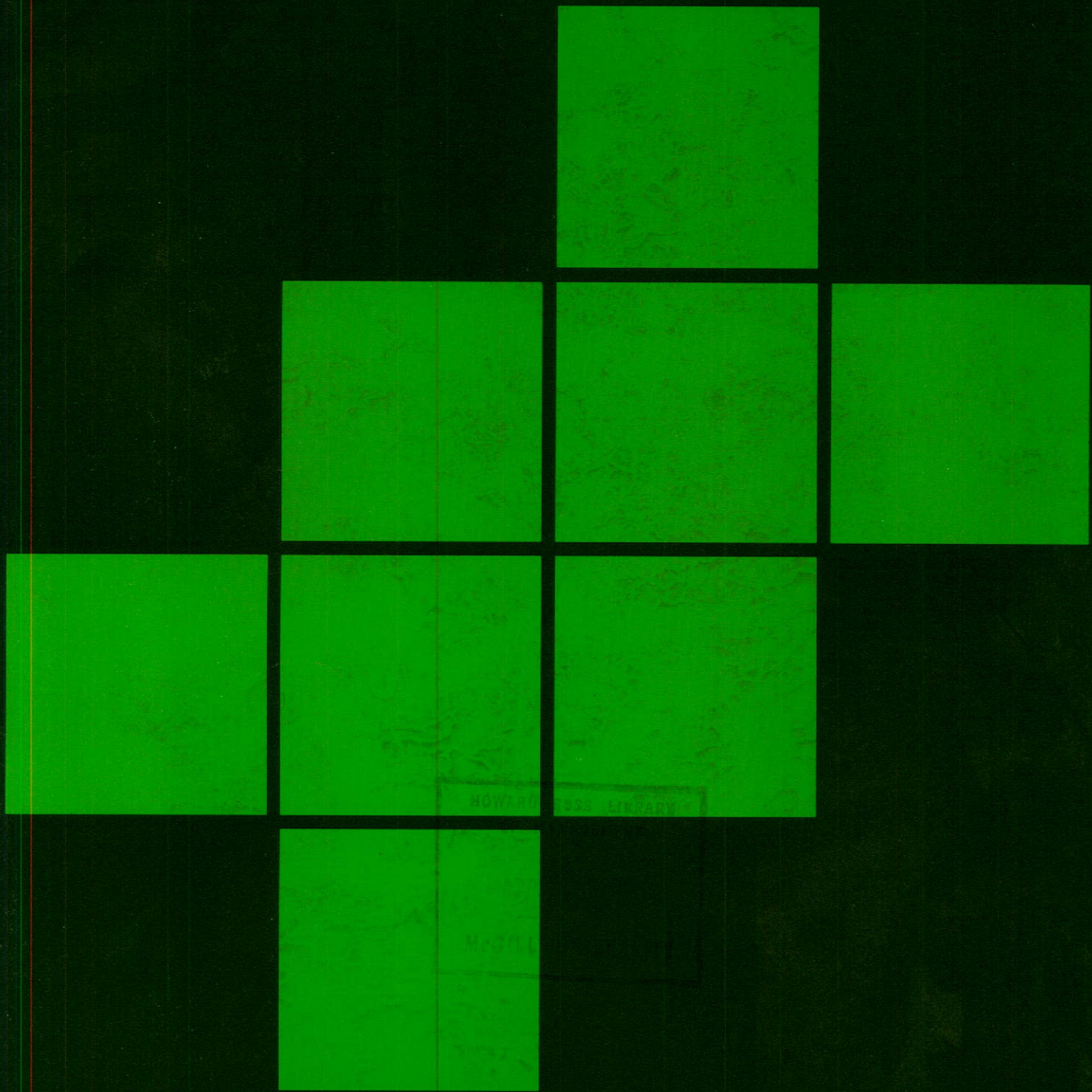


Preston Mines Limited

Annual Report
1979



Preston Mines Limited

Annual Report 1979

The Directors and Officers of Preston Mines Limited immediately before the amalgamation of Preston Mines Limited and Rio Algom Limited became effective at the close of business on January 30, 1980 were:

