Rio Algom

Annual
Report
1985

The Corporation

The business of Rio Algom and its subsidiaries consists of four principal activities: the underground mining and milling of uranium ore, the open pit mining and milling of copper-molybdenum ore and the open pit mining and treatment of metallurgical coal, the manufacture of stainless and specialty steels and the marketing through service centres of stainless and specialty steels and other metal products.

- Uranium oxide in concentrates is produced and sold from the Quirke, Panel and Stanleigh mines at Elliot Lake, Ontario and, through a wholly-owned United States subsidiary, from the Lisbon mine near Moab, Utah.
- Copper and molybdenum is produced and sold by Lornex Mining Corporation Ltd. (68.1% owned by Rio Algom) from its mine at Logan Lake in the Highland Valley area of British Columbia and metallurgical coal is produced and sold from the Bullmoose mine in northeast British Columbia in which Lornex holds a 39% joint venture interest.
- Stainless and specialty steels are manufactured and sold by Atlas Stainless Steels division at Tracy, Quebec and Atlas Specialty Steels division at Welland, Ontario, respectively.
- Stainless and specialty steels and other metal products are marketed by Atlas Alloys through metal service centres across Canada and in the United States, Australia and Mexico and by Vincent Metals through metal service centres in the United States.

Construction of mine and concentrator facilities at the large East Kemptville tin property of Rio Algom located near Yarmouth, Nova Scotia was essentially completed on schedule in December 1985 and normal operations are expected to be achieved by mid-1986. Rio Algom also conducts minerals exploration activities in Canada, the United States, South America and Europe.

Annual Meeting
An Annual Meeting of Shareholders of Rio Algom Limited will be held on Wednesday, April 23, 1986 at 10:30 a.m. (Toronto time) in the Commerce Hall, Concourse Level, Commerce Court West, King and Bay Streets, Toronto, Ontario, Canada

Cover:
Rotary-head mining machine cuts away ore in the Potash Company of America Inc.'s mine in New Brunswick. PCA, with a second mine in Saskatchewan, has been acquired by Rio Algom.

Contents

Rio Algom Limited

Highlights of 1985 Consolidated Operations

(In thousands, except per share data)

	1985		1984	
Revenue:				
Uranium	**$ 368,274**	**30%**	$ 368,146	32%
Copper/coal	**243,702**	**20**	195,725	17
Steel manufacture	**167,307**	**14**	202,985	18
Metals distribution	**447,641**	**36**	374,918	33
Consolidated revenue	**$1,226,924**	**100%**	$1,141,774	100%
Operating profit (loss):				
Uranium	**$ 88,263**		$ 86,863	
Copper/coal	**43,280**		6,234	
Steel manufacture	**(11,456)**		11,777	
Metals distribution	**28,426**		19,285	
Consolidation adjustment	**1,462**		(792)	
Total operating profit	**$ 149,975**		$ 123,367	
Net earnings	**$ 88,348**		$ 73,887	
Per share of common stock	**$ 2.00**		$ 1.65	
Dividends paid on common stock	**$ 25,584**		$ 23,452	
Per share of common stock	**$ 0.60**		$ 0.55	
Working capital, year end	**$ 591,089**		$ 526,115	
Ratio of current assets to current liabilities	**3.4 to 1**		3.4 to 1	
Common shareholders' equity	**$ 622,182**		$ 558,143	
Return on average common shareholders' equity	**14.43%**		13.22%	
Total common shares outstanding at December 31	**42,640**		42,640	
Equity per share of common stock outstanding	**$ 14.59**		$ 13.09	

Quarterly Financial Data

(Unaudited, in millions except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
1985					
Revenue	$322.9	$310.8	$282.2	$311.0	$1,226.9
Gross Profit	79.8	80.1	68.9	84.2	313.0
Net Earnings	23.2	22.9	20.1	22.1	88.3
Earnings Per Share	0.52	0.52	0.46	0.50	2.00
1984					
Revenue	$248.0	$322.8	$274.8	$296.2	$1,141.8
Gross Profit	58.4	81.2	64.5	70.6	274.7
Net Earnings	16.0	21.2	15.1	21.6	73.9
Earnings Per Share	0.36	0.47	0.34	0.48	1.65

All dollar amounts set out in this Report refer to Canadian dollars unless otherwise stated. At February 28, 1986 C$1.00 = U.S.$0.7027.

Directors' Report to the Shareholders

George R. Albino
Chairman and
Chief Executive Officer

In 1985, its twenty-fifth year, Rio Algom recorded the highest levels of revenues and earnings in its history. In addition, and of equal significance for the longer term, steps were taken to create further growth in the scale of the Corporation's operations, the most important of which are referred to later.

Financial Position

Consolidated revenues in 1985 were $1,227 million, an increase of 7% over 1984. Net earnings at $88.3 million ($2.00 per common share) compared with $73.9 million ($1.65 per common share). For the second consecutive year common share dividends were increased in May to an annual rate of $0.60 per share compared with $0.55 and $0.50 in 1984 and 1983, respectively.

The financial position of the Corporation was strengthened by an increase in working capital during the year of $65.0 million to a level of $591.1 million at December 31, 1985 (including cash and short-term deposits of $208.4 million).

Capital expenditures during the year of $110.1 million were principally for the development and construction of a new tin mine and concentrator facility at East Kemptville in Nova Scotia.

Summary of Operations and Outlook for 1986

Uranium operations contributed the majority of the Corporation's earnings in 1985. It is expected that this will also be the case in 1986, reflecting the continuation of deliveries to customers under long-term contracts made during the 1970's. As outlined in more detail in the Review of Operations, continuing efforts to reduce costs were successfully pursued during the year.

The steel manufacturing business was restructured during the year into two separate divisions: Atlas Specialty Steels Division and Atlas Stainless Steels Division, located at Welland, Ontario and Tracy, Quebec, respectively. Both divisions incurred losses during 1985. This was the result primarily of strikes, aggravated by the competitive and low-price environment in which the two businesses operated. While market circumstances are not expected to improve significantly in 1986, the organizational changes and further reductions in unit costs are expected to lead to improved results. We strongly endorse the efforts of the Canadian and U.S. governments to achieve North American trade enhancement. This would create a larger and more profitable market opportunity for both of the steel manufacturing units.

The metals distribution business, with extensive facilities in Canada and the United States, and smaller activities in Australia and Mexico, enjoyed a year of significantly improved earnings, due partly to the inclusion of a full year's results of Vincent Metals in the United States (nine months only in 1984) and a good sales increase in Canada. The outlook for 1986 is encouraging in light of further growth in the North American economy.

Earnings after tax of Lornex Mining Corporation Ltd. (68.1% owned by Rio Algom) were $24.1 million compared to a net loss of $3.3 million in the previous year. This improvement is mainly attributable to higher revenue from greater production of copper and coal and a stronger United States dollar, lower unit production costs of copper and molybdenum and substantially lower net interest costs. On January 13, 1986 Lornex and Cominco Ltd. announced that agreement in principle had been reached to combine the assets and operations of both Corporations in the Highland Valley of British Columbia. This is an exciting development and will create one of the largest low-cost copper mines in the world.

On December 17, 1985 Rio Algom announced it had signed an agreement to purchase all of the outstanding common shares of Potash Company of America, Inc. from Ideal Basic Industries, Inc. The purchase was completed by the end of January, 1986. PCA is a major Canadian potash producer, with mining and concentrating facilities located near Saskatoon, Saskatchewan and Sussex, New Brunswick. While current potash markets are weak, the long-term prospects for growth in potash demand are considered to be good.

Construction at the East Kemptville tin mine was essentially completed on schedule and below budget in December, 1985. Normal operations are expected to be achieved by mid-1986. The major uncertainty affecting profitability of the operation remains the tin price outlook following the collapse of the International Tin Council buffer stock management in October, 1985. On the positive side, however, is the prospect that mine operating costs, relative to other producers, will remain at the lower end of the world cost spectrum.

Long-term Strategy

The Corporation's strategic objectives are three-fold:

- achievement of long-term sustainable, profitable growth;
- diversification aimed at minimizing adverse effects of various business cycles; and
- acquisition or development of new mining/industrial ventures compatible with the skills and expertise of the Corporation.

The achievement of these objectives is governed by a philosophy that favours the creation of activities under the control of Rio Algom, although minority or non-operating positions are acceptable in special circumstances. Further, new investments should be of such a size that they add materially to the existing business base unless they become part of an existing business unit.

We believe that both past and pending developments, particularly the recent acquisition of Potash Company of America, Inc. and the Lornex/Cominco partnership in the Highland Valley area of British Columbia, clearly exemplify the application of the strategy. In the case of both developments, new long-life operations are being brought into the asset base of Rio Algom with diversification and compatibility characteristics that should, in combination with existing activities, provide for balanced growth and profitability.

Appreciation

The record financial results achieved and the new investments for the future made during the year were the result of hard work. The Directors wish to express their appreciation to the people whose efforts made these accomplishments possible.

On behalf of the Board of Directors

George R. Albino

George R. Albino
Chairman and Chief Executive Officer

Toronto, Canada
February 28, 1986

Review of Operations

Uranium

(in thousands)	1985	1984
Revenue	**$368,274**	$368,146
Operating profit	**$ 88,263**	$ 86,863

1985 revenue and operating profit from uranium operations increased slightly over 1984 primarily because of increased production at the Lisbon mine in Utah. Other contributing factors were a stronger United States dollar, a more favourable sales contract mix and the effects of the continuing intensive cost control programs at Elliot Lake which more than offset slightly lower production.

A total of 4.3 million tons of ore was processed through the Quirke, Panel and Stanleigh facilities in 1985 to recover 7.4 million pounds of uranium oxide. Comparable figures for 1984 were 4.3 million tons of ore to recover 7.6 million pounds of uranium oxide. The recovery rate was 94.1% compared to 93.4% in the previous year.

Deliveries of uranium oxide in 1985 from Elliot Lake totalled 6.2 million pounds compared to 6.3 million pounds in the previous year. At December 31, 1985 contracts were held to deliver approximately 52 million pounds of uranium oxide from the Quirke, Panel and Stanleigh mines between 1986 and 1995 and a further 50 million pounds from the Stanleigh mine from 1996 to 2020.

Efforts to reduce or contain operating costs which began in a concerted way four years ago were continued in 1985. These efforts have been successful; unit production costs in 1985 were some 15% below such costs in 1981 in real terms. Over the past four years overall tonnage produced per manshift has increased 12.5% overall and 17.5% in the underground operations. This has been achieved in spite of the need to increase technical and supervisory personnel in the environmental, training, labour relations and safety areas of operations.

State-of-the-art computers provide increased efficiency in the monitoring and control of operations at the Stanleigh uranium mill at Elliot Lake, Ontario.

