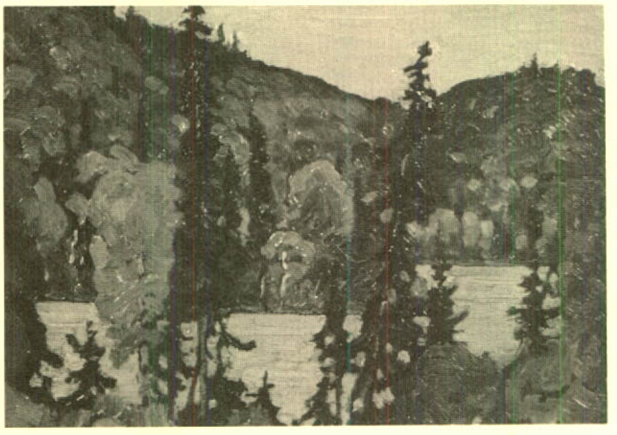
Hollinger Argus Limited
Hollinger Argus Limitée

Annual Report 1980



Montreal River, Algoma, by
J. E. H. MacDonald, 1873-1932. Oil on panel
(8½" x 10½"). painted 1918. Typical
out-of-doors painting by this famous member
of the Group of Seven.

Hollinger Argus Limited
Incorporated under the laws of Ontario

Hollinger Argus Limitée
Constituée en vertu des lois de l'Ontario

Annual Report 1980

Contents

Annual Meeting

Thursday, May 7, 1981, 2:30 p.m. (Eastern Daylight Time), Territories Room, Royal York Hotel, 100 Front Street West, Toronto.

Highlights	1980	1979
Net income (before extraordinary gain)	**$30,411,000**	$21,823,000
Net income (after extraordinary gain)	**$30,411,000**	$107,452,000
Earnings/share (before extraordinary gain)	**$5.19**	$4.07
Earnings/share (after extraordinary gain)	**$5.19**	$20.03
Regular dividends paid per share	**$2.20**	$2.20
Cash and Short-Term deposits	**$30,351,000**	$36,595,000
Shares held in Canada	**94.35%**	92.14%

HOWARD ROSS LIBRARY OF MANAGEMENT
APR 14 1981
McGILL UNIVERSITY

Directors

Douglas G. Bassett
Toronto

Edward G. Battle
Toronto

***Conrad M. Black**
Toronto

***G. Montegu Black**
Toronto

Thomas G. Bolton
Toronto

Edmund C. Bovey
Toronto

***Dixon S. Chant**
Toronto

****Glen W. Davis**
Toronto

*****David M. Dunlap**
Toronto

***Fredrik S. Eaton**
Toronto

****John R. Finlay**
Toronto

***P. C. Finlay**
Toronto

***H. N. R. Jackman**
Toronto

H. T. McCurdy
Toronto

D. A. McIntosh
Toronto

***F. David Radler**
Vancouver

Victor A. Rice
Toronto

Ronald T. Riley
Montreal

***C. B. Ross**
Toronto

Trumbull Warren
Hamilton

****Peter G. White**
London

Officers

P. C. Finlay
Chairman, Chief Executive Officer and Treasurer

Conrad M. Black
Vice-Chairman of the Board

G. Montegu Black
President

C. B. Ross
Executive Vice-President and General Manager

Dixon S. Chant
Executive Vice-President

C. G. Cowan
Secretary

Alexandra Campbell
Assistant Treasurer

Allen A. McMartin
Honorary Director

Head office
Suite 601, P.O. Box 221
Commerce Court East
Toronto, Ontario M5L 1E8

Transfer Agents
Crown Trust Company
Toronto and Montreal

Morgan Guaranty Trust
Company of New York
New York

Registrars
Canada Permanent Trust
Company, Toronto

Montreal Trust Company
Montreal

The Royal Bank
and Trust Company
New York

Bankers
Bank of Montreal
Toronto

General Counsel and Solicitors
Holden, Murdoch & Finlay
Toronto

Auditors
Deloitte Haskins & Sells
Toronto

*Member of the Executive Committee
**Member of the Audit Committee

Conrad M. Black,

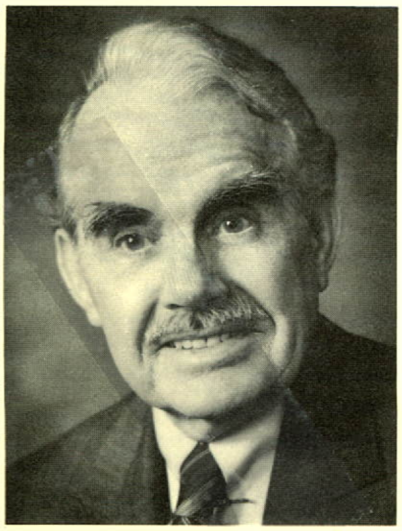
Vice-Chairman and
Chairman of the
Executive Committee

G. Montegu Black,

President and
Member of the
Executive Committee

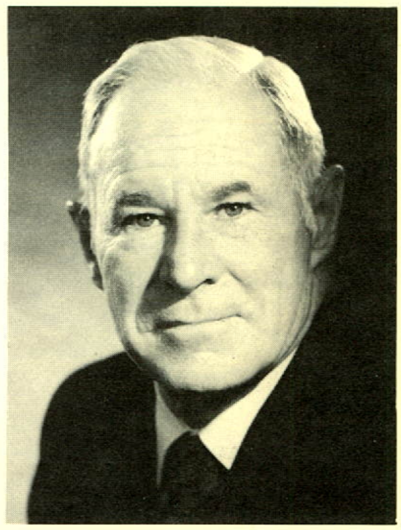
P. C. Finlay

Chairman and
Chief Executive Officer
and Member of the
Executive Committee



Dixon S. Chant,

Executive Vice-President
and Member of the
Executive Committee



C. B. Ross

Executive Vice-President
and General Manager
and Member of the
Executive Committee

