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RIO ALGOM LIMITED
(Incorporated under the laws of Ontario)

120 Adelaide Street West
Toronto, Ontario, Canada
M5H 1W5
(416) 367-4000

NOTICE OF GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a general meeting of shareholders of Rio Algom Limited ("Rio Algom") will be held in the Buckingham Room, Westbury Hotel, 475 Yonge Street, Toronto, Ontario, Canada, on Wednesday, January 30, 1980 at 11:00 a.m. (Toronto time):

- (1) to consider and to confirm, with or without variation, a special resolution passed by the Board of Directors on October 23, 1979, approving an amalgamation agreement between Rio Algom and Preston Mines Limited providing for their amalgamation; and
- (2) to transact such other business as may properly come before the meeting.

A copy of the said amalgamation agreement is reproduced in full as Exhibit A to the Joint Proxy Statement and Information Circular accompanying this notice. A special resolution requires confirmation by at least two-thirds ($\frac{2}{3}$) of the votes cast at the meeting.

Proxies are being solicited by the management of Rio Algom. Common shareholders are entitled to vote at the meeting either in person or by proxy in accordance with the provisions of The Business Corporations Act (Ontario). If you are unable to be present at the meeting, please complete and sign the enclosed form of proxy and return it in the addressed envelope provided for that purpose. All instruments appointing proxies to be used at the meeting must be deposited with Canada Permanent Trust Company, Yonge-Eglinton Centre, 20 Eglinton Avenue West, Toronto, Ontario M4R 2E2 prior to 5:00 p.m. (Toronto time) on Tuesday, January 29, 1980. Instruments appointing management designees or others as proxies not so deposited will not be voted at the meeting.

By Order of the Board of Directors

Toronto, Canada
January 7, 1980

A. C. TURNER,
Secretary

The accompanying Joint Proxy Statement and Information Circular also constitutes a prospectus under the United States Securities Act of 1933 with respect to securities of the amalgamated corporation into which the common shares of Rio Algom Limited and Preston Mines Limited will be converted in the transaction discussed therein.

NEITHER THIS TRANSACTION NOR THESE SECURITIES HAVE BEEN APPROVED OR
DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.
THE COMMISSION HAS NOT PASSED UPON THE FAIRNESS OR MERITS OF THIS TRANS-
ACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED
IN THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

JAN 17 1980

McGILL UNIVERSITY

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RIO ALGOM LIMITED

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PRESTON MINES LIMITED

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JOINT PROXY STATEMENT AND INFORMATION CIRCULAR

For General Meetings of Shareholders to be held January 30, 1980

INTRODUCTION

All dollar amounts in this Joint Proxy Statement and Information Circular refer to Canadian dollars unless otherwise indicated. The Bank of Canada has reported the average noon spot exchange rates for each of the five years ended December 31, 1974 through December 31, 1978 at \$1.00 Canadian equaled U.S. \$1.0225, \$0.9830, \$1.0141, \$0.9403 and \$0.8770, respectively. On December 14, 1979, the closing spot selling price in the New York market as quoted in The New York Times for \$1.00 Canadian was U.S. \$0.8525.

This Joint Proxy Statement and Information Circular is furnished in connection with the solicitation by the managements of Rio Algom Limited (hereinafter called "Rio Algom") and Preston Mines Limited (hereinafter called "Preston") of proxies to be voted at the general meetings of shareholders of Rio Algom and Preston to be held on Wednesday, January 30, 1980 and at any adjournments thereof (collectively the "Meetings" and individually the "Rio Algom Meeting" and the "Preston Meeting").

This Joint Proxy Statement and Information Circular and accompanying notices of the Meetings and the forms of proxy are being first mailed to the shareholders of Rio Algom and Preston on or about January 7, 1980.

Summary of the Amalgamation

The purpose of the Meetings is to consider and to approve the amalgamation agreement (the "Amalgamation Agreement") entered into between Rio Algom and Preston providing for their amalgamation and continuation as one corporation called "Rio Algom Limited". The corporation resulting from the proposed amalgamation is sometimes hereinafter referred to as "Amalco" and the proposed amalgamation is sometimes hereinafter referred to as the "Amalgamation". Amalco will possess all of the property, rights, privileges and franchises and will be subject to all the liabilities, contracts, disabilities and debts of each of Rio Algom and Preston. Under the Amalgamation, each outstanding Rio Algom common share not owned by Preston will be converted into one Amalco common share, each outstanding Rio Algom \$5.80 cumulative redeemable first preference share, series A (the "Rio Algom First Preference Shares Series A") will be converted into one \$5.80 cumulative redeemable first preference share, series A of Amalco (the "Amalco First Preference Shares Series A") and each outstanding Preston common share will be converted into 0.75 of a common share of Amalco and one 8.5% cumulative redeemable second preference share, series A of Amalco (the "Second Preference Shares Series A") of the par value of \$5.00 per share. See "The Proposed Amalgamation - Terms of the Amalgamation - Conversion of Shares" and "Share Capital of Amalco - Description of Second Preference Shares".

A copy of the Amalgamation Agreement is reproduced in full as Exhibit A to this Joint Proxy Statement and Information Circular.

The attention of shareholders is directed to the section of this Joint Proxy Statement and Information Circular entitled "The Proposed Amalgamation - Special Factors" for certain important information.

Rio Algom and one of its United States subsidiaries have been named as defendants in an antitrust action brought by Westinghouse Electric Corporation in the United States District Court for the Northern District of Illinois. On advice of counsel Rio Algom did not appear in the action. For details of this action and an action brought by the Tennessee Valley Authority, see "The Proposed Amalgamation - Special Factors - Westinghouse Litigation and TVA Contract" and "Business of Rio Algom - Legal Proceedings". The Court in the Westinghouse action indicated, among other things, that, unless the defaulting defendants appeared to challenge proof of damages, Westinghouse's judgment against the defaulting defendants could reach well into the hundreds of millions of dollars (U.S.) and might approach billions of dollars. Rio Algom has brought actions in Canada against Westinghouse Electric Corporation and the Tennessee Valley Authority. See "Business of Rio Algom - Legal Proceedings".

Shareholder Approvals and Principal Shareholders

The Rio Tinto-Zinc Corporation Limited ("Rio Tinto-Zinc"), a publicly held English company which has interests in companies engaged in mining and industrial operations throughout the world, is, through wholly-owned subsidiaries, the principal beneficial owner of common shares of both Preston and, taking into account the common shares of Rio Algom owned by Preston, Rio Algom. Rio Algom and Preston have been advised by Rio Tinto-Zinc that to its knowledge no shareholder or group of affiliated shareholders holds a controlling interest in Rio Tinto-Zinc.

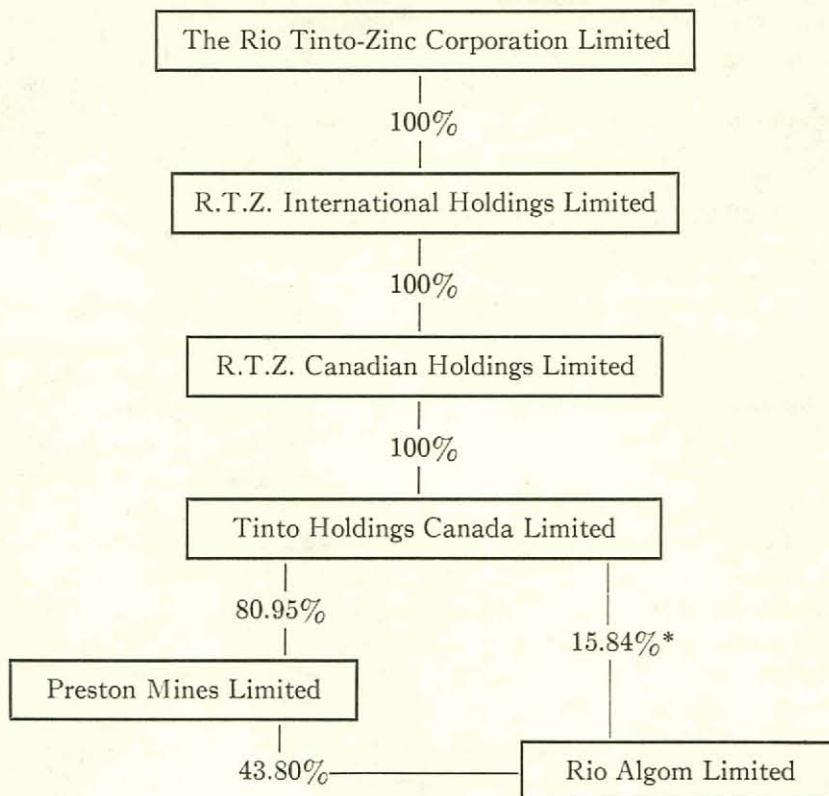
Rio Tinto-Zinc's ultimate beneficial interest, through wholly-owned subsidiaries, in the common share equity of Preston was 80.95% at December 10, 1979. The ultimate net beneficial interest of Rio Tinto-Zinc and direct beneficial interest of Preston in the common share equity of Rio Algom were 51.30% and 43.80%, respectively, at December 10, 1979. Upon the Amalgamation, Rio Tinto-Zinc's ultimate beneficial interest, through wholly-owned subsidiaries, in the common share equity of Amalco will be approximately 52.76% and Rio Tinto-Zinc will beneficially own, through wholly-owned subsidiaries, approximately 80.95% of the Second Preference Shares Series A.

At December 10, 1979, Rio Tinto-Zinc ultimately controlled, through wholly-owned subsidiaries, 80.95% of the outstanding Preston common shares and, through wholly-owned subsidiaries and Preston, 59.64% of the outstanding Rio Algom common shares. Rio Algom and Preston have been informed that the common shares held by the subsidiaries of Rio Tinto-Zinc (including, in the case of Rio Algom shares, the shares held by Preston) will be voted to confirm the special resolution approving the Amalgamation Agreement. Such votes will be sufficient to approve the Amalgamation on behalf of Preston. With respect to the Rio Algom Meeting, such votes will assure a 59.64% favorable vote and, assuming all shares entitled to vote participate at the Rio Algom Meeting, an additional 7.03% of such shares (or 17.42% of the shares held by shareholders other than subsidiaries of Rio Tinto-Zinc) will be necessary to approve the Amalgamation on behalf of Rio Algom. Under Ontario law, Rio Algom and Preston will be unable to effect the Amalgamation if the requisite approval by two-thirds of the votes cast is not obtained at the Rio Algom Meeting or any adjournment thereof.

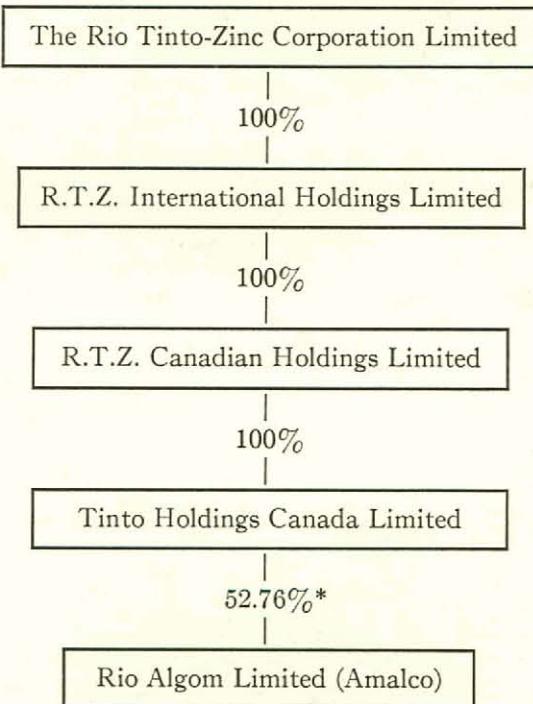
The following charts show the percentage ownership of common shares of Rio Algom and Preston currently held by subsidiaries of Rio Tinto-Zinc and of common shares of Amalco to be held by them after the Amalgamation:

COMMON SHAREHOLDINGS OF RIO TINTO-ZINC SUBSIDIARIES

BEFORE THE AMALGAMATION



AFTER THE AMALGAMATION



*Includes 76 shares held by wholly-owned subsidiaries of R.T.Z. Canadian Holdings Limited and Tinto Holdings Canada Limited.

Directors' Approvals

Five of the fourteen directors of Rio Algom and two of the six directors of Preston are also directors of Rio Tinto-Zinc. In addition, certain directors of Rio Algom and Preston serve as directors and/or officers of a wholly-owned subsidiary of Rio Tinto-Zinc, Tinto Holdings Canada Limited ("Tinto Holdings"), an Ontario corporation. Rio Algom and Preston have three common directors. Except for one officer of Preston, all officers of Preston are officers of Rio Algom. For further information concerning the respective interests of the directors of Rio Algom and Preston in the Amalgamation, see "Management of Rio Algom", "Management of Preston" and "The Proposed Amalgamation—Relationships Between Rio Algom and Preston". All directors present at the meetings of the boards of directors of Rio Algom and Preston called to consider the Amalgamation approved the Amalgamation Agreement.

Certain Information for United States Shareholders

Rio Algom and Preston are (and Amalco will be) Ontario corporations and their parent corporations are either Ontario or English corporations. Most of their officers and directors and the expert named herein are residents of countries other than the United States, and most of the assets of these corporations, directors, officers and expert are located outside the United States. As a result, it may be difficult for shareholders to effect service within the United States upon these persons or to realize against them upon judgments of courts of the United States predicated on civil liabilities under the United States Securities Act of 1933 or the United States Securities Exchange Act of 1934. There is substantial doubt as to the enforceability in Canada and the United Kingdom against any of these persons, in original actions or in actions for enforcement of judgments of United States courts, of liabilities predicated solely on these Acts. See "Management of Rio Algom – Remuneration".