Certain capital expenditure programs have been undertaken which have resulted in cost savings through the reduction in the number of line and staff people required to operate the facilities. This reduction is being accomplished where possible by attrition but some employees in specific categories were laid off in 1985. If further lay-offs are required in 1986 where employees cannot be absorbed in other areas of the operations, there will be close liaison with employees and their representatives.

In 1985 the energy management program at the Elliot Lake operations saved approximately $2.5 million in energy costs compared to the previous year. This program, initiated in 1984, involves the use and conservation of electrical power, propane for mine air heating and fuel oil for process steam production and plant heating. In November, 1985, following the completion of a new pipeline, natural gas became available in the Elliot Lake area and is now being utilized in operations for process steam production and direct mine air heating. The cost savings from this conversion to natural gas is expected to be fully realized in 1986.

To augment uranium production the use of bacterial leaching technology has been expanded. Uranium bearing material is broken and left in the underground workings where it is sprayed with re-cycled mine water to induce bacterial leaching. Experimental areas are being developed underground at the Quirke and Panel mines for the purpose of assessing the economic feasibility of applying the technology to low grade mineralization. There are significant areas of low grade uranium material which may be amenable to recovery of uranium by these methods.

During the year a further 156 rental housing units owned by Rio Algom were sold. A total of 390 units have been sold under the program initiated in 1984 whereby such units were offered for sale to employees. At the end of the year 1,631 housing units, including town houses and apartment units, were being rented to employees. It is expected some of these units will be sold in 1986.

At the Lisbon uranium mine in Utah 729,000 pounds of uranium oxide were produced, a portion of which is scheduled for delivery under a sales contract in effect until 1986. Production from the underground mine continued at approximately one-half of capacity. The mill, however, continued to operate at or near capacity during the year. In addition to processing ore from the Lisbon mine, uranium ore was purchased from other sources and processed in the mill.


IBM

Lornex Mining Corporation Ltd.

(in thousands)	1985	1984
Revenue	**$243,702**	$195,725
Operating profit	**$ 43,280**	$ 6,234

Lornex Mining Corporation Ltd., 68.1% owned by Rio Algom, had net earnings of $24.1 million in 1985 compared to a net loss of $3.3 million in the previous year.

The increase in revenue is mainly attributable to greater production of copper and coal, a stronger United States dollar and, to a lesser extent, slightly higher copper prices. The improvement in earnings over last year's net loss is due to greater net revenue from production, lower copper and molybdenum unit production costs and substantially lower net interest costs.

The Canadian dollar gross revenue price realized per payable pound of copper averaged $0.89 in 1985 compared to $0.79 in 1984 and molybdenum averaged $4.31 per pound compared to $4.40 in the previous year. Silver averaged $7.99 per ounce in 1985 and $9.35 in 1984. The 1983 average prices were copper $0.90, molybdenum $4.18 and silver $14.10.

Net cash balances increased to $40.0 million from $6.7 million. Capital expenditures in 1984 were $9.9 million compared to $3.3 million last year. During the year the Corporation repaid $26.4 million of the Bullmoose bank loans; the total Bullmoose loans outstanding at December 31, 1985 were $79.9 million, including $59.1 million borrowed under the limited recourse loan agreement.

Lornex Mine

The total tonnage of ore milled during 1985 was a record high 32.2 million tons, an increase of 3.7% over the previous year. Production of copper in concentrate in 1985, also a record, was 13% greater than in 1984 due primarily to a higher mill head grade and greater mill throughput. Molybdenum production of 7.6 million pounds for the year was slightly better than 1984 on account of higher mill recovery and the greater volume of ore milled.

The continuing effects of stringent cost control measures and the implementation of new technologies and process improvements have yielded improved efficiencies and productivity resulting in unit production costs about 5% less than in 1984.

Computer-assisted truck dispatch system is one of the innovations at Lornex's huge open pit mine in British Columbia's Highland Valley that helped the copper-molybdenum producer reduce production costs in 1985.

Comparative operating data for the Lornex copper-molybdenum mine are as follows:

	1985	1984
Tons of ore milled (000's)	**32,200**	31,044
Average tons milled per operating day	**88,220**	84,821
Average mill head grade (%)		
Copper	**0.386**	0.356
Molybdenum	**0.016**	0.017
Average mill recovery (%)		
Copper	**87.6**	87.3
Molybdenum	**73.2**	70.1
Payable metal in concentrate produced (000's)		
Copper (pounds)	**210,583**	186,210
Molybdenum (pounds)	**7,593**	7,448
Silver (ounces)	**776**	726
Payable metal in concentrate delivered (000's)		
Copper (pounds)	**225,396**	165,399
Molybdenum (pounds)	**6,949**	6,796

Bullmoose Mine

The Bullmoose coal mine continues to run efficiently in its second full year of operation. Lornex's share of 1985 metallurgical coal production was 831,000 tonnes, up 25% over the 1984 volume of 666,000 tonnes. Metallurgical coal sales of 816,000 tonnes compare to 695,000 tonnes delivered in 1984. The substantial increase in metallurgical coal production and sales over last year resulted from the amendments to the sales agreement in late 1984. A small amount of thermal coal was produced and sold during the year.

The coal is sold under long-term contracts to a group of Japanese steel mills, with the price established according to a formula until March 31, 1989. The contracted tonnage is 1.7 million tonnes per year, plus or minus 5% at the buyer's option. The contract was amended in October, 1984 to provide for a tonnage increase to 2.0 million tonnes per year and a price reduction of $10 per tonne for the period April, 1984 through March, 1986, after which the original terms again take effect.

Exploration

Exploration expenditures by Lornex were $625,000 during the year. Approximately 70 properties were submitted to Lornex and of this total more than half were precious metals targets in British Columbia and almost one quarter were United States projects.

Detailed exploration was conducted on three projects, all in British Columbia. Two potential gold properties were drilled with mixed results and no further work is planned on either of them. Exploration activities will continue to focus on acquiring an interest in economic mineral projects in North America.


network 90

East Kemptville Tin Mine

Construction of mine and concentrator facilities at the large East Kemptville tin property near Yarmouth, Nova Scotia, was essentially completed on schedule in December, 1985. Pre-operational testing and commissioning of the mill began with the primary crusher circuit late in August. The first ore was passed through the primary and secondary crushers and grinding area in mid-October; small quantities of tin in concentrate were produced on October 20. At year-end the start-up operations indicated that there should be no major difficulties in achieving normal operations by mid-1986. The cost when completed will be below the budget of $170 million; a total of $142.5 million had been expended at December 31, 1985.

Average annual production for the first decade is expected to be 4,400 tonnes of tin in concentrates. By-products of 1,500 tonnes of copper and 2,400 tonnes of zinc in concentrates are also expected to be produced annually. All tin in concentrates produced to the end of 1995 have been contracted for at prices based on London Metal Exchange prices less deductions for treatment charges. Copper and zinc in concentrates will be sold on the spot market.

Trading in tin on the London Metal Exchange was suspended on October 24, 1985 and trading has not resumed to date.

Minerals Exploration

In 1985 Rio Algom and its subsidiaries conducted exploration activities in Canada, the United States, Chile and Spain. Emphasis was placed on the acquisition of known mineral deposits. Exploration expenditures, including expenditures on the Cerro Colorado copper project in Chile, were $11.2 million compared to $5.6 million in 1984.

Exploration activities in Canada were carried on from offices in Toronto, Montreal and Fredericton. Internationally, offices were maintained in Denver, Colorado; Reno, Nevada; Santiago, Chile and Madrid, Spain.

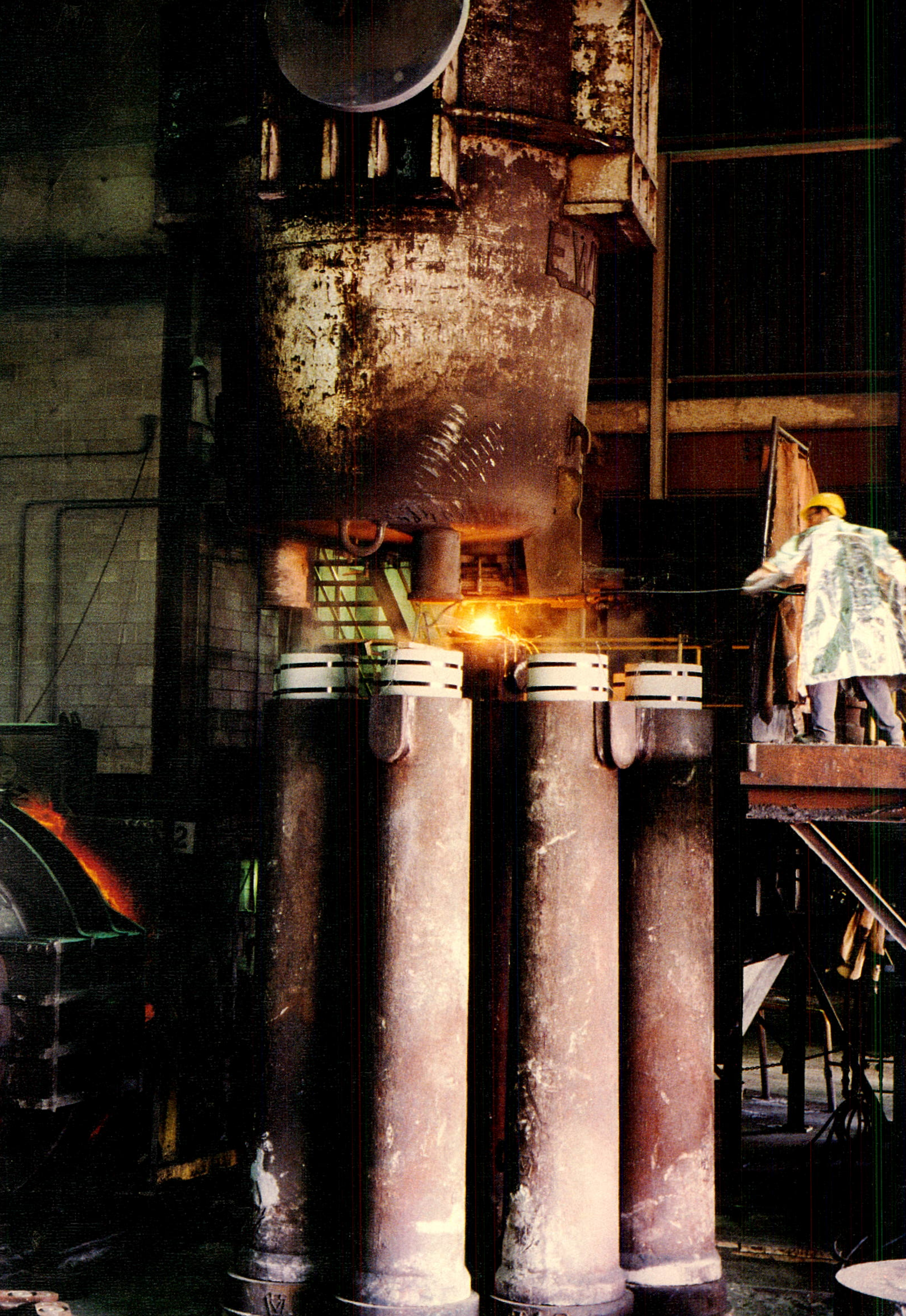
At the end of 1985 there were eleven exploration projects in Canada which were under active investigation. These included several gold properties and a copper-lead-zinc-silver property. During 1985 Northair Mines Limited acquired an interest in the Aylwin Creek gold-copper property in southeastern British Columbia in which Rio Algom retains a 28% interest. Optioned gold properties in Nevada and Chile were being investigated.