Directors' Report to the Shareholders:

Submitted herewith is the Annual Report of the Directors of Hollinger Argus Limited for the year ended December 31, 1980, being the company's 70th year of operation. Hollinger Argus financial statements are consolidated with those of its subsidiaries, Labrador Mining and Exploration Company Limited, Hollinger North Shore Exploration Inc. and Argus Corporation Limited. The consolidated net income of Hollinger Argus Limited in 1980 was $30,411,000.00 equal to $5.19 per share compared with a net income in 1979 of $21,823,000.00 (excluding extraordinary gain of $85,629,000.00) equal to $4.07 a share.

Revenue from royalties on iron ore in 1980 amounted to $42,493,000, as compared to $44,123,000 in 1979. Interest received in 1980 amounted to $25,399,000 as compared to $11,626,000 in 1979. Dividends in 1980 amounted to $16,594,000, as compared to $7,925,000 in 1979. Other revenue in 1980 amounted to $2,439,000, as compared to $1,290,000 in 1979. Expense in 1980 amounted to $43,263,000 including $37,120,000 interest expense, net of amount capitalized, compared to $10,052,000 in 1979.

Income taxes of $507,000 current and $7,785,000 deferred in 1980 were $6,721,000 less than for 1979. Newfoundland royalty taxes were $7,500,000 in 1980 as compared to $7,900,000 in 1979.

Net earnings in 1980 included Labrador Mining's share of equity earnings in Norcen Energy Resources Limited amounting to $14,110,000. There was no comparable equity figure in Norcen Energy Resources Limited in 1979.

In 1979, Hollinger Argus acquired the shares of Argus Corporation Limited listed below. One of the assets of Argus Corporation Limited at that time was 3,000,000 shares of Massey-Ferguson Limited. These shares are no longer an

Investments

The significant investments of Hollinger Argus at December 31, 1980, were as follows:

Company	Shares	% Interest
Argus Corporation Limited	1,632,019 Common 4,911,402 Class C Preference	77.31
Hollinger-Hanna Limited	500	50
Hollinger North Shore	1,455,825	60
Iron Ore Company	732,219	7.146
Labrador Mining	2,677,677	66.94

The significant investments of Labrador Mining at December 31, 1980, were as follows:

Company	Shares	% Interest
Iron Ore Company	340,565	3.23
Norcen Energy Resources Limited	9,643,250	36.17
Brascan Limited indebtedness	$168,785,530.00	

The significant investments of Argus Corporation Limited at December 31, 1980, were as follows:

Company	Shares	% Interest
Dominion Stores Limited	3,370,300	38.55
Standard Broadcasting	2,885,975	50.92

Share Information

The common stock of Hollinger Argus Limited is traded on the American, Toronto and Montreal Stock Exchanges. The quarterly high and low sales prices and quarterly dividends paid for 1980 and 1979 are shown here.

	Sale price per share				Dividends per share	
	1980		1979		1980	1979
Quarter	High	Low	High	Low		
1	$47.66	$43.50	$44.75	$38.25	$ .55*	$ .55*
2	41.33	37.66	43	38.50	.55*	.55*
3	61.16	52.33	46.88	39.50	.55*	.55*
4	54.58	46.83	47.25	41.50	.55*	.55*

* dividends on Class B shares paid in Class B stock

asset of Argus Corporation Limited. The disposition thereof and the reasons for such disposition are set out hereunder in two extracts from the 1980 Argus Corporation Limited Annual Report.

"In October, 1980, your Corporation disposed of 3,000,000 common shares of Massey-Ferguson Limited representing the Corporation's entire holding of such shares by transferring ownership thereof, without consideration, to the Canadian pension plans of Massey-Ferguson Limited. As reflected in your Corporation's financial statements for the year ended December 31, 1980, an income tax recovery, following upon such transfer, of approximately $7,600,000 is anticipated in respect of income taxes that were paid as a result of the disposal of certain portfolio investments in the 1979 fiscal year.

In the years immediately prior to 1978, the financial condition of Massey-Ferguson deteriorated considerably. Your Corporation played a significant role from 1978 to 1980 in revitalizing Massey-Ferguson management, streamlining its operations, convincing its lenders of the desirability of a comprehensive financial plan of reorganization, and encouraging Federal and Provincial government participation in such a plan. The above-mentioned disposition was a difficult decision, but we believe it to have been in your Corporation's best interests as well as Massey-Ferguson's. We wish good fortune for Massey-Ferguson Limited and all who are associated with it as that company turns a new page in its long and colourful history."

Iron Ore Company of Canada

Iron Ore Company of Canada earnings in 1980 amounted to $81,000,000 and it is estimated that its earnings for 1981 will be approximately 10% less.

Although Iron Ore Company operated at about 85% of capacity in 1980, operating income was down approximately 10% and net profit declined approximately 15% from the 1979 profit. Operating efficiency and product quality improved in 1980.

Iron Ore Company of Canada paid dividends of $8.00 U.S. per share in the year 1980. Hollinger Argus received $5,857,752.00 U.S.; the Canadian equivalent being $6,893,622.00.