VOTING RIGHTS

Preston

The only class of securities of Preston carrying the right to vote at the Preston Meeting is its common shares without par value. As at December 10, 1979 there were outstanding 8,830,499 common shares of Preston which were held by approximately 2,800 shareholders of record. Each Preston common shareholder of record at 5:00 p.m. (Toronto time) on Tuesday, January 29, 1980 will be entitled to one vote for each share then held. Shareholders do not have cumulative voting rights. Shareholders desiring to be represented at the Preston Meeting by proxy must deposit their executed forms of proxy with Canada Permanent Trust Company, Yonge-Eglinton Centre, 20 Eglinton Avenue West, Toronto, Ontario M4R 2E2 prior to 5:00 p.m. (Toronto time) on Tuesday, January 29, 1980. A return envelope for this purpose is enclosed.

Rio Algom

The only class of securities of Rio Algom carrying the right to vote at the Rio Algom Meeting is its common shares without par value. As at December 10, 1979 there were outstanding 13,517,194 common shares of Rio Algom which were held by approximately 10,700 shareholders of record. Each Rio Algom common shareholder of record at 5:00 p.m. (Toronto time) on Tuesday, January 29, 1980 will be entitled to one vote for each share then held. Shareholders do not have cumulative voting rights. Shareholders desiring to be represented at the Rio Algom Meeting by proxy must deposit their executed forms of proxy with Canada Permanent Trust Company, Yonge-Eglinton Centre, 20 Eglinton Avenue West, Toronto, Ontario M4R 2E2 prior to 5:00 p.m. (Toronto time) on Tuesday, January 29, 1980. A return envelope for this purpose is enclosed.

Revocation of Proxies

A shareholder giving a proxy has power to revoke it. See "Solicitation of Proxies" for a description of the revocation procedure.

Dissenters' Rights

Holders of common shares of Rio Algom and Preston who vote against approval of the Amalgamation Agreement do not have any rights of appraisal. No other specific rights of action in respect of the Amalgamation are provided by statute for dissenting shareholders. However, the absence of appraisal rights does not preclude the pursuit of any legal remedies which may otherwise be available to aggrieved shareholders under Ontario statutory or common law.

CERTAIN BENEFICIAL OWNERS OF SECURITIES

Preston

The following table sets forth certain information as of December 10, 1979 with respect to any person or group of persons known by the directors or senior officers of Preston to beneficially own, directly or indirectly, or exercise control or direction over, more than 5% of the Preston common shares:

Name and Address of Ultimate Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Rio Tinto-Zinc 6 St. James's Square London, England	7,148,127 Indirect (2)	80.95%

- (1) Rio Tinto-Zinc and its wholly-owned subsidiaries have sole voting and investment power with respect to all common shares listed.
- (2) Shares directly owned by Tinto Holdings.

Tinto Holdings has informed Preston that at the Preston Meeting it intends to vote the Preston common shares owned by it to confirm the special resolution approving the Amalgamation Agreement. These votes will be sufficient to approve the Amalgamation on behalf of Preston even if all other shareholders of Preston vote against confirming the special resolution approving the Amalgamation Agreement.

See "Management of Preston—Security Ownership of Management".

Rio Algom

The following table sets forth certain information as of December 10, 1979 with respect to any person or group of persons known by the directors or senior officers of Rio Algom to beneficially own, directly or indirectly, or exercise control or direction over, more than 5% of Rio Algom's common shares:

Name and Address of Ultimate Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Rio Tinto-Zinc (2) 6 St. James's Square London, England	5,920,640 Indirect (3)	43.80%
Canadian Pacific Investments Limited, Suite 1900, Place du Canada, Montreal, Quebec H3B 2N2	2,141,017 Indirect (4)	15.84%
	1,331,956 Direct	9.85%

- (1) Rio Tinto-Zinc and its subsidiaries and Canadian Pacific Investments Limited, respectively, have sole voting and investment power with respect to all common shares listed.
- (2) Rio Tinto-Zinc's net beneficial interest in the common share equity of Rio Algom was 51.30% at December 10, 1979. This is computed on the basis of Rio Tinto-Zinc's indirect interests, through wholly-owned subsidiaries, in (a) 15.84% of the outstanding common shares of Rio Algom and (b) 80.95% of the outstanding common shares of Preston which in turn owned 43.80% of the outstanding common shares of Rio Algom.
- (3) Shares directly owned by Preston.
- (4) Shares directly owned by Tinto Holdings and other wholly-owned subsidiaries of Rio Tinto-Zinc.

Each of Tinto Holdings and Preston has informed Rio Algom that at the Rio Algom Meeting it intends to vote the Rio Algom common shares owned by it to confirm the special resolution approving the Amalgamation Agreement. See "Introduction – Shareholder Approvals and Principal Shareholders".

See "Management of Rio Algom—Security Ownership of Management".

THE PROPOSED AMALGAMATION

Parties to the Amalgamation

Rio Algom is a continuing corporation under letters patent of amalgamation dated June 30, 1960 granted pursuant to the laws of Ontario. Rio Algom and its subsidiaries are engaged in mining and steel operations.

Preston is a continuing corporation under letters patent of amalgamation dated August 31, 1960 granted pursuant to the laws of Ontario. Preston has no employees and its affairs are managed by Rio Algom. The principal assets of Preston consist of 5,920,640 (or 43.80%) of the common shares of Rio Algom and the Stanleigh uranium property in the Elliot Lake area of Ontario.

See "Business of Rio Algom" and "Business of Preston" for further information concerning the businesses and operations of Rio Algom and Preston.

Terms of the Amalgamation

General. Rio Algom and Preston, their respective boards having given their approval on October 23, 1979, have entered into the Amalgamation Agreement which prescribes the terms and conditions of the Amalgamation and the mode of carrying it into effect. The Amalgamation Agreement contemplates that on the date the Amalgamation becomes effective (the "Effective Date"), currently expected to be January 31, 1980, Rio Algom and Preston will be amalgamated and will continue as one corporation under the name "Rio Algom Limited" under the terms and conditions specified in the Amalgamation Agreement and pursuant to the provisions of The Business Corporations Act (Ontario). Rio Algom Limited, as the continuing corporation, is referred to herein as "Amalco". Amalco will possess all the property, rights, privileges and franchises and will be subject to all the liabilities, contracts, disabilities and debts of each of Rio Algom and Preston.

Reference is made to the Amalgamation Agreement for a complete statement of the terms and conditions of the Amalgamation. The statements contained in this Joint Proxy Statement and Information Circular with respect to the Amalgamation and the Amalgamation Agreement are qualified in their entirety by the foregoing reference. A copy of the Amalgamation Agreement is reproduced in full as Exhibit A to this Joint Proxy Statement and Information Circular.

Conversion of Shares. Upon the Effective Date, each outstanding common share of Rio Algom not owned by Preston will automatically be converted into one common share of Amalco. All Rio Algom common shares owned by Preston will be cancelled without any repayment of capital thereon. Each outstanding Rio Algom First Preference Share Series A will be converted into one Amalco First Preference Share Series A. Subject to the fractional share provisions described in "Share Certificates" below, each outstanding common share of Preston will automatically be converted into 0.75 of a common share of Amalco and one Second Preference Share Series A of the par value of \$5.00. It is anticipated that Second Preference Shares Series A having an aggregate par value of \$44,152,495 will be issued to former Preston shareholders in connection with the Amalgamation.

On October 22, 1979, the last trading day preceding the announcement of the conversion ratios described above, the closing prices for Rio Algom and Preston common shares on The Toronto Stock Exchange were \$28 $\frac{1}{4}$ and \$21 $\frac{1}{4}$, respectively. On December 14, 1979, the closing prices for such shares on The Toronto Stock Exchange were \$30 $\frac{1}{2}$ and \$25 $\frac{3}{8}$, respectively. See "Comparative Stock Market Prices" below. Shareholders are urged to obtain a current quotation for Rio Algom and Preston common shares.

Rio Algom has obtained an opinion of Nesbitt Thomson Securities Limited ("Nesbitt"), a Canadian investment dealer, that the ratios for conversion of Rio Algom and Preston shares into Amalco shares (the "Share Conversion Ratios") are fair and reasonable from a financial point of view to the holders of common shares of Rio Algom. Preston has obtained an opinion of Pitfield Mackay Ross Limited ("Pitfield Mackay"), a Canadian investment dealer, that the consideration to be received by common shareholders of Preston in the Amalgamation is fair and reasonable from a financial point of view. See "Special Factors" below.

Nesbitt and Pitfield Mackay were informed that Tinto Holdings has undertaken to Rio Algom that it will not, prior to January 31, 1982, sell to the public for less than their par value (or tender for cancellation at less than their par value on an invitation for tenders in respect of less than all of the outstanding Second Preference Shares Series A) any of the 7,148,127 Second Preference Shares Series A which it will receive in the Amalgamation upon conversion of its holdings of Preston common shares. In light of the relatively large number of Second Preference Shares Series A to be acquired by it (80.95% of the shares to be outstanding), Tinto Holdings

has given this undertaking to lessen the possibility that, in the period indicated, the public market for Second Preference Shares Series A will be unduly depressed by any such sales by Tinto Holdings. In addition, Tinto Holdings has undertaken to acquire such Second Preference Shares Series A subject to applicable restrictions under the United States securities laws with respect to the resale thereof.

Approval of Amalgamation. An affirmative vote of two-thirds (2/3) of the votes cast at the respective Meetings of the shareholders of Rio Algom and Preston is required to confirm the special resolution approving the Amalgamation Agreement. **Unless otherwise specified, proxies which are received pursuant to this solicitation will be voted for the confirmation, with or without variation, of the special resolution approving the Amalgamation Agreement.**

Special Factors

Background. Preliminary studies to consider the combination of Preston and Rio Algom or their assets have been carried out periodically since the amalgamations that created Preston and Rio Algom in 1960. These studies never resulted in further steps to effect such a combination because the disadvantages, primarily in respect of taxes, outweighed the perceived benefits in respect of operational and administrative efficiencies.

Further studies were commenced in September, 1978 to consider the feasibility of a possible combination of the two corporations in view of the contract made between Preston and Ontario Hydro for the production and sale to that utility of uranium concentrates produced from Preston's Stanleigh mining property (see "Business of Preston") and the then existing terms of and proposed revisions to the Income Tax Act (Canada).

These studies indicated that, given these changed circumstances, potential tax benefits and operational and administrative efficiencies (see "Purpose" below) could be available to some combination of the two corporations that would not be available to either corporation separately and that it would be preferable to effect the combination by way of a statutory amalgamation. The studies also indicated that revisions to the Income Tax Act (Canada) had eliminated the adverse tax effect on Preston (of a deemed dividend out of Rio Algom's designated surplus) that would have resulted if the corporations had combined by way of statutory amalgamation prior to such revisions.

In the spring of 1979, Mr. R. D. Armstrong, Chairman and Chief Executive Officer of Rio Algom and Preston, discussed in a general way with a member of senior management of Rio Tinto-Zinc the prospect of an amalgamation of Rio Algom and Preston. The object of Mr. Armstrong's discussions was to satisfy himself that Rio Tinto-Zinc (see "Relationships between Rio Algom and Preston" below) would be amenable to a detailed investigation of whether an amalgamation would be both feasible and beneficial to the shareholders of the two corporations. Such member of management indicated generally that in his view a merger of Preston with Rio Algom was a natural development for both corporations, because Preston's only assets consisted of shares in Rio Algom and the Stanleigh mining property which was within the Elliot Lake district and which was in any case to be managed by Rio Algom; the signing of the contract between Preston and Ontario Hydro for the development of the Stanleigh mining property now provided a means of bringing that property into production; and tax benefits could be expected to arise from an amalgamation which would be to the advantage of shareholders in both Rio Algom and Preston. From this discussion, Mr. Armstrong concluded that reasonably definitive studies which, together with consultations with tax and legal advisors, had begun in early 1979 should be continued.

On August 1, 1979, the boards of directors of both Rio Algom and Preston determined that it was appropriate to consider a statutory amalgamation of the corporations effective December 31, 1979, pursuant to which the corporations would amalgamate and continue under the name "Rio Algom Limited". At that time neither board formally considered specific share conversion ratios or other specific details of an amalgamation. On the same day Rio Algom and Preston issued a joint press release announcing that an amalgamation of the two corporations was being considered. After discussions between Mr. Armstrong and certain directors of the two corporations, Rio Algom and Preston, acting at the direction of Mr. Armstrong, retained Nesbitt and Pitfield Mackay (the "Investment Advisors"), respectively, to advise as to the fairness to shareholders from a financial point of view of the share conversion ratios. The selection of the Investment Advisors was based on their past relationship with and their knowledge of and familiarity with the financial affairs of the respective corporations. See "Opinion of Nesbitt" and "Opinion of Pitfield Mackay" below.

For the reasons described under "Relationships Between Rio Algom and Preston", **Rio Algom and Preston do not deal with each other at arm's length and, accordingly, the terms of the Amalgamation were not determined by parties dealing with each other at arm's length.** This is a primary reason why it was considered essential that each corporation receive independent financial advice as to the fairness of the share conversion ratios to its shareholders. No unaffiliated representative was retained by the non-employee directors of either corporation to act solely on behalf of unaffiliated security holders.