Directors

- G.R. Albino
President and Chief Operating Officer, Rio Algom Limited (1), Toronto
- *R.D. Armstrong
Chairman and Chief Executive Officer, Rio Algom Limited (1), Toronto
- R.C. Berry
Vice-President and General Manager, Tinto Holdings Canada Limited (2), Toronto
- *J. Ian Crookston
Financial Consultant, Toronto
- P.H. Dean
An Executive Director, The Rio Tinto-Zinc Corporation Limited (3), London, England
- *W.C. Pitfield
President, Pitfield, Mackay, Ross & Company Limited, Investment Dealers, Toronto
- *Members of the Audit Committee

**120 Adelaide Street West
Toronto, Canada M5H 1W5**

Officers

- R.D. Armstrong, *Chairman and Chief Executive Officer*
- W.C. Pitfield, *Vice-Chairman*
- G.R. Albino, *President and Chief Operating Officer*
- D.G. Scott, *Vice-President*
- A.C. Turner, *Vice-President, Secretary*
- J. Van Netten, *Treasurer*

- (1) Exploration for and mining of ores and minerals and manufacture and distribution of stainless and specialty steel mill products.
- (2) The holding company for certain Canadian interests of The Rio Tinto-Zinc Corporation Limited.
- (3) The parent of an international group of mining and industrial companies.

The Directors and Officers of Rio Algom Limited, the continuing corporation resulting from the amalgamation, are shown in the Annual Report of that corporation which is forwarded with this Report.

Form 10-K Annual Report

The Corporation's Form 10-K annual report for 1979 to the United States Securities and Exchange Commission will be available on written request to the Secretary of Rio Algom Limited, 120 Adelaide Street West, Toronto, Canada M5H 1W5.

The Annual and General Meeting of the Shareholders of Rio Algom Limited will be held in the Ontario Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada on Wednesday, April 30, 1980 at 10:00 a.m. (Toronto time).

Directors' Report to the Shareholders

Earnings and Dividends

Net earnings for the year 1979 were \$32.8 million (\$3.72 per common share) compared to \$26.8 million (\$3.03 per common share) last year. The higher earnings were due to the increased earnings of Rio Algom Limited in which Preston's 43.8% equity interest amounted to \$32.9 million and \$26.9 million in 1979 and 1978, respectively.

The increase in Rio Algom's 1979 earnings compared to 1978 was principally due to higher earnings at the copper-molybdenum mine of Lornex Mining Corporation Ltd. (68.1% owned by Rio Algom). Income and mining taxes on Rio Algom's earnings in 1979 were substantially higher than in 1978 mainly because of higher pre-tax earnings and a significant increase in the effective tax rate. The 1979 Annual Report for Rio Algom is forwarded to you with this Report.

Dividends received from Rio Algom were \$8.9 million in 1979 and \$7.6 million in 1978. Dividends paid by Preston were \$7.9 million (\$0.90 per common share) in 1979 and \$7.1 million (\$0.80 per common share) in 1978.

Amalgamation

The amalgamation of Preston Mines Limited and its affiliated corporation, Rio Algom Limited, was approved by the shareholders of each corporation on January 30, 1980 and became effective on that day. The continuing corporation is called Rio Algom Limited.

The amalgamation resulted in a combination of the assets and liabilities of Preston and Rio Algom and the issuance by the continuing corporation of additional common shares and second preference shares as more fully explained in note 7 to the financial statements. The results of operations will be reported on the amalgamated basis commencing January 1, 1980 in accordance with generally accepted accounting principles.

Operational and administrative efficiencies and substantial income and mining tax benefits are expected as a result of the amalgamation.

Comprehensive information regarding the affairs of the two corporations and the amalgamation was contained in the material sent to the shareholders of each corporation in connection with the general meetings held on January 30, 1980. A copy of this material will be provided upon request.