The three-year Union agreements expired at the end of February. Hopefully, new contracts can be negotiated without work stoppages.

We are including in this Report, on page 16, a "Special Report — Iron Ore Today" by R. F. Anderson, President and Chief Executive Officer of The Hanna Mining Company, and a director of Labrador Mining and Exploration Company Limited.

Oil and Gas Exploration

The joint venture, managed by CanDel Oil, in which Hollinger Argus and Labrador Mining have a 75% interest,

Shareholders of Record
as at December 31, 1971 and 1980

	Shareholders		Percentage		Shares		Percentage	
Residence	1971	1980	1971	1980	1971	1980	1971	1980
Canada	4,312	2,499	79.18	78.56	4,291,124	5,533,899	87.22	94.35
United States	1,006	585	18.47	18.39	226,836	93,006	4.61	1.59
United Kingdom	49	37	.90	1.16	32,362	15,194	.66	.26
Elsewhere	79	60	1.45	1.89	369,678	223,201	7.51	3.80
Total:	5,446	3,181	100.00	100.00	4,920,000	5,865,300	100.00	100.00

shared equally, continued during the year. Additional lands were acquired in Alberta and the joint venture held interests in 100,772 gross acres (68,346 net acres) at the end of 1980. Eight exploratory wells were drilled during the year, resulting in one gas well. Expenditures by our two companies amounted to $7.567 million during 1980, compared to $9.334 million during 1979. Because of the investment made during the year in Norcen Energy Resources, Hollinger Argus and Labrador Mining elected not to continue with the first option year of the joint venture agreement. Exploration will continue, however, during 1981 on lands already held by the joint venture.

Proposed Reorganization Plan

During the year, in press releases and quarterly reports, we advised you of the proposed plan to reorganize the affairs of Hollinger Argus Limited, Labrador Mining and Exploration Company Limited, The Ravelston Corporation Limited and Norcen Energy Resources Limited. This plan was not proceeded with following the Federal Budget of October 28, 1980, which, at that time, made it impossible to estimate the cash flow and earnings of Norcen.

Directors and Officers

At the General Meeting of Shareholders held May 8, 1980, the number of Directors of Hollinger Argus was increased from 19 to 21 and, at the same Meeting, Edward G. Battle, Thomas G. Bolton, Edmund C. Bovey, H. T. McCurdy, D. A. McIntosh, Victor A. Rice and Trumbull Warren were elected Directors. Maurice Archer, Lewis H. M. Ayre, A. L. Fairley, Jr., Allen A. McMartin and Duncan C. McMartin retired as Directors at that time. Allen A. McMartin has been appointed an Honorary Director of the corporation.

Dividends

Cash dividends were paid quarterly during the year 1980 at the rate of 55¢ per share totalling in all $11,977,000.

Also during the year, 19,550 shares valued at $906,000 were issued as stock dividends.

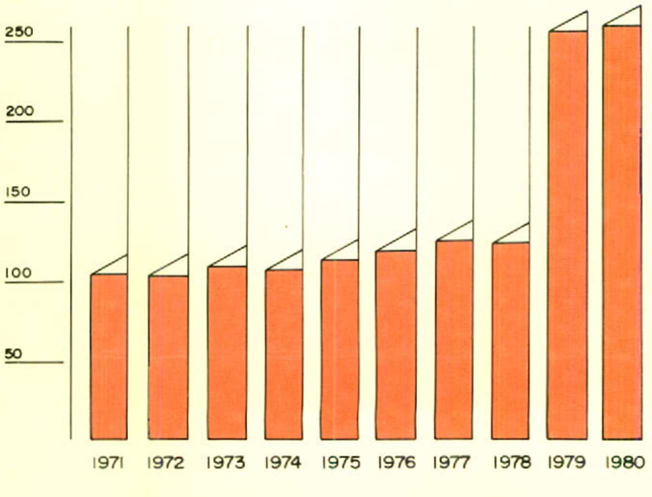
The Directors have adopted a Stock Dividend Plan which is available to all shareholders of the corporation, other than those resident in the United States of America or in the Territories or Possessions thereof. Particulars of the Stock Dividend Plan were mailed to shareholders on January 6, 1981, and further information may be obtained by writing to the corporation or its transfer agent.

General Comments

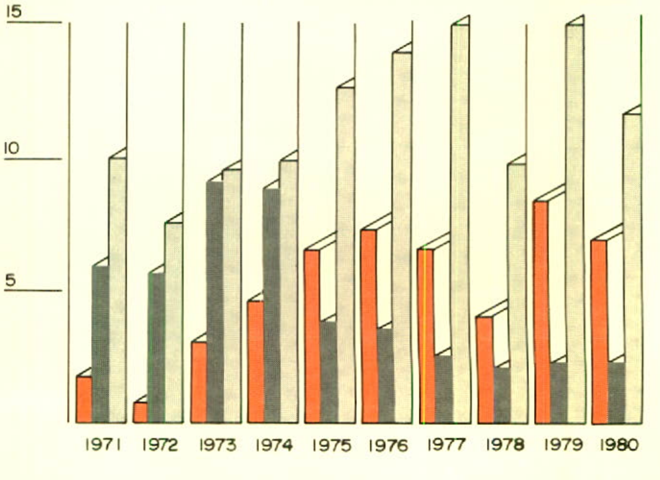
The conflict between Federal energy policies and Alberta energy policies are doing immeasurable harm to our economy. We believe that the desires, or more properly expressed, the demands of each are excessive and the sooner they compromise their differences, the better it will be for all of us. There has to be some "give" on each side.

