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1980 Annual Report

SIDBEC

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SIDBEC

Sidbec

Its purpose

«The object of the Company is to pursue the operation of a steel complex, alone or with partners, to ensure, as a profitable enterprise, the consolidation and expansion of its operations, so as to promote the development of steel consuming industrial undertakings in Québec.»

Its wholly-owned subsidiaries

Sidbec-Dosco, Sidbec-Feruni and Sidbec International.

Its joint-venture subsidiary

Sidbec owns 50.1% of the capital stock of Sidbec-Normines, a mining company which produces iron oxide pellets of which Sidbec is committed to purchase its share of annual production up to 3 million tonnes. Sidbec-Normines operates a pelletizing plant at Port-Cartier, near Sept-Iles. This plant has a capacity of 6 million tonnes of which up to 3 million tonnes can be low silica pellets.

Sidbec-Normines also owns the Fire Lake iron mine, and the Lake Jeannine concentrator, north of Port-Cartier, which supplies it with the ore concentrate needed to manufacture the pellets.

Its facilities

Contrecoeur Works
Equipment:
— 2 reduction plant modules
— 4 electric arc furnaces
— 2 continuous casting machines for billets
— 1 continuous casting machine for slabs
— 1 hot mill and 1 cold mill
— 1 rod and bar mill

Capacity:
— 1 200 000 tonnes of reduced pellets
— 1 100 000 tons of primary steel

Montréal Works

Equipment:
— 1 electric arc furnace
— 1 continuous casting machine for billets
— 1 merchant mill
— fasteners, nail shop
— wire mill
— pipe mill

Capacity: 275 000 tons of finished products

Longueuil Works

Equipment:
— 2 electric arc furnaces
— 2 continuous casting machines for billets
— 1 merchant mill

Capacity: 300 000 tons

Truscon Works

Equipment:
Facilities for the manufacturing of construction products

Capacity: 50 000 tons

Etobicoke Works

Equipment:
— wire mill
— nail shop
— welded wire mesh machine

Capacity: 80 000 tons

Its products

Long Products:
— Bars: flats, rounds, squares and special bar quality
— Shapes: channels, angles and others
— Reinforcing bars
— Wire rods
— Wire

Flat Rolled Products:

— Sheet and strip, hot rolled and cleaned
— Sheet and strip, cold rolled
— Skelp

Other Finished Products:

— Wire: heavy and fine gauge, bright, galvanized or coated, low and high carbon
— Welded wire mesh
— Nails
— Fasteners
— Pipe, couplings and nipples
— Joists
— Metal lath
— Roof and floor deck
— Cold formed angles

Semi-Finished Products:

— Billets
— Slabs

Its Head Office

507, Place d'Armes
Montréal (Québec)
H2Y 2W8

Sidbec

Message from the Chairman of the Board

The year 1980 was marked by a highly depressed economic climate. The subsequent reduction in activities of major consumer groups of steel products led to a downturn in international steel and iron ore markets from the end of the first quarter. This generally resulted in a costly weakening in the production rate of steel mills along with serious disruptions in the product sales price structure, while operating costs and financial charges increased more rapidly than projected.

All steel mills — in North America and elsewhere in the industrialized world — suffered the repercussion of the economic climate to various degrees. Both Americans and Europeans were among the hardest hit while Canadians fared generally well.

The year's results

Sidbec was considerably influenced by this phenomenon and, in certain respects, was more affected than most of its local competitors. Following a promising and positive first six-month period, the situation deteriorated rapidly.

Sidbec nevertheless succeeded, during the fiscal year, in increasing its overall sales by $68 million, or 17.5% more than last year, raised its primary steel production and shipment of its products to a new high and finally, avoided significant layoffs and production shutdowns.

The Company was thus forced to take defensive measures which, although necessary, turned out to be costly. Among others, it shifted its market abroad to sell significant quantities of steel products at reduced prices, which were not being purchased domestically. The Company was also forced to slow down production of certain finishing equipments and to export semi-finished products with clearly lower yields than finished products.

At the same time, the group experienced considerable losses in the sale of iron oxide pellets and reduced pellets and was affected to a great extent by the rise in financial charges which was intensified by high interest rates and an inadequate financial structure.

In 1980, operations therefore showed a loss of $55 million, of which $19 million was for manufacturing operations and $36 million for mining operations.

The recovery plan

These financial results cannot be attributed to current market conditions alone. The Company, which showed marginal performance in 1979 — a good year — was even more vulnerable during a major recession period. This leads to food for thought and stresses the urgency for introducing a program aimed at rectifying certain serious structural problems. Consequently, a recovery plan was submitted to the shareholder, the Québec Government, at the start of February, 1981.