Stanleigh Project

As previously reported, Preston entered into an agreement with Ontario Hydro in January 1978 to re-open the Stanleigh mine at Elliot Lake and to deliver to Ontario Hydro all of the uranium in concentrate that will be produced from this mine. The development program involves the rebuilding or rehabilitation of the surface

plant, dewatering of the mine and rehabilitation of existing mine workings and shafts, new underground development and the construction or acquisition of housing units in the town of Elliot Lake for employees of the Stanleigh Project.

Upon the amalgamation of Preston and Rio Algom the contractual obligations of Preston to Ontario Hydro became the obligations of Rio Algom Limited. Rio Algom Limited will continue to perform all the managerial and other functions required by the agreement including the provision and direction of a work force for the Project.

Funds to bring the Stanleigh Project into production are being provided by interest-free advances from Ontario Hydro and by mortgages for the housing units to the extent practicable. The advances from Ontario Hydro will be repaid in amounts approximately equal to the amortization allowance included in the base selling price formula. The additional amount derived from any excess of free market price over the base price will generally be retained by Ontario Hydro and will become payable over an extended period commencing when the accumulated additional amounts so retained exceed the outstanding balance of the advances made by Ontario Hydro. These advances totalled \$28.6 million at December 31, 1979.

The selling price of the deliveries to Ontario Hydro will be determined annually. It will be the sum of (i) a base price which includes total operating costs of the Stanleigh Project, an allowance for amortization of all preproduction and subsequent capital costs, taxes attributable to the Stanleigh Project (exclusive of income taxes) and a profit allowance of \$5 per pound of uranium oxide produced, which is subject to escalation, plus (ii) an additional amount equal to one-third of any excess of the free market price of uranium oxide over the base price.

During 1978 a report was prepared for Ontario Hydro setting out basic designs, plans, schedules and estimated costs for the Stanleigh Project which was subsequently approved by Ontario Hydro. Construction and development work on the production facilities is planned to be substantially completed in mid-1983 and production at the design average milling rate of approximately 5,000 tons of ore per day is scheduled for early 1984. Annual production of uranium in concentrate is expected to average about 2 million pounds. Deliveries of uranium in concentrate are estimated to total approximately 72 million pounds over the expected operational life of the mine from start-up in 1983 to approximately 2020.

In addition to the mine development and construction, the plans include the construction of housing units in Elliot Lake as required for the up to 1,100 people who will be directly employed when full production is achieved.

The mine re-opening program is progressing satisfactorily and on schedule. During 1979 the auxiliary shaft and hoist, being used for mine dewatering and development during the early construction period, were put into service. Mine dewatering began in August and by the end of the year the water level was approximately 1,400 feet below the shaft collar. The mine water is chemically treated before being pumped to the existing tailings area. At the main shaft site the collar was completed and the concrete foundations for the headframe and hoisthouse were constructed. Engineering design work for surface facilities was approximately 40 percent completed by year-end. The minesite and existing buildings were cleared in preparation for the construction program. New service lines for water, sewage and tailings have been laid. Storage and warehouse facilities have been provided for the construction work.

In co-operation with the Ministry of the Environment and the Ministry of Natural Resources of the Government of Ontario investigations and studies are being carried out to select suitable tailings disposal areas and water supply sources and to plan facilities that will best protect the environment.

The Stanleigh Project housing program in the town of Elliot Lake began in 1979 and a 26-unit apartment building and four semi-detached housing units were acquired early in the year. Construction of an additional 76 units consisting of detached and semi-detached houses and townhouses was started and by year-end 61 of these units were completed. Further housing construction is not scheduled until additional serviced lots are available for purchase in a new townsite in Elliot Lake which is currently in the early planning stage.

On behalf of the Board of Directors of Rio Algom Limited*

R. D. Armstrong
Chairman and
Chief Executive Officer

G. R. Albino
President and
Chief Operating Officer

Toronto, Canada
February 29, 1980

*The continuing corporation resulting from the amalgamation on January 30, 1980 of Preston Mines Limited and Rio Algom Limited.



Old headframe at the Stanleigh uranium mine. The mine-mill complex, shut down for the past two decades, is being developed for production beginning in 1983. It is expected to provide employment for 1,100 people.