Markets for both metallurgical and steam coal remained depressed and no further work was done on the 60% owned Sage Creek steam coal project in British Columbia. The International Joint Commission is holding hearings to consider the potential impact of the project on the waters of the Flathead River which flows into Montana.

At the La Parrilla open pit tungsten-tin mine in southwestern Spain, held under an option-to-purchase agreement, initial drilling and metallurgical testing programs were favourable. A major drilling program has been completed and a full scale metallurgical testing program is underway as part of a feasibility study. La Parrilla, which is currently in production milling 3,000 tonnes of ore per day, is Spain's largest producer of both tungsten and tin; the tungsten mineralization is predominantly high purity scheelite.

In February, 1986 it was announced that it had been decided not to pursue development of the Cerro Colorado copper property in Chile because of recent difficulties encountered in completing satisfactory financing and commercial terms.

Mill grinding circuit is displayed on control room computer screen at the new East Kemptville tin mine in Nova Scotia. Construction was essentially completed on schedule and below budget in December, 1985.



Steel Manufacture

(in thousands)	1985	1984
Revenue	**$209,274**	$249,151
Operating profit (loss)	**$(11,456)**	$ 11,777

The operating loss incurred in 1985 was primarily the result of strikes and severe pressures in the marketplace.

To improve marketing flexibility and efficiency, on July 1, 1985 the Atlas Steels operations were decentralized and restructured into two divisions: Tracy-based Atlas Stainless Steels and separate Welland-based Atlas Specialty Steels.

Atlas Stainless Steels

Sales of stainless steels, primarily flat rolled stainless steel sheet, strip and plate, manufactured at the Tracy plant declined sharply in 1985 mainly as a consequence of a three-month strike of production and maintenance workers which ended on June 14, 1985; the strike was preceded by a three-month period during which operations continued without a collective agreement. As a result, customers for Tracy product, in anticipation of labour disruption, made commitments to purchase foreign steels which were readily available because of the worldwide excess steelmaking capacity for these products. These commitments continued well after the strike ended.

During the year the domestic market for stainless flat rolled products was reasonably strong but weaker than in 1984. Sales of stainless steel by distributors continued at levels comparable with the previous year. An increase in the volume of shipments from the plant began in September, comprising sheet to sink manufacturers reflecting accelerating housing starts, sheet and strip to automotive parts manufacturers and plate and sheet for pulp and paper equipment. However, recovery of market share lost during the strike has been achieved only by meeting low prices of imported steels.

Bottom pouring of stainless ingots at the Atlas Specialty Steels plant in Welland, Ontario. Up to eight ingots can be done simultaneously in this operation to produce superior quality steel.

Additional duties on stainless flat rolled products imposed by the United States in 1983 on imports from all countries remained in effect through 1985. The United States has also negotiated voluntary restraints agreements covering stainless flat rolled products with the European Economic Community and some Asian countries in place of additional duty. The result is that Canadian and foreign products which are fairly traded are effectively precluded from entering the United States market and more foreign stainless steel, some unfairly traded, enters the Canadian market. This situation reinforces the need for close import monitoring.

Technical assistance provided under an agreement with a French producer of stainless sheet was largely completed in 1985. This technology will improve product quality, productivity and increase capacity.

Atlas Specialty Steels

Sales of the wide range of specialty steels manufactured at the Welland plant decreased slightly in 1985. Because of intense competition, selling prices for many products fell from the levels achieved in the prior year. A two-week strike of production and maintenance workers in May adversely affected both sales and manufacturing performance.

In Canada demand for products by the automotive industry remained strong but severe price competition from foreign suppliers of forged parts resulted in a loss of business for the Canadian forging industry. The oil industry and capital goods markets strengthened in 1985 but the impact of low priced steel supplied by foreign producers hindered increased sales of Atlas products, particularly in the western Canadian market. Demand for steels used by the mining industry continued to be weak, reflecting depressed metal prices.

Generally, the worldwide steel making capacity for the specialty steels produced by the Welland plant continued to exceed demand. This has resulted in strong competition from low priced foreign steels in domestic and export markets. In 1985, following complaints by Atlas Steels, Canadian authorities investigated and assessed surcharges on tool steel imports from one Asian and three European countries. Production and sales into the United States of tool steel and stainless steel bars declined because of quotas imposed by the United States on imports of those products. In addition, U.S. restraint agreements encouraged the diversion of low-priced imports to Canada, one of the few remaining unrestricted markets.


RAYMON
Vincent

Metals Distribution

(in thousands)	1985	1984
Revenue	$447,641	$374,918
Operating profit	$ 28,426	$ 19,285

Revenue and operating profits of the metals distribution operations increased in 1985, mainly due to the inclusion of a full year's results of United States based Vincent Metals, which was purchased in April, 1984, and to a substantial improvement in the business of Atlas Alloys in Canada.

Virtually all of the metals purchased by service centres for distribution were in abundant supply during 1985. As a result, steel mills and other metal producers have been unable to introduce price increases. Consequently, the selling prices of many products distributed by the service centres remained unchanged or, in some cases, decreased, for the second year in succession.

Atlas Alloys sales from twelve service centres across Canada increased by 13% and operating profits improved by almost 60%. In spite of severe competitive pressures, gross margin percentages were maintained very close to the 1984 figures and operating expenses, as a percentage of sales, were reduced significantly.

The improvement in demand which had started in 1984 continued and strengthened throughout 1985. The economic recovery reached across all sectors of the country and all service centre locations contributed to the improved profitability. The recovery was particularly welcome in western Canada, which has suffered most in recent years from low levels of activity in the oil, gas and forest industries.

Vincent Metals, with ten metal service centres in the mid-western and south-eastern United States, had a reasonably good year, under conditions that were less buoyant than in 1984. While sales in tons were very close to the 1984 level, changes in product mix and lower prices resulted in sales in U.S. dollars about 5% less than in 1984. Gross margin percentages deteriorated slightly, but good control of operating expenses resulted in satisfactory operating profits that, although down from 1984, were above the historically typical levels for the industry. Results in the Minneapolis trading area were affected by the closing or moving of several major customers but the Minneapolis branch, the largest in the Vincent Metals group, maintained its record of being an above-average profit achiever, on a lower sales base.

The business of the four Atlas Alloys specialty steel warehouses in the United States was affected by the same factors experienced by Vincent Metals and profitability fell short of expectations. The demand for tool steel has not recovered to expected levels. Import quotas imposed in mid-1983 have not had the anticipated stabilizing effect on prices and pressure on profit margins remained very strong throughout 1985.

The Australian service centre and wire drawing businesses enjoyed another successful year. Sales in Australian dollars were 11% ahead of 1984 and operating earnings improved by 14%. The Australian economy was surprisingly strong, particularly in the second half of the year. Gross margins improved in spite of a significant and unexpected devaluation of the Australian dollar. A new wire drawing machine was ordered and will be in production in 1986.

In Mexico, the two service centres in Mexico City had another profitable year in spite of the continuing difficulties of a 60% rate of inflation and a rapidly devaluing Mexican peso. Sales in tons exceeded 1984 by nearly 50%, and sales in Canadian dollars were up by 20%.

In the last quarter of 1985, an office was opened in Chicago from which to direct and co-ordinate Rio Algom's international metal service centre operations.

Electric side loader removes package of steel sheet from one of the thousands of racks at one of the ten Vincent Metals service centres in the United States.


FISHER

Employees

At December 31, 1985 the Corporation and its subsidiaries employed 7,347 people compared to 7,408 at the end of the previous year. During the year the work force at the East Kemptville tin property which was being developed for production was increased to the operating level of some 200 people. Approximately two-thirds of these employees are residents of the communities near the East Kemptville mine site. At Elliot Lake the number of employees decreased by approximately 125, primarily by attrition. This decrease is a result of productivity improvements and operating efficiencies which have taken place.

During the year strikes of production and maintenance employees occurred at both the Welland and Tracy steel manufacturing plants following expiration of collective agreements. At Tracy the strike lasted three months. An intensive effort is being made to correct the unsatisfactory labour relations at Tracy which have resulted in three strikes since 1976. The economic viability of this plant and the employment which it provides have been impaired by these interruptions which erode customer confidence. Collective agreements are now in effect at the Tracy plant until November 30, 1987 for production and maintenance employees, and until January 31, 1988 for office and technical employees. At the Welland plant agreements are in effect for production and maintenance employees until February 16, 1988 and for office and technical employees until April 30, 1988.

The Lisbon mine collective agreement expires on February 28, 1987. However, in response to severely depressed business conditions, unionized and all other employees accepted proposals to reduce wage and benefit levels which, together with improvements in productivity, have permitted operations at this facility to continue.

Collective agreements at Elliot Lake are in effect until September 1, 1987 and at Lornex until June 30, 1986. Vincent Metals has collective agreements at four of its operations with expiry dates ranging from December, 1986 to May, 1988; negotiations for a collective agreement with a newly certified union in Chicago are under way.

Safety performance for 1985 was satisfactory. The safety record of each business operation compares favourably with the record of other employers in similar industries and geographic areas. In addition, at each operation there was a reduction in the frequency of lost time injuries compared to 1984, notably at the Elliot Lake, Lornex and Vincent Metals operations. At Elliot Lake all three mines achieved a 3 Star advanced rating in the annual audit of Mine Safety and Loss Control, conducted by the Mines Accident Prevention Association of Ontario. This rating places the mines among the leaders in Canada in their class. The mine rescue teams at the Lisbon mine in Utah were commended by both United States' Federal and State agencies for the assistance provided during the Wilberg, Utah mine disaster. These teams also placed first and second in the 1985 Intermountain States mine rescue competition.

All people in the Rio Algom group are commended for their contributions to safety performance in 1985. It is hoped that this achievement will be improved upon in 1986 as the management and employees at each operation continue to strive for the ultimate goal of an accident and injury free workplace.