In early September, Mr. Armstrong had concluded that an amalgamation was feasible and would be beneficial to the shareholders of both corporations and discussed the matter again with two members of senior management of Rio Tinto-Zinc noting that on his recommendation Nesbitt and Pitfield Mackay had been retained to provide independent financial advice to the respective corporations. On the basis that such advice would be obtained, a member of senior management of Rio Tinto-Zinc indicated that Rio Tinto-Zinc would recommend to its relevant subsidiaries that they vote their shares in favor of an amalgamation, the terms of which were agreed by each of the Investment Advisors to be fair and reasonable to the shareholders of the corporation it was advising.

On September 25, 1979, Rio Algom and Preston issued a second joint press release to the effect, among other things, that the corporations anticipated that the Amalgamation would involve the conversion of Rio Algom first preference shares into Amalco first preference shares, the conversion of Rio Algom common shares into Amalco common shares and the conversion of Preston common shares into units of Amalco common and preference shares, which preference shares would be junior to the Amalco first preference shares, but would otherwise be conventional preference shares carrying a fixed dividend rate.

In early October, Mr. Armstrong decided upon the amalgamation terms that he considered to be fair and reasonable to the shareholders of each corporation. Thereafter, following discussions with the Investment Advisors, he satisfied himself that these terms would be confirmed by each Investment Advisor as fair and reasonable from a financial point of view to the shareholders of the corporation which had retained such Investment Advisor. Accordingly, Mr. Armstrong determined to recommend to the respective boards of Rio Algom and Preston a share conversion ratio under which each Preston common share would be converted into a unit consisting of 0.75 of a common share of Amalco and one Second Preference Share Series A of Amalco of the par value of \$5.00 and with accompanying terms and conditions intended to result in the Second Preference Shares Series A trading at par. The 0.75 of an Amalco common share component of the Share Conversion Ratio represents the 0.67 of a Rio Algom common share presently underlying each Preston share and a further 0.08 in lieu of the issuance of an additional amount of Second Preference Shares Series A. The amount of Second Preference Shares Series A which will be issued in the Amalgamation was considered the maximum desirable amount and the additional 0.08 of a common share was added in order to produce a fair ratio.

The principal factors which Mr. Armstrong considered in deciding upon the amalgamation terms are the following listed generally in the order of importance which Mr. Armstrong accorded to them:

1. The present value of the estimated cash flows to Preston from the Stanleigh mining property was computed on the basis of discount rates of 15.0% and 20.0%. Annual cash flows were estimated by multiplying the forecast annual production of approximately two million pounds of uranium oxide in concentrates by the profit allowance per pound under the Stanleigh Project Agreement and deducting management fees and income taxes which it was estimated would be payable under current tax laws. See "Business of Preston - Stanleigh Project". In 1984, when full production is scheduled to commence, the profit allowance was forecast at \$9.01 per pound (resulting in an aggregate cash flow in 1984 of approximately \$17.2 million, after deduction of management fees and assuming delivery of two million pounds of uranium oxide in concentrates). Thereafter, the profit allowance was escalated at 6% annually.

2. Potential benefits in respect of income and mining tax obligations that could be available to the amalgamated corporation but would not be available to either corporation as a separate entity were considered. Such benefits, which are referred to below under "Purpose" and are subject to the assumptions and uncertainties referred to in that section, could result in cash reductions in taxes currently payable in 1980-1984 in the order of an average of 13% of consolidated earnings before taxes and minority interests per year (although they are not expected to be substantial in the first year of the period). As most of these benefits involve tax

deferrals, their utilization in 1980-1984 would, depending on Amalco's future tax position, result in an increase in current tax payments in years subsequent to 1986 in amounts which would generally correspond to the deferrals.

3. The relative effect of the transaction on the minority shareholders of the two corporations in the event that the estimated cash flows from the Stanleigh property or the tax benefits referred to above are not realized or the Stanleigh property is not brought into production was considered.

4. The fact that any benefits to Rio Algom from the transaction would also be of benefit to the Preston shareholders by virtue of their indirect ownership in Rio Algom was considered.

5. The fact that Preston shareholders would be acquiring a direct interest in Rio Algom shares eliminating the effect of the holding company discount from the market value of the Rio Algom shares owned by Preston, at which the Preston shares have traditionally traded, without creating any taxable income to Preston or any significant taxable income to its shareholders generally as would be the case if the Rio Algom shares were distributed to the Preston shareholders whether pursuant to a plan to liquidate Preston or otherwise was considered. The distribution to its shareholders by Preston of its Rio Algom shares would result in substantial taxable income in Preston from the deemed sale of its Rio Algom shares and could result in taxable income to the Preston shareholders.

6. Current and historical market prices of the shares of the two corporations were considered.

The basic reason for selecting a share conversion ratio for the Preston common shares which includes both common shares and non-convertible Second Preference Shares Series A of Amalco was to avoid a substantial increase in the foreign net beneficial interest in the common shares of Rio Algom. This was deemed desirable in the light of announced Canadian government policies reflected in the proposed legislation referred to under "Legislation and Controls - Uranium Mining Control". As a result of the issue of the Second Preference Shares Series A to Preston shareholders there will only be an increase of approximately 2.35% in the foreign net beneficial interest in the common shares of Amalco over that in the common shares of Rio Algom. In October, 1979, the Minister of Energy, Mines and Resources of Canada indicated that this increase would be acceptable and would not jeopardize the ability of Amalco to carry on the uranium mining operations of both Rio Algom and Preston in the Elliot Lake area of Ontario.

In summary, Mr. Armstrong decided upon appropriate share conversion ratios taking into consideration the maximum amount of Second Preference Shares Series A it was considered desirable to issue; the limit on the increase in the proportion of foreign ownership of Rio Algom common shares under the policy reflected in the proposed legislation referred to above; the range of values attributed to the Stanleigh property; and the other factors enumerated in the preceding pages. Mr. Armstrong contacted the Investment Advisors and, as explained above, satisfied himself that these share conversion ratios would be confirmed by each Investment Advisor as fair and reasonable from a financial point of view to the shareholders of the corporation which retained such Investment Advisor.

Mr. Armstrong thereafter outlined the terms he had in mind and the positions of the Investment Advisors to a member of Rio Tinto-Zinc's senior management who confirmed that, subject to the agreement of each of the Investment Advisors that the terms to be proposed were fair and reasonable to the shareholders of Preston and Rio Algom, respectively, Rio Tinto-Zinc would support the Amalgamation.

Prior to the meetings of the boards of directors of the two corporations on October 23, 1979 there were transmitted to all of the directors of the corporations draft material to be included in this Joint Proxy Statement and Information Circular. At the meetings Mr. Armstrong advised the directors present of his recommendations and of the basis for his conclusions as to the substantive terms of the second preference shares and the share conversion ratios he considered fair and reasonable to the shareholders of both corporations. He also presented drafts of the opinions of the Investment Advisors in which they state their respective opinions as to the fairness of the Share Conversion Ratios to the shareholders of Rio Algom and Preston from a financial point of view. (The final opinions of the Investment Advisors, which include the factors taken into account by them in this regard, appear as Exhibits B and C hereto.) There were also made available to the directors for inspection copies of documents which had been supplied to the Investment Advisors and which are referred to in their respective opinions.

Based on Mr. Armstrong's recommendations and the opinion of the Investment Advisor of the respective corporation, the Amalgamation Agreement was approved by all of the directors present at each of the Rio Algom and Preston board of directors' meetings held on October 23, 1979. At the Rio

Algom meeting, of the ten directors present, six directors were also either officers of Rio Algom or officers or directors of a corporation affiliated with Rio Algom. At the Preston meeting, of the five directors present, four directors were also either officers of Preston or officers or directors of a corporation affiliated with Preston. After the meetings, the directors of each corporation not present were advised of the terms of the Amalgamation Agreement and its approval. No such director has indicated disagreement with such approval.

An affirmative vote of two-thirds of the votes cast at the respective Meetings of the shareholders of Rio Algom and Preston is required to approve the Amalgamation Agreement. Approval of at least a majority of unaffiliated security holders of Rio Algom and Preston is not required under the terms of the Amalgamation Agreement or applicable law. As indicated above under "Introduction - Shareholder Approvals and Principal Shareholders" affiliated shareholders owning 59.64% and 80.95% of the common shares of Rio Algom and Preston, respectively, have indicated their intention to approve the Amalgamation.

Purpose. The purpose of the Amalgamation is to obtain for the continuing corporation, Amalco, and the respective shareholders of Rio Algom and Preston the savings resulting from operational and administrative efficiencies and tax benefits expected to arise by reason of the Amalgamation.

The anticipated operational and administrative efficiencies are expected to arise principally in the construction, development and operation of the Elliot Lake uranium properties and in the simplification of corporate and statutory reporting procedures. Since the development of Preston's Stanleigh uranium property and Preston's corporate affairs are currently managed by Rio Algom, it is expected that the consolidation of operations can be achieved without difficulty.

The managements of Rio Algom and Preston believe that the Amalgamation will offer substantial income and mining tax advantages in the light of the anticipated earnings of Amalco and the resulting possibility of earlier utilization of certain potential deductions, allowances and credits pertaining to the development and operation of Preston's Stanleigh uranium property. The analysis considered by the managements indicated that cash reductions in taxes currently payable in 1980-1984 could be in the order of an average of 13% of consolidated earnings before taxes and minority interests per year (although they are not expected to be substantial in the first year of the period). A substantial majority of these current tax reductions would be non-permanent; i.e., they would involve tax deferrals which would for financial statement purposes be charged against current income as deferred taxes and the reversal of which in years subsequent to 1986 would, depending on Amalco's tax and earnings performance position, increase current tax payments in such years in amounts which would generally correspond to the deferrals. The balance of the current tax reductions, however, would not make necessary a charge against current income with respect to deferred tax liability.

The analysis considered by the managements was based on the assumption that Amalco will meet certain profitability levels. Among other things, it was assumed that it would be possible for Rio Algom or Amalco to resell to others at anticipated world market prices (which were projected for the purpose of the analysis to increase at a gradual rate over the delivery period) the 17,000,000 pounds of uranium oxide ("U₃O₈") in concentrates which were to be delivered between 1979 and 1990 under Rio Algom's Tennessee Valley Authority ("TVA") contract. This contract has been repudiated by TVA and is now considered by Rio Algom to be no longer in force or effect. See "Business of Rio Algom - Legal Proceedings". There is no assurance that Rio Algom or Amalco will be successful in this regard. However, Rio Algom is seeking to resell such uranium concentrates and, as at November 30, 1979, had procured replacement contracts for 2.5 million pounds of U₃O₈. The analysis also necessarily entailed many other assumptions, which are subject to varying degrees of uncertainty, as to business and financial matters and as to the provisions and applications of present and future tax laws.

Opinion of Nesbitt. A copy of the opinion of Nesbitt dated October 25, 1979 appears as Exhibit B to this Joint Proxy Statement and Information Circular. The bases for and the procedures and methods employed by Nesbitt in arriving at its opinion are set forth by Nesbitt in its opinion. Nesbitt received no instructions from Rio Algom with respect to the manner of its evaluation and no limitations were imposed on the scope of its investigation, except that Nesbitt was not consulted in the determination of the classes of securities to be offered.

Nesbitt is a major integrated Canadian investment dealer and has provided underwriting and investment services to Rio Algom since Rio Algom's formation in 1960. Nesbitt acted as underwriter in the 1975

offering of Rio Algom's Series B Debentures in the principal amount of \$50,000,000 and was managing underwriter in a concurrent rights offering of additional common shares both of which were made outside the United States. It assisted Rio Algom in obtaining the consent of holders of outstanding Series A Debentures to an amendment to Rio Algom's Trust Deed in 1975 and acted in a similar capacity in connection with obtaining consents to further amendments to the Trust Deed incidental to the proposed Amalgamation (see "Modification of Rio Algom Trust Deed"). From time to time, based on public information, Nesbitt has published major research reports on Rio Algom, most recently in May, 1978, and as part of its research function is continually advising clients as to developments with respect to Rio Algom. As of December 14, 1979, Nesbitt held for the account of customers 11,129 common shares of Rio Algom, 3,940 common shares of Preston, and 50 common shares of Lornex Mining Corporation Ltd., a 68.1% owned subsidiary of Rio Algom. Rio Algom has agreed to pay Nesbitt \$35,000 for its services in connection with the amendments to the Trust Deed, and \$75,000 in connection with rendering its opinion with respect to the Amalgamation and to reimburse Nesbitt for certain expenses. Rio Algom has agreed to indemnify Nesbitt for certain liabilities it may incur in connection with the Amalgamation. J. Ian Crookston, a director of Rio Algom since 1966 and a director of Preston since 1960, retired as Chairman of Nesbitt in February, 1979, ending an association of 44 years with that firm.

Opinion of Pitfield Mackay. A copy of the opinion of Pitfield Mackay dated October 24, 1979 appears as Exhibit C to this Joint Proxy Statement and Information Circular. The bases for and the procedures and methods employed by Pitfield Mackay in arriving at its opinion are set forth by Pitfield Mackay in its opinion. (See also "Terms of the Amalgamation – Conversion of Shares".) Pitfield Mackay was not consulted in the determination of the classes of securities to be offered and did not conduct an evaluation of Rio Algom except to the extent necessary to satisfy itself that it was not unreasonable to value on a market price basis the small additional portion of a common share included in the Share Conversion Ratio. Preston did not provide and Pitfield Mackay was not expected to review information as to income and mining tax matters beyond that furnished by Preston. Except for the foregoing, Pitfield Mackay received no instructions from Preston with respect to the manner of its evaluation and no limitations were imposed on the scope of its investigation.