Auditors' Report to the Shareholders

We have examined the statement of financial position of Preston Mines Limited as at December 31, 1979 and the statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. 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 financial statements present fairly the financial position of the corporation as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 29, 1980.
(March 13, 1980 with
respect to Note 7 (b))

COOPERS & LYBRAND
Chartered Accountants

Statement of Financial Position

(Thousands of dollars)

Preston Mines Limited
(Incorporated under the laws of Ontario)

December 31	1979	1978
Current assets:		
Cash and short term deposits	\$ 798	\$ 146
Accounts receivable and prepaid expenses	<u>544</u>	<u>3</u>
	<u>1,342</u>	<u>149</u>
Less:		
Current liabilities:		
Bank overdraft	1,894	–
Accounts payable and accrued liabilities	5,362	443
Payable to Rio Algom Limited	816	179
Unclaimed dividends	<u>329</u>	<u>331</u>
	<u>8,401</u>	<u>953</u>
Working capital (deficiency)	(7,059)	(804)
Investment in Rio Algom Limited		
5,920,640 common shares (notes 1 and 7)	191,481	167,352
Construction in progress – Stanleigh Property (note 3)	<u>38,715</u>	<u>4,273</u>
Total assets less current liabilities	<u>223,137</u>	<u>170,821</u>
Deduct:		
Advances from Ontario Hydro (note 3)	28,600	1,920
11¼% housing mortgage due May 1, 1984	<u>704</u>	<u>–</u>
	<u>29,304</u>	<u>1,920</u>
Excess of assets over liabilities	<u>\$193,833</u>	<u>\$168,901</u>
Ownership evidenced by:		
Capital Stock –		
Authorized:		
1,069,925 4% cumulative, redeemable, non-voting preference shares with a par value of 50 cents each		
10,000,000 common shares without par value		
Issued:		
8,830,499 common shares (note 7)	\$ 37,459	\$ 37,459
Contributed surplus	25,021	24,963
Retained earnings	<u>131,353</u>	<u>106,479</u>
	<u>\$193,833</u>	<u>\$168,901</u>

Approved on behalf of the Board:

J. Ian Crookston, Director

R. D. Armstrong, Director

Statements of Earnings, Retained Earnings and Contributed Surplus

Preston Mines Limited

(Thousands of dollars)

Year Ended December 31	1979	1978
Earnings		
Equity in net earnings of Rio Algom Limited	\$ 32,952	\$ 26,930
Excess of miscellaneous expenses over sundry income	<u>(131)</u>	<u>(176)</u>
Net earnings for the year (notes 4 and 7)	<u>\$ 32,821</u>	<u>\$ 26,754</u>
Earnings per common share	<u>\$ 3.72</u>	<u>\$ 3.03</u>
Retained Earnings		
Balance, beginning of year	\$106,479	\$ 86,789
Net earnings for the year	<u>32,821</u>	<u>26,754</u>
	139,300	113,543
Dividends paid on common shares at the rate of \$0.90 per share (\$0.80 in 1978)	<u>7,947</u>	<u>7,064</u>
Balance, end of year	<u>\$131,353</u>	<u>\$106,479</u>
Contributed Surplus		
Balance, beginning of year	\$ 24,963	\$ 24,897
Equity in increase in contributed surplus of Rio Algom	<u>58</u>	<u>66</u>
Balance, end of year	<u>\$ 25,021</u>	<u>\$ 24,963</u>

Statement of Changes in Financial Position

(Thousands of dollars)

Year Ended December 31	1979	1978
Source of Funds:		
Dividends from Rio Algom Limited	\$ 8,881	\$ 7,637
Advances received from Ontario Hydro	26,680	1,920
Housing mortgage (net)	704	-
Excess of miscellaneous expenses over sundry income	<u>(131)</u>	<u>(176)</u>
	<u>36,134</u>	<u>9,381</u>
Disposition of Funds:		
Dividends on common shares	7,947	7,064
Construction in progress – Stanleigh Property	<u>34,442</u>	<u>2,966</u>
	<u>42,389</u>	<u>10,030</u>
Decrease in Working Capital	(6,255)	(649)
Working Capital (deficiency), beginning of year	<u>(804)</u>	<u>(155)</u>
Working Capital (deficiency), end of year	<u>\$ (7,059)</u>	<u>\$ (804)</u>

December 31, 1979

1. Investment in Rio Algom Limited

The Corporation's investment in common shares of Rio Algom Limited represents 43.8% of the issued common shares of Rio Algom and is carried on the equity accounting basis. The cost of the Corporation's investment exceeded its equity in the net assets of Rio Algom at date of acquisition by \$11,221,004 and this excess has been written off to retained earnings.