Research technician Alisa Enright places a centrifuge tube of mine water into atomic absorption spectro-photometer for heavy metal analysis, in Rio Algom's Elliot Lake, Ontario process and development laboratory.

Accounting Policies

The principal accounting policies followed by Rio Algom Limited and its subsidiaries are summarized hereunder to facilitate a comprehensive review of the consolidated financial statements contained in this report.

Basis of Consolidation
The consolidated financial statements include the accounts of all significant subsidiary corporations and the Corporation's proportionate interests in the accounts of an unincorporated joint venture.

Valuation of Inventories and Concentrates Awaiting Shipment
Inventories of steel, other metals, raw materials and supplies are valued at the lower of cost and market. Cost is determined generally at average or standard costs which approximate actual except for inventories of a United States subsidiary for which costs are determined on the last-in, first-out basis. Market for steel and other metals is net realizable value and for raw materials and supplies is replacement cost. Intercompany profits have been excluded from these inventories.

Concentrates awaiting shipment and coal inventories are valued at estimated realizable prices.

Depreciation and Amortization
The Corporation charges depreciation and amortization on the following bases:

(i) Mining fixed assets:
Fixed assets are depreciated on the basis of the shorter of physical life (straight line method) or economic life as estimated for each mining unit (units of production method); economic life is adjusted from time to time as conditions warrant.

(ii) Other fixed assets:
Fixed assets are depreciated on the straight line method based on engineering estimates of the lives of the assets at the following rates:

Buildings	4% per annum
Plant and equipment	6⅔% per annum

Mining properties and preproduction expenditures are amortized on the same basis as mining fixed assets are depreciated.

Capitalization of Interest
The Corporation follows the policy of capitalizing net interest costs during construction or development only on those projects for which funds have been borrowed; this would normally apply only to such major new projects from beginning of construction or development up to the commencement of commercial operations. In these cases interest earned on borrowed funds during the development and construction period is applied against the interest expense to reduce the amount of interest costs capitalized. Such net interest costs are capitalized because it is considered that they would not have been incurred if the project had not been undertaken and therefore are properly part of the capital cost of the total project.

Mineral Exploration and Development Costs
Exploration costs are written off as incurred. Expenditures on development projects are capitalized while the projects are considered to be of value to the Corporation.

Income and Mining Taxes
The Corporation provides for deferred income and mining taxes on all significant timing differences which represent the tax effects of revenue and expense items reported for tax purposes in periods different than for accounting purposes. Investment tax credits are recorded using the cost reduction approach when there is reasonable assurance that the credits will be realized; these credits are deferred and amortized to income on the same basis as the related assets.

Earnings per Common Share
Earnings per common share are stated after provisions for dividends on preference shares and are based on the weighted average number of shares outstanding.

Consolidated Statement of Earnings

Rio Algom Limited
(Incorporated under
the laws of Ontario)

(Thousands of dollars)

Years Ended December 31	**1985**	1984	1983
Revenue:			
Revenue from mine production and sales of steel and other products	**$1,226,924**	$1,141,774	$ 779,652
Expenses:			
Cost of mine production and steel sales	**913,963**	867,138	585,948
Selling, general and administration	**101,610**	88,507	58,994
Interest (net) (note 13)	**(6,157)**	7,600	(10,265)
Depreciation and amortization (note 14)	**70,452**	71,791	58,833
Exploration	**11,207**	5,563	7,013
	1,091,075	1,040,599	700,523
Earnings before taxes and minority interests	**135,849**	101,175	79,129
Income and mining taxes (note 15)			
Current	**30,229**	15,933	14,488
Deferred	**9,571**	12,396	12,645
	39,800	28,329	27,133
Earnings before adjustment for minority interests in subsidiary corporation	**96,049**	72,846	51,996
Minority interests in net earnings (loss) of subsidiary corporation	**7,701**	(1,041)	856
Net earnings for the year (note 12)	**$ 88,348**	$ 73,887	$ 51,140
Earnings per common share (note 1)	**$ 2.00**	$ 1.65	$ 1.11

Consolidated Statement of Retained Earnings

(Thousands of dollars)

Years Ended December 31	**1985**	1984	1983
Balance, beginning of year	**$ 468,441**	$ 421,457	$ 395,278
Add net earnings for the year	**88,348**	73,887	51,140
	556,789	495,344	446,418
Deduct:			
Dividends on preference shares	**3,204**	3,451	3,629
Dividends on common shares	**25,584**	23,452	21,332
	28,788	26,903	24,961
Balance, end of year	**$ 528,001**	$ 468,441	$ 421,457

Consolidated Balance Sheet
(Thousands of dollars)

December 31	1985	1984
Assets		
Current:		
Cash and short term deposits	**$ 208,378**	$ 129,573
Receivables and prepaid expenses	**125,878**	166,874
Inventories and concentrates awaiting shipment (note 3)	**503,773**	445,044
	838,029	741,491
Plant and equipment (note 4)	**650,758**	689,669
Construction in progress, at cost	**144,084**	54,712
Mining properties and preproduction expenditures (note 5)	**193,826**	204,659
Other assets, at cost	**6,966**	6,966
	$1,833,663	$1,697,497

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Rio Algom Limited as at December 31, 1985 and 1984, and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for each of the three years in the period ended December 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and 1984, and the results of its operations and changes in its financial position for each of the three years in the period ended December 31, 1985, in accordance with generally accepted accounting principles in Canada applied, except for the change in accounting policy as explained in note 2, on a consistent basis.

Toronto, Canada
February 26, 1986

Coopers & Lybrand
Chartered Accountants

	1985	1984
Liabilities		
Current:		
Bank loans and overdrafts	$ —	$ 14,032
Accounts payable and accrued liabilities	**191,000**	179,709
Income and mining taxes	**42,229**	17,752
Current portion of long term debt	**13,711**	3,883
	246,940	215,376
Long term debt (note 6):		
Recourse	**82,922**	111,700
Limited recourse	**200,498**	128,618
Advances from Ontario Hydro (note 7)	**337,105**	353,444
Deferred income and mining taxes	**242,599**	233,028
Minority shareholders' interests in subsidiary corporation	**61,937**	54,236
	1,172,001	1,096,402
Capital Stock and Retained Earnings		
First preference shares (note 8)	**7,055**	8,319
Second preference shares (note 8)	**9,727**	10,390
Common shares (note 8)	**49,152**	49,152
Contributed surplus	**60,040**	61,177
Cumulative translation adjustment (note 9)	**7,687**	3,616
Retained earnings	**528,001**	468,441
	$1,833,663	$1,697,497

Approved on behalf of the Board:

J. Keith Reynolds

J. Keith Reynolds, Director

George R. Albino

George R. Albino, Director

Consolidated Statement of Contributed Surplus

(Thousands of dollars)

Years Ended December 31	1985	1984	1983
Balance, beginning of year	**$ 61,177**	$ 37,302	$ 37,256
Add (deduct):			
Profit (loss) on purchase and cancellation of preference shares (net) (note 8 (e))	**(1,137)**	51	46
Amount arising on reduction in stated capital of Second Preference Shares (note 8 (e))	—	24,243	—
Premium on purchase and cancellation of common shares (note 8 (d))	—	(419)	—
Balance, end of year	**$ 60,040**	$ 61,177	$ 37,302

Consolidated Statement of Changes in Financial Position

(Thousands of dollars)

Years Ended December 31	1985	1984	1983
Operating Activities:			
Earnings before adjustment for minority interests in subsidiary corporation	**$ 96,049**	$ 72,846	$ 51,996
Depreciation and amortization	**70,452**	71,791	58,833
Deferred income and mining taxes	**9,571**	12,396	12,645
Decrease (increase) in non-cash working capital	**22,106**	(79,421)	21,757
	198,178	77,612	145,231
Financing Activities:			
Increase in long term debt	**87,048**	30,123	95,217
Repayment of long term debt	**(34,118)**	(13,057)	(22,502)
Advances from (repayments to) Ontario Hydro (net)	**(16,339)**	1,986	91,914
Dividends on common shares	**(25,584)**	(23,452)	(21,332)
Dividends on preference shares	**(3,204)**	(3,451)	(3,629)
Purchase and cancellation of preference and common shares	**(3,064)**	(2,771)	(111)
	4,739	(10,622)	139,557
Investing Activities:			
Expenditures (net) for plant and equipment, construction in progress, mining properties, preproduction and development projects	**(110,080)**	(42,498)	(165,673)
Acquisition of Vincent Metals	—	(59,460)	—
	(110,080)	(101,958)	(165,673)
Change in cash and equivalents during year(2)	**92,837**	(34,968)	119,115
Cash and equivalents, beginning of year	**115,541**	150,509	31,394
Cash and equivalents, end of year	**$ 208,378**	$ 115,541	$ 150,509

(1) As recommended by the Canadian Institute of Chartered Accountants the above statement has been prepared disclosing changes in cash and equivalents; the data for 1984 and 1983 have been reclassified accordingly.

(2) Cash and equivalents comprise cash and short term deposits less current bank loans and overdrafts.

Notes to Consolidated Financial Statements

December 31, 1985, 1984 and 1983

1 Accounting Policies

The information on page 16 presents a summary of the principal accounting policies and is an integral part of these consolidated financial statements.

2 Change in Accounting Policy

Effective January 1, 1985 the Corporation adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants with respect to investment tax credits (see Accounting Policies — Income and Mining Taxes). Previously the Corporation recorded investment tax credits by the "flow through" method which recognized such credits as a reduction of income tax expense in the year in which they were claimed for federal tax purposes. 1985 consolidated earnings would not have been affected if the former accounting policy had been continued.

3 Inventories and Concentrates Awaiting Shipment

	1985	1984
	(in thousands)	
Mining operations		
Concentrates awaiting shipment and coal inventories	$ 288,115	$ 240,482
Mine supplies	38,966	39,422
	327,081	279,904
Steel and other metals operations (a)		
Steel, other metals, raw materials and supplies	176,692	165,140
	$ 503,773	$ 445,044

(a) Includes inventories, valued on a LIFO basis at December 31, 1985, of $50.4 million (1984 — $47.7 million) which have a replacement cost of $60.0 million (1984 — $62.6 million).

4 Plant and Equipment

	1985	1984
	(in thousands)	
Buildings, at cost	$ 433,179	$ 449,953
Machinery and equipment, at cost	753,693	741,653
	1,186,872	1,191,606
Less accumulated depreciation	538,862	504,657
	648,010	686,949
Land, at cost	2,748	2,720
	$ 650,758	$ 689,669

Plant and equipment includes $22,681,000 in respect of assets of mines presently idle which have been fully depreciated.

