

Labrador  
Mining and Exploration  
Company Limited

Annual Report  
1981





"WINTER WOODS", 1915

by

Lawren Harris, 1885-1970

A magnificent example from the  
artist's Algonquin Park period.

# Labrador Mining and Exploration Company Limited

Incorporated under the laws  
of Newfoundland

## Annual Report

for the year ended December 31, 1981

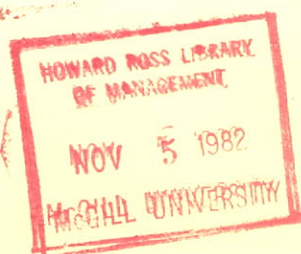
<b>Highlights</b>	<b>1981</b>	<b>1980</b>
Earnings per share	<b>\$3.48</b>	<b>\$ 6.81</b>
Dividends — regular per share	<b>\$2.60</b>	<b>\$ 2.60</b>
Working capital	<b>\$8.55</b>	<b>\$15.32</b>
	<b>millions</b>	<b>millions</b>
Investments	<b>\$402.15</b>	<b>\$392.79</b>
	<b>millions</b>	<b>millions</b>

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## Annual Meeting

Wednesday, May 12, 1982, 3:00 p.m. (Eastern Daylight Time), York Room, Royal York Hotel, 100 Front Street West, Toronto.



## Directors

**\*Robert F. Anderson**, Cleveland

**\*Maurice Archer**, Montreal

**Lewis H. M. Ayre**, St. John's, Nfld.

**Edward G. Battle**, Toronto

**Conrad M. Black**, Toronto

**G. Montegu Black**, Toronto

**Edmund C. Bovey**, Toronto

**Dixon S. Chant**, Toronto

**Charles G. Cowan**, Toronto

**\*David M. Dunlap**, Toronto

**\*John R. Finlay**, Toronto

**P. C. Finlay**, Toronto

**Richard Geren**, Sept-Iles

**M. Brian Mulroney**, Montreal

**C. E. Nickels, Jr.**, Cleveland

**C. B. Ross**, Toronto

**\*Peter G. White**, London

\*Member of the Audit Committee

### Registered Office

240 Water Street, St. John's, Nfld.

### Executive Office

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

### Transfer Agents and Registrars

Crown Trust Company, Toronto and Montreal  
Canada Permanent Trust Company,  
St. John's, Nfld.

### Bankers

Canadian Imperial Bank of Commerce, Toronto

### General Counsel and Solicitors

Holden, Murdoch & Finlay, Toronto

### Auditors

Thorne Riddell, Toronto

## Officers

**P. C. Finlay**,  
Chairman of the Board

**Conrad M. Black**,  
Vice-Chairman of the Board

**C. B. Ross**,  
President and Chief Executive Officer

**G. Montegu Black**,  
Executive Vice-President

**Dixon S. Chant**,  
Executive Vice-President

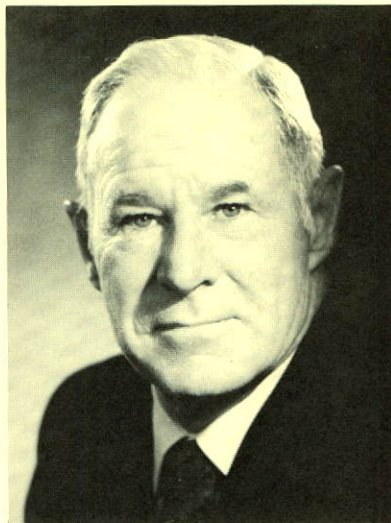
**W. F. White**,  
Vice-President and Treasurer

**Charles G. Cowan**,  
Secretary

## Directors' Report



*P. C. Finlay*



*C. B. Ross*

To the Members:

We are submitting herewith the report of the Directors for the 46th year of operations of Labrador Mining and Exploration Company Limited. The report includes the Balance Sheet, Statement of Earnings and Retained Earnings and Statement of Changes in Financial Position for the year ended December 31, 1981, with comparative figures for 1980.

Earnings of Labrador Mining in 1981 were \$13,922,611, including equity earnings of Norcen of \$7,104,000, equal to \$3.48 a share, compared to 1980 earnings of \$27,254,725, equal to \$6.81 a share.