As its name implies, the document is first of all a recovery plan and not a development plan. It deals with the group's main orientation and traces its outline. It identifies its numerous strengths and structural problems, and suggests hypothetical solutions which could very likely, but not necessarily, lead to a significant development program.

The plan deals with the supply of raw material by stressing the consequences of Sidbec's involvement in Sidbec-Normines Inc., the Company's financial structure and certain problems related to finishing equipment.

As for mining operations, it should be stressed that Sidbec's difficulties in this sector during 1980 are not related to the performance of Sidbec-Normines Inc.'s mine or pelletizing and upgrading plant. On the contrary, the Company easily succeeded last spring in meeting the numerous and demanding performance tests imposed by contracts with bondholders. The difficulties rather stem, on the one hand, from the nature and scope of commitments contracted by Sidbec as co-shareholder of Sidbec-Normines Inc., and, on the other hand, by the reduction of purchases by partners and by the lower rate of production resulting from the steel and iron ore market conditions.

Long-term outlook

Sidbec is a viable company. Management intends showing this by confidently and steadfastly restructuring and consolidating the Company. This program was initiated at the start of the 1980 fiscal year as the first phase of Sidbec's recovery plan. The Company intends emphasizing:

— the basic profitability and performance objective,

— sound management of human resources, harmonization of labour relations and improvement of the work environment,

— resolute pursuit of its operational efficiency program based on customer service, productivity, quality control, innovation,

— reorganization of structures, systems, cost control, etc.

This program, which is already producing tangible results, will only be able to guarantee relative profitability. It will not, in itself, prevent gradual deterioration. The future of the Sidbec group (as well as its structure, size and performance) is directly linked to the reaction of the Government-shareholder to the second phase of the recovery plan which was submitted.

The immediate outlook

Sidbec's short-term outlook is optimistic at the manufacturing level and pessimistic at the mining level.

Manufacturing took a promising upswing at the end of 1980 and gave tangible results during the first six-months of 1981 — an indication of imminent profitability.

However, there is no indication of significant improvement for the pellet market over the short-term. Furthermore, this market will remain weak and saturated for still more time, and Sidbec's losses will continue to be substantial if commitments remain as they are now.

Several factors are still disrupting the economic climate making the immediate future uncertain. Sidbec's management, along with the business community, deplores current economic and political problems which are rapidly undermining economic progress and development. We trust they will be settled shortly.

Miscellaneous

During the fiscal year, the Company pursued its investment program approved in December, 1979, and will accelerate it in 1981 with the completion of the Longueuil plant, the main focal point.

As part of its restructuring plan, in 1980 the Company created the position of President and Chief Operating Officer of Sidbec-Dosco, reporting directly to the Chief Executive Officer. Mr. Gilles G. Charette, Ph.D., was hired as first incumbent.

Sidbec also recruited a new Vice-President, Marketing and Sales, Mr. J.-Pierre Picard, and appointed Mr. John LeBoutillier, the Company's Secretary and Director of Legal and Corporate Affairs, to the position of Vice-President. As well, the Company rearranged the duties of its executive management and is pursuing its hiring program of senior managers.

At the last Annual General Meeting and since then, four members resigned from the Board of Directors: Messrs. Jacques Clermont, Jacques Giasson, Eric Kierans and Germain Perreault. The Board and Management regret their departure and would like to express their gratitude for the numerous and invaluable services they provided. A special mention is addressed to Mr. Giasson who served as Chairman of the Board.

On the other hand, the Board of Directors was delighted to welcome four new members: Messrs. Guy Bernier, Claude Descôteaux, Raymond Pinard and André Thibaudeau.

To all employees of the group, I would like to express my most sincere congratulations and thanks. They have made a great contribution and have shown loyalty and determination in spite of difficult economic circumstances. Our employees are our greatest asset. They have indeed demonstrated this, for which I am extremely grateful.

Robert De Coster
Chairman of the Board and
Chief Executive Officer

Montréal, Québec
May 25, 1981

Review of the year

Financial results
Overall results

The consolidated results of 1980 show a net loss of $56 286 000 of which $18 977 000 is due to manufacturing operations, and $37 309 000 to mining operations.

Manufacturing operations include the supply of raw materials, steelmaking and fabricating operations, and the sale of finished and semi-finished products.

Mining operations, on the other hand, cover all aspects of Sidbec's involvement in Sidbec-Normines Inc., including not only Sidbec's share of Sidbec-Normines' operating results, but also the sale of excess iron oxide pellets, the expenses due to under-utilization of the secondary concentrator, as well as the interest costs related to Sidbec's investment and other costs.

Manufacturing operations

In 1980, sales revenues exceeded those of 1979 by 17.5%, and totalled $459 230 000.