Pitfield Mackay is a major integrated Canadian investment dealer. Ward C. Pitfield, Chairman and President of Pitfield Mackay, has been a director of Preston since its formation in 1960. As of December 14, 1979 Pitfield Mackay held for customer accounts 4,671 Preston common shares and 8,799 Rio Algom common shares. Preston has agreed to pay Pitfield Mackay \$81,500 in connection with the rendering of its opinion and will reimburse it for certain expenses. Preston has agreed to indemnify Pitfield Mackay for certain liabilities it may incur in connection with the Amalgamation.

It is emphasized that the statements included in the opinions of Nesbitt and Pitfield Mackay concerning various considerations and factors taken into account by such firms, many of which are of necessity of a speculative character, should be considered solely in relation to the proposed Amalgamation and should not be used in connection with any other investment decision. In particular, any determinations of discounted present value of the estimated cash flow from the Stanleigh mining property are subject to even greater uncertainty than is ordinarily the case with such determinations because of the fact that, with respect to the major portion of the estimates of uranium mineralization on such property, the work to date on the property has not established the existence of such mineralization with sufficient certainty to warrant its being considered proven or probable ore as those terms are defined in applicable regulations of the United States Securities and Exchange Commission. (See "Business of Preston – Ore Estimates".) In addition, any estimate which is based on long range forecasts is likely to be subject to a greater degree of uncertainty than estimates based on a shorter range forecast.

Canadian Income Tax Consequences. Rio Algom and Preston understand that for Canadian federal income tax purposes:

1. The conversion of common shares of Preston held as a capital asset into Amalco common shares and Second Preference Shares Series A on the Amalgamation will not be a taxable transaction under the Income Tax Act (Canada) and will qualify for "rollover" treatment thereunder. Accordingly, no gain or loss will be realized by a shareholder who receives Amalco common shares and Second Preference Shares Series A on the conversion of common shares of Preston as a result of the Amalgamation. The cost to a shareholder of

the Amalco common shares and Second Preference Shares Series A arising on conversion will be the adjusted cost base to him of his shares of Preston immediately before the Amalgamation, prorated between the Amalco common shares and Second Preference Shares Series A according to their relative fair market values immediately after the Amalgamation has become effective.

The transitional rules result in a crystallization of the “tax free zone” in determining the adjusted cost base to a Preston shareholder of his Amalco common shares and Second Preference Shares Series A. Where the fair market value of the common shares of Preston at the date of the Amalgamation is greater than both the original cost and the valuation day value thereof, the cost of the Amalco common shares and Second Preference Shares Series A will be the greater of original cost and valuation day value in the case of a shareholder using the “tax free zone” method.

2. The paid-up capital for tax purposes of the Second Preference Shares Series A will be \$5.00 per share. Accordingly, on the redemption of the Second Preference Shares Series A by Amalco, a shareholder resident in Canada will realize a capital gain (or loss) in respect of each Second Preference Share Series A equal to the amount by which \$5.00 exceeds (or is exceeded by) the adjusted cost base of such Second Preference Share Series A.

On a redemption, the excess (if any) of the redemption price over the paid-up capital per Second Preference Share Series A will be a deemed dividend to the holder. Canadian withholding tax of 10% will be applicable if the holder is a resident of the United States.

On a repurchase of the Second Preference Shares Series A by Amalco in the open market, a shareholder resident in Canada will realize a capital gain (or loss) in respect of each Second Preference Share Series A equal to the amount by which the repurchase price thereof exceeds (or is exceeded by) the adjusted cost base of such Second Preference Share Series A.

The capital loss (if any) of a corporate shareholder which either owns more than 5% of the Second Preference Shares Series A or held the Second Preference Shares Series A for less than 365 days before redemption or repurchase will be reduced by the amount of taxable dividends received by such corporate shareholder on the Second Preference Shares Series A repurchased or redeemed.

3. A shareholder who is not resident in Canada and who does not own, either alone or together with non-arm's length persons, 25% or more of the Second Preference Shares Series A will not be subject to Canadian tax on any capital gain that may arise on the redemption or the repurchase of the Second Preference Shares Series A by Amalco.

4. The conversion of common shares of Rio Algoma, held as a capital asset, into Amalco common shares on the Amalgamation will not be a taxable transaction under the Income Tax Act (Canada) and will qualify for “rollover” treatment thereunder. Accordingly, no gain or loss will be realized by a shareholder who receives Amalco common shares on the conversion of common shares of Rio Algoma as a result of the Amalgamation. The cost to a shareholder of the Amalco common shares arising on conversion will be equal to the adjusted cost base to him of his common shares of Rio Algoma immediately before the Amalgamation.

Where the transitional rules would permit a shareholder of Rio Algoma to use the “tax free zone” method in determining the adjusted cost base to him of his common shares of Rio Algoma, the transitional rules will continue to be available to such a shareholder in determining the adjusted cost base to him of his Amalco common shares received on the Amalgamation.

The above comments are only a brief summary of the Canadian federal income tax consequences of the Amalgamation and shareholders should consult with their own tax advisors having regard to their particular circumstances. In particular, shareholders who may become liable to tax as a result of the Amalgamation under any taxing statute other than the Income Tax Act (Canada), or shareholders for whom the shares of Preston or Rio Algoma are not capital property, should obtain further tax advice.

U.S. Federal Income Tax Consequences. Rio Algoma and Preston understand that for United States federal income tax purposes:

1. Although the issue is not free from doubt, the conversion of Rio Algoma shares into shares of Amalco in the Amalgamation will be pursuant to a plan of reorganization within the meaning of Section 368(a) (1) (D) of the Internal Revenue Code of 1954, as amended (the “Code”).

2. If the conversion is pursuant to such a plan, each United States shareholder of Rio Algoma who files the notice required by Temp. Treas. Reg. §7.367(B)-1(c) with his or her federal income tax return for the

year in which the transaction occurs will not recognize gain or loss on the Amalgamation, pursuant to Section 354 of the Code. Further, the Amalco shares received, if received pursuant to such a plan, will have the same basis in the hands of each United States shareholder as the Rio Algom shares exchanged therefor and the holding period for such Amalco shares for purposes of determining long or short-term capital gain will include the holding period of the Rio Algom shares exchanged, providing such shares were capital assets in his or her hands.

3. Each United States shareholder of Preston will recognize gain or loss on the Amalgamation equal to the difference between his adjusted tax basis for the Preston common shares and the fair market value of the Amalco shares received in exchange therefor and if such Preston common shares are capital assets in the hands of such shareholder and were held for one year or more as of the date of the Amalgamation, any gain or loss recognized will be a long-term capital gain or loss. Further, pursuant to Section 55 of the Code, the alternative minimum tax may be applicable to individual shareholders. If the Second Preference Shares Series A received in the Amalgamation are considered to have a fair market value on the date of the Amalgamation which is less than the price at which they may be redeemed, Section 305 of the Code may be applicable.

The foregoing United States federal income tax discussion is a summary intended for general information. The United States federal income tax consequences will vary depending on each shareholder's particular circumstances, and the United States shareholders of Rio Algom and Preston are urged to consult with their own tax advisors concerning the federal and any state or local tax consequences of the Amalgamation.

Westinghouse Litigation and TVA Contract. Rio Algom and its United States subsidiary, Rio Algom Corporation ("RAC"), are among 29 defendants in an action brought by Westinghouse Electric Corporation ("Westinghouse") in the United States District Court for the Northern District of Illinois (the "Court"), alleging violations of the United States antitrust laws and seeking treble damages and injunctive relief. See "Business of Rio Algom—Legal Proceedings". Although RAC has filed an appearance in the action and is contesting the complaint, on advice of counsel Rio Algom did not appear in the action and on January 3, 1979 the Court entered a final judgment on the issue of liability against Rio Algom and the other defaulting defendants. Subsequently, the Court issued several orders which, among other things, have the general effect of prohibiting payments or transfers of property to Rio Algom from its United States subsidiaries, Atlas Alloys Inc. and RAC. As a result, under generally accepted accounting principles the accounts of these subsidiaries have not been consolidated with the accounts of Rio Algom after January 1, 1979. Appeals by RAC and Atlas Alloys Inc. are pending from certain of these court orders insofar as these orders are applicable to them.

If a substantial judgment against Rio Algom (or Amalco) is rendered, it is possible that Rio Algom (or Amalco) will lose its ownership interest in the shares or assets of its United States subsidiaries. As of September 30, 1979, Rio Algom's investment in and amounts receivable from such subsidiaries aggregated \$27.2 million. Rio Algom is unable to predict the ultimate effect which the Westinghouse action will have on the business and operations of its United States subsidiaries or of its Atlas Steels Division, part of the production of which is sold to Atlas Alloys Inc.

Furthermore, the Westinghouse action could adversely affect Rio Algom's (or Amalco's) ability to market its products to other United States purchasers. On July 18, 1979, the Court issued an injunction prohibiting the initial payment by TVA to Rio Algom pursuant to a uranium sales contract entered into in 1974 which provided for the delivery of the equivalent of 17,000,000 pounds of U₃O₈ between 1979 and 1990. (See "Business of Rio Algom – Legal Proceedings" for a description of legal actions brought by TVA against Rio Algom, the contract between TVA and Rio Algom, and legal actions brought by Rio Algom.) Rio Algom has taken the position that TVA has repudiated the contract and Rio Algom is seeking alternate markets for the uranium concentrates which would have been delivered to TVA. As of November 30, 1979 replacement contracts had been procured for 2.5 million pounds of U₃O₈. Rio Algom is unable to predict at this time the extent to which further replacement contracts will be obtainable on terms that are commercially acceptable and that would be approved by the Canadian governmental authorities. There could be a significant adverse effect on the earnings and business of Rio Algom (or Amalco) if replacement contracts cannot be obtained on such basis. In addition, Rio Algom cannot now determine what impact the Westinghouse action may have on its contract with another United States utility, Duke Power Company, which contract was executed in September, 1974 and provides for the sale of an aggregate of 20,000,000 pounds of U₃O₈ to be delivered and paid for in Canada between 1981 and 1990.

Uranium Market. Since November, 1978 (when the expert designated by the parties established the U_3O_8 component price for 1980 deliveries under the TVA contract referred to above), there has been a softening of the market for uranium concentrates. This softening is reflected by the fact that at the end of October, 1979 market quotations (which relate only to relatively small quantities of uranium concentrates) were marginally less than they were in 1978 and early 1979 and did not reflect the increase in general price levels which occurred during the same period. Rio Algom is unable to predict the course of future uranium prices, particularly in view of the uncertainties affecting nuclear reactor programs in the United States and elsewhere.

Comparative Stock Market Prices

The Rio Algom common shares are traded on the Toronto, Montreal and American stock exchanges and the Preston common shares are traded on the Toronto and American stock exchanges. The following table sets forth, for the periods indicated below, the high and low sales prices per share and volumes (as published by The Toronto Stock Exchange) of Rio Algom and Preston common shares on The Toronto Stock Exchange:

	Rio Algom Common Shares			Preston Common Shares		
	High	Low	Volume	High	Low	Volume
1977						
First Quarter.....	\$28 6/8	\$25 4/8	162,792	\$14 7/8	\$13 2/8	63,387
Second Quarter.....	29 6/8	27	117,533	15 2/8	13 4/8	67,375
Third Quarter.....	29 2/8	22 5/8	153,179	15 1/8	12 3/8	64,795
Fourth Quarter.....	27 3/8	22 5/8	141,055	15 2/8	11 2/8	69,217
1978						
First Quarter.....	28 1/8	24 6/8	85,069	17 6/8	14 4/8	85,151
Second Quarter.....	33 2/8	28 1/8	298,544	18 7/8	15 4/8	128,538
Third Quarter.....	39 2/8	31 5/8	217,740	20 5/8	16 3/8	128,800
Fourth Quarter.....	38 4/8	32 4/8	195,705	21 2/8	17	120,518
1979						
First Quarter.....	40	34 4/8	168,421	21 5/8	18 3/8	111,329
April.....	35	32 4/8	174,679	19 4/8	17 4/8	62,287
May.....	33 3/8	31 4/8	81,751	19 1/8	18 2/8	48,596
June.....	37 2/8	31 2/8	101,902	22 7/8	18 4/8	66,780
July.....	37	28	307,850	22 4/8	19 2/8	24,555
August.....	33	28 6/8	181,456	25 4/8	19 5/8	149,594
September.....	33	30 4/8	66,079	25 4/8	24 2/8	61,493
October.....	31 6/8	25 7/8	153,870	25 4/8	21	170,420
November.....	29	25 6/8	74,045	24 4/8	21 4/8	48,871
December (through December 14) ..	32 2/8	28 6/8	97,674	26 4/8	24	43,942

On July 31, 1979, the last full trading day before the announcement that a proposal to amalgamate Rio Algom and Preston was being considered, the closing prices for Rio Algom and Preston common shares on The Toronto Stock Exchange were \$29 and \$19 $\frac{1}{2}$, respectively. On October 22, 1979, the last full trading day before the announcement of the Share Conversion Ratios, the closing prices for Rio Algom and Preston common shares on The Toronto Stock Exchange were \$28 $\frac{1}{4}$ and \$21 $\frac{1}{4}$, respectively. On December 14, 1979, the closing prices for Rio Algom and Preston common shares on The Toronto Stock Exchange were \$30 $\frac{1}{2}$ and \$25 $\frac{3}{8}$, respectively. Shareholders are urged to obtain a current quotation for Rio Algom and Preston common shares.