Revenue from royalties from iron ore in 1981 was \$45,238,074 as compared to \$40,922,812 in 1980. Income from interest amounted to \$30,033,537 in 1981 as compared to \$22,447,873 in 1980. Dividends received amounted to \$3,676,808 in 1981 as compared to \$3,687,015 in 1980. Other revenue in 1981 amounted to \$49,327 as compared to \$180,244 in 1980.

Expenses in 1981 were \$63,480,977 including interest expense of \$60,791,973, net of interest amount capitalized, compared to expenses of \$40,126,205 in 1980.

There was an income tax recovery of \$253,842 in 1981 and a charge of \$79,000 for deferred taxes. The net amount of income taxes was \$6,642,697 less than in

1980. Newfoundland royalty taxes amounted to \$8,873,000 in 1981 compared to \$7,500,000 in 1980.

### Investments

The significant investments of Labrador Mining at December 31, 1981, were as follows:

Company	Shares	% Interest
Iron Ore Company	340,565	3.32
Norcen Energy Resources Limited	9,643,250	36.2
Brascan Limited indebtedness	\$168,785,530.00	

### Dividends

Regular quarterly dividends of 65¢ per share were paid on the issued capital of 4,000,000 shares, totalling in all, \$10,400,000.

### Iron Ore Company of Canada

Iron Ore Company of Canada earnings in 1981 amounted to \$104,833,983 (U.S. funds).

Iron Ore Company paid dividends of \$9.00 U.S. per share in the year 1981. Labrador Mining received \$3,065,085.00 U.S., the Canadian equivalent being \$3,676,807.86. Iron Ore Company paid a further dividend of \$5.00 U.S. per share in January, 1982. Labrador Mining received

\$1,702,825.00 U.S., the Canadian equivalent being \$2,032,662.20.

A new three-year Union agreement was entered into as of the 1st March, 1982. We are pleased that Management and the Union were able to come to a mutually satisfactory agreement.

The pellet plant of Iron Ore Company at Carol Lake (Labrador City) will be closed for five weeks this coming summer, with the result that the Carol pellet production will be reduced 1,200,000 tonnes from last year to 9,500,000 tonnes.

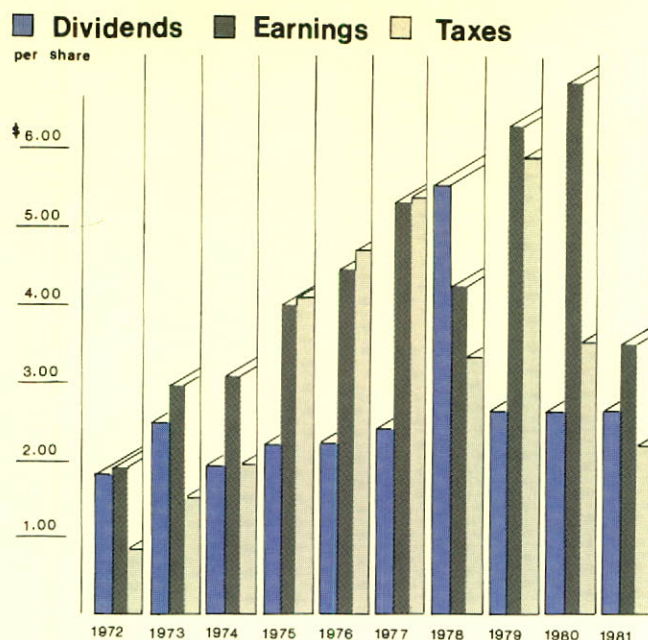
The steel industry's major markets, namely, automotive, appliance and construction, are suffering because of high interest rates, motor car and steel imports. Pellet purchases will be kept to a minimum by the steel companies and it is hoped that the Iron Ore Company will not have to reduce further its scheduled pellet production referred to above. Accordingly, it is difficult to estimate Iron Ore Company's earnings for 1982 but it is evident that they will be substantially less than in 1981.

## Production and Sales of Iron Ore

Iron Ore Company of Canada mined 46.8 million tonnes of crude ore from Labrador Mining Company's lands in the Labrador City and Schefferville districts. The plant at Sept-Iles which makes pellets from Schefferville ores was closed for an indefinite period on April 14, 1981. It is expected that the plant will remain closed throughout 1982.