Primary steel production climbed to 1 280 000 tons, or 13% more than in 1979, whereas shipments in tons increased to 1 459 860 tons, an increase of 15%.

The loss of $18 977 000 was due mainly to:

- sales on the offshore markets of significant quantities of steel products at reduced prices;
- the loss incurred on the sale of reduced pellets;
- the production slowdown of certain finishing equipment and the sale of semi-finished products at prices lower than finished products;
- high production costs, namely for energy, manpower and supplies, and
- the increase in interest rates which is intensified by an inadequate financial structure.

	1980 $(000)	1979 $(000)	1978 $(000)	1977 $(000)
Sales	**459 230**	390 632	282 696	179 787
Profit (loss) before interest	**1 881**	23 553	(8 673)	(19 089)
Interest	**20 858**	24 268	15 775	9 172
Net profit (loss)	**(18 977)**	(715)	(24 448)	(28 261)
Primary steel production (thousands of tons)	**1 280**	1 133	1 015	600
Shipments (thousands of tons)	**1 459**	1 273	947	569

Mining operations

Sidbec's mining operations showed a loss of $37 309 000 for 1980.

Five factors contributed to this loss:

	$(000)
Loss on sales of excess iron oxide pellets	11 321
Absorption of 50.1% of Sidbec-Normines Inc.'s losses	6 739
Interest on investments and advances to Sidbec-Normines Inc.	9 165
Under-utilization of the secondary concentrator	3 156
Other costs	6 926
	37 309

The most important loss was due to the resale of iron oxide pellets bought by Sidbec from Sidbec-Normines Inc. which were in excess of Sidbec's needs.

The agreement with the other partners of the group, La Compagnie minière Québec Cartier and British Steel Corporation (International) Limited, requires each participant to purchase a percentage of the production of Sidbec-Normines Inc. in proportion to its share at a price based on the Great Lakes price. As Sidbec had an allocation which exceeded its requirements by 950 000 tons, the Company had to sell this excess on the international markets where demand was very limited. Because of competition, Sidbec was forced to grant discounts which lead to a loss of $11 321 000.

The second factor is the absorption of Sidbec's share (50.1%) of the loss incurred by Sidbec-Normines Inc. in 1980. Since the joint venture had a loss of $13 453 000, Sidbec's share in this loss was $6 739 000. Operations of Sidbec-Normines Inc. are the subject of specific comments in this report.

Thirdly, an amount of $9 165 000 attributable to mining operations represents the costs related to interest on investments and advances granted to Sidbec-Normines Inc. by Sidbec.

The fourth factor is fixed costs related to the secondary concentrator. By virtue of an agreement with its partners and lenders, Sidbec assumed costs of $3 156 000. These additional fixed costs resulted from the under-utilization of the secondary concentrator which is used exclusively to produce low silica pellets for Sidbec.

Other costs represent various expenses absorbed by Sidbec related to its involvement in Sidbec-Normines Inc.

Capital projects

Several major capital projects were completed in 1980. The annual production capacity of Module I of the reduction plant at Contrecoeur increased from 400 000 tons to 550 000 tons with energy savings of around 10% per annum. The capacity of both modules thus climbed to 1 350 000 tons from 1 000 000 tons per year.

In addition, a handling and storage system of direct reduced iron was installed to make maritime shipment of this product to international markets safer.

The work started on finishing facilities at the Longueuil mill continued during 1980 and will be completed in 1981, which will allow Sidbec to break into the special bar quality market.

In addition, significant investment at the pipe mill and the wire mill of Montréal Works will help Sidbec keep a large share of this market.

New materials

During the year, supplies of iron ore totalled 1 653 420 tons of which 1 457 355 tons originated from Sidbec-Normines Inc. in the form of iron oxide pellets. Manufacturing operations required purchase of some 530 395 tons of scrap of which 237 239 were processed at the Longueuil and Contrecoeur facilities.

General supplies

The cost of Sidbec's other supplies and spare parts amounted to $105 000 000 in 1980.

Steelmaking and operation of our electric arc furnaces required expenses of $38 400 000 to purchase electrodes, quick lime, alloys and refractory products.

Energy consumption was slightly lower than in 1979. The rise in costs is due to yearly increases. Expenditures were $55 050 000 for natural gas and electricity.

Human resources

From January 1 to December 31, 1980, the number of employees at Sidbec and its subsidiaries, including the management personnel of Sidbec-Normines Inc. and the employees at the Port-Cartier pelletizing plant, decreased by 214 to 4 521 employees, a 4.5% reduction.

If all the people involved in the various upstream and downstream phases of iron oxide pellet production at Fire Lake and Lake Jeannine as well as those at Port-Cartier are taken into account, the total number of jobs provided by Sidbec was 5 500 as of December 31, 1980.