Share Certificates

Since Rio Algom common shares and Rio Algom First Preference Shares Series A will become Amalco common shares and Amalco First Preference Shares Series A on a share-for-share basis, it will not be necessary for the holders of Rio Algom shares to exchange their share certificates for new share certificates of Amalco after the Effective Date. Rio Algom bearer fractional certificates presently outstanding will remain outstanding and will entitle the holders thereof to receive Amalco common shares to the same extent as they presently entitle such holders to receive Rio Algom common shares.

After the Effective Date, certificates representing outstanding shares of Preston will be exchangeable for share certificates of Amalco on the basis of the Share Conversion Ratios set forth under "Terms of the Amalgamation—Conversion of Shares". As soon as practicable after the Effective Date, the holders of such certificates will be informed of the procedure for surrendering such certificates in exchange for certificates evidencing common shares and Second Preference Shares Series A of Amalco. All expenses relating to the exchange of certificates will be borne by Amalco.

Each shareholder of Preston who becomes entitled to a fraction of an Amalco common share will be entitled to receive a bearer fractional certificate of Amalco which will entitle the bearer, upon presentation thereof to Amalco's transfer agent together with other fractional certificates (including Rio Algom bearer fractional certificates) aggregating one or more whole shares, to receive an Amalco share certificate for such whole share or shares. Pursuant to The Business Corporations Act (Ontario), a person who becomes entitled to a fractional share is not, as such, entitled to be registered on the records of Amalco in respect thereof or to receive a share certificate therefor but is only entitled to receive a bearer fractional certificate in respect of such fraction.

Rio Algom and Preston have been informed by Nesbitt Thomson Bongard Inc. that it will purchase bearer fractional certificates of Amalco, so that holders thereof may sell such fractions for cash. Other dealers in securities may also purchase bearer fractional certificates.

Dividends and other distributions, if any, payable to holders of Amalco common shares after the Effective Date with respect to fractional interests in Amalco common shares will be paid, without interest, to the shareholders entitled thereto only after bearer fractional certificates therefor have been exchanged for share certificates representing whole shares of Amalco.

Exchange Listings

The Rio Algom common shares are listed on the Toronto, Montreal and American stock exchanges and the Rio Algom First Preference Shares Series A are listed on the Toronto and Montreal stock exchanges. Application will be made to list the Amalco common shares, Amalco First Preference Shares Series A and Second Preference Shares Series A on the Toronto and Montreal stock exchanges and acceptance of such applications is subject to the filing of required documents and evidence of satisfactory distribution both within 90 days. Application will be made to the American Stock Exchange for the approval for listing upon official notice of issuance of the Amalco common shares which will be outstanding on the Effective Date or which will be reserved for issuance under stock option plans.

Accounting Treatment

Since the Amalgamation will be a combination of two corporations under common control, it is accounted for in a manner similar to a pooling of interests. The pro forma combined consolidated statement of financial position (see page 29) has been prepared by adding together the amounts shown for assets, liabilities, preference shares, common shares, contributed surplus and retained earnings on the individual statements of financial position for each of the two corporations without any adjustment of the amounts at which such assets and liabilities were stated in the accounts of the combining corporations, except for certain adjustments described in note 1(b) to the pro forma combined consolidated statement. Coopers & Lybrand, the auditors for Rio Algom and Preston, have reviewed such accounting treatment and concur that it is in accordance with generally accepted accounting principles in Canada and the United States.

Consolidated statements of financial position of Amalco will reflect the assets and liabilities of the combining corporations on a similar basis, and consolidated statements of earnings of Amalco for the year in which the Amalgamation becomes effective and subsequent years will reflect their combined operations.

Amalco By-laws

The by-laws of Rio Algom will, so far as applicable, be the by-laws of Amalco until repealed, amended, altered or added to. A copy of the by-laws of Rio Algom may be examined during normal business hours at the principal offices of Rio Algom and Preston at any time prior to the Meetings. There are no significant differences between the by-laws of Rio Algom and the by-laws of Preston.

Expenses

Rio Algom and Preston will pay their own expenses from their respective general revenues, except that all printing expenses will be divided equally between Rio Algom and Preston. If the Amalgamation becomes effective, Amalco will bear all expenses incurred thereafter.

It is anticipated that Rio Algom and Preston will incur aggregate expenses of approximately \$544,680 and \$487,680, respectively, in connection with the Amalgamation.

Rights of Abandonment and Modification

The Amalgamation Agreement provides that at any time before the Amalgamation becomes effective, the Amalgamation Agreement may be terminated by the board of directors of either Rio Algom or Preston notwithstanding approval of the Amalgamation Agreement by the shareholders of Rio Algom or Preston.

The Amalgamation Agreement also provides that Rio Algom and Preston may, by resolutions of their respective boards of directors, approve any modification to the Amalgamation Agreement which their respective shareholders by special resolution or the Minister of Consumer and Commercial Relations of Ontario may require. The enclosed form of proxy is a discretionary proxy and if any appropriate amendments to the special resolution are proposed at either Meeting, the shares represented by the enclosed form of proxy, if completed in favor of Mr. Armstrong or Mr. Albino, the management nominees, will be voted upon such amendments in accordance with the best judgment of such proxy. The managements of Rio Algom and Preston are not aware of any amendments or variations to the matters identified in the notices of the Meetings or of any other matters that may come before the Meetings. Tinto Holdings has informed both Rio Algom and Preston that it does not intend to propose any such amendments, variations or other matters. Any modifications required by the Minister of Consumer and Commercial Relations of Ontario would likely be of a technical nature to ensure compliance with applicable legal requirements or policies and neither Rio Algom nor Preston is aware of any modifications that will be so required by the Minister. Matters not within the proper scope of the business for which the Meetings have been called will not be considered at the Meetings.

Auditors

It is intended that the firm of Coopers & Lybrand, chartered accountants, will be the auditors of Amalco until the first annual meeting of shareholders of Amalco.

Coopers & Lybrand were first appointed to the office of auditors of Rio Algom in 1960 and of Preston in 1970 and have been regularly appointed to the office of auditors of each corporation in each ensuing year and accordingly have acted as the corporations' principal accountants.

It is anticipated that one or more representatives of Coopers & Lybrand will be present at the Meetings. Such representatives will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions from shareholders. The auditors of the corporations are entitled to attend and be heard at any meeting of the directors on matters related to the auditors' duties and at any meeting of shareholders on any part of the business of the meeting that concerns the auditors.

For the fiscal year ended December 31, 1978, Coopers & Lybrand also performed non-audit services for the corporations. For Preston these services consisted of providing tax advice to Preston in respect of its Stanleigh Project Agreement with Ontario Hydro. See "Business of Preston". The fees for these services were approximately three times as large as fees for audit services to Preston which included the review of filings with the United States Securities and Exchange Commission and of the annual report to shareholders. For Rio Algom and its subsidiaries, the aggregate fees for non-audit services were 8.3% of the fees for audit services for the year and related to tax advice in respect of the application of mining and income tax law, tax advice in respect of employee compensation, advice and assistance in representations to governmental agencies in respect of tax matters and audit of an employee benefit plan. The audit fees included fees in respect of the review of filings with the United States Securities and Exchange Commission and of the annual report to shareholders. All of the fees for non-audit services charged to Preston and Rio Algom and its subsidiaries were approximately 14.4% of the audit fees charged to all such corporations. The services rendered to each of Preston and Rio Algom were ratified subsequent to being rendered by its board of directors at which time consideration was given to the possible effect of non-audit services rendered to the corporation on the independence of the auditors.

Relationships Between Rio Algom and Preston

Rio Tinto-Zinc. Rio Algom and Preston are both under the ultimate control of Rio Tinto-Zinc. As at December 10, 1979, Rio Tinto-Zinc, through wholly-owned subsidiaries, was the ultimate beneficial owner of 7,148,127 common shares of Preston representing 80.95% of such outstanding common shares. As at the same date, Preston was the direct beneficial owner of 5,920,640 common shares of Rio Algom representing 43.80% of such outstanding common shares. Also at the same date, Rio Tinto-Zinc, through wholly-owned subsidiaries, was the ultimate beneficial owner of an additional 2,141,017 common shares of Rio Algom representing 15.84% of such outstanding common shares. Thus, at December 10, 1979, Rio Tinto-Zinc ultimately controlled, through wholly-owned subsidiaries and through Preston, a total of 8,061,657 common shares of Rio Algom representing 59.64% of such outstanding common shares and Rio Tinto-Zinc's net beneficial interest in the common share equity of Rio Algom was 51.30%.

Common Directors and/or Officers of Rio Tinto-Zinc, Tinto Holdings, Rio Algom and/or Preston. Rio Tinto-Zinc, Tinto Holdings, Rio Algom and/or Preston have a number of directors and officers in common:

Mr. G. R. Albino is a director, President and Chief Operating Officer of both Rio Algom and Preston and is also a member of the Executive Committee of the Board of Directors of Rio Algom.

Mr. R. D. Armstrong is a director, Chairman and Chief Executive Officer of both Rio Algom and Preston and is also a member of the Executive Committee of the Board of Directors of Rio Algom; a director and a Vice-President of Tinto Holdings; and a director of Rio Tinto-Zinc.

Mr. J. Ian Crookston is a director and a member of the Audit Committees of both Rio Algom and Preston.

Mr. A. G. Frame is a director of Rio Algom and a director and a Deputy Chairman and Chief Executive of Rio Tinto-Zinc.

Mr. Sam Harris is a director of Rio Algom and Rio Tinto-Zinc.

Mr. J. Herbert Smith is a director of Rio Algom and Tinto Holdings.

Sir Mark Turner is a director and a member of the Executive Committee of Rio Algom, a director of Tinto Holdings and a director and Chairman of Rio Tinto-Zinc.

Mr. R. W. Wright is a director of Rio Algom and Rio Tinto-Zinc.

Mr. R. C. Berry is a director of Preston and Tinto Holdings.

Mr. P. H. Dean is a director of Preston, Tinto Holdings and Rio Tinto-Zinc.

For information concerning the ownership of shares of Rio Tinto-Zinc, Rio Algom and Preston by the directors and officers of Rio Algom and Preston, see "Management of Rio Algom – Security Ownership of Management" and "Management of Preston—Security Ownership of Management". The above persons may be deemed to have direct or indirect interests in the Amalgamation Agreement and the transactions contemplated thereby. Certain further information concerning the directors and executive officers of Rio Tinto-Zinc, Rio Algom and Preston is contained in Exhibit D hereto.

Business Relationship. Since 1961, Rio Algom has provided all head office and senior management and certain consulting and administrative services to Preston for which services Preston pays Rio Algom a fee of \$18,000 per annum.

In 1978, Preston entered into an agreement (the "Stanleigh Project Agreement") with Ontario Hydro providing for the development and operation of Preston's Stanleigh uranium property (the "Stanleigh Project") in the Elliot Lake area of Ontario. By agreement dated January 1, 1978 (the "Construction and Management Agreement") between Rio Algom and Preston, Rio Algom agreed to supervise and manage the evaluation, planning, development, construction, operation and shutdown of the Stanleigh Project on behalf of Preston and in accordance with the Stanleigh Project Agreement. Rio Algom also agreed to provide the work force required for the Stanleigh Project and to provide Preston with the services of such of Rio Algom's head office and Elliot Lake area personnel as are required for the Stanleigh Project. Preston has agreed to pay Rio Algom a management fee and to reimburse Rio Algom for costs and expenses incurred by Rio Algom in connection with the supervision and management of the Stanleigh Project. See "Business of Preston" for additional information concerning the Stanleigh Project, the Stanleigh Project Agreement,

the Construction and Management Agreement and amendments which are proposed to be made to the Stanleigh Project Agreement in connection with the Amalgamation.

Miscellaneous. The firm of Coopers & Lybrand, chartered accountants, has been appointed annually by the shareholders of the respective corporations to the office of auditors of Rio Algom since 1960 and of Preston since 1970. See "Auditors" above.

The firm of Fasken & Calvin, barristers and solicitors, of Toronto, Ontario, has represented Rio Algom since 1960 and has acted from time to time for Preston on specific matters and the firm of Fried, Frank, Harris, Shriner & Jacobson, attorneys-at-law, of New York, N.Y., has been United States counsel to both Rio Algom and Preston since 1960. Sam Harris, who is a senior partner of the latter firm, is a director of both Rio Algom and Rio Tinto-Zinc. Fasken & Calvin are acting as Canadian counsel and Fried, Frank, Harris, Shriner & Jacobson are acting as United States counsel to the corporations in connection with the Amalgamation.

Modification of Rio Algom Trust Deed

As at December 14, 1979, there were outstanding \$8,135,500 principal amount of 6 3/4% Sinking Fund Debentures Series A and \$49,415,000 principal amount of 11 1/2% Sinking Fund Debentures Series B (collectively, the "Debentures") of Rio Algom. See note 5 of "Notes to Consolidated Financial Statements" of Rio Algom contained elsewhere herein. The Debentures were issued under a trust indenture and a trust deed of hypothec, mortgage and pledge, as the same have been supplemented and amended (collectively the "Trust Deed"). The Debentures are secured by a first floating charge on all the undertaking, property and assets of Rio Algom, both present and future. The Debentures are redeemable at any time at the election of Rio Algom at the principal amounts thereof plus a premium which declines over the term of the Debentures. As at December 10, 1979, the redemption premium for the Series A Debentures was 0.95% and the redemption premium for the Series B Debentures was 8.90%. See "Business of Rio Algom—Rio Algom Debentures" for additional details concerning the Trust Deed and the Debentures, including sinking fund requirements and financial restrictions imposed on Rio Algom.