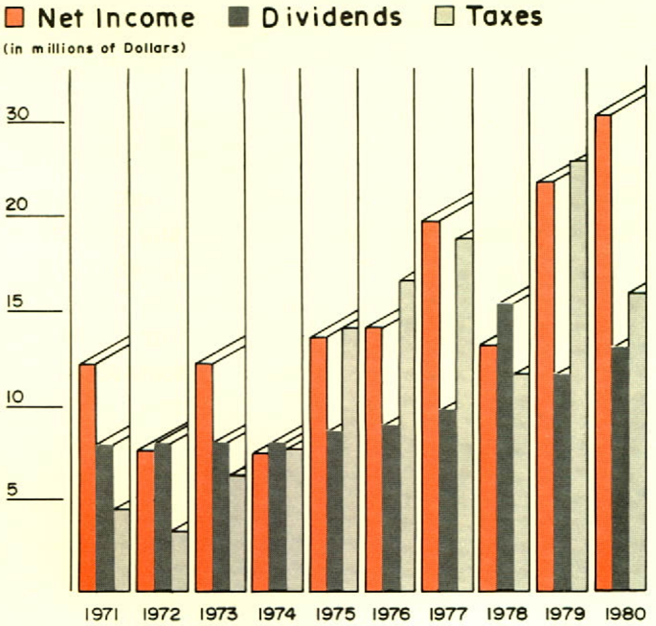
Canadianization may be harmful in the long run and, coupled with Nationalization, it will destroy the Canada we

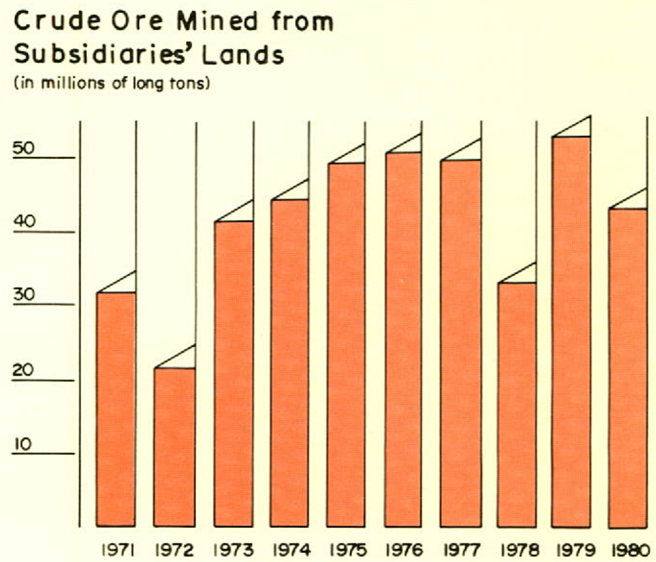
Shareholders' Equity
(in millions of dollars)



Product Sales from Subsidiaries' Lands
Concentrate · Direct Shipping Ore · Pellets
(in millions of long tons)







know which has become a great country under Private Ownership. Federal Crown Corporations are getting more numerous. Certain of the Provinces are also taking over ownership of whole segments of our resources. We would get along a lot better if Governments would only govern and/or regulate and leave the ownership and conduct of business to the private sector. We still need enormous amounts of money to develop our country. Buying out foreign ownership frequently is very harmful, it increases our taxes and doesn't add any assets that are not already in our country, and it also discourages new capital investment from foreign countries.

The debates on the additions to the Constitution and the one-province veto in the amending procedure are tearing our country apart. Patriation of the Constitution is desirable but we should not ask the United Kingdom to include therein far-reaching additions. Changes, if any, in our Constitution are for Canadians to make. The Federal Government wishes to enshrine in the Constitution many matters that should not be in the Constitution at all, but rather should be dealt with by federal and provincial legislation from time to time. It may not be possible to amend the Constitution under the proposed amending procedure and Canadians may be saddled with the proposed far-reaching additions that may not be acceptable in the years to come.

Appreciation

The Board of Directors wish to thank the management and staff for the excellent services they have given during the past year.

P. C. Finlay,
Chairman of the Board and
Chief Executive Officer

March 27, 1981

Executive Vice-President's Report

To the Shareholders:

Iron ore production was considerably lower in 1980 than in 1979 but royalty income was not reduced proportionately. Gold mining royalties were much higher, reflecting the increase in the price of gold. Mineral exploration expenditures increased during the year.

Iron Ore

Iron Ore Company of Canada mined 42.7 million long tons of crude ore from Labrador Mining Company's lands in the Labrador City and Schefferville districts, and 0.7 million long tons of crude ore from Hollinger North Shore's lands at Schefferville. The mines at Labrador City were closed for a period during the summer and the mines at Schefferville were operated for fewer months than usual because of reduced demand for iron ore by the steel industry, particularly in the U.S.A.

Processing crude ore to produce pellets and concentrate results in a reduction of volume and weight. Total sales by source and product during 1980 were:

Source and Product:	Millions of Long tons	
	1980	1979
Labrador Mining:		
Direct shipping ore	2.0	1.9
Concentrate	6.9	8.3
Pellets (Labrador City)	9.0	10.1
Pellets (Sept-Iles)	2.5	3.4
Sub-Total	20.4	23.7
Hollinger North Shore –		
Direct shipping ore	0.1	0.2
Pellets (Sept-Iles)	0.7	1.4
Sub-Total	0.8	1.6
Total Sales	21.2	25.3

Royalties received from iron ore sales amounted to $42.493 million in 1980 compared to $44.123 million in 1979. The effect of the reduction in sales volume was offset to a large extent by increases in product prices during 1980 and the reduced value of the Canadian dollar.