Sidbec-Normines Inc.

During 1980, Sidbec-Normines Inc. made considerable progress.

At the start of the year, this joint-venture subsidiary successfully completed the numerous and demanding performance tests stemming from the Trust Deed of Hypothec, Mortgage and Pledge.

At the same time, the Company showed it could generate good profits by producing at more than 85% of its rated capacity of 6 million metric tons.

The tests also showed that the plant could produce up to at least 105% of its rated capacity without modifying its current equipment.

Conversely, economic factors hindered its performance. In fact, the weakness of the steel and iron ore markets restricted purchases of pellets by the three partners from Sidbec-Normines Inc. to 4.25 million metric tons (1). Consequently, Sidbec-Normines Inc. was forced to limit its production at both the mine and the pelletizing plant.

The weak level of revenues and the high production costs led to a loss of $13 453 000 which the partners absorbed in proportion to their participation, 50.1% for Sidbec, 41.67% for British Steel Corporation (International) Limited and 8.23% for La Compagnie minière Québec Cartier.

Revenues reached $209.4 million and expenditures, $221.2 million.

The mine produced 11 695 000 metric tons of crushed ore and the pelletizing plant yielded 5 192 000 tons of pellets. The secondary concentrator was used at 60% of its capacity.

During the year, research personnel of the group conducted in-plant innovative tests which appear promising.

(1) 70% of rated capacity

Report of Sidbec's Board of Directors to the Shareholder

In the discharge of their duties, the Board of Directors of the companies in the Sidbec Group delegated the preparation of the financial statements and, if necessary, of consolidated statements, to their respective officers.

After examination by audit firms, the statements were submitted to the boards concerned, who approved them, in most cases, upon the recommendation of audit committees duly formed and commissioned by them.

In the opinion of the undersigned, the financial statements have been drawn up conscientiously, using generally accepted accounting principles, particularly those explained in the accompanying footnotes which were applied consistently and prudently throughout their preparation; the statements reflect the latest information available at the time of the last audit.

Jean-Pierre Howison,
Senior Vice-President, Planning

Robert De Coster, President

Consolidated financial statements

December 31, 1980

Auditors' report

To the Shareholders of Sidbec:

We have examined the consolidated balance sheet of Sidbec as at December 31, 1980 and the consolidated statements of income and deficit and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. 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, and to the best of the information and explanations given to us and as shown by the books of the Company, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1980 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.

Raymond, Chabot, Martin, Paré & Associés

Chartered Accountants

Montréal
February 20, 1981

Consolidated balance sheet

December 31, 1980

Assets	**1980 $(000)**	1979 $(000)
Current Assets		
Trade accounts receivable	**86 455**	76 466
Government grants	**445**	2 021
Inventories (Note 4)	**192 182**	157 523
Prepaid expenses	**1 816**	781
Subscriptions receivable	**12 705**	42 840
	293 603	279 631
Subscriptions Receivable (Note 5)	**29 917**	54 689
Property, Plant and Equipment (Note 6)		
Cost	**792 122**	764 943
Accumulated depreciation	**173 087**	139 423
	619 035	625 520
Other Assets		
Discount and issue expenses, at amortized cost	**2 620**	2 792
Development costs, at amortized cost	**8 097**	10 805
Other, at cost	**656**	609
	11 373	14 206
	953 928	974 046

On behalf of the Board,

Director

Director

Liabilities	1980 $(000)	1979 $(000)
Current Liabilities		
Bank overdraft and bank loans (Note 7)	**138 030**	90 239
Accounts payable and accrued charges	**56 272**	63 599
Installments on long-term debt	**42 241**	35 406
	236 543	189 244
Long-Term Debt (Note 8)	**337 061**	348 887
Deferred Mining Taxes	**852**	-
Provision for Pension Plans (Note 9)	**1 196**	1 353

Shareholders' Equity

Capital Stock (Note 10)		
Authorized:		
56 500 000 deferred dividend shares with a par value of $10 each		
56 500 000 common shares with a par value of $10 each		
Issued and fully paid:		
52 171 235 deferred dividend shares (46 680 535 in 1979)	**521 712**	466 805
Issued and subscribed:		
4 262 200 deferred dividend shares (9 752 900 in 1979)	**42 622**	97 529
	564 334	564 334
Contributed Surplus	**51 797**	51 797
Deficit	**(237 855)**	(181 569)
	378 276	434 562
	953 928	974 046

The accompanying notes form an integral part of the financial statements.

Consolidated income and deficit

Year ended December 31, 1980

Sales
Expenses
Cost of goods sold excluding related depreciation
Selling and administrative expenses
Interest and amortization of discount on long-term debt (Note 11)
Other interest
Depreciation of property, plant and equipment
Amortization of deferred expenses and development costs
Deferred mining taxes
NET LOSS
Deficit, beginning of year
Deficit, end of year

The accompanying notes form an integral part of the financial statements.