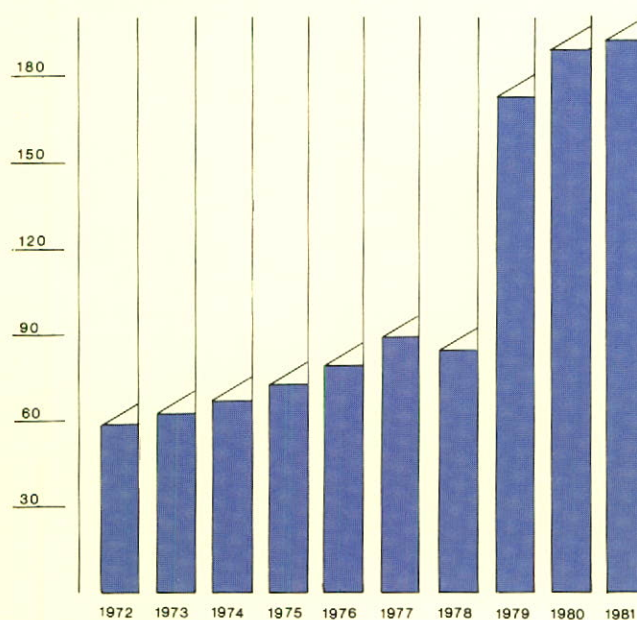
Processing crude ore to produce pellets and concentrate results in a reduction of volume and weight. Total sales of product during 1981 were:

	Millions of tonnes	
	1981	1980
Direct shipping ore	2.5	2.0
Concentrate	7.1	7.0
Pellets (Labrador City)	10.7	9.1
Pellets (Sept-Iles)	0.7	2.6
<b>Total Sales</b>	<b>21.0</b>	<b>20.7</b>



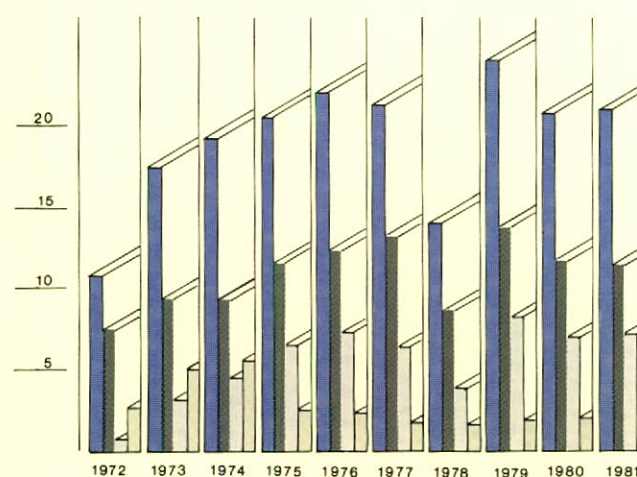
## Members' Equity

(in millions of Dollars)



## Product Sales from Labrador Mining Lands

■ Total Sales ■ Pellets □ Concentrates □ Direct Shipping Ore (in millions of tonnes)



## Mineral Exploration

Exploration expenditures increased by \$500,000 over 1980 to \$1,613,000 in 1981. More exploration was done in Newfoundland-Labrador, Ontario and the U.S.A. Most of the work in Labrador was done on the concession lands evaluating iron ore occurrences and searching for base metal deposits. One interesting occurrence was found that will be explored further during 1982. Two new base metal occurrences were staked in Quebec. The Laberada gold property (owned 75% by Labrador Mining) near Kirkland Lake was re-evaluated and some gold bearing zones were located which will be drilled during 1982. Drill results on two properties in Nevada were inconclusive but field work on other properties in the state outlined zones which should be tested by drilling.

## Oil and Gas Exploration

No additional lands were acquired during 1981 by the joint venture managed by Sulpetro Limited (formerly CanDel Oil) in which Labrador Mining and Hollinger Argus have a 75% interest, shared equally. The joint venture continues to hold 100,772 gross acres (68,346 net acres). Seven exploratory wells were drilled resulting in 1 gas well and 1 oil well.

## Financing

At the end of the year, the company entered into agreements with three Canadian banks which established lines of credit aggregating

\$390,100,000. The agreements expire December 31, 1986. The lines of credit may be utilized by borrowing by way of demand promissory notes in Canadian dollars, U.S. dollars or in LIBOR advances and accommodation by way of Banker's Acceptances or any combination thereof.