Gold Mining

Pamour Porcupine Mines Limited increased production during 1980 from the two gold properties in the Timmins district from which Hollinger Argus receives royalty payments for the ore mined by Pamour.

Source of Ore:	Tons of Ore Mined 1980	1979
Hollinger Property	267,437	215,289
Ross Property	204,140	202,265
Totals	471,577	417,554

Royalty income amounted to $2,060,473 for 1980, compared to $874,463 for 1979. The increase in royalty for 1980 resulted largely from a much higher average gold price on which the royalty is based.

The ore which Pamour has been mining on the Hollinger property has come from small open pits which are now nearly completed. Pamour has commenced work to reopen the old underground workings to mine ore which was uneconomic at the gold prices which prevailed prior to 1968. It is expected that underground mining will commence late in 1982.

Mineral Exploration

Hollinger Argus and two of its subsidiaries continued mineral exploration activities in Canada and the U.S.A. Expenditures during 1980 amounted to $2.151 million, compared to $1.785 million in 1979. Most programs were joint ventures with other mining companies.

Hollinger Argus conducted most of its work in Northern Ontario. Exploration for gold on one property in the Timmins district gave encouraging results which will be followed up during 1981.

Labrador Mining carried out work in Newfoundland, Labrador, Quebec, British Columbia and parts of the U.S.A. The search was directed mainly towards base metals and gold. Some work was done on the lands held in Labrador to evaluate iron occurrences.

Hollinger North Shore continued its programs in the Labrador Trough, north of Schefferville. Drilling outlined additional zones of copper mineralization and more work is planned during 1981. To be economic, however, larger deposits will have to be found because the district is remote from established infrastructure.

Respectfully submitted,

C. B. Ross,
Executive Vice-President

March 27, 1981

Consolidated Statement of Earnings

Year ended December 31, 1980

		1980	1979
		(thousands except per share data)	
Revenue:	Royalties on iron ore	**$ 42,493**	$ 44,123
	Interest	**25,399**	11,626
	Dividends	**16,594**	7,925
	Other	**2,439**	1,290
		86,925	64,964
Expense:	Exploration	**2,151**	6,861
	Interest	**37,120**	687
	Administrative	**3,992**	2,504
		43,263	10,052
Taxes	Income taxes (Note 8)		
	Current	**507**	13,035
	Deferred	**7,785**	1,978
	Newfoundland royalty taxes	**7,500**	7,900
		15,792	22,913
Earnings before equity earnings, minority interests and extraordinary gain		**27,870**	31,999
Equity earnings in Norcen Energy Resources Limited			
	Company's interest in Norcen's earnings	**25,685**	–
	Amortization of excess of cost of investment over underlying book value	**(9,975)**	–
	Adjustment of carrying value of investment as a result of Norcen issuing additional common shares	**(1,600)**	–
		14,110	–
Minority interests		**(11,569)**	(10,176)
Earnings before extraordinary gain		**30,411**	21,823
Extraordinary gain on sale of investments — less income taxes of $20,312,000 and minority interest of $17,676,000		–	85,629
Net earnings		**$ 30,411**	$107,452
Earnings per share (Note 10):	Earnings before extraordinary gain	**$ 5.19**	$ 4.07
	Net earnings	**$ 5.19**	$20.03

Consolidated Balance Sheet

December 31, 1980

Assets		1980	1979
		(thousands)	
Investments:	Securities — at quoted market price (Note 2)	$ 114,671	$ 136,228
	Norcen Energy Resources Limited — 1980 at equity; 1979 at cost	381,708	77,720
	Other — at cost (Note 3)	36,804	36,839
Brascan indebtedness (Note 4)		168,786	168,786
Cash and short-term deposits		30,351	36,595
Accounts receivable and other assets		30,646	19,571
Oil and gas properties		16,901	9,334
Mining and fixed assets		2,431	2,396
		$ 782,298	$ 487,469

Auditors' Report

To the Shareholders of
Hollinger Argus Limited:

We have examined the consolidated balance sheet of Hollinger Argus Limited as at December 31, 1980 and the consolidated statements of earnings, retained earnings, unrealized gain (loss) on securities at quoted market price and changes in financial position for the year then ended. Our examination of the financial statements of the parent company was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We did not examine the financial statements of Norcen Energy Resources Limited, the investment in which is accounted for by the equity method, or of the subsidiaries. With respect to these entities, we have carried out such enquiries and examinations as we considered necessary as a supplement to our reliance on the reports of their auditors.

In our opinion, 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.

Deloitte Haskins & Sells
Chartered Accountants.