1980 Manufacturing Operations	1980 Mining Operations (Note 12)	1980 Total $(000)	1979 Manufacturing Operations	1979 Mining Operations (Note 12)	1979 Total $(000)
459 230	**82 503**	**541 733**	390 632	89 921	480 553
418 839	**66 933**	**485 772**	332 641	84 285	416 926
16 844	**2 742**	**19 586**	14 381	2 423	16 804
13 623	**23 500**	**37 123**	13 952	23 460	37 412
7 235	**11 307**	**18 542**	10 316	8 908	19 224
21 666	**12 536**	**34 202**	20 057	12 209	32 266
	1 942	**1 942**		3 624	3 624
	852	**852**			
478 207	**119 812**	**598 019**	391 347	134 909	526 256
18 977	**37 309**	**56 286**	715	44 988	45 703
		181 569			135 866
		237 855			181 569

Consolidated changes in financial position

Year ended December 31, 1980

	1980 $(000)	1979 $(000)
Source of Funds		
Subscriptions receivable	**24 772**	-
Proceeds from sale of property, plant and equipment	**101**	213
Long-term loans	**31 570**	-
Issue of deferred dividend shares		150 000
	56 443	150 213
Application of Funds		
Net loss	**56 286**	45 703
Items which do not use or provide funds:		
Depreciation of property, plant and equipment	**(34 202)**	(32 266)
Amortization of deferred expenses and development costs	**(1 942)**	(3 624)
Deferred mining taxes	**(852)**	-
Profit (loss) on sale of property, plant and equipment and write-off of deferred expenses	**33**	(2 152)
Other	**115**	248
Funds used by operations	**19 438**	7 909
Subscriptions receivable	-	11 660
Mortgages receivable	-	52
Additions to property, plant and equipment	**26 896**	19 558
Other assets	**47**	2 906
Repayments to the shareholder	-	1 816
Installments on long-term debt	**43 232**	36 792
Net decrease in provision for pension plans	**157**	116
	89 770	80 809
Increase (decrease) in working capital	**(33 327)**	69 404
Working capital, beginning of year	**90 387**	20 983
Working capital, end of year	**57 060**	90 387

The accompanying notes form an integral part of the financial statements.

Notes to the consolidated financial statements

December 31, 1980

1 Governing Statute and Nature of Operations

The Company, incorporated under the Québec Companies Act and regulated in certain respects by a special law of the Province of Québec, owns companies which operate mines and steel factories.

2 Statement of Accounting Policies

Consolidation:

The consolidated financial statements include the accounts of the Company and of all its subsidiaries, as well as the share of the Company in the assets, liabilities, revenues and expenses of the corporate joint venture, Sidbec-Normines Inc. (Note 3).

Inventories:

Inventories of finished goods, goods in process and raw materials are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method.

Supplies inventories are valued at the lower of cost and replacement cost. Cost is determined by the average cost method.

Property, Plant and Equipment:

Property, plant and equipment are recorded at historical cost and depreciated over their estimated useful life under the straight-line method at the following annual rates:

Mining concession and development costs	4%
Land development	4%
Buildings	2½% to 5%
Machinery and equipment	4% to 20%
Rolling stock	4% to 25%
Furniture and fixtures	10%
Others	5% to 8%

Discount and Issue Expenses:

Discount and issue expenses in connection with the long-term debt are amortized under the straight-line method according to the term of each debt.

Development Expenses:

Development expenses are amortized according to the production of pellets over a period not to exceed ten years.

Pension Plans:

Pension costs included in expenses provide for annual contributions to Company and government pension plans in respect of current services as well as for interest and for the amortization of the unfunded past services liability.

Contributed Surplus:

The contributed surplus arises from grants and financial assistance received from the federal and provincial governments.

Foreign Currency Translation:

Current assets and liabilities which will be realized in foreign currencies were translated into Canadian dollars according to the rates in effect at the end of the year. The long-term debt in United States dollars was translated at the rate prevailing when issued.

Sales were translated at the exchange rates in effect at the date of the transaction or at the average exchange rate of the forward exchange contracts.

Expenses in foreign currencies were translated at the rates prevailing when transactions occurred.

Cost of Goods Sold:
Mining operations costs include the costs of operations arising from contractual obligations of the Company with Sidbec-Normines Inc., namely:

a) the proportionate share in the cost of goods sold;

b) the excess of the pellet processing costs over the costs which would have been incurred if the Company had obtained its supplies from the same sources as in prior years;

c) loss on the sale of pellets.