5 Mining Properties and Preproduction Expenditures

	1985	1984
	(in thousands)	
Mining properties, at cost	$ 10,860	$ 10,676
Less accumulated amortization	10,217	9,843
	643	833
Preproduction expenditures, at cost	341,500	339,971
Less accumulated amortization	148,317	136,145
	193,183	203,826
	$193,826	$204,659

6 Long Term Debt

	1985	1984
	(in thousands)	
Recourse debt:		
11½% Sinking Fund Debentures Series B maturing on July 15, 1995 (a)	$ 29,169	$ 29,214
Lornex Mining Corporation Ltd. Bullmoose bank loans (b)	20,860	41,302
Housing loans and mortgages (c)	35,496	42,758
	85,525	113,274
Less portion included in current liabilities	2,603	1,574
	82,922	111,700
Limited recourse debt:		
East Kemptville Tin Project bank loans (d)	116,978	30,000
Bullmoose bank loans (b)	59,063	65,000
Housing loans and mortgages (c)	35,565	35,927
	211,606	130,927
Less portion included in current liabilities	11,108	2,309
	200,498	128,618
	$283,420	$240,318

(a) The Corporation is required to make sinking fund payments for the retirement of the Series B Sinking Fund Debentures in principal amounts of $2,500,000 on July 15, 1986 to 1994 inclusive.

The Sinking Fund Debentures are secured under a trust deed by a first floating charge upon the property and assets, present and future, of the Corporation excepting the Stanleigh Project and certain other assets.

(b) Lornex's Bullmoose bank loans are repayable in instalments from July, 1986 and continuing through July, 1992 on the recourse loans and from July, 1986 through January, 1995 on the limited recourse loans. The loans and acceptances outstanding at December 31, 1985 carry average interest rates of 9.3% on the recourse loans and 10.1% on the limited recourse loans.

The limited recourse and recourse loans are secured by a first charge on Lornex's 39% interest in the assets of the Bullmoose mine.

(c) The housing loans and mortgages carry interest rates varying from 8¾% to 15½%.

(d) The Corporation's financing for the East Kemptville Tin Project comprises a $154.6 million limited recourse facility. The loans and acceptances outstanding at December 31, 1985 carry an average interest rate of 9.37% and are repayable in instalments from June, 1986 to December, 1995. These loans are secured by a mortgage and charge on the assets of the project.

(e) Long term debt repayment requirements, after allowing for prepayments, over the next five years amount to $13.7 million in 1986, $16.2 million in 1987, $18.6 million in 1988, $18.8 million in 1989 and $30.4 million in 1990.

7 Advances from Ontario Hydro

	1985	1984
	(in thousands)	
Balance at December 31	**$337,105**	$353,444

Ontario Hydro has agreed to make interest-free advances of the funds required to bring the Stanleigh Project into production and the funds necessary for its working and sustaining capital requirements. The funds advanced are being repaid to Ontario Hydro over the delivery period in amounts approximately equal to the amortization allowance included in the base price, as defined in the agreement, of uranium delivered. The advances are secured by a non-recourse first charge against the Stanleigh Project assets.

8 Capital Stock

Authorized:

420,550	First Preference Shares, issuable in series.
22,654,575	Second Preference Shares, issuable in series.
Unlimited	Common Shares.

	First Preference Shares[a]		Second Preference Shares[a]		Common Shares	
Issued:	Number	Amount	Number	Amount	Number	Amount
		(000's)		(000's)		(000's)
Balance, December 31, 1982	85,487	$ 8,549	7,387,169	$36,936	14,220,929	$49,179
Purchased and cancelled in 1983 [b][c][d]	(990)	(99)	(11,667)	(58)	(33)	—
Issued re stock split [d]	—	—	—	—	28,441,792	—
Balance, December 31, 1983	84,497	8,450	7,375,502	36,878	42,662,688	49,179
Purchased and cancelled in 1984 [b][c][d]	(1,310)	(131)	(449,003)	(2,245)	(22,828)	(27)
Reduction in stated capital [e]	—	—	—	(24,243)	—	—
Balance, December 31, 1984	83,187	8,319	6,926,499	10,390	42,639,860	49,152
Purchased and cancelled in 1985 [b][c]	(12,637)	(1,264)	(441,425)	(663)	—	—
Balance, December 31, 1985	**70,550**	**$ 7,055**	**6,485,074**	**$ 9,727**	**42,639,860**	**$49,152**

(a) The issued preference shares are comprised as follows: (i) $5.80 Cumulative Redeemable First Preference Shares Series A (redeemable at $101 to $100 per share); and (ii) 8.5% Cumulative Redeemable Second Preference Shares Series A (redeemable at $5 per share).

(b) 12,637 First Preference Shares were purchased and cancelled in 1985, 1,310 shares were purchased and cancelled in 1984 and 990 shares were purchased and cancelled in 1983 at costs of $856,000, $80,000 and $62,000 respectively. The Corporation's obligation for 1986 referred to in note 11 (c) (i) has been fulfilled.

(c) 441,425 Second Preference Shares were purchased and cancelled in 1985, 449,003 shares were purchased and cancelled in 1984 and 11,667 shares were purchased and cancelled in 1983 at costs of $2,208,000, $2,245,000 and $49,000 respectively. The Corporation has set aside $2,206,000 in a retirement fund account to be used to redeem 441,225 Second Preference Shares at $5 per share on January 31, 1986, thereby fulfilling the Corporation's obligation due February 28, 1985 referred to in note 11 (c) (ii) below.

(d) 28,441,792 common shares were issued as a result of the 3 for 1 stock split which took effect October 11, 1983; 33 common shares had previously been purchased from dissenting shareholders and cancelled. 22,828 common shares were purchased and cancelled in 1984 at a cost of $446,000 pursuant to an offer made to shareholders with aggregate holdings of 50 or fewer common shares.

(e) Effective July 12, 1984 the stated capital of the Second Preference Shares was reduced by $3.50 per share to $1.50 per share for each such Second Preference Share issued and outstanding on that date and the resultant reduction of $24,243,000 has been credited to Contributed Surplus. Since the redemption price of the Second Preference Shares remained unchanged at $5.00 there is a potential loss of $3.50 per share; the 1985 loss of $1,545,000 on purchase and cancellation of Second Preference Shares, reduced by a profit of $408,000 on the purchase and cancellation of First Preference Shares, has been charged to Contributed Surplus. The reduction in the stated capital does not change the total amount of $32,425,000 which may be required to satisfy the mandatory retirement fund obligations in respect of the Second Preference Shares outstanding as of December 31, 1985.

(f) There are restrictions on the payment of common share dividends in the provisions attaching to the Preference Shares and the Corporation's trust indentures relating to the Series B Debentures.

9 Cumulative Translation Adjustment

	1985	1984
	(in thousands)	
Balance, beginning of year	$ 3,616	$ (317)
Foreign currency translation gains	4,071	3,933
Balance, end of year	$ 7,687	$ 3,616

10 Pension Plans

Most employees are covered by either contributory or non-contributory pension plans. The funds of each of the various pension plans are administered by a corporate trustee or an insurance company. Total pension expense is charged against earnings in the year of payment to the trustee or insurance company and amounted to $7,154,000 in 1985, $8,458,000 in 1984 and $9,302,000 in 1983. A comparison of accumulated plan benefits and plan net assets as at the respective valuation dates, varying from December 31, 1982 to June 1, 1985, for the Corporation's defined benefit plans is presented below:

Actuarial value of accumulated plan benefits:

	1985	1984
	(in thousands)	
(i) Pension plans:		
Vested	$132,392	$109,965
Nonvested	25,451	16,111
(ii) Plans for which above information has not been segregated:		
Vested and nonvested	—	16,982
	$157,843	$143,058
Net assets at valuation date available for benefits	$161,089	$129,938

The weighted average assumed rate of return used in determining the above actuarial value of accumulated plan benefits was 6.5% per year as at December 31, 1985 and 6.33% per year as at December 31, 1984.

Additional pension benefits are also provided for certain groups of employees through group annuity contracts. Such benefits are fully funded.

The unfunded liability for pension funds at December 31, 1985 is estimated at $8.9 million ($19.5 million at December 31, 1984). This is presently being funded over a period of years expiring in 1999.

11 Commitments and Contingencies

(a) Estimated total cost to complete capital projects, including East Kemptville, as at December 31, 1985 was approximately $14.4 million (committed $7.2 million).

(b) The Corporation is committed to total minimum rentals in the amount of $17.3 million under operating leases for land and buildings which expire from 1986 to 2000. Commitments are $2.6 million in 1986, $2.6 million in 1987, $2.5 million in 1988, $2.3 million in 1989 and $2.1 million in 1990.

(c) So long as Preference Shares are outstanding, the Corporation is obligated to set aside each year, on the dates indicated, the following amounts as a retirement fund to be used to purchase or redeem Preference Shares:
(i) First Preference Shares — $300,000 on April 1; and
(ii) Second Preference Shares — $2,207,625 on February 28.

(d) The Corporation was contingently liable at December 31, 1985 for housing mortgage guarantees of $18.1 million.

12 The Effect of Applying United States Generally Accepted Accounting Principles

Generally accepted accounting principles in the United States require the recording of the future tax benefits of investment tax credits under certain conditions as they arise. The effect of applying U.S. generally accepted accounting principles on consolidated net earnings is as follows:

	1985	1984	1983
	(in thousands)		
Net earnings for the year, as reported	$ 88,348	$ 73,887	$ 51,140
Add (deduct):			
Investment tax credits	(700)	3,100	(630)
Adjustments of prior years' tax credits	—	—	(12,900)
Net earnings for the year (adjusted on a U.S. basis)	$ 87,648	$ 76,987	$ 37,610

In addition generally accepted accounting principles in the United States would require the Corporation to follow the equity method of accounting for its investment in the Bullmoose joint venture coal mine; however, the equity method would not result in any change in the Corporation's net earnings as reported.

13 Interest (net)

	1985	1984	1983
			(in thousands)
Interest on demand bank loans	**$ 1,566**	$ 2,927	$ 1,787
Interest on long term debt	**30,147**	28,554	23,768
Interest capitalized	**(8,166)**	(1,085)	(10,784)
Investment and other income	**(29,704)**	(22,796)	(25,036)
Net interest expense (income)	**$ (6,157)**	$ 7,600	$(10,265)

14 Depreciation and Amortization

	1985	1984	1983
			(in thousands)
Plant and equipment	**$ 59,045**	$ 60,637	$ 51,598
Mining properties and preproduction expenditures	**11,407**	11,154	7,235
	$ 70,452	$ 71,791	$ 58,833

15 Income Taxes

Earnings before taxes and minority interests consist of:

	1985	1984	1983
			(in thousands)
Canadian	**$118,850**	$ 85,334	$ 69,568
Foreign	**16,999**	15,841	9,561
	$135,849	$101,175	$ 79,129

The timing differences giving rise to deferred taxes principally relate to depreciation and preproduction expenses and it is not practical to determine these amounts separately.