By virtue of the Stanleigh Project Agreement and the security given to Ontario Hydro thereunder (see "Business of Preston"), Preston is required to maintain the property and assets of the Stanleigh Project, which are subject to the mortgages and charges in favor of Ontario Hydro, free of all encumbrances except for those specifically permitted by the Stanleigh Project Agreement and such security. This obligation would become an obligation of Amalco on the Amalgamation. Permitted security on Stanleigh Project assets includes first mortgages on employee facilities to secure the funds borrowed from third parties to finance their construction or acquisition and statutory or other liens and encumbrances arising by virtue of the construction and operation of the Stanleigh Project, but would not include the lien of the Trust Deed in its present form. Without amendment, the Trust Deed would not permit Amalco to charge the Stanleigh Project assets which it acquires from time to time in favor of Ontario Hydro as required by the Stanleigh Project Agreement. In addition, advances made by Ontario Hydro to Preston or Amalco would constitute "funded obligations" under the Trust Deed which could not be incurred unless the applicable tests contained in the Trust Deed were satisfied.

In order to resolve conflicts or inconsistencies between the Trust Deed and the Stanleigh Project Agreement and the security given thereunder or contemplated thereby, Rio Algom called a meeting of the holders of its Debentures for the purpose of considering certain modifications and amendments to the Trust Deed. At this meeting which was held on November 5, 1979, the holders of the Debentures approved amendments to the Trust Deed which would, among other things, exclude from the floating charge of the Trust Deed the property, rights, assets and undertaking used in or in connection with the Stanleigh Project, whether brought to the Amalgamation by Preston or acquired thereafter by Amalco. In addition, indebtedness incurred by Preston or Amalco in connection with the Stanleigh Project would be excluded from the definition in the Trust Deed of "funded obligations" and, by virtue of such amendments, the giving of security on the Stanleigh Project assets to secure such indebtedness would be permitted.

The Stanleigh Project Agreement addresses the possibility that the most appropriate method of financing the Stanleigh Project may change and, prior to completion of construction of the Stanleigh Project, permits Ontario Hydro to put forward alternative financing plans to Preston. Under the amendments to the Trust Deed approved as aforesaid, indebtedness owing to Ontario Hydro or others under such alternative financing

plans would also be excluded from the definition of "funded obligations" for the purposes of the Trust Deed provided the security therefor is limited to assets of the Stanleigh Project and provided that, except for the ability of creditors to proceed against the assets subject to any such security, the indebtedness is without personal or other recourse to Amalco. Any such security would constitute an exception to the negative pledge provisions of the Trust Deed.

The amendments, as approved, would also permit Amalco to incur indebtedness to parties other than Ontario Hydro in connection with an expansion of the Stanleigh Project or the continuance, reactivation, construction or resumption of the Stanleigh Project and to give security therefor, provided such security is limited to the assets of the Stanleigh Project and, except for the ability of creditors to proceed against the assets subject to any such security, the indebtedness is without personal or other recourse to Amalco. Such borrowing might be undertaken if the obligation of Ontario Hydro to purchase the output of the Stanleigh Project and to advance funds required therefor terminates.

It is anticipated that a supplemental indenture giving effect to the amendments referred to above will be executed shortly before the Effective Date of the Amalgamation.

SUMMARY OF FINANCIAL INFORMATION

(Expressed in Canadian dollars in thousands)

The following information should be read in conjunction with the pro forma combined consolidated financial statements of Amalco and with the respective historical financial statements of Rio Algom and Preston appearing elsewhere herein.

Rio Algom Limited (Historical)

	Year ended December 31		Nine months ended September 30	
	1977	1978	1978	1979(a)
Summary of earnings data:				
Revenue.....	\$486,587	\$576,055	\$413,746	\$496,749
Net earnings.....	42,815	61,817	42,393	45,933
Earnings applicable to common shares.....	42,196	61,235	41,951	45,533
Ratio of earnings to fixed charges and preference dividends	6.1:1	7.2:1	6.6:1	10.4:1

Statement of financial position data:

Working capital.....	\$227,859	\$232,822	\$239,061	\$210,603
Total assets.....	682,645	756,227	714,833	802,893
Long term debt, less current maturities.....	121,993	114,676	116,309	92,276
Minority interests in subsidiary.....	29,256	32,519	30,907	44,806
Common shareholders' equity.....	338,190	382,189	372,931	417,859

(a) Does not include United States subsidiaries (see accounting policy note on page 75 and note 12 on page 82).

Preston Mines Limited (Historical)

	Year ended December 31		Nine months ended September 30	
	1977	1978	1978	1979
Summary of earnings data:				
Net earnings.....	\$ 18,246	\$ 26,754	\$ 18,247	\$ 19,845
Statement of financial position data:				
Working capital (deficiency).....	\$ (155)	\$ (804)	\$ (634)	\$ (4,583)
Total assets.....	149,629	171,774	166,549	206,749
Long term debt.....	—	1,920	1,547	16,830
Common shareholders' equity.....	149,145	168,901	164,320	184,828

See "Comparative Per Share Data" for earnings, book value and dividends per common share of Rio Algom and Preston.

Rio Algoma Limited - Amalco (Pro Forma Combined)

	Year ended December 31		Nine months ended September 30	
	1977	1978	1978	1979(a) (unaudited)
Summary of earnings data:				
Revenue.....	\$486,587	\$576,055	\$413,746	\$496,749
Net earnings.....	42,689	61,641	42,265	45,835
Earnings applicable to common shares.....	38,317	57,306	39,008	42,620
Ratio of earnings to fixed charges and preference dividends	4.1	5.1:1	4.7:1	6.5:1
Statement of financial position data:				
Working capital.....	\$227,704	\$232,018	\$238,427	\$206,020
Total assets.....	684,165	760,470	717,371	826,463
Long term debt, less current maturities.....	121,993	116,596	117,856	109,106
Minority interests in subsidiaries.....	29,256	32,519	30,907	44,806
Common shareholders' equity.....	295,192	339,586	329,910	375,624

(a) Does not include United States subsidiaries (see accounting policy note on page 75 and note 12 on page 82).

See "Comparative Per Share Data" for pro forma earnings and book value per common share.

COMPARATIVE PER SHARE DATA

The following information should be read in conjunction with the pro forma combined consolidated financial statements of Amalco and with the respective historical financial statements of Rio Algoma and Preston appearing elsewhere herein. The pro forma data are based on the Share Conversion Ratios prescribed in the Amalgamation Agreement and assume that the transaction took place on January 1, 1974.

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
						(unaudited)	
Rio Algoma							
Net earnings per common share(1).....	\$ 3.52	\$ 2.28	\$ 2.29	\$ 3.12	\$ 4.53	\$ 3.10	\$ 3.37*
Book value per common share at end of period(2)...	20.45	21.66	22.97	25.03	28.29	27.60	30.91
Dividends per share							
Common	1.00	1.00	1.00	1.08	1.29	0.54	0.75
First Preference.....	5.80	5.80	5.80	5.80	5.80	4.35	4.35
Preston							
Net earnings per common share(3).....	\$ 2.45	\$ 1.54	\$ 1.52	\$ 2.07	\$ 3.03	\$ 2.07	\$ 2.25
Book value per common share at end of period.....	14.35	14.68	15.51	16.89	19.13	18.61	20.93
Dividends per common share.....	0.70	0.70	0.70	0.70	0.80	0.35	0.45
Pro Forma Combined (Amalco)							
Net earnings per common share.....	\$ 3.13	\$ 1.91	\$ 1.91	\$ 2.70	\$ 4.03	\$ 2.74	\$ 3.00*
Net earnings per 0.75 of a common share plus dividend on one Second Preference Share Series A	2.77	1.86	1.86	2.45	3.45	2.37	2.57*
Book value per common share at end of period(4)...	16.77	17.58	18.80	20.77	23.89	23.21	26.42
Book value per 0.75 of a common share at end of period plus par value of one Second Preference Share Series A(4).....	17.58	18.19	19.10	20.58	22.92	22.41	24.82

- (1) Fully diluted earnings are the same as net earnings because shares issuable in respect of stock options are not material.
- (2) Book value per common share at September 30, 1979 includes \$2.01 for book value of investment in and amounts receivable from United States subsidiaries.
- (3) The net earnings per share of Preston include its equity in the net earnings of Rio Algoma.
- (4) Pro forma book value per common share at September 30, 1979 includes \$1.92 for book value of investment in and amounts receivable from United States subsidiaries.

*Does not include United States subsidiaries.

CAPITALIZATION

(Expressed in Canadian dollars in thousands)
(unaudited)

The following table sets forth the respective capitalizations of Rio Algom and its subsidiaries and of Preston as of September 30, 1979 and the pro forma combined capitalization of Amalco and its subsidiaries which would result if the Amalgamation is consummated on the basis of such capitalizations and the Share Conversion Ratios referred to under "The Proposed Amalgamation—Terms of Amalgamation—Conversion of Shares."

	Rio Algom	Preston	Pro Forma Adjustments (deduct)	Pro Forma
DEBT (note 1):				
Short term loans, notes, etc.....	\$ 5,064	\$ —	\$ —	\$ 5,064
Long term debt				
(a) Debentures (note 2)				
(i) 6 3/4% Sinking Fund Debentures Series A due April 1, 1983.....	8,256	—	—	8,256
(ii) 11 1/2% Sinking Fund Debentures Series B due July 15, 1995.....	50,000	—	—	50,000
(b) Housing loans and mortgages payable (10% to 13 1/4%).....	34,190	673	—	34,863
(c) Advances from Ontario Hydro.....	—	16,157	—	16,157
	<u>97,510</u>	<u>16,830</u>	<u>—</u>	<u>114,340</u>
DEFERRED INCOME AND MINING TAXES.....	<u>120,213</u>	<u>—</u>	<u>—</u>	<u>120,213</u>
MINORITY INTERESTS.....	<u>44,806</u>	<u>—</u>	<u>—</u>	<u>44,806</u>
PREFERENCE SHARES SUBJECT TO MANDATORY SINKING FUND REQUIREMENTS:				
First Preference Shares of the par value of \$100 each, issuable in series; authorized 438,220 shares.				
\$5.80 Cumulative Redeemable First Preference Shares Series A; outstanding 88,220 shares	8,822 (88,220 shs.)	—	—	8,822 (88,220 shs.)
Second Preference Shares of the par value of \$5.00 each, issuable in series; authorized 25,000,000 shares.				
8.5% Cumulative Redeemable Second Preference Shares Series A; outstanding 8,830,499 shares.....	—	—	44,152 (8,830,499 shs.)	44,152 (8,830,499 shs.)
Total preference shareholders' equity....	<u>8,822</u>	<u>—</u>	<u>44,152</u>	<u>52,974</u>
COMMON SHAREHOLDERS' EQUITY:				
Common shares without par value; authorized Rio Algom - 15,000,000 shares, Preston - 10,000,000 shares, Amalco - 25,000,000 shares.....	99,351 (13,517,194 shs.)	37,459 (8,830,499 shs.)	(87,668) (8,128,264 shs.)	49,142 (14,219,429 shs.)
Contributed surplus.....	20,364	25,019	(8,919)	36,464
Retained earnings.....	298,144	122,350	(130,476)	290,018
Total common shareholders' equity.....	<u>417,859</u>	<u>184,828</u>	<u>(227,063)</u>	<u>375,624</u>
TOTAL CAPITALIZATION.....	<u><u>\$689,210</u></u>	<u><u>\$201,658</u></u>	<u><u>\$(182,911)</u></u>	<u><u>\$707,957</u></u>

NOTES:

- (1) Reference is made to note 5 and note 3 to the financial statements of Rio Algom and Preston, respectively, for information as to interest rates, maturity dates and subordination of debt.
- (2) The aggregate principal amount of Debentures which may be issued is unlimited, but such Debentures may be issued only subject to the restrictions and conditions set forth in the Trust Deed. All Debentures are secured equally and rateably by a floating charge on the property, assets and undertaking of Rio Algom and after the Amalgamation will be so secured except that such charge will not extend to the property, assets and undertaking of the Stanleigh Project. See "The Proposed Amalgamation—Modification of Rio Algom Trust Deed" and "Business of Rio Algom—Rio Algom Debentures."
- (3) Does not include 124,975 common shares reserved for issuance under Rio Algom's stock option plans.

RIO ALGOM LIMITED AND SUBSIDIARIES

Consolidated Summary of Earnings

(Expressed in Canadian dollars in thousands except per share amounts)

The following consolidated summary of earnings, insofar as it relates to the five years ended December 31, 1978, has been examined by Coopers & Lybrand, chartered accountants, whose opinion thereon is set forth elsewhere herein. In the opinion of Rio Algom, the unaudited results for the nine months ended September 30, 1978 and 1979 include all adjustments (all of which were normal recurring accruals except for the adjustment noted in (G) following) necessary to a fair statement of the results for those periods. The results for the nine months ended September 30, 1979 are not necessarily indicative of the results to be expected for a full year's operations and are not fully comparable with those of 1978 because they do not include the results of Rio Algom's United States subsidiaries (see accounting policy note on page 75 and note 12 on page 82). This summary should be read in conjunction with the consolidated financial statements of Rio Algom and the notes thereto included elsewhere herein.