## General Comments

The last two Federal Budgets have been directed to bringing, among other things, the Oil and Gas Industry under Federal control. The next Budget may bring the remaining resource industries under the same type of control. The Federal Government seems determined to nationalize the economy by securing control over investment decisions, individual and corporate. It is possible that the next step will be to suspend depletion allowances in the Mineral Industry, which were the internal source of new investment funds, and substitute incentive grants. In practice, this gives the Government leverage over all aspects of the Mineral Industry as is now the case in the Oil and Gas Industry. Certainly, this would apply insofar as capital expenditures are concerned.

There is no doubt that the Federal Government wishes to assert economic sovereignty and co-ordinate new economic development, another step along the road to complete socialism. We will have Government appointees as managers taking the place of shareholder appointees.

The new Ministry of Economic and Regional Development will exercise absolute

**Members of Record**  
as at December 31, 1972 and 1981

Residence	Members		Percentage		Shares Held		Percentage	
	1972	1981	1972	1981	1972	1981	1972	1981
Canada	1,967	1,193	79.12	76.67	2,474,604	3,142,469	74.99	78.56
United States	487	332	19.59	21.34	819,610	853,801	24.84	21.34
United Kingdom	13	13	.52	.83	1,082	1,446	.03	.04
Elsewhere	19	18	.77	1.16	4,704	2,284	.14	.06
Total:	2,486	1,556	100.00	100.00	3,300,000	4,000,000*	100.00	100.00

\* 700,000 shares issued August 17, 1979

power over the Mineral Industry, the same type of power that is being exercised over the Oil and Gas Industry. This department will have gained the necessary experience to take on the Mineral Industry. Economic freedom in the Mineral Industry will then be a thing of the past. Will certain mining companies, as a result of inflation, regulation and taxation, regard Government control as one means of surviving?

The Provinces, as you know, are getting into the act, probably, in the first instance, to offset Federal encroachment on their powers. They have resorted to take-overs — directly, in the case of Ontario; indirectly, in the case of Quebec. These remarks in regard to Ontario and Quebec apply equally to certain other Provinces.

The Mining Industry has been assured that the Mineral Industry will not be given the same treatment as the Oil and Gas Industry. We would think that the Mineral Industry would be rather naive to accept these assurances.

### Appreciation

Thanks are extended to the management, staff and employees for their good services during the past year.

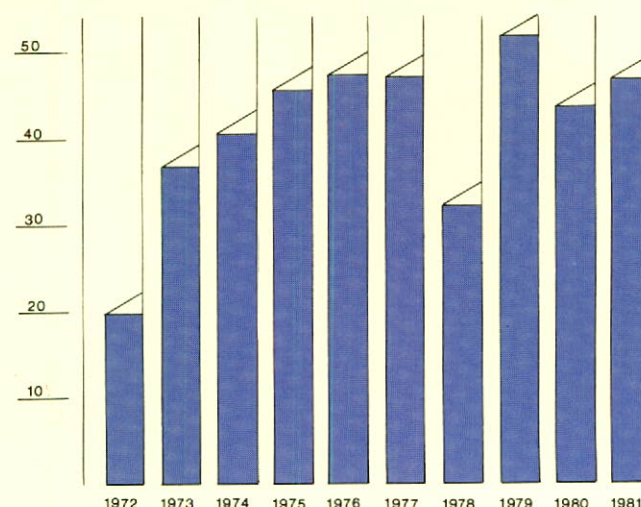
**P. C. Finlay,**  
Chairman of the Board

**C. B. Ross,**  
President and  
Chief Executive  
Officer

March 26, 1982

### Crude Ore Mined from Labrador Mining Lands

(in millions of tonnes)



### Share Information

The common stock of Labrador Mining and Exploration Company, Limited is listed on the Toronto and Montreal Stock Exchanges. The following tabulation indicates, on a quarterly basis, the price range and the dividends paid per share during the past two years.