A reconciliation of the weighted average Canadian income tax rates and the effective rate of income and mining taxes is as follows (different rates of income tax apply to income from mining, manufacturing and other sources):

	1985	1984	1983
Weighted average Canadian income tax rates	**50.9%**	49.4%	49.4%
Increase (decrease) resulting from:			
Resource and depletion allowances net of provincial mining taxes	**(9.4)**	(10.4)	(10.2)
Inventory allowances	**(2.5)**	(2.4)	(3.6)
Investment tax credits	**(6.9)**	(1.5)	—
Exempt income*	**(2.7)**	(3.0)	(3.6)
Non-allowable expenses	**.7**	1.6	1.0
Foreign taxes	**(.1)**	(1.8)	1.0
Sundry	**(.7)**	(3.9)	.3
Effective rate of income and mining taxes	**29.3%**	28.0%	34.3%

*Exempt income principally relates to non-taxable dividends and capital gains.

At December 31, 1985, the Corporation has $25.2 million (1984 — $39.0 million) of investment tax credit carry forwards which are available for offset against future years' taxes otherwise payable. Such carry forwards, if unused, will expire between the years 1986 and 1991. No recognition has been given in these financial statements to the potential future tax benefit which may result from the application of these investment tax credits.

16 Business Segment Data

The operations of the Corporation and its subsidiaries may be grouped into segments. The primary operations of each segment are as follows:

Business Segment	Operations
Uranium	Underground mining and milling of uranium ore.
Copper/coal	Open pit mining and milling of copper-molybdenum ore and joint venture interest in open pit mining and treatment of metallurgical coal.
Steel manufacture	Manufacture of stainless and specialty steels.
Metals distribution	Marketing through service centres of stainless and specialty steels and other metal products.

Revenue from mine production and sales of steel and other products, by segment, are as follows (all are to customers outside the Corporation except for steel manufacture inter-segment sales):

	Year Ended December 31		
	1985	1984	1983
		(in thousands)	
Uranium	**$ 368,274**	$ 368,146	$297,559
Copper/coal	**243,702**	195,725	148,507
Steel manufacture	**167,307**	202,985	149,700
Steel manufacture inter-segment (a)	**41,967**	46,166	35,929
Metals distribution	**447,641**	374,918	183,886
	1,268,891	1,187,940	815,581
Inter-segment sales elimination	**(41,967)**	(46,166)	(35,929)
Consolidated	**$1,226,924**	$1,141,774	$779,652

(a) Inter-segment sales are accounted for at prices comparable to open market prices for similar products.

The operating profit (loss) of each segment is as follows:

	Year Ended December 31		
	1985	1984	1983
		(in thousands)	
Uranium	**$ 88,263**	$ 86,863	$76,130
Copper/coal	**43,280**	6,234	5,992
Steel manufacture	**(11,456)**	11,777	(4,884)
Metals distribution	**28,426**	19,285	6,505
Consolidation adjustment	**1,462**	(792)	(191)
Operating profit	**149,975**	123,367	83,552
Deduct:			
Exploration	**11,207**	5,563	7,013
Corporate expenses	**9,076**	9,029	7,675
Interest (net)	**(6,157)**	7,600	(10,265)
	14,126	22,192	4,423
Earnings before taxes and minority interests	**$135,849**	$101,175	$79,129

Operating profit is revenue less applicable operating expenses. In computing operating profit none of the following items has been deducted: exploration, general corporate expenses, interest expense (net of investment and other income) and minority interests in net earnings of a subsidiary.

During the last three years the following products contributed to consolidated revenue in the percentages shown:

	Year Ended December 31		
	1985	1984	1983
Uranium	**30%**	32%	38%
Stainless steels	**16**	18	17
Copper	**11**	9	14
Other	**43**	41	31
	100%	100%	100%

Identifiable assets of each segment are as follows:

	December 31		
	1985	1984	1983
		(in thousands)	
Uranium	**$ 775,402**	$ 774,002	$ 752,899
Copper/coal	**414,069**	407,812	294,898
Steel manufacture	**153,456**	164,564	147,061
Metals distribution	**217,905**	190,938	100,105
Consolidation adjustment	**(1,343)**	(6,227)	(3,762)
Segment identifiable assets	**1,559,489**	1,531,089	1,291,201
General corporate assets	**274,174**	166,408	296,348
Total assets	**$1,833,663**	$1,697,497	$1,587,549

Segment identifiable assets are those assets that are used in the operations of each segment. General corporate assets are principally cash and short term deposits and construction in progress.

Depreciation, depletion and amortization expense of each segment is as follows:

	Year Ended December 31		
	1985	1984	1983
		(in thousands)	
Uranium	**$ 36,219**	$ 37,614	$ 29,945
Copper/coal	**26,032**	25,286	20,216
Steel manufacture	**6,203**	6,911	7,080
Metals distribution	**1,660**	1,676	1,262
Segment depreciation, depletion and amortization expense	**70,114**	71,487	58,503
General corporate depreciation	**338**	304	330
Total depreciation, depletion and amortization expense	**$ 70,452**	$ 71,791	$ 58,833

Net capital expenditures of each segment including capitalized interest are as follows:

	Year Ended December 31		
	1985	1984	1983
			(in thousands)
Uranium (a) (c)	$ **3,836**	$ (2,051)	$ 87,806
Copper/coal (b)	**9,937**	3,316	3,564
Steel manufacture (a)	**3,673**	2,557	1,661
Metals distribution	**2,828**	1,700	301
Segment capital expenditures	**20,274**	5,522	93,332
General corporate capital expenditures (c)	**89,806**	36,976	3,244
Bullmoose coal mine (a) (b)	—	—	69,097
Total capital expenditures (net)	$ **110,080**	$ 42,498	$ 165,673

(a) Includes expenditures on construction in progress.

(b) Bullmoose coal mine commenced operations in January, 1984; 1984 and 1985 expenditures are included in copper/coal segment.

(c) 1984 and 1985 corporate capital expenditures include construction in progress for the East Kemptville tin project. Uranium capital expenditures in 1984 and 1985 are net of sales of housing units at Elliot Lake.

Rio Algom's domestic operations make export sales to various parts of the world and foreign operations are conducted by subsidiaries in three countries. Details of foreign and domestic revenue are as follows:

	Year Ended December 31		
	1985	1984	1983
			(in thousands)
Domestic operations (Canada)			
Revenue — Canadian customers	$ **393,735**	$ 399,854	$ 326,782
Export revenue			
— customers (a)	**507,215**	475,928	370,499
— inter-segment	**30,329**	23,784	12,198
total	**537,544**	499,712	382,697
	931,279	899,566	709,479
Foreign operations — United States, Australia and Mexico	**325,974**	265,992	82,371
	1,257,253	1,165,558	791,850
Inter-segment sales elimination	**(30,329)**	(23,784)	(12,198)
Consolidated revenue	**$1,226,924**	$1,141,774	$ 779,652

(a) Export revenues from sales to customers outside the Corporation are as follows:

	Year Ended December 31		
	1985	1984	1983
			(in thousands)
Japan	$ **209,008**	$ 230,231	$ 117,108
United States	**94,538**	83,693	109,345
United Kingdom	**102,605**	113,615	89,097
Other countries	**101,064**	48,389	54,949
	$ **507,215**	$ 475,928	$ 370,499

Operating profit by domestic and foreign operations is as follows:

	Year Ended December 31		
	1985	1984	1983
			(in thousands)
Domestic (Canada)	$ **131,447**	$ 106,743	$ 71,994
Foreign	**18,528**	16,624	11,558
Operating profit of segments	$ **149,975**	$ 123,367	$ 83,552

Identifiable assets of Rio Algom's foreign operations totalled $206.7 million, $172.6 million and $88.2 million at December 31, 1985, 1984 and 1983 respectively.

17 Related Party Transactions

During the year ended December 31, 1985 the Corporation participated in the following transactions with related parties:

(a) The Corporation sold to an affiliated corporation, at competitive prices and terms, a quantity of uranium in concentrates for U.S. $31.2 million of which U.S. $4.6 million remained unpaid at December 31, 1985.

(b) A wholly-owned subsidiary of the Corporation has contracted to purchase for resale 1,180 tons of uranium oxide from an affiliated corporation; any profits or losses in respect of the sale of the uranium oxide will accrue to that affiliate. In 1985 the amount of uranium oxide so purchased for resale was U.S. $19.0 million of which U.S. $239,000 remained unpaid at December 31, 1985.

18 Subsequent Events

(a) On January 13, 1986 a subsidiary corporation, Lornex Mining Corporation Ltd. ("Lornex"), 68.1% owned by the Corporation, and Cominco Ltd. ("Cominco") announced that agreement in principle had been reached to combine the assets and operations of Lornex and Cominco in the Highland Valley of British Columbia. The proposed agreement contemplates continued operation of the existing mines and mills of both Lornex and Cominco. Lornex and Cominco will have equal control and management of the entity which will operate the project. Working and other capital requirements are to be provided 45% by Lornex and 55% by Cominco and cash generated from the combined operations is to be distributed on the same basis.

(b) On January 31, 1986 the Corporation purchased all of the outstanding common shares of Potash Company of America, Inc. ("PCA") from Ideal Basic Industries, Inc. ("Ideal") for approximately U.S. $9.3 million, subject to adjustment on completion of an audit of PCA's financial statements as at January 31, 1986. In addition the Corporation assumed certain obligations of Ideal relating to PCA including the guarantee of PCA's bank loans which amounted to U.S. $106 million at December 31, 1985; arrangements have been made to refinance these loans by other facilities the majority of which are of a limited recourse nature. The common shares of PCA acquired represent approximately 87.8% of the PCA voting shares outstanding.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

Liquidity and Capital Resources

Rio Algom is a financially sound company with a solid capital base and strong earnings record. The Corporation's financial position strengthened further in 1985 in line with improved earnings.

The ratio of current assets to current liabilities remained unchanged at 3.4:1. Working capital increased by $65.0 million, and the net cash component increased from $115.5 million to $208.4 million. The Corporation and Lornex maintain lines of credit with two major Canadian banks amounting to $160 million which were unused throughout the year.

During a period in which $89.5 million was expended on the East Kemptville tin project and $28.8 million was paid out in dividends, the Corporation's long term debt evidenced a net increase of only $43.1 million. The recourse portion of long term debt at year end totalled $82.9 million, or 13% of shareholders' equity, down from 19% in 1984.

Internally generated funds, cash and existing credit facilities are expected to provide sufficient funds to finance capital expenditures, acquisition of Potash Company of America, Inc. (see note 18 to the financial statements), dividends and working capital requirements currently anticipated for 1986. As a consequence of its substantial debt capacity in combination with its liquid cash position, the Corporation is well placed to pursue investment opportunities in 1986 and beyond.