Toronto, Ontario
February 24, 1981

Liabilities and Shareholders' Equity

		1980	1979
		(thousands)	
Liabilities:	Accounts payable and accrued charges	**$ 3,081**	$ 2,303
	Income taxes and Newfoundland royalty taxes payable	**2,155**	16,022
	Long-term debt (Note 5)	**370,615**	77,720
	Minority interests	**111,786**	110,732
	Deferred income taxes	**35,606**	25,141
		523,243	231,918
Shareholders' Equity:	Share capital (Note 6)	**114,731**	113,825
	Contributed surplus (Note 7)	**174**	44
	Unrealized gain (loss) on securities carried at quoted market price	**9,307**	(4,594)
	Retained earnings	**134,843**	146,276
		259,055	255,551
		$ 782,298	$ 487,469

Approved by the Board

P. C. FINLAY
Director

C. M. BLACK
Director

Consolidated Statement of Retained Earnings

Year ended December 31, 1980

		1980	1979
		(thousands)	
Retained earnings, beginning of year		$ 146,276	$ 50,165
Net earnings		30,411	107,452
Loss on disposal of security carried at quoted market price — less income tax recovery of $7,369,000 and minority interest of $7,170,000		(28,961)	—
		147,726	157,617
Dividends:	Cash	11,977	10,268
	Stock (Note 6)	906	1,073
		12,883	11,341
Retained earnings, end of year		$ 134,843	$146,276

Consolidated Statement of Unrealized Gain (Loss) on Securities at Quoted Market Price

Year ended December 31, 1980

	1980	1979
	(thousands)	
Balance, beginning of year	$ (4,594)	$ —
Increase (decrease) in unrealized gain	19,331	(6,940)
(Increase) decrease in deferred income taxes	(2,680)	994
(Increase) decrease in minority interests	(2,750)	1,352
Balance, end of year	$ 9,307	$ (4,594)

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1980

		1980	1979
		(thousands)	
Source of funds:	Funds provided from operations — including in 1980, $8,681,000 (1979 — Nil) of dividends from Norcen Energy Resources Limited	**$ 44,382**	$ 34,015
	Proceeds on disposal of investments, less income taxes	**—**	179,138
	Income tax recovery on disposal of security carried at quoted market price	**7,369**	—
	Increase in long-term debt	**292,895**	77,720
	Other	**525**	3,433
	Issue of common shares for cash	**—**	36,000
		345,171	330,306
Application of funds:	Purchase of investments	**301,170**	90,889
	Expenditures on oil and gas properties	**7,567**	9,334
	Cash dividends paid by Parent company	**11,977**	10,268
	Subsidiaries to minority shareholders	**5,759**	6,153
	Increase in accounts receivable and other assets	**11,075**	6,600
	Decrease (increase) in income taxes and Newfoundland royalty taxes payable	**13,867**	(5,848)
	Acquisition of Argus Corporation Limited	**—**	63,213
	Brascan indebtedness	**—**	168,786
		351,415	349,395
Decrease in funds		**(6,244)**	(19,089)
Cash and short-term deposits, beginning of year		**36,595**	55,684
Cash and short-term deposits, end of year		**$ 30,351**	$ 36,595

Notes to the Consolidated Financial Statements

December 31, 1980

1. Significant Accounting Policies:

Principles of consolidation

The financial statements consolidate the accounts of Hollinger Argus Limited and its direct subsidiaries.

	Percentage Interest
Argus Corporation Limited	77.31%
Labrador Mining and Exploration Company Limited	66.94%
Hollinger North Shore Exploration Inc.	60.00%

The basis of accounting followed by Argus Corporation Limited, an investment company, for investments in securities with a quoted market value is preserved in the consolidated financial statements.

Investments

Investments held by Argus Corporation Limited in securities with a quoted market value are carried at the closing market price thereof regardless of the equity interest held. Any change in the market price of these investments is reflected in the statement of unrealized gain (loss) on securities carried at quoted market price.

During 1980 the investment in Norcen Energy Resources Limited was increased to 36.17% of the outstanding shares. This investment, which was previously carried at cost, has been accounted for by the equity method. An amount of $232,269,000, being the excess of the cost of the investment over its underlying book value, has been ascribed to oil and gas reserves and exploratory acreage. The amount of $188,139,000 ascribed to oil and gas reserves is being amortized on the unit of production method based on total estimated recoverable reserves. The $44,131,000 ascribed to exploratory acreage together with interest of $8,500,000 capitalized thereon is being brought into the amortization calculation over six years, the estimated development period of such acreage.

The investment in the Iron Ore Company of Canada is carried at the value at which it was carried at December 31, 1977 when the equity method of accounting for this investment was discontinued.

Other investments reflected in the consolidated financial statements are accounted for by the cost method.

Mining and fixed assets

Mining properties, rights and concessions are carried at cost less amounts written off. Costs are written off at such time as the likelihood of realization becomes remote. Property, plant and equipment are carried at cost. Depreciation is provided for at rates varying from 10% to 30% using the declining-balance method. Profit or loss on retirement or disposal is included in current operations.

Exploration

All mining and frontier oil and gas exploration costs are written off in the year incurred. If a property is determined to be economic, all subsequent costs are deferred and amortized against related production income. Non-frontier oil and gas exploration costs are capitalized on an area of interest basis and will be depleted using the unit of production method, based on total estimated recoverable reserves as and when discovered, or will be written off if exploration is unsuccessful.

Income taxes

Income taxes are provided for in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes. Deferred income taxes are provided for on the portion of the recorded unrealized gain on investments which would be taxable if the gains were realized. Timing differences giving rise to deferred income taxes relate primarily to non-frontier oil and gas exploration costs which are capitalized on the balance sheet but deducted for income tax purposes.

Foreign currency translation

Transactions in foreign currencies are translated at the rates which prevailed at the dates of the transactions; foreign currency assets and liabilities are translated at the rate prevailing at the end of the year.

2. Securities at Quoted Market Price

These securities comprise the following at December 31, 1980:

	Percentage Interest	Effective Cost*	Quoted Market Price
			(thousands)
Dominion Stores Limited	38.55%	$64,387	$ 74,989
Standard Broadcasting Corporation Limited	50.92%	35,281	39,682
		$99,668	$114,671

* The effective cost is the quoted market price of the investment at the time of acquisition of Argus Corporation Limited plus subsequent purchases at cost.