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
						(unaudited)	
Revenue from mine production and sales of steel and other products (A).....	\$390,571	\$367,382	\$401,611	\$486,587	\$576,055	\$413,746	\$496,749
Cost of mine production and steel sales.....	239,766	258,773	291,180	356,787	416,439	304,595	338,136
	<u>150,805</u>	<u>108,609</u>	<u>110,431</u>	<u>129,800</u>	<u>159,616</u>	<u>109,151</u>	<u>158,613</u>
Selling, administrative and general expense.....	37,050	31,675	36,030	39,397	45,290	33,122	33,318
Interest on long term debt.....	7,526	7,683	10,193	13,052	13,274	9,751	9,047
Interest on demand bank loans.....	1,378	1,276	610	646	1,329	859	669
Interest capitalized (B).....	—	(930)	(2,351)	(4,292)	(3,861)	(3,191)	(957)
Exploration expenditures (A).....	5,143	6,198	6,827	6,391	5,951	4,658	6,746
Amortization of excess of acquisition cost over adjusted book value of assets acquired (A).....	1,047	1,047	1,096	1,658	1,047	776	771
	<u>52,144</u>	<u>46,949</u>	<u>52,405</u>	<u>56,852</u>	<u>63,030</u>	<u>45,975</u>	<u>49,594</u>
	<u>98,661</u>	<u>61,660</u>	<u>58,026</u>	<u>72,948</u>	<u>96,586</u>	<u>63,176</u>	<u>109,019</u>
Other income, principally interest.....	5,548	4,202	10,856	10,114	8,518	6,508	4,814
	<u>104,209</u>	<u>65,862</u>	<u>68,882</u>	<u>83,062</u>	<u>105,104</u>	<u>69,684</u>	<u>113,833</u>
Income and mining taxes (A) and (C):							
Current - Provincial mining taxes.....	11,720	12,435	5,838	8,851	3,045	585	13,055
- Canadian income taxes.....	19,800	9,823	3,036	1,812	10,729	3,800	25,930
- Foreign income taxes.....	1,299	287	402	967	3,839	2,437	2,047
Total current.....	32,819	22,545	9,276	11,630	17,613	6,822	41,032
Deferred - Provincial mining taxes.....	3,300	1,425	4,300	5,295	8,265	4,705	800
- Canadian income taxes.....	14,500	11,650	18,350	20,770	12,830	13,325	13,260
Total deferred.....	17,800	13,075	22,650	26,065	21,095	18,030	14,060
Total income and mining taxes.....	50,619	35,620	31,926	37,695	38,708	24,852	55,092
	<u>53,590</u>	<u>30,242</u>	<u>36,956</u>	<u>45,367</u>	<u>66,396</u>	<u>44,832</u>	<u>58,741</u>
Minority interests in net earnings of subsidiary....	9,766	210	5,327	2,552	4,579	2,439	12,808
Net earnings for the period (F).....	43,824	30,032	31,629	42,815	61,817	42,393	45,933
Preference share dividends.....	714	688	675	619	582	442	400
Earnings applicable to common shares.....	<u>\$ 43,110</u>	<u>\$ 29,344</u>	<u>\$ 30,954</u>	<u>\$ 42,196</u>	<u>\$ 61,235</u>	<u>\$ 41,951</u>	<u>\$ 45,533</u>
Primary earnings per common share (D), (E) and (F)	\$ 3.52	\$ 2.28	\$ 2.29	\$ 3.12	\$ 4.53	\$ 3.10	\$ 3.37
Ratio of earnings to fixed charges and preference dividends.....	9.9:1	7.0:1	5.9:1	6.1:1	7.2:1	6.6:1	10.4:1
Dividends:							
Per First Preference Share Series A.....	\$ 5.80	\$ 5.80	\$ 5.80	\$ 5.80	\$ 5.80	\$ 4.35	\$ 4.35
Per common share.....	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.08	\$ 1.29	\$ 0.54	\$ 0.75

See notes on pages 23 and 24 and pages 75 to 87

RIO ALGOM LIMITED AND SUBSIDIARIES

Notes to Consolidated Summary of Earnings

(Expressed in Canadian dollars in thousands except per share amounts)

(A) See "Accounting Policies" included in Notes to Consolidated Financial Statements of Rio Algom included elsewhere herein. All data and figures for the five years ended December 31, 1978 are audited; those for the nine months ended September 30, 1978 and September 30, 1979 are unaudited.

(B) Under Rio Algom's accounting policy, as described on page 76, interest charges were capitalized during periods prior to 1974 and are still being depreciated; in addition certain interest charges were capitalized during the nine months ended September 30, 1978 and 1979 and the five years ended December 31, 1978. Had all interest charges been expensed as incurred the reported net earnings for each of the periods would have been decreased as follows:

1974 — (increase) \$(1,576)		1978 —	\$2,695
1975 — \$ 159	9 months ended September 30, 1978 —		\$1,999
1976 — \$ 1,006	9 months ended September 30, 1979 — (increase) \$ (590)		
1977 — \$ 2,511			

(C) 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. The reasons for the difference between the actual tax expense and the income taxes computed by applying the weighted average Canadian income tax rates are as follows (under Canadian and provincial income tax acts different rates of income tax apply to income from mining, manufacturing and other sources):

	Year ended December 31, 1978		Nine months ended September 30, 1979	
	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income
		100.0%		100.0%
Pre-tax income.....	\$105,104		\$113,833	
Income taxes computed by applying the weighted average Canadian income tax rates.....	50,322	47.8%	56,246	49.4%
Provincial mining taxes.....	12,626	12.0	13,855	12.2
Increases (reductions) in taxes resulting from:				
Depletion allowances on Canadian resource income	(7,011)	(6.7)	(6,244)	(5.5)
Resource allowance on Canadian resource income..	(7,775)	(7.4)	(9,773)	(8.6)
Inventory allowance.....	(1,404)	(1.3)	(1,198)	(1.0)
Investment tax credit.....	(6,322)	(6.0)	(525)	(0.5)
Sundry.....	(1,728)	(1.6)	2,731	2.4
Actual tax expense.....	<u>\$ 38,708</u>	<u>36.8%</u>	<u>\$ 55,092</u>	<u>48.4%</u>

(D) Primary earnings per common share are based on the weighted average number of common shares outstanding during each period as follows:

1974—12,260,514 shares	1978—13,510,437 shares
1975—12,875,455 shares	9 months ended September 30, 1978—13,510,160 shares
1976—13,503,389 shares	9 months ended September 30, 1979—13,516,092 shares
1977—13,508,476 shares	

(E) Shares issuable under employee stock options are excluded from the aforementioned weighted average number of common shares in each period on the assumption that their effect is not dilutive as the number of shares involved is not material. The option price is \$24.87 per share and the options expire on April 13, 1983. The number of common shares of Rio Algom subject to exercisable options outstanding at the end of each period are as follows:

1974—21,664 shares	1978—15,572 shares
1975—26,660 shares	September 30, 1978—15,572 shares
1976—15,442 shares	September 30, 1979—13,829 shares
1977—20,275 shares	

(F) See note 12 on page 82 for differences between generally accepted accounting principles in Canada and the United States.

(G) Consolidated net earnings for the nine months ended September 30, 1979 have been reduced by an adjustment with respect to 1978 production to reflect the repudiation of the TVA contract referred to under "Business of Rio Algom - Legal Proceedings."

PRESTON MINES LIMITED

Summary of Earnings

(Expressed in Canadian dollars in thousands except per share amounts)

The following summary of earnings, insofar as it relates to the five years ended December 31, 1978, has been examined by Coopers & Lybrand, chartered accountants, whose opinion thereon is set forth elsewhere herein. In the opinion of Preston, the unaudited results for the nine months ended September 30, 1978 and 1979 include all adjustments (all of which were normal recurring accruals) necessary to a fair statement of the results for those periods. The results for the nine months ended September 30, 1979 are not necessarily indicative of the results to be expected for a full year's operations and are not fully comparable with those of 1978 because equity in net earnings of Rio Algom for 1979 does not include the results of Rio Algom's United States subsidiaries (see Rio Algom's accounting policy note on page 75 and note 12 on page 82). This summary should be read in conjunction with the financial statements of Preston and the notes thereto included elsewhere herein.

	Year ended December 31					Nine months ended	
						September 30	
	1974	1975	1976	1977	1978	1978	1979
Equity in net earnings of Rio Algom Limited.....	\$ 19,018	\$ 12,882	\$ 13,558	\$ 18,372	\$ 26,930	\$ 18,375	\$ 19,943
Excess (deficiency) of sundry income over miscellaneous expenses.....	226	2	(97)	(126)	(176)	(128)	(98)
Net earnings for the period (B).....	<u>\$ 19,244</u>	<u>\$ 12,884</u>	<u>\$ 13,461</u>	<u>\$ 18,246</u>	<u>\$ 26,754</u>	<u>\$ 18,247</u>	<u>\$ 19,845</u>
Earnings per common share (A) and (B).....	\$ 2.45	\$ 1.54	\$ 1.52	\$ 2.07	\$ 3.03	\$ 2.07	\$ 2.25
Dividends per common share.....	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.35	\$ 0.45

(A) Earnings per common share are based on the weighted average number of common shares outstanding during each period as follows:

1974—7,849,333 shares	1978—8,830,499 shares
1975—8,339,916 shares	9 months ended September 30, 1978—8,830,499 shares
1976—8,830,499 shares	9 months ended September 30, 1979—8,830,499 shares
1977—8,830,499 shares	

(B) See note 6 on page 93 for differences between generally accepted accounting principles in Canada and the United States.

Management's Discussion and Analysis of Rio Algom's Consolidated Summary of Earnings

1978 compared to 1977. Revenue from mine production and sales of steel and other products increased by \$89.5 million or 18% from 1977 to 1978; steel revenue increased by \$55.8 million (20%), uranium revenue by \$21.1 million (16%) and copper revenue by \$12.6 million (17%). The higher steel revenue was attributable to increased volume and higher selling prices. Uranium revenue increased primarily because of higher production at Elliot Lake and copper revenue rose because of higher prices for copper and molybdenum. Most of the increase in copper prices was a result of a decline in value of the Canadian dollar in relation to the U.S. dollar. This decline in value of Canadian currency from 1977 to 1978 also had a significant favorable effect on all other operations.

Cost of mine production and steel sales was \$52.3 million (16%) higher than in 1977; steel costs were up by \$35.5 million (16%), uranium costs by \$15.2 million (23%) and copper costs by \$1.6 million (3%). The higher costs were primarily due to increased volume in the uranium and steel operations and to escalation of operating costs in all operations.

Interest expense increased by \$1.3 million or 14% in 1978 because of higher housing loans at Elliot Lake and a reduction in capitalized interest (the expansion of the Quirke facilities at Elliot Lake was completed in mid-year).

Earnings before taxes and minority interests increased by \$22.0 million or 27% in 1978. Operating profits increased by \$24.7 million (26%), comprised of increases of \$15.0 million (85%) in steel and \$10.8 million (56%) in copper and a decrease of \$1.1 million (2%) in uranium profits. Due to increased revenue in all areas, steel profits were higher at both the Welland and Tracy plants of Atlas Steels and in the metal service centres of Atlas Alloys. Welland plant earnings were adversely affected in 1977 and the earlier part of 1978 by delays in attaining production and cost objectives for the new melt shop. These objectives were achieved in the latter part of 1978. Significant improvements in yields and general operating efficiency were accomplished at the Tracy plant. The Atlas Alloys service centres were able to maintain operating margins and achieve significant increases in sales and earnings despite continuing strong competition. Copper profits were higher than in 1977 because of increased revenue. Uranium profits declined slightly in spite of increased production; the 1977 uranium earnings had been favorably affected by price renegotiations applicable in part to 1976. Also operating costs increased in 1978, including higher depreciation and amortization charges relating to the expanded Quirke operation which came on stream in April, 1978.

Income and mining taxes increased by only \$1.0 million in spite of the \$22 million increase in pre-tax earnings. The decrease in the effective tax rate is mainly attributable to reduced mining taxes on lower uranium taxable earnings and increased investment tax credits associated with major capital expenditures for expansion of uranium operations.

Minority interests in net earnings of a subsidiary were \$2.0 million higher in 1978 due to increased copper earnings at Lornex Mining Corporation Ltd. ("Lornex"), 68.1% of which is owned by Rio Algom.

1977 compared to 1976. Revenue from mine production and sales of steel and other products increased by \$85.0 million or 21% from 1976 to 1977; steel revenue increased by \$53.8 million (24%) and uranium revenue by \$38.7 million (41%) while copper revenue declined by \$7.5 million (9%). The increase in steel revenue was attributable to increased volume, improved product mix and higher selling prices; 1976 steel revenue had also been affected adversely by a nine week strike at the Tracy plant of Atlas Steels. Uranium revenue rose as a result of renegotiation of contract prices with respect to sales outside Canada; a significant portion of the increase related to 1976 production. Copper revenue declined because of lower copper prices and reduced production at the Lornex mine resulting from lower grades; tonnage milled remained approximately the same.

Cost of mine production and steel sales increased by \$61.2 million or 23% over the previous year; steel costs rose by \$37.8 million (21%), uranium costs by \$16.8 million (34%) and copper costs by \$6.6 million (17%). The increases in costs were primarily due to increased volume in the uranium and steel operations and escalation of operating costs in all operations; there was also increased waste removal in the Lornex open pit copper mining operation.