Quarter	Sale Price Per Share				Dividends Per Share	
	1981		1980		1981	1980
	High	Low	High	Low		
1	\$51.00	\$48.92	\$51.00	\$44.00	\$ .65	\$ .65
2	52.80	49.50	47.63	42.33	.65	.65
3	50.08	45.50	75.92	63.50	.65	.65
4	40.17	34.50	66.66	53.88	.65	.65

# Labrador Mining and Exploration Company Limited

## Statement of Earnings and Retained Earnings

Year ended December 31, 1981

		1981	1980
<b>Revenue</b>	Royalties on iron ore	\$ 45,238,074	\$ 40,922,812
	Interest	30,033,537	22,447,873
	Dividends	3,676,808	3,687,015
	Other	49,327	180,244
		<b>78,997,746</b>	<b>67,237,944</b>
<b>Expense</b>	Exploration	1,613,590	1,111,395
	Administrative	1,060,842	1,321,477
	Interest, net of amounts capitalized of \$10,925,000 (1980 — \$8,500,000)	60,791,973	37,670,098
	Depreciation	14,572	23,235
		<b>63,480,977</b>	<b>40,126,205</b>
<b>Earnings before taxes and equity earnings</b>		<b>15,516,769</b>	<b>27,111,739</b>
<b>Taxes</b>	Newfoundland royalty	8,873,000	7,500,000
	Income — current	(253,842)	308,000
	— deferred	79,000	6,159,855
		<b>8,698,158</b>	<b>13,967,855</b>
<b>Earnings before equity earnings</b>		<b>6,818,611</b>	<b>13,143,884</b>
<b>Equity in earnings of Norcen (note 2)</b>			
	Company's interest in Norcen's earnings	15,715,000	25,685,841
	Amortization of excess of cost of investment over underlying book value	(7,741,000)	(9,975,000)
	Adjustment of carrying value of investment as a result of Norcen issuing additional common shares	(870,000)	(1,600,000)
		<b>7,104,000</b>	<b>14,110,841</b>
<b>Net earnings</b>		<b>13,922,611</b>	<b>27,254,725</b>
<b>Retained earnings at beginning of year</b>		<b>136,051,875</b>	<b>119,197,150</b>
		<b>149,974,486</b>	<b>146,451,875</b>
<b>Dividends</b>		<b>10,400,000</b>	<b>10,400,000</b>
<b>Retained earnings at end of year</b>		<b>\$ 139,574,486</b>	<b>\$ 136,051,875</b>
<b>Earnings per share</b>		<b>\$ 3.48</b>	<b>\$ 6.81</b>

**Labrador Mining and Exploration Company Limited**  
(Incorporated under the laws of Newfoundland)

## Balance Sheet as at December 31, 1981

<b>Assets</b>		<b>1981</b>	<b>1980</b>
<b>Current Assets</b>	Cash and short-term deposits	\$ 332,664	\$ 114,469
	Accounts receivable	19,480,468	18,578,520
	Income taxes recoverable	25,972	
		19,839,104	18,692,989
<b>Brascan indebtedness</b> (notes 3 and 5)		168,785,530	168,785,530
<b>Investments</b> (note 4)		402,155,348	392,792,598
<b>Oil and Gas properties</b>		9,479,833	8,450,654
<b>Fixed Assets, at cost</b>	Mining ore cars	1,829,282	1,829,282
	Other	570,543	570,543
		2,399,825	2,399,825
	Less accumulated depreciation	2,374,255	2,359,683
		25,570	40,142
<b>Mining rights and concessions, at cost</b>		1,885,767	1,885,767
		<b>\$ 602,171,152</b>	<b>\$ 590,647,680</b>

### Auditors' Report

To the Members of  
Labrador Mining and Exploration  
Company Limited

We have examined the balance sheet of Labrador Mining and Exploration Company Limited as at December 31, 1981 and the statements of earnings and retained earnings 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 according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1981 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, except for the changes, with which we concur, in the method of calculation of equity earnings of Norcen Energy Resources Limited as described in note 2, on a basis consistent with that of the preceding year.

Toronto, Canada  
February 15, 1982

Thorne Riddell  
Chartered Accountants

**Liabilities**

		1981	1980
<b>Current Liabilities</b>	Accounts payable	\$ 1,292,127	\$ 1,289,978
	Due to parent company	7,972,847	22,289
	Income taxes payable		557,685
	Newfoundland royalty taxes payable	2,024,655	1,497,816
		11,289,629	3,367,768
<b>Long term debt</b>	(note 5)	370,615,000	370,615,000
<b>Deferred income taxes</b>		27,567,037	27,488,037