The quoted market price may not represent the amount which could be realized on disposition of these blocks of shares.

3. Other Investments

The investments comprise the following as at December 31, 1980:

	Percentage Interest	Carrying Value
		(thousands)
Iron Ore Company of Canada	10.47%	$34,040
Other		2,764
		$36,804

4. Brascan Indebtedness

The receivable from Brascan Limited bears interest at a rate which varies quarterly with the 90-day bank term deposit rate, is callable at any time after October 15, 1981 and is due October 15, 1989. Income taxes of $20,216,000, which will be payable when the indebtedness is paid, are included in deferred income taxes.

5. Long-term Debt

The long-term debt consists of bank financing bearing interest at a rate not in excess of bank prime rate and is secured by the shares of Norcen Energy Resources Limited.

6. Share Capital

Share capital at December 31 is as follows:

	1980	1979
Authorized — no par value common shares	7,000,000	7,000,000
Issued	5,865,300	5,845,750

On December 19, 1980, the shareholders approved the reclassification of the shares into a single class of common shares.

During 1980, 19,550 shares, valued at $906,000 were issued as stock dividends.

7. Contributed Surplus

The contributed surplus represents the discount on preference shares purchased for cancellation by Argus Corporation Limited.

8. Income Taxes

The company and a subsidiary have available for application against any taxable income of future years development expenditures aggregating approximately $5,270,000. Additionally, a subsidiary has available for application against any future capital gains, capital losses of $9,200,000. Income tax reductions with respect to these items will be reflected in the financial statements when realized.

9. Commitments

In 1981 the company expects to spend approximately $4,800,000 to maintain its current interest in the CanDel oil and gas joint venture.

10. Earnings Per Share

Earnings per common share have been calculated using the weighted average number of common shares outstanding during 1980 of 5,855,804 shares (1979 — 5,363,700 shares).

Special Report
IRON ORE TODAY

By R. F. Anderson, President and Chief Executive Officer, The Hanna Mining Company

The sudden downturn in American steel production in the spring of 1980 focused attention on a situation that has been building since the OPEC oil crisis of 1973 and the ensuing increases in the cost of energy. The impact of the oil price increases was felt immediately throughout the world, but the full effect on the industrialized nations and their steel industries was longer in taking shape.

During the 30 years following World War II the steel industries of the U.S., Western Europe, and Japan were involved in the longest sustained growth period in history. As the U.S. and Europe, and later Japan, expanded their steel output during the postwar period, growth rates slowed somewhat, but continuing increases in steel consumption in industrial societies and also in the emerging nations led many forecasters to predict ongoing increases in steel demand.

In anticipation of this continued growth, most world steel producers, deeply concerned about adequate future supplies of iron ore, supported many expansions of iron ore capacity in the late 1960s and early 1970s. At that time Hanna became involved in expansions of the National Steel pellet project in Minnesota and of Iron Ore Company of Canada Carol concentrator capacity in Labrador. There was construction of the new IOC pellet project at Sept-Iles, Quebec, and the new MBR Aguas Claras project in Brazil. Most world iron ore producers expanded if they had the reserves to do so.

These expansions were based to a large degree on forecasts indicating that world steel production would grow to the 950-million-ton-per-year level by 1980. This growth did not materialize. In fact, actual steel production fell 25 percent short of that prediction, totaling some 720 million tons.

This reversal of production trends in turn affected the marketability of iron ore, particularly iron ore pellets in Europe and Japan. In times of maximum steel production high grade pellets are the most desirable blast furnace feed in the world; despite their cost they provide increased, more efficient production from existing furnaces. During periods of below-normal production rates, however, most European and Japanese steelmakers with large sintering capacities at their plants prefer low cost, high quality fines which are available to them from South America, Africa, and Australia. This has had a profound effect on the sale of high grade pellets in Europe and Japan, because intense competition has held prices well below profitable levels for the past two years.

American steel producers, few with significant sintering facilities, continue to rely almost entirely on pellets, deriving all of the economies that are inherent in the product. The iron ore sales problem in the U.S. is mainly a reflection of the depressed automobile and construction industries, the two largest consumers of steel in this country, compounded by recession-based concerns that impel many consumers to postpone purchasers of so-called big ticket items, many of which are made largely of steel.

Directly or indirectly, many of the current dislocations in the U.S. economy stem from the continuously escalating cost of energy. Japanese and European carmakers were in position to provide the automobiles when Americans finally recognized the need for fuel-efficient transportation. The American auto industry is introducing models that are fully as efficient, but sales currently are lagging, in large part because of high interest rates. There is no evidence that large numbers of Americans are willing to abandon the passenger car as their prime mode of transportation. So it follows that when economic conditions are more favorable auto sales will climb.

For steel producers in the U.S., the outlook for improved auto production is tempered by the reduced use of steel in automobiles, which are being progressively downsized to achieve fuel economies. In 1979, a good auto and steel production year, the auto industry consumed about 18 million tons of American-made steel. A recent government study has predicted that by 1985 the tonnages used in autos could drop to between 10 million and 15 million tons; by the mid-1990s, the report said the total could drop as low as 5 million tons.

Furthermore, changes in the make-up of the American steel industry continue to occur. Many older, less efficient production units have been taken out of service as financially-pressed steelmakers concentrate their activities in plants that can provide maximum returns; large volume no longer is the principal measure of success — profitability is the key. This tends to lower demand for iron ore.