2. Plant and Equipment

	<u>1979</u>	<u>1978</u>
Buildings, machinery and equipment, at cost	\$ 8,318,452	\$ 8,340,079
Less accumulated depreciation	<u>8,318,452</u>	<u>8,340,079</u>
	\$ -	\$ -
Mining properties, at cost	\$ 569,789	\$ 569,789
Less accumulated amortization	<u>569,787</u>	<u>569,787</u>
	<u>\$ 2</u>	<u>\$ 2</u>

3. Advances from Ontario Hydro

	<u>1979</u>	<u>1978</u>
Balance owing at December 31	<u>\$28,599,993</u>	<u>\$ 1,920,063</u>

Under an agreement concluded in January 1978, 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 the working and sustaining capital requirements of the Stanleigh Project. The funds advanced are to be repaid to Ontario Hydro over the delivery period, estimated to begin in mid-1983, 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.

4. Income and Mining Taxes

Because of the exemptions and deductions permitted for tax purposes, it is estimated that the Corporation has no liability for income or mining taxes for the year.

5. Management Fee

The Corporation's affiliated corporation, Rio Algom Limited, has agreed to manage the development and subsequent operations of the Stanleigh Project and the Corporation has agreed to pay a management fee of \$750,000 for each of the years 1978 to 1983 inclusive and \$500,000 for 1984 and each succeeding year; the annual management fee will be escalated from the fourth quarter of 1977 in accordance with a formula based on published government indices. The 1979 management fee of \$825,000 is included in construction in progress in the attached statement of financial position.

6. Unaudited Quarterly Results

The quarterly equity in net earnings of Rio Algom Limited, net earnings and earnings per share as previously reported in unaudited quarterly reports to shareholders are set forth in the following table (dollars in millions, except per share):

Quarter Ended	Equity in Net Earnings of Rio Algom		Net Earnings		Earnings Per Share	
	<u>1979</u>	<u>1978</u>	<u>1979</u>	<u>1978</u>	<u>1979</u>	<u>1978</u>
March 31	\$ 8.4	\$ 5.4	\$ 8.3	\$ 5.4	\$0.94	\$0.61
June 30	3.4	6.7	3.4	6.6	0.39	0.75
September 30	8.1	6.3	8.1	6.2	0.92	0.71
December 31	<u>13.0</u>	<u>8.5</u>	<u>13.0</u>	<u>8.6</u>	<u>1.47</u>	<u>0.96</u>
	<u>\$32.9</u>	<u>\$26.9</u>	<u>\$32.8</u>	<u>\$26.8</u>	<u>\$3.72</u>	<u>\$3.03</u>

7. Subsequent Events

(a) On January 30, 1980 the shareholders of Preston Mines Limited and Rio Algom Limited approved an amalgamation agreement between Preston and Rio Algom, dated as of December 17, 1979, which prescribed the terms and conditions under which the two corporations were amalgamated effective at the close of business on January 30, 1980; the amalgamated corporation is operating under the name of "Rio Algom Limited". Under the amalgamation all Rio Algom common shares owned by Preston have been cancelled without any repayment of capital thereon and each outstanding Preston common share was converted into 0.75 of a common share and one 8.5% cumulative redeemable second preference share, series A of the par value of \$5, of the amalgamated corporation.