Furthermore, the cost of manufacturing operations includes the costs of raw materials provided by Sidbec-Normines Inc. at the North American market price plus the production costs of the upgrading plant.

3 Corporate Joint Venture — Sidbec-Normines Inc.
During 1976, Sidbec and other participating companies concluded an agreement to constitute a company to operate the Fire Lake mine and to produce concentrates and iron oxide pellets.

The relationship between participants is governed by means of an agreement which prevents control by any one of the parties over all matters essential to the realization of the project. The share in this company was recorded according to the proportionate consolidation method.

The assets, liabilities and operating results of Sidbec-Normines Inc. for the year are as follows:

Balance sheet

		Pro Rata Share of the Company (50,1%)	
	Total 1980 $(000)	**1980 $(000)**	1979 $(000)
Assets			
Current assets (including $104 464 000 of inventory)	**112 277**	**56 251**	39 604
Property, plant and equipment	**525 594**	**263 323**	270 123
Other	**16 989**	**8 512**	10 845
	654 860	**328 086**	320 572
Liabilities and Shareholders' Equity			
Current liabilities	**89 103**	**44 641**	31 239
Long-term debt	**409 527**	**205 173**	205 173
Deferred mining taxes	**1 700**	**852**	-
Capital stock	**220 515**	**110 478**	110 478
Deficit	**(65 985)**	**(33 058)**	(26 318)
	654 860	**328 086**	320 572

Operating results

	Total 1980 $(000)	1980 $(000)	1979 $(000)
Sales	**209 398**	**104 908**	88 538
Expenses			
Cost of goods sold excluding related depreciation and amortization	**139 754**	**70 016**	69 645
Administrative and selling expenses	**4 598**	**2 304**	2 224
Interest on long-term debt	**46 905**	**23 500**	23 460
Other interest	**3 636**	**1 821**	1 317
Depreciation of property, plant and equipment and amortization of deferred costs	**26 258**	**13 154**	12 731
	221 151	**110 795**	109 377
LOSS before deferred mining taxes	**11 753**	**5 887**	20 839
Deferred Mining Taxes	**1 700**	**852**	
NET LOSS	**13 453**	**6 739**	20 839

The unamortized excess of the cost of the Company's investment over its pro rata share in the capital stock of Sidbec-Normines Inc. consists of the following items:	1980 $(000)	1979 $(000)
Interest incurred for the financing of the investment during the development period of Sidbec-Normines Inc. recorded in property, plant and equipment	**25 858**	25 858
Loss on sale of pellets prior to the commencement of operations of Sidbec-Normines Inc. recorded as development costs	**3 450**	3 450
	29 308	29 308
Less: Accumulated amortization	**2 840**	1 520
	26 468	27 788

4 Inventories

Inventories consist of the following:

Raw materials and supplies	**122 360**	90 790
Goods in process and finished goods	**69 822**	66 733
	192 182	157 523

5 Subscriptions Receivable

Subscriptions receivable, amounting to $29 917 000 and not presented as part of the working capital, reflect an amount that the government has consented to pay to the Company to finance specific investment projects. These subscriptions will be received in progressive installments according to disbursements made by the Company for the realization of such projects which should probably reach the above total in 1981.

6 Property, Plant and Equipment

	1980 $(000)		1979 $(000)	
	Cost	**Net Value**	Cost	Net Value
Mining concession and development costs	**2 420**	**2 296**	2 420	2 380
Land	**7 533**	**7 533**	6 706	6 706
Land development	**6 670**	**4 965**	6 303	4 874
Buildings	**166 010**	**130 530**	163 935	134 966
Machinery and equipment	**590 694**	**463 715**	567 407	466 368
Rolling stock	**3 274**	**1 740**	2 718	1 446
Furniture and fixtures	**1 901**	**524**	1 767	495
Other	**8 997**	**3 109**	9 020	3 618
Construction in progress	**4 623**	**4 623**	4 667	4 667
	792 122	**619 035**	764 943	625 520

7 Bank Overdraft and Bank Loans

The bank overdraft and the bank loans are secured by the assignment of accounts receivable and inventories.