Then, too, increasing tonnages of America's steel are coming from mini-mills, usually located in traditionally non-steel-producing areas. Their product ranges normally are limited, as are their market areas. But they require much less investment per ton of capacity than large, integrated mills, and they produce steel in electric furnaces, which consume scrap rather than iron ore.

The steel industry is undergoing many changes and it faces many challenges. But the fact remains, steel is the most versatile, low cost material available in large quantities in the world. Its unique properties and advantages ensure its future. As the economy stabilizes and strengthens, and new applications for steel are developed, steel production should resume its growth and in turn require more iron ore.

Consolidated Financial Review 1971-80

(in thousands of dollars)	**1980**	1979	1978	1977*	1976	1975	1974	1973	1972	1971**
Income from royalties	**42,493**	44,123	25,459	34,028	29,171	25,748	19,736	15,096	9,125	12,342
Interest	**25,399**	11,626	4,833	4,043	3,674	3,381	2,901	2,481	1,742	1,693
Dividends	**16,594**	7,925	4,207	4,930	4,500	6,521	5,221	4,225	3,450	3,606
Other income	**2,439**	1,290	1,669	1,797	1,373	890	503	567	397	877
Gold and silver production	—	—	—	—	616	2,651	2,718	1,957	1,442	920
Total revenue	**86,925**	64,964	36,168	44,798	39,334	39,191	31,079	24,326	16,156	19,438
Expense — Interest	**37,120**	687	—	—	—	—	—	—	—	—
— Administration & Exploration	**6,143**	9,365	6,619	2,587	4,803	5,625	4,660	3,664	3,577	3,347
Earnings before taxes, equity earnings, minority interest and extraordinary item	**43,662**	54,912	29,549	42,211	34,531	33,566	26,419	20,662	12,579	16,091
Income taxes	**8,292**	15,013	6,520	12,840	11,670	9,750	7,425	6,006	3,180	4,380
Newfoundland royalty taxes	**7,500**	7,900	4,529	5,959	4,930	4,550	—	—	—	—
Earnings before equity earnings, minority interests and extraordinary item	**27,870**	31,999	18,500	23,412	17,931	19,266	18,994	14,656	9,399	11,711
Share of equity earnings (losses): Norcen Energy Resources	**14,110**	—	—	—	—	—	—	—	—	—
Iron Ore Company of Canada	—	—	—	4,070	2,270	30	(7,041)	1,687	770	4,618
Minority interests	**(11,569)**	(10,176)	(5,490)	(7,816)	(6,482)	(5,841)	(4,824)	(4,542)	(2,823)	(4,135)
Earnings before extraordinary item	**30,411**	21,823	13,010	19,666	13,719	13,455	7,129	11,801	7,346	12,194
Extraordinary item	—	85,629	829	—	—	—	—	376	—	—
Net earnings for the year	**30,411**	107,452	13,839	19,666	13,719	13,455	7,129	12,177	7,346	12,194
Earnings per share before extraordinary item	**$5.19**	$4.07	$2.64	$4.00	$2.79	$2.73	$1.45	$2.40	$1.49	$2.48
Regular dividends paid per share	**$2.20**	$2.20	$2.06	$1.944	$1.80	$1.65	$1.60	$1.60	$1.60	$1.60
Special dividend	—	—	$1.00	—	—	—	—	—	—	—

** Restated in 1977 to reflect Hollinger's equity share of a prior period adjustment by Iron Ore Company of Canada for the capitalization of leases.*

*** In 1971 the company adopted the policy of including in income its proportionate share of the changes in its equity in Iron Ore Company of Canada instead of dividends received. In 1978 the company reverted to the practice of taking into income dividends as received.*

Financial Information

December 31, 1980

	Hollinger Argus Limited (non-consolidated)	Labrador Mining and Exploration Company Limited	Hollinger North Shore Exploration Inc.	Argus Corporation Limited
	(thousands)			
Assets:				
Investment in consolidated subsidiaries	$131,028	$ —	$ —	$ —
Investments — Norcen	—	381,708	—	—
Investments — other	23,420	11,084	—	116,970
Brascan indebtedness	—	168,786	—	—
Cash and short-term deposits	27,745	114	314	2,177
Accounts receivable and other assets	2,350	18,579	294	8,926
Oil and gas properties	8,451	8,451	—	—
Mining and fixed assets	82	1,926	423	—
Total assets	$193,076	$590,648	$ 1,031	$128,073
Liabilities:				
Current	$ 1,037	$ 3,368	$ 72	$ 423
Long-term	—	370,615	—	—
Deferred income taxes	2,491	27,488	—	5,627
Total liabilities	$ 3,528	$401,471	$ 72	$ 6,050
Shareholders' Equity	$189,548	$189,177	$ 959	$122,023
Revenue:				
Royalties on iron ore	$ —	$ 40,923	$ 1,570	$ —
Interest	3,043	22,448	194	264
Dividends from consolidated subsidiaries	8,635	—	—	—
Dividends — other	7,594	3,687	—	5,313
Other	2,076	180	183	—
Total revenue	21,348	67,238	1,947	5,577
Expenses	(1,906)	(40,126)	(738)	(1,044)
Taxes:				
Current	(110)	(308)	(310)	221
Deferred	(1,625)	(6,160)	—	—
Newfoundland royalty	—	(7,500)	—	—
Equity in earnings of Norcen	—	14,111	—	—
Net earnings	$ 17,707	$ 27,255	$ 899	$ 4,754
"Regular" dividends paid	$ 12,883	$ 10,400	$ 1,698	$ 1,868

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