corporation, Limited and consolidated subsidiaries		$13,643,500
Canadian Car Company Limited Mortgage 6% due January 1, 1961-1965		600,000
Canadian General Transit Company, Limited Equipment Trust Certificates Issued in Series "A" to "H", interest 3½% to 6%, due in various amounts annually from 1959 to 1978		5,767,500
Avro Aircraft Limited and Orenda Engines Limited Balance owing on purchase of assets from the Crown, payable in annual instalments on or before July 27, 1966 with interest at 5% per annum		7,468,455
		$27,479,455
Deduct: Payments due within year included in current liabilities		2,499,422
		$24,980,033

STATEMENTS YEAR ENDED JULY 31, 1959

3. The fixed assets of A. V. Roe Canada Limited and subsidiaries, other than Dominion Steel and Coal Corporation, Limited, are valued at cost; the fixed assets of Dominion Steel and Coal Corporation, Limited and consolidated subsidiaries are valued at cost or less, including a deduction of $11,012,621 being the difference between the par value of shares and debentures of subsidiaries and the book value in that corporation's accounts.

4. As from January 1, 1958, Dominion Steel and Coal Corporation, Limited adopted the policy of charging pension payments for past services to provision for contingencies after deducting related income tax credit. Such charges during the year ended July 31, 1959, after the related credit, amounted to $493,758.

5. During the years when capital cost allowances claimed for tax purposes exceeded depreciation recorded in the accounts, the resulting reduction in income taxes currently payable was charged against profit as part of the provision for income taxes and set aside as a deferred credit for "Accumulated income tax reductions applicable to future years". For the year ended July 31, 1959, capital cost allowances deductible for tax purposes are less than the depreciation recorded in the accounts and as a result of this, together with an adjustment of the deferred credit arising from a loss incurred by a subsidiary company, the provision for income taxes for the year of $5,569,199 is after deducting $729,604 which has been transferred from the deferred credit account.

6. On exercise of options granted in prior years, 500 common shares were issued during the year ended July 31, 1959 for $6,250 and at July 31, 1959 there were outstanding options, terminating 1965-1966, to subscribe for 62,700 unissued common shares of the Company at a price of $12.50 per share.

7. The decrease during the year of $95,041 in the "Excess of book value of net assets of subsidiaries over cost of acquisition" is an adjustment arising from the conversion of debentures of Dominion Steel and Coal Corporation, Limited into capital stock of that corporation.

8. For the year ended July 31, 1959 fees of directors amounted to $4,600, and counsel and solicitors' fees, and salaries of executive officers and salaried directors, amounted in the aggregate to $576,442.

FIRST STEP FOR STEEL

Flame lights the night sky over Sydney, N.S., where these Dosco blast furnaces are producing liquid iron from the raw mixtures of Wabana ore, Aguathuna limestone and coke made from Nova Scotia coal. While still in its liquid state, the iron is stored in hot metal mixing tanks to await further refinement on the next step to becoming Dosco steel products.