**Members' Equity**

<b>Capital stock</b>	Authorized and Issued 4,000,000 Shares	23,800,000	23,800,000
<b>Contributed Surplus</b>		29,325,000	29,325,000
<b>Retained Earnings</b>		139,574,486	136,051,875
		192,699,486	189,176,875
		\$ 602,171,152	\$ 590,647,680

Approved by the Board

P. C. FINLAY  
Director

C. B. ROSS  
Director

# Labrador Mining and Exploration Company Limited

## Statement of Changes in Financial Position

Year ended December 31, 1981

	1981	1980
<b>Working capital derived from</b>		
Operations		
Earnings before equity earnings	\$ 6,818,611	\$ 13,143,884
Items not involving working capital		
Deferred income taxes	79,000	6,159,855
Depreciation	14,572	23,235
	6,912,183	19,326,974
Dividends on Norcen shares	9,643,250	8,681,088
Long term debt		292,894,787
	16,555,433	320,902,849
<b>Working capital applied to</b>		
Investments	11,902,000	298,558,338
Expenditures on oil and gas properties	1,029,179	3,783,420
Dividends	10,400,000	10,400,000
Additions to fixed assets		12,538
	23,331,179	312,754,296
<b>Increase (decrease) in working capital</b>	<b>(6,775,746)</b>	<b>8,148,553</b>
<b>Working capital at beginning of year</b>	<b>15,325,221</b>	<b>7,176,668</b>
<b>Working capital at end of year</b>	<b>\$ 8,549,475</b>	<b>\$ 15,325,221</b>

# Notes to Financial Statements

December 31, 1981

## 1. Significant Accounting Policies

### Investments

The investment in Norcen Energy Resources Limited (Norcen) has been accounted for by the equity method. The excess of the cost of the company's investment in Norcen over its underlying book value has been ascribed to Norcen's oil and gas reserves and exploratory acreage. The amount ascribed to exploratory acreage together with interest capitalized thereon is being brought into the amortization calculation over six years which is the estimated period of development of such acreage. As set out in note 2, commencing January 1, 1981 the excess of cost of investment over underlying book value is amortized on the production revenue method based on total estimated future production revenues from estimated proven recoverable reserves. Prior thereto this excess of cost was amortized on the unit of production method based on total estimated proven recoverable reserves.

All other investments are carried at cost.

### Oil and gas properties

The company follows the policy of capitalizing all exploration costs as incurred on an area of interest basis. These costs will be depleted on the unit of production revenue method based on total estimated recoverable reserves as and when discovered or will be written off if exploration is proven unsuccessful.

### Foreign currency translation

Transactions in foreign currencies are translated at the rates which prevailed at the dates of the transactions; foreign currency current assets and current liabilities are translated at the rate prevailing at the end of the year and any gains or losses are taken into income.

### Mining exploration costs

All mining exploration costs are written off in the year incurred. If a property is determined to be economic, then all subsequent costs are deferred and amortized against related production.

### Income taxes

The company follows the tax allocation method of accounting whereby the provision for income taxes is based on the income reported in the accounts.

### Earnings per share

Earnings per common share have been calculated using the weighted average number of common shares outstanding during the year (4,000,000 in 1981 and 1980).

## 2. Changes in Accounting Practices

Norcen concluded, effective January 1, 1981, that it is more appropriate to relate its charges for depletion to production revenues than to production quantities. Estimated future production revenues are based on proven reserves and on prices set by energy and pricing agreements limited to 75% of the 1981 world price for crude oil. As a result of this change in accounting by Norcen, the company's equity in earnings of Norcen is \$1,446,000 (\$0.36 per share) greater than it would have been had Norcen based its charges for depletion on production quantities. As a result of this change by Norcen, the company, effective January 1, 1981, changed

its method of amortization of the excess of cost of the investment over underlying book value, to the production revenue method from the unit of production method. This change resulted in the amortization of excess of cost of investment over underlying book value being \$2,788,000 (\$.70 per share) less than it would have been had it been based on production quantities. The cumulative effect of these changes was to increase the company's earnings for 1981 by \$4,234,000 (\$1.06 per share).

## 3. Brascan Indebtedness

This indebtedness, which is due October 15, 1989, can be called in total or in part at any time with 90 days notice. Interest is payable semi-annually at a rate equal to the 90 day bank term deposit rate on October 15, 1979 and on each successive ninetieth day thereafter. On January 19, 1982 the company made a call for \$52,000,000 due April 19, 1982.