8 Long-Term Debt

	1980 $(000)	1979 $(000)
Parent company: Bank loans, repayable in installments of $6 580 000 on January 20, 1981, $3 285 000 on February 20, 1981, $3 285 000 on March 20, 1981 and $25 000 000 On June 15, 1981, secured by the assignment of the shares of the subsidiary Sidbec-Dosco Limitée, by the assignment of the subscriptions and grants of $13 150 000 receivable from the Government of Québec and by a specific charge of first rank on the Longueuil plant which has a net book value of $36 939 869.	**38 150**	38 480

8 Long-Term Debt (continued)	**1980**	1979
Sinking fund debentures, principal and interest guaranteed by the Government of Québec:	**$(000)**	$(000)
9¼%, series "A", maturing December 15, 1990	**9 250**	9 400
8¾%, series "B", maturing June 15, 1991	**9 400**	9 550
9%, series "C", maturing September 1, 1991	**9 400**	9 550
10¾%, series "D", maturing October 1, 1989	**28 000**	30 000
10¼%, series "E", maturing May 15, 1995	**30 000**	30 000
10¾%, series "F", maturing February 16, 1996	**30 000**	30 000
	154 200	156 980
Subsidiary — Sidbec-Dosco Limitée:		
Sinking fund debentures:		
5¾%, series "A", maturing June 1, 1984	**5 391**	5 863
6%, series "B", maturing July 15, 1985	**6 238**	6 749
5¾%, series "C", maturing July 15, 1985 ($3 600 000 US as at December 31, 1980)	**3 867**	4 300
Other	**61**	122
	15 557	17 034
Subsidiary — Sidbec-Feruni Inc.:		
Obligations under capital leases bearing interest at rates varying between 9,2% and 13,2%, repayable in monthly installments and maturing at various dates through 1990	**2 944**	3 320
Bank Loan, secured by a mortgage bond indenture bearing interest at 1½% above prime rate and repayable in monthly installments of $29 762, maturing in 1984.	**1 428**	1 786
	4 372	5 106
Corporate Joint Venture — Sidbec-Normines Inc.:		
First mortgage bonds:		
Series "A", 10⅛%, maturing December 31, 1999 with a par value of $165 482 000 US as at December 31, 1980 ($330 303 000 X 50,1%)	**171 077**	171 077
Series "B", 11⅛%, maturing December 31, 1999 with a par value of $68 055 000, as at December 31, 1980	**34 096**	34 096
	205 173	205 173
	379 302	384 293
Installments due within one year less debentures redeemed in advance	**42 241**	35 406
	337 061	348 887

8 Long-Term Debt (continued)

The bonds of the corporate joint venture will be redeemed as of December 31, 1982 in annual installments of $18 352 000 US and of $3 781 000. The long-term debt of Sidbec-Normines Inc. is secured by a fixed and specific first rank charge and a floating charge on substantially all of its present and future assets with the exception of trade accounts receivable and inventories.

The long-term debt of Sidbec-Dosco Limitée is secured by a floating charge on all assets except property, plant and equipment and that of Sidbec-Feruni Inc. is secured by a floating charge on all of its assets. These assets total $219 000 000 as at December 31, 1980 for the two companies.

If the long-term debt, payable in United States dollars, had been translated at the exchange rate prevailing at December 31, 1980, an additional amount of approximately $27 500 000 would have been included in the Company's long-term debt.

The installments on the long-term debt, based on the maturity dates and conditions of the sinking fund debentures, are as follows for the next five years:

	Sidbec and its wholly-owned subsidiaries $(000)	Sidbec-Normines Inc. (50,1%) $(000)	Total $(000)
1981	42 241	-	42 241
1982	7 280	11 400	18 680
1983	5 196	11 400	16 596
1984	7 165	11 400	18 565
1985	7 746	11 400	19 146

9 Provision for Pension Plans

The Company and its subsidiaries provide for various pension plans for their employees. Consulting actuaries' studies indicate that the liability for employees' benefits for past services exceeds the provisions for pension plans as shown in the balance sheet by approximately $10 534 000 as at December 31, 1980. The excess will be amortized over a period of from ten to fifteen years.

10 Capital Stock

No dividends can be paid on deferred dividend shares. However, each deferred dividend share can be converted into one common share when the average of the Company's net earnings for two consecutive years will be equal to at least $1 per outstanding share at the end of the first of these two years.

11 Interest on Long-Term Debt

Interest expense on long-term loans was reduced during the year by an amount of $2 021 000 ($6 290 000 in 1979) arising from payments made by the Government of Québec to compensate for the interest expense for loans contracted before the receipt of the share subscriptions.

12 Loss on Mining Operations

The loss on mining operations can be expressed as follows:

	1980 $(000)	1979 $(000)
Loss on sale of pellets	11 321	11 020
Provision to account for the inventory of Sidbec-Normines Inc. at net realizable value	2 000	-
Cost of the pellet upgrading plant not absorbed by manufacturing operations	3 156	2 588
Excess processing cost of the Sidbec-Normines Inc. pellets (Note 2)	3 608	-
Interest	9 165	7 439
Depreciation of property, plant and equipment and amortization of deferred expenses and development costs	1 320	3 101
Pro rata share of the operating results of the corporate joint venture	6 739	20 840
	37 309	44 988

13 Income Taxes

Except for Sidbec-Normines Inc., the Company is wholly owned by the Government of Québec and consequently is exempt from income taxes.