Results of Operations

Summary

The following table summarizes the Corporation's consolidated revenue and operating profit by business segment and net earnings for each of the three years in the period ended December 31, 1985 (in millions of dollars):

	1985	1984	1983
Revenue:			
Uranium	**$ 368.3**	$ 368.2	$297.6
Copper/coal	**243.7**	195.7	148.5
Steel manufacture	**209.3**	249.2	185.6
Metals distribution	**447.6**	374.9	183.9
Inter-segment elimination	**(42.0)**	(46.2)	(35.9)
	$1,226.9	$1,141.8	$779.7
Operating profit (loss) by segment:			
Uranium	**$ 88.3**	$ 86.9	$76.2
Copper/coal	**43.3**	6.2	6.0
Steel manufacture	**(11.5)**	11.8	(4.9)
Metals distribution	**28.4**	19.3	6.5
Consolidation adjustments	**1.5**	(.8)	(.2)
	$150.0	$123.4	$83.6
Consolidated net earnings	**$ 88.3**	$ 73.9	$51.1

For further business segment information see note 16 to the consolidated financial statements.

Revenue

1985 revenue from uranium operations was virtually unchanged from 1984; increased production at the Lisbon mine in Utah and slightly higher average prices, primarily resulting from a stronger United States dollar, offset the effects of slightly lower production at Elliot Lake. Between 1983 and 1984 revenue increased by $70.6 million or 24%; the increase was largely attributable to higher production resulting mainly from the inclusion of a full year's production in 1984 from the Stanleigh operation which commenced production in July, 1983.

Net revenue in 1985 from the copper/coal operations increased by $48.0 million or 25% as compared to 1984; of the increase approximately 75% was attributable to greater production, primarily copper and coal, with the balance relating to a stronger United States dollar and slightly higher copper prices which more than offset the effects of lower prices for coal, molybdenum and silver. The 32% increase from 1983 to 1984 was mainly due to the addition of Lornex's 39% interest in the revenue of the Bullmoose metallurgical coal mine which commenced operations January 1, 1984.

Steel manufacturing revenue decreased by $39.9 million or 16% from the 1984 levels mainly due to a three month strike at the Tracy plant of Atlas Steels and a two week strike and a weaker product mix at the Welland plant; total tonnage sold was 5% lower in 1985. Between 1983 and 1984 revenue increased by $63.6 million or 34% as the Canadian specialty steel industry continued to recover from extremely depressed business levels; tonnage sold increased by 23% due to an improved economy led by strengthening automotive demand. There was extreme difficulty in achieving any selling price increases in 1985 and only modest selling price increases were achieved in 1984 in the face of severe international competition arising in part from world overcapacity and the lingering effects of the weakening of many international currencies against the United States and Canadian dollars.

1985 revenue from metals distribution was $72.7 million or 19% higher than in 1984 which in turn reflected an increase of $191 million or 104% over 1983; these increases were largely attributable to the inclusion of a full year's operations in 1985 and nine months' operations in 1984 of Vincent Metals, a United States service centre operation acquired in 1984, combined with increased Canadian sales in both years. In Canada the improvement in demand which began in 1984 continued and strengthened in 1985 with particularly strong gains in the resource industry sector of Western Canada following 1984's improved demand by the consumer product sector, particularly automotive, and the road transportation industry. However available supplies of the mill forms of metals products continued to exceed demand and selling prices of many products remained flat and in some cases decreased for the second successive year in 1985.

Operating Profit by Segment
1985 uranium operating profit was $1.4 million or 2% higher than the previous year mainly due to continuing intensive cost control programs combined with increased revenue at the Lisbon mine. The increase of $10.7 million or 14% from 1983 to 1984 related primarily to the increase in net revenue referred to above together with lower operating costs at the Quirke and Panel facilities in Elliot Lake.

Copper/coal operating profit of $43.3 million in 1985 was seven times the 1984 level primarily because of the increase in net revenue referred to above combined with lower copper-molybdenum production costs resulting from continued stringent cost control measures. The 1984 operating profit was $0.2 million higher than in the previous year mainly because of the inclusion of operating profits from the Bullmoose mine.

Steel manufacturing recorded an operating loss of $11.5 million in 1985 as compared with an operating profit of $11.8 million in 1984 and an operating loss of $4.9 million in 1983. The deterioration in operating earnings of $23.3 million from 1984 to 1985 was largely the result of the decrease in net revenue referred to above; lower gross margins, partly resulting from inability to achieve selling price increases, were also a contributing factor. The $16.7 million improvement from 1983 to 1984 was the result of volume increases as noted above, improved margins, product rationalization and the continuance of strict cost control measures.

Operating profit from metals distribution increased by $9.1 million or 47% from 1984 to 1985 due to the increase in net revenue referred to above, partly offset by slightly lower gross margins. The 1984 operating profit increased by $12.8 million from 1983 due to the increase in revenue, principally as a result of the acquisition of Vincent Metals.

Consolidated Net Earnings
Operating profit of the business segments increased by $26.6 million or 22% over that of the preceding year; the increase in consolidated net earnings was $14.4 million. Net interest income was $6.2 million in 1985 compared to net interest expense of $7.6 million in 1984, a favourable change of $13.8 million largely resulting from lower interest charges at Lornex, primarily due to Bullmoose bank loan repayments, and to increased investment income resulting from greater funds available for investment. Income and mining taxes were $11.5 million higher, minority interests in Lornex's earnings increased by $8.8 million and corporate and exploration expenses increased by $5.7 million.

Between 1983 and 1984 operating profit of the business segments increased by $39.8 million or 48%; the increase in consolidated net earnings was $22.8 million. Net interest expense was $7.6 million in 1984 compared to net interest income of $10.2 million in 1983, an unfavourable change of $17.8 million largely relating to higher interest charges at Lornex, primarily on the loans incurred to finance the Bullmoose mine, and to reduced investment income resulting from lower funds available for investment. Income and mining taxes increased by $1.2 million while minority interests in Lornex's earnings decreased by $1.9 million and corporate and exploration expenses were $0.1 million lower.

Impact of Inflation and Changing Prices
In the uranium mining operations the major effect of inflation during the last three years was on operating costs; during the period cost escalation has been generally in line with average inflation rates. To a large extent the effects of inflation were ameliorated by the fact that a significant part of uranium production is for delivery under contracts which contain protective mechanisms designed to substantially offset such increases.

The effect of inflation on copper/coal revenues in the years 1983 to 1985 inclusive was minimal because realization prices are based on world market prices for copper, coal and molybdenum and those prices in fact declined in both nominal and real terms. However increases in operating and other costs have been lower than average inflation rates over the three year period due to strict cost control measures and, to a lesser extent, to lower prices for materials and services as a result of competition among suppliers.

At the Atlas Steels' manufacturing operations, only selected selling price increases were achieved in 1985 after modest increases in 1984 and none in 1983 because of a depressed business climate and competition. Labour and utility costs continued to increase in 1985 but more moderately than was experienced in 1983 and 1984. After increasing in 1984, unit costs of several key raw materials decreased in 1985. Overall, inflation did not have as significant an impact in 1985 as in 1984 and in 1983.

During 1985 the metals distribution operations experienced a net decrease in selling prices. Price decreases were most notable in aluminum but also affected other products as excess production capacity continued to cause unstable market pricing. As in the previous two years, costs and expenses were held at or below the level of inflation.

Ten Year Review

	1985	1984[i]
Earnings (millions of dollars)		
Revenue	**$1,226.9**	$1,141.8
Investment and other income	**29.7**	22.8
	1,256.6	1,164.6
Cost of mine production and steel sales	**914.0**	867.1
Selling, general and administration	**101.6**	88.5
Interest expense	**23.5**	30.4
Depreciation and amortization	**70.5**	71.8
Exploration	**11.2**	5.6
	1,120.8	1,063.4
Earnings before taxes and minority interests	**135.8**	101.2
Income and mining taxes	**39.8**	28.3
	96.0	72.9
Minority interests in net earnings (loss) of subsidiaries	**7.7**	(1.0)
Net earnings[iii]	**$ 88.3**	$ 73.9
Production Data (millions except coal and steel)		
Uranium in concentrate (pounds)	**8.1**	8.2
Copper in concentrate (pounds)	**210.6**	186.2
Molybdenum in concentrate (pounds)	**7.6**	7.5
Coal (thousands of tonnes)	**858**	692[iv]
Steel (thousands of tons)	**179**	188
Financial Data (millions of dollars except per share data)		
Per share of common stock		
Net earnings[iii]	**$ 2.00**	$ 1.65
Dividends	**0.60**	0.55
Equity	**14.59**	13.09
Working capital	**591.1**	526.1
Plant and equipment	**650.8**	689.7
Total assets	**1,833.7**	1,697.5
Return on average total assets	**4.82%**	4.28%
Redeemable preference shares	**16.8**	18.7
Long term debt	**283.4**	240.3
Advances from Ontario Hydro	**337.1**	353.4
Capital expenditures	**110.1**	42.5
Common shareholders' equity	**622.2**	558.1
Return on average common shareholders' equity	**14.43%**	13.22%
Other Data		
Common shares outstanding (millions)	**42.6**	42.6
Number of common shareholders (thousands)	**7.5**	7.7
Number of employees	**7,347**	7,408
Price range of common shares — high	**$ 25.50**	$ 22.75
— low	**$ 19.375**	$ 14.00

Notes

(i) Includes 9 months' operations of Vincent Metals, a United States service centre business.

(ii) The accounts of the United States subsidiaries are not included in the data for 1979 and earnings of those subsidiaries amounting to $3,520,000 for that year have been included in the net earnings for 1980.

(iii) Net earnings (in millions of dollars) and net earnings per share of common stock (in parenthesis) as reported adjusted to reflect the application of U.S. generally accepted accounting principles are: 1985 — $87.6 ($1.98); 1984 — $76.9 ($1.72); 1983 — $37.6 ($0.80); 1982 — $31.2 ($0.64); 1981 — $74.8 ($1.66); 1980 — $85.9 ($1.93); 1979 — $82.7 ($1.84) and 1978 — $62.0 ($1.35). See note 12 to consolidated financial statements.