Since the amalgamation is a combination of two corporations under common control it has been accounted for in a manner similar to a pooling of interests. The following pro forma condensed combined statement of financial position combines the consolidated statement of financial position of Rio Algom Limited and the statement of financial position of Preston Mines Limited as of December 31, 1979:

Rio Algom Limited (the amalgamated corporation) Pro Forma Condensed Combined Statement of Financial Position As of December 31, 1979 (thousands of dollars)	
Current assets	\$386,618
Current liabilities	165,280
Working capital	<u>221,338</u>
Plant and equipment, construction in progress, mining properties and preproduction expenses	468,147
Other assets	44,009
	<u>733,494</u>
Deduct:	
Long term debt	121,686
Deferred taxes	117,613
Minority interests	45,614
	<u>284,913</u>
Excess of assets over liabilities	<u>\$448,581</u>
Represented by:	
First preference shares (ii)	\$ 8,802
Second preference shares (iii)	44,152
Common shares (iv)	49,142
Contributed surplus	36,468
Retained earnings	310,017
	<u>\$448,581</u>

- (i) Assuming the amalgamation had been consummated on January 1, 1979 the pro-forma consolidated earnings of the amalgamated corporation for the year ended December 31, 1979 would have been \$75,694.
- (ii) Reflects issue of 88,016 \$5.80 cumulative redeemable first preference shares, series A of the par value of \$100 each to previous Rio Algom first preference shareholders.
- (iii) Reflects issue of 8,830,499 8.5% cumulative redeemable second preference shares, series A of the par value of \$5 each to previous shareholders of Preston common shares.
- (iv) Reflects issue of 14,219,428 common shares as follows:
- (A) 7,596,554 shares to previous common shareholders of Rio Algom (excluding those shares owned by Preston);
- (B) 6,622,874 shares to previous shareholders of Preston common shares at ratio of 0.75 common share of the amalgamated corporation for each Preston share.
- (b) On January 31, 1980 a shareholder of the corporation, formed by the amalgamation of Rio Algom Limited and Preston Mines Limited referred to above, requested the Minister of Consumer and Commercial Relations to cancel the corporation's certificate of amalgamation pursuant to Section 250 of The Business Corporations Act of Ontario. On February 7, 1980 the Minister informed the shareholder that his request was denied. On March 7, 1980 the same shareholder filed a notice of appeal from the denial to the Divisional Court. The notice of appeal does not set out the relief sought by the shareholder.

Five Year Review (Thousands of dollars)	1979	1978	1977	1976	1975
Equity in net earnings of Rio Algom Limited	\$ 32,952	\$ 26,930	\$ 18,372	\$ 13,558	\$ 12,882
Excess (deficiency) of sundry income over miscellaneous expenses	<u>(131)</u>	<u>(176)</u>	<u>(126)</u>	<u>(97)</u>	<u>2</u>
Net Earnings for the Year	<u>\$ 32,821</u>	<u>\$ 26,754</u>	<u>\$ 18,246</u>	<u>\$ 13,461</u>	<u>\$ 12,884</u>
Earnings per share	\$ 3.72	\$ 3.03	\$ 2.07	\$ 1.52	\$ 1.54
Dividends paid (\$000's)	\$ 7,947	\$ 7,064	\$ 6,181	\$ 6,181	\$ 6,181
Per share of common stock	90¢	80¢	70¢	70¢	70¢
Common shares outstanding (000's)	8,830	8,830	8,830	8,830	8,830
Number of shareholders	2,475	2,800	3,000	3,100	3,400

Price Range of Common Shares and Dividends Paid

The following table shows the high and low prices for Preston common shares on The Toronto Stock Exchange and the dividends paid on these shares during 1979 and 1978.

	<u>1979</u>	<u>1978</u>	<u>Dividends paid per share</u>
First Quarter	\$21 5/8 – 18 3/8	\$17 6/8 – 14 4/8	1979 May 31 – 45¢
Second Quarter	22 7/8 – 17 4/8	18 7/8 – 15 4/8	November 30 – 45¢
Third Quarter	25 4/8 – 19 2/8	20 5/8 – 16 3/8	1978 June 30 – 35¢
Fourth Quarter	26 4/8 – 21	21 2/8 – 17 00	November 30 – 45¢