## 4. Investments

	1981	1980
Norcen		
9,643,250 Shares, at equity	\$390,094,054	\$381,708,304
Iron Ore Company of Canada (3.32% interest), at cost	10,804,294	10,804,294
Other, at cost	1,257,000	280,000
	<b>\$402,155,348</b>	<b>\$392,792,598</b>

## 5. Long Term Debt

The company has established with its bankers a line of credit aggregating \$390,100,000, expiring December 31, 1986. The company may obtain advances by borrowing in Canadian or United States dollars, by borrowing (with certain limitations) in Eurodollars and certain other Eurocurrencies by way of LIBOR advances, and accommodation (with certain limitations) by way of bankers' acceptances in Canadian or United States dollars. Interest is payable on Canadian dollar loans at the prime rate and on United States dollar loans at the U.S. base rate for commercial loans in U.S. dollars made in Canada. LIBOR advances bear interest in the currency of the LIBOR advance at the LIBOR rate plus  $\frac{3}{8}$  of 1% per annum. The company has hypothecated its 9,643,250 shares of Norcen as security for the long term debt. The loan agreements require that principal payments received by the company under the Brascan indebtedness be applied to retire its long term debt, unless otherwise agreed with its bankers.

At December 31, 1981, the company had LIBOR advances of U.S. \$75,000,000. Repayment of these advances at year end currency exchange rate would result in additional obligations of \$485,000.

## 6. Related Party Transaction

During the year the company paid its parent company \$1,103,758 interest (1980 — \$549,679), being current market rates on loans outstanding during the year.

# Labrador Mining and Exploration Company Limited

## Financial Review 1972-1981

(in thousands of dollars)	1981	1980	1979	1978**	1977	1976*	1975	1974	1973	1972
Income from royalties	\$45,238	\$40,923	\$41,072	\$22,973	\$30,262	\$25,954	\$23,007	\$16,367	\$12,199	\$7,418
Dividends	3,677	3,687	1,467	1,315	1,218	1,338	1,918	1,468	1,141	978
Interest	30,034	22,448	8,021	3,306	2,729	2,332	2,219	1,770	1,521	1,020
Share of increase (decrease) in equity earnings: Norcen Energy Resources	7,104	14,110	—	—	—	—	—	—	—	—
Iron Ore Company of Canada	—	—	—	—	1,291	720	10	(2,235)	536	245
Other income	49	181	160	543	907	803	442	155	173	205
<b>Total revenue</b>	<b>86,102</b>	<b>81,349</b>	<b>50,720</b>	<b>28,137</b>	<b>36,407</b>	<b>31,147</b>	<b>27,596</b>	<b>17,525</b>	<b>15,570</b>	<b>9,866</b>
Expense — Interest	60,792	37,670	651	—	—	—	—	—	—	—
— Administration & Exploration	2,689	2,456	6,777	5,227	1,334	1,151	1,026	1,030	907	868
Earnings before taxes	22,621	41,223	43,292	22,910	35,073	29,996	26,570	14,695	14,663	8,998
Income taxes	(175)	6,468	13,030	5,903	11,710	10,500	8,900	6,400	4,960	2,760
Newfoundland royalty taxes	8,873	7,500	7,900	4,529	5,959	4,930	4,550	—	—	—
Earnings before extraordinary item	13,923	27,255	22,362	12,478	17,404	14,566	13,120	10,095	9,703	6,238
Extraordinary item	—	—	46,040	1,377	—	—	—	—	—	—
<b>Net earnings for the period</b>	<b>\$13,923</b>	<b>\$27,255</b>	<b>\$68,402</b>	<b>\$13,855</b>	<b>\$17,404</b>	<b>\$14,566</b>	<b>\$13,120</b>	<b>\$10,095</b>	<b>\$ 9,703</b>	<b>\$6,238</b>
Earnings per share before extraordinary item	\$3.48	\$6.81	\$6.28	\$3.78	\$5.27	\$4.41	\$3.98	\$3.06	\$2.94	\$1.89
Regular dividends paid per share	\$2.60	\$2.60	\$2.60	\$2.518	\$2.20	\$2.20	\$2.20	\$1.80	\$1.90	\$1.80
Special dividend	—	—	—	\$3.00	—	—	—	—	—	—

\*Restated in 1977 to reflect Labrador Mining'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.