1983	1982	1981	1980[ii]	1979[iii]	1978	1977	1976
$ 779.7	$ 760.2	$ 918.3	$ 847.5	$ 710.7	$ 576.1	$ 486.6	$ 401.6
25.0	22.3	16.2	20.3	7.5	8.5	10.2	10.9
804.7	782.5	934.5	867.8	718.2	584.6	496.8	412.5
586.0	614.1	654.2	568.7	433.5	385.2	332.8	271.6
59.0	67.7	74.0	63.3	47.1	45.5	39.6	36.2
14.8	16.0	16.3	12.5	11.7	10.7	9.4	8.5
58.8	58.7	55.4	51.0	38.1	32.3	25.6	20.7
7.0	9.9	12.7	10.7	9.1	6.0	6.4	6.8
725.6	766.4	812.6	706.2	539.5	479.7	413.8	343.8
79.1	16.1	121.9	161.6	178.7	104.9	83.0	68.7
27.1	1.9	48.7	63.3	84.6	38.7	37.7	31.9
52.0	14.2	73.2	98.3	94.1	66.2	45.3	36.8
.9	(3.6)	7.4	20.8	18.4	4.6	2.6	5.3
$ 51.1	$ 17.8	$ 65.8	$ 77.5	$ 75.7	$ 61.6	$ 42.7	$ 31.5
6.8[iv]	7.1	7.8	7.9[iv]	5.5	6.0	5.5	5.5
181.7	194.6	164.7[iv]	126.3	134.2	135.4	141.1	145.7
7.5	6.3	4.8	4.8	4.4	4.0	3.8	3.8
—	—	—	—	—	—	—	—
144	133	212	180	193	208	195	161
$ 1.11	$ 0.33	$ 1.45	$ 1.73	$ 1.67	$ 1.34	$ 0.90	$ 0.64
0.50	0.50	0.50	0.50	0.50	0.43	0.36	0.33
11.90	11.29	11.46	10.50	9.27	7.96	6.92	6.27
424.5	323.8	315.9	285.2	221.3	232.0	227.7	261.8
677.9	450.8	459.3	343.8	347.5	249.0	193.8	143.6
1,587.5	1,355.7	1,240.8	1,061.3	898.8	760.5	684.1	631.3
3.48%	1.37%	5.72%	7.91%	9.34%	8.53%	6.49%	5.37%
45.3	45.5	47.8	48.7	53.0	53.7	54.5	55.7
225.7	149.6	98.8	105.5	93.1	114.7	122.0	134.0
351.5	259.5	162.2	82.7	28.6	1.9	—	—
165.7	195.6	176.3	182.2	121.0	89.3	96.1	61.0
507.6	481.7	488.8	448.0	395.6	339.6	295.2	267.1
9.60%	2.89%	13.23%	17.53%	19.43%	18.06%	13.63%	10.39%
42.6	42.6	42.6	42.6	42.6	42.6	42.6	42.6
8.8	10.1	10.6	11.5	12.8	13.5	14.3	14.9
6,847	6,431	7,811	7,378	6,878	6,658	5,922	5,544
$ 20.66	$ 13.58	$ 13.96	$ 13.92	$ 13.33	$ 13.08	$ 9.92	$ 12.17
$ 12.50	$ 8.92	$ 10.25	$ 8.58	$ 8.58	$ 8.25	$ 7.54	$ 8.67

(iv) (a) The Panel uranium mine commenced operations in November 1979.
(b) The expanded Lornex facilities commenced operations in August 1981.
(c) The Stanleigh uranium mine commenced operations in July 1983.
(d) The Bullmoose metallurgical coal mine, in which Lornex has a 39% joint venture interest, commenced operations in January 1984.

Market Price Range of Common Shares and Dividends Paid

The following tables show the high and low prices for Rio Algom common shares on:

The Toronto Stock Exchange

	1985	1984
First Quarter	**C$24.375-19.375**	C$19.75 -15.75
Second Quarter	**25.50 -19.875**	19.125-14.375
Third Quarter	**24.75 -19.75**	19.75 -14.00
Fourth Quarter	**24.00 -20.50**	22.75 -19.00

The American Stock Exchange

	1985	1984
First Quarter	**US$18.25 -14.75**	US$15.50 -12.625
Second Quarter	**18.625-14.75**	14.875-11.50
Third Quarter	**18.125-14.875**	15.125-10.50
Fourth Quarter	**17.00 -15.375**	17.00 -14.375

Dividends paid per common share during 1985 and 1984:

December 2, 1985	C$0.30
May 31, 1985	C$0.30
November 30, 1984	C$0.2750
May 31, 1984	C$0.2750

At December 31, 1985 there were approximately 7,500 holders of record of the common shares of the Corporation. In recent years, Rio Algom has paid common share dividends on a semi-annual basis. The payment of such dividends in future years must necessarily be determined by the board of directors of the Corporation in the light of future earnings, financial requirements and other relevant factors. Restrictions on the payment of dividends are contained in the provisions of the Rio Algom First Preference Shares Series A, Rio Algom Second Preference Shares Series A and the trust indenture dated April 1, 1963, as supplemented, covering the issue of the Corporation's Series B Sinking Fund Debentures. These documents have been filed at the offices of the Securities & Exchange Commission in Washington, D.C.

All non-residents receiving dividends from Rio Algom are subject at the source to 25% Canadian Non-Resident Withholding Tax unless the rate is reduced by tax treaty (e.g. U.S.A. rate is 15% unless recipient owns at least 10% of the voting stock of the company when the rate is 10%).

Exchange Rates

The following table shows the exchange rate of Canadian currency into United States currency at year end on December 31, the average rate and the range of high and low rates for the years ended on that date:

		Year		
	At Year End	Average	High	Low
1985	$0.7150	$0.7308	$0.7575	$0.7130
1984	$0.7566	$0.7710	$0.8054	$0.7492
1983	$0.8035	$0.8108	$0.8201	$0.7993
1982	$0.8132	$0.8088	$0.8430	$0.7691
1981	$0.8430	$0.8338	$0.8499	$0.8048

Operations

Canada

Mining

Head Office: Toronto, Ontario
Uranium: Panel, Quirke and Stanleigh mines at Elliot Lake, Ontario
Copper-molybdenum: Lornex Mining Corporation Ltd., Vancouver, B.C.
Lornex mine at Logan Lake, B.C.
Coal: through Lornex's 39% joint venture interest in the Bullmoose mine in northeast B.C.

Exploration

Rio Algom Exploration Inc.
Head Office: Toronto, Ontario
District Offices: Montreal, P.Q. and Fredericton, N.B.

Steel Manufacturing

Atlas Specialty Steels
Head Office and Plant: Welland, Ontario
Atlas Stainless Steels
Head Office and Plant: Tracy, Quebec

Metals Distribution

Atlas Alloys
Head Office: Etobicoke, Ontario
Service Centres: Etobicoke, Montreal, Saint John, N.B., Windsor, Sarnia, Sudbury, Thunder Bay, Winnipeg, Saskatoon, Edmonton, Calgary and Vancouver

United States

Mining

Rio Algom Mining Corp.
Uranium: Lisbon mine at Moab, Utah

Exploration

Rio Algom Exploration Inc., Denver, Colorado and Reno, Nevada

Metals Distribution

Rio Algom Inc.
Executive Office: Chicago, Illinois
Atlas Alloys Division
Head Office: Valley View, Ohio
Service Centres: Valley View, Ohio; Detroit, Michigan; Rockford and Chicago, Illinois; Atlas Mill Sales Division: Orchard Park, N.Y.
Vincent Metals Division
Head Office: Minneapolis, Minnesota
Service Centres: Minneapolis, Minnesota; Augusta, Georgia; Baltimore, Maryland; Cedar Rapids, Iowa; Charlotte, North Carolina; Green Bay, Wisconsin; Indianapolis, Indiana; Little Rock, Arkansas; Omaha, Nebraska; St. Louis, Missouri.

International

Exploration

Compania Minera Cerro Colorado S.A., Santiago, Chile
Rio Algom International Inc. (Chile), Santiago, Chile
Rioibex S.A., Madrid, Spain

Metals Distribution

Atlas Steels (Australia) Pty. Limited, Melbourne, Australia
Aceromex-Atlas S.A., Mexico City, Mexico
Agents or Distributors in other countries

Directors

George R. Albino
Chairman and Chief Executive Officer of the Corporation

Ray W. Ballmer
President and Chief Operating Officer of the Corporation

J. Derek Birkin
Deputy Chairman and Chief Executive, The Rio Tinto-Zinc Corporation PLC London, England

James T. Black
Chairman, The Molson Companies Limited, a brewing, retail distribution and chemical specialties company, Rexdale, Ontario

Arthur F. Earle
Advisor to the President, Canada Development Investment Corporation, Toronto

Sir Alistair Frame
Chairman, The Rio Tinto-Zinc Corporation PLC, London, England

Gordon C. Gray
Chairman, Royal LePage Limited, a diversified real estate services company, Toronto

Robert S. Hurlbut
Chairman, General Foods Inc., a manufacturer of packaged grocery products, Toronto

David S. R. Leighton
Vice-Chairman of the Board, Nabisco Brands Ltd., a manufacturer of packaged grocery products, Toronto

J. Keith Reynolds
Partner, Alafin Consultants Limited, public policy advisors to business and government, Toronto

John D. Taylor
Retired, Hilton Head, South Carolina, U.S.A.

Ross J. Turner
President and Chief Executive Officer, Genstar Corporation, a diversified Canadian company, Vancouver

Officers

Executive
George R. Albino
Chairman and Chief Executive Officer

Ray W. Ballmer
President and Chief Operating Officer

Corporate
Stanley B. Kerr
Senior Vice-President, Finance and Corporate Relations

Robert G. Connochie
Vice-President, Corporate Development

J. Douglas French
Vice-President, Controller

Paul M. Kavanagh
Vice-President, Exploration

J. Gordon Littlejohn
Vice-President, General Counsel

Alan F. Lowell
Vice-President, Minerals Marketing

Allan V. Orr
Vice-President

Archie C. Turner
Vice-President, Secretary

John G. Hood
Treasurer

Operations
Paul A. Carloss
Vice-President, General Manager, Elliot Lake

Kenneth Collyer
Vice-President, Metals Distribution

Guenter Feucht
Vice-President, General Manager Atlas Specialty Steels

Douglas E. Guild
Vice-President, General Manager, Lornex Mine, Lornex Mining Corporation Ltd.

William I. Pollock
Vice-President, General Manager, Atlas Stainless Steels

Corporate Information

Registered Office
120 Adelaide Street West, Toronto, Ontario, Canada
M5H 1W5

Auditors
Coopers & Lybrand, Chartered Accountants, Toronto

Registrars and Transfer Agents
Common Shares
The Canada Trust Company,
Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver
Canadian Imperial Bank of Commerce (New York), New York

First and Second Preference Shares
The Canada Trust Company,
Toronto, Montreal, Halifax, Winnipeg and Vancouver

Shares Listed (Symbol ROM)
Common Shares
Toronto Stock Exchange, Toronto
Montreal Exchange, Montreal
American Stock Exchange, New York

First and Second Preference Shares
Toronto Stock Exchange, Toronto
Montreal Exchange, Montreal

Form 10-K Annual Report
Rio Algom's Form 10-K annual report for 1985 to the United States Securities and Exchange Commission will be available to shareholders on written request to the Secretary of the Corporation.

Rio Algom

Printed in Canada.