The corporate joint venture accounts for its mining taxes according to the tax deferral method and has not recorded its potential tax benefits arising from its operating losses incurred up to December 31, 1980. An amount of approximately $67 000 000 will be used to reduce the future taxable income of this joint venture.

14 Commitments

The subsidiaries of the Company have commitments under forward exchange contracts to sell American dollars for a sum equivalent to the receipts projected for 1981, namely, at an average rate of $1.1615 in Canadian currency for each American dollar. The total value of these contracts is $26 543 000 American dollars as at December 31, 1980.

The commitments of the Company and its subsidiaries regarding construction contracts and machinery and equipment acquisitions amount to approximately $13 800 000.

As compensation for the acquisition of the mining concession and by virtue of various operating leases, Sidbec-Normines Inc. is committed to make annual payments to a third party, whatever the level of its activities, throughout the residual life of the mine, which is estimated to be 26 years. The minimum fees to be paid to this third party are evaluated at approximately $9 380 000 for 1981.

The pellets purchase agreement stipulates that if the Company does not buy the equivalent of its pro rata share (50,1 %) of the production of Sidbec-Normines Inc., it may have to compensate for cash deficits of the latter by making payments or short-term loans.

The Company is committed to pay all the production costs of Sidbec-Normines Inc.'s pellet upgrading plant.

15 Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

The Board of Directors of Sidbec and Sidbec-Dosco Ltée

Guy Bernier
President,
Fédération des caisses populaires
Desjardins de Montréal et de l'Ouest-du-Québec
Robert Boyd □
President and Chief Executive Officer,
Hydro-Québec
Marcel Cazavan □ †
Adviser to the President and General Manager,
Caisse de dépôt et placement du Québec
Claude Descôteaux
Deputy Minister,
Ministère de l'Industrie, du Commerce
et du Tourisme,
Gouvernement du Québec
Robert De Coster * □ • †
Chairman of the Board
and Chief Executive Officer,
Sidbec
and Sidbec-Dosco Ltée
A.C. de Léry *
President and General Manager,
ASEA Limitée
Robert Després □ †
Chairman of the Board,
Atomic Energy of Canada Limited
J. Bernard Lavigueur * •
President and Principal,
École Polytechnique de Montréal
Laurent Picard •
Dean,
Faculty of Management,
McGill University
Raymond R. Pinard •
Executive Vice-President,
Operations
Domtar Inc.
John Hugh Stevens *
Chairman of the Board
and Chief Executive Officer,
Les Câbles Canada Ltée
André Thibaudeau •
Professor,
École des Hautes Études Commerciales
de Montréal

* Member of the Executive and Planning Committee
□ Member of the Audit Committee
• Member of the Human Resources and Compensation Committee
† Member of the Retirement Plans Committee

The Officers of Sidbec

Robert De Coster
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and President
J. Bernard Lavigueur
Vice-Chairman of the Board
Jean-Pierre Howison
Senior Vice-President,
Planning, and Special Assistant to
the Chief Executive Officer
Terence E. Dancy
Vice-President,
Technology
Cyrille Dufresne
Vice-President assigned
to Sidbec-Normines Inc.
Michel Guay
Vice-President,
Information Systems
and Administration
Paul E. Landry
Vice-President,
Treasurer and Controller
John LeBoutillier
Vice-President,
Legal and Corporate Affairs,
and Secretary
J. Edmond Pontbriand
Vice-President,
International Affairs,
and President of
Sidbec International Inc.

The Officers of Sidbec-Dosco Ltée

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and Chief Executive Officer
J. Bernard Lavigueur
Vice-Chairman of the Board
Gilles G. Charette
President
and Chief Operating Officer
Jean-Pierre Howison
Senior Vice-President,
Planning, and
Special Assistant to
the Chief Executive Officer
Terence E. Dancy
Vice-President,
Technology
Michel Guay
Vice-President,
Information Systems
and Administration
Georges H. Laferrière
Vice-President,
Supply, Transportation
and Engineering
Paul E. Landry
Vice-President,
Treasurer and Controller
John LeBoutillier
Vice-President,
Legal and Corporate Affairs,
and Secretary
J.-Pierre Picard
Vice-President,
Marketing and Sales
J. Edmond Pontbriand
Vice-President,
Raw Materials, and
President of Sidbec-Feruni Inc.

The Officers of Sidbec-Normines Inc.

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Norman B. Preece
Vice-Chairman of the Board,
President
of Stanton Pipes Limited
Cyrille Dufresne
President
André Lachapelle
Vice-President,
Chief Operating Officer
Allan A. Donaldson
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Pierre Dozois
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