Earnings before taxes and minority interests were \$14.2 million or 21% higher in 1977 than in 1976. Operating profits were \$15.7 million (20%) higher in 1977, comprised of increases of \$20.8 million (56%) in uranium and \$10.5 million (146%) in steel offset by a decrease of \$15.6 million (45%) in copper profits. The increase in uranium profits was due to increased revenue and the decline in copper profits resulted from lower revenue and increased operating costs as noted above. Steel profits were higher at the Tracy plant of Atlas Steels and in the metal service centres of Atlas Alloys. There were marked improvements in operating efficiencies in 1977 at the Tracy plant where the 1976 results had been depressed by a strike and weak markets; the metal service centres recorded higher sales volumes and modest increases in margins in 1977.

Interest expense increased by \$1 million or 11% in 1977 primarily because of higher long term debt of Lornex.

Provision for income taxes was \$5.8 million (18%) higher in 1977 because of increased uranium and steel earnings.

Minority interests in net earnings of a subsidiary declined by \$2.8 million (52%) in 1977 due to lower copper earnings at Lornex, 67.2% of which was owned by Rio Algom.

Nine months ended September 30, 1979 compared to nine months ended September 30, 1978. Consolidated net earnings for the first nine months of 1979 were \$45.9 million, compared to \$42.4 million for the same period in 1978. The 1979 consolidated net earnings do not include the earnings of Atlas Alloys Inc. or Rio Algom Corporation, Rio Algom's two United States subsidiaries. The net earnings of these subsidiaries amounted to \$2.7 million for the nine months ended September 30, 1979 and to \$4.3 million for the com-

parable period in 1978. The accounts of these subsidiaries have not been consolidated with those of Rio Algom after January 1, 1979 under generally accepted accounting principles because preliminary injunctions issued by the United States District Court in Illinois in connection with the Westinghouse Electric Corporation litigation in the United States restrict the movement of funds by these subsidiaries out of the United States.

Revenue and earnings were significantly higher at Lornex because of higher copper and molybdenum prices, including foreign exchange gains. Molybdenum prices improved as new, more favorable sales contracts came into force in the third quarter, replacing the original sales contract which expired on June 30, 1979. Copper production was about 4% higher in the first three quarters of 1979 than in the same period of 1978 due to higher tonnage milled.

Revenue and earnings were higher in Rio Algom's steel operations this year in spite of the Tracy plant of Atlas Steels having been shut down since March 21, 1979 because of a strike at that plant. The major factor in the improvement was record high sales levels in the Canadian service centre operations of Atlas Alloys. Sales volume has also improved at the Welland plant of Atlas Steels.

Uranium earnings declined this year primarily because of increased costs including higher amortization charges. Uranium production was slightly higher this year but this was more than offset by a less favorable sales contract mix in 1979.

While total pre-tax earnings increased by \$44.1 million (63%) this year from the previous year, provisions for income and mining taxes rose \$30.2 million (122%) due to an increase in the effective tax rate from 36% last year to 48% in 1979. The higher taxation rate resulted largely from a much greater share of pre-tax earnings in 1979 being attributable to Lornex and to Rio Algom steel operations where effective tax rates are higher.

Third quarter 1979 compared to third quarter 1978. Consolidated net earnings for the third quarter of 1979 were \$4.3 million (30%) higher than for the same quarter of 1978, primarily because of substantially higher earnings at Lornex resulting from higher copper and molybdenum selling prices, the effect of which was partially offset by higher effective tax rates. In addition, uranium earnings were down due to higher costs and a less favorable sales contract mix; results from steel operations were slightly lower than last year with improvements at Atlas Alloys service centre operations being more than offset by lower earnings from the Atlas Steels plants largely because of the effect of the strike at the Tracy plant which continued through the third quarter of 1979.

Third quarter 1979 compared to second quarter 1979. In comparison with the quarter ended June 30, 1979 consolidated net earnings were \$10.9 million (138%) higher in the third quarter of 1979 and consolidated revenue was up by \$22.3 million (15%). Consolidated net earnings and revenue in the second quarter had been adversely affected by the downward adjustments in that quarter to reflect the repudiation of the TVA contract referred to under "Business of Rio Algom—Legal Proceedings". The increase in revenue was due primarily to higher molybdenum prices combined with increased production of molybdenum and copper at Lornex; the increase at Lornex more than offset the fact that revenue from steel operations was lower due to the traditional summer shutdown at the Welland plant of Atlas Steels and the fact that, owing to the summer shutdown at the Quirke uranium mine at Elliot Lake, uranium revenues were lower than those of the second quarter after the adjustment arising from the TVA contract repudiation. Pre-tax earnings were up by \$33.4 million (154%) because of increased earnings at Lornex; third quarter uranium earnings reflected a moderate increase over those of the second quarter after the adjustment referred to above, but this was largely offset by a modest decline in steel earnings. Income and mining taxes increased by \$17.1 million (149%) because of the higher pre-tax earnings.

Management's Discussion and Analysis of Preston's Summary of Earnings

The only material factor contributing to variations in Preston's earnings for the years 1976, 1977 and 1978 and for the nine month periods ended September 30, 1978 and September 30, 1979 was variations in earnings in Rio Algom which are commented on above.

Preston's major interest, aside from its shareholding in Rio Algom, is the development of the Stanleigh property pursuant to the Stanleigh Project Agreement referred to under "Business of Preston". The transactions involved in such activity include preproduction and development costs which are not reflected in Preston's summary of earnings.

RIO ALGOM LIMITED (AMALCO)

Pro Forma Combined Consolidated Summary of Earnings

(Expressed in Canadian dollars in thousands except per share amounts)

The following unaudited pro forma combined consolidated summary of earnings aggregates, for each of the five years ended December 31, 1978 and the nine months ended September 30, 1978 and 1979, the results of operations of Rio Algom and Preston, using the method of accounting described in "The Proposed Amalgamation - Accounting Treatment" and assuming the proposed Amalgamation to have been consummated on January 1, 1974. The pro forma combined consolidated summary of earnings should be read in conjunction with the separate financial statements and related notes thereto of Rio Algom and Preston included elsewhere herein. This pro forma combined consolidated summary of earnings is not necessarily indicative of combined results of operations as they may be in the future.

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
Revenue from mine production and sales of steel and other products.....			(unaudited)				
\$390,571	\$367,382	\$401,611	\$486,587	\$576,055	\$413,746	\$496,749	
239,766	258,773	291,180	356,787	416,439	304,595	338,136	
150,805	108,609	110,431	129,800	159,616	109,151	158,613	
Selling, administrative and general expense.....	37,166	31,842	36,184	39,561	45,476	33,258	33,441
Interest on long term debt.....	7,497	7,655	10,180	13,052	13,274	9,751	9,047
Interest on demand bank loans.....	1,378	1,276	610	646	1,329	859	669
Interest capitalized.....	—	(930)	(2,351)	(4,292)	(3,861)	(3,191)	(957)
Exploration expenditures.....	5,143	6,198	6,827	6,391	5,951	4,658	6,746
Amortization of excess of acquisition cost over adjusted book value of assets acquired.....							
	1,047	1,047	1,096	1,658	1,047	776	771
	52,231	47,088	52,546	57,016	63,216	46,111	49,717
	98,574	61,521	57,885	72,784	96,400	63,040	108,896
Other income, principally interest.....	5,861	4,343	10,900	10,152	8,528	6,516	4,839
	104,435	65,864	68,785	82,936	104,928	69,556	113,735
Income and mining taxes (B):							
Current - Provincial mining taxes.....	11,720	12,435	5,838	8,851	3,045	585	13,055
- Canadian income taxes.....	19,800	9,823	3,036	1,812	10,729	3,800	25,930
- Foreign income taxes.....	1,299	287	402	967	3,839	2,437	2,047
Total current.....	32,819	22,545	9,276	11,630	17,613	6,822	41,032
Deferred - Provincial mining taxes.....	3,300	1,425	4,300	5,295	8,265	4,705	800
- Canadian income taxes.....	14,500	11,650	18,350	20,770	12,830	13,325	13,260
Total deferred.....	17,800	13,075	22,650	26,065	21,095	18,030	14,060
Total income and mining taxes.....	50,619	35,620	31,926	37,695	38,708	24,852	55,092
	53,816	30,244	36,859	45,241	66,220	44,704	58,643
Minority interests in net earnings of subsidiary...	9,766	210	5,327	2,552	4,579	2,439	12,808
Net earnings for the period.....	44,050	30,034	31,532	42,689	61,641	42,265	45,835
First and Second Preference Share dividends.....	4,050	4,232	4,428	4,372	4,335	3,257	3,215
Earnings applicable to common shares.....	\$ 40,000	\$ 25,802	\$ 27,104	\$ 38,317	\$ 57,306	\$ 39,008	\$ 42,620
Primary earnings per common share (A).....	\$ 3.13	\$ 1.91	\$ 1.91	\$ 2.70	\$ 4.03	\$ 2.74	\$ 3.00
Ratio of earnings to fixed charges and preference dividends.....	5.9:1	4.1:1	3.7:1	4.1:1	5.1:1	4.7:1	6.5:1
Dividends:							
Per First Preference Share Series A.....	\$ 5.80	\$ 5.80	\$ 5.80	\$ 5.80	\$ 5.80	\$ 4.35	\$ 4.35
Per Second Preference Share Series A.....	\$ 0.425	\$ 0.425	\$ 0.425	\$ 0.425	\$ 0.425	\$ 0.319	\$ 0.319
Per common share.....	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.08	\$ 1.29	\$ 0.54	\$ 0.75
(A) Pro forma primary earnings per common share are equal to fully diluted earnings per common share and are based on the weighted average number of common shares assumed to have been outstanding during each period as follows:							
1974 - 12,765,114 shares						1978 - 14,212,671 shares	
1975 - 13,478,872 shares						9 months ended September 30, 1978 - 14,212,394 shares	
1976 - 14,205,623 shares						9 months ended September 30, 1979 - 14,218,326 shares	
1977 - 14,210,710 shares							
(B) Pro forma income and mining taxes for Amalco are unchanged from Rio Algom's historical consolidated summary of earnings (see page 22) because the differences in such taxes during the periods would not have been material.							

RIO ALGOM LIMITED (AMALCO)

Pro Forma Combined Consolidated Statement of Financial Position as at September 30, 1979 (unaudited)

(Expressed in Canadian dollars in thousands except per share amounts)

The following pro forma combined consolidated statement of financial position combines the unaudited statements of financial position as at September 30, 1979 of Rio Algom and its subsidiaries and of Preston on the basis described in note 1 to this statement. This statement should be read in conjunction with the notes hereto and the historical financial statements of Rio Algom and Preston and the related notes thereto which appear elsewhere herein.

	Rio Algom	Preston	Pro-Forma Adjustments (Deduct)	Pro-Forma Combined (Entries i, ii and iii)
Current assets:				
Cash and short term deposits.....	\$ 48,232	\$ 460	\$ 266	\$ 48,958
Receivables.....	103,417	14	(534)	102,897
Inventories and concentrates awaiting shipment.....	173,307	—		173,307
Prepaid expenses.....	4,564	34		4,598
Total.....	<u>329,520</u>	<u>508</u>	<u>(268)</u>	<u>329,760</u>
Less:				
 Current liabilities:				
Bank loans.....	9,306	—		9,306
Drafts payable (discounted).....	2,654	—		2,654
Accounts payable and accrued liabilities.....	73,728	4,760	(268)	78,220
Income and mining taxes.....	33,059	—		33,059
Unclaimed dividends.....	—	331		331
Long term debt due within one year.....	170	—		170
Total.....	<u>118,917</u>	<u>5,091</u>	<u>(268)</u>	<u>123,740</u>
Working capital (deficiency).....	210,603	(4,583)		206,020
Plant and equipment, less depreciation.....	244,178	—		244,178
Construction in progress.....	106,712	23,330		130,042
Mining properties and preproduction expenditures, less amortization.....	75,672	—		75,672
Excess of acquisition cost over adjusted book value of Atlas Steels assets, less amortization.....	3,411	—		3,411
Investment and advances to affiliated company.....	15,384	—		15,384
Investment in and amounts receivable from U.S. subsidiary companies.....	27,234	—		27,234
Investment in Rio Algom Limited.....	—	182,911	(182,911)	—
Debenture discount and financing expenses, less amortization.....	782	—		782
Total assets less current liabilities.....	<u>683,976</u>	<u>201,658</u>	<u>(182,911)</u>	<u>702,723</u>
Deduct:				
 Long term debt:				
Rio Algom Limited.....	92,276	—		92,276
Preston Mines Limited.....	—	16,830		16,830
Deferred income and mining taxes.....	120,213	—		120,213
Minority shareholders' interests in subsidiary company.....	44,806	—		44,806
	<u>257,295</u>	<u>16,830</u>		<u>274,125</u>
Excess of assets over liabilities.....	<u>\$426,681</u>	<u>\$184,828</u>	<u>(182,911)</u>	<u>\$428,598</u>
Represented by:				
First Preference Shares subject to mandatory sinking fund requirements..	\$ 8,822	\$ —	\$ —	\$ 8,822
Second Preference Shares subject to mandatory sinking fund requirements	—	—	44,152	44,152
Common shares (note 2).....	99,351	37,459	(87,668)	49,142
Contributed surplus.....	20,364	25,019	(8,919)	36,464
Retained earnings.....	298,144	122,350	(130,476)	290,018
	<u>\$426,681</u>	<u>\$184,828</u>	<u>\$(182,911)</u>	<u>\$428,598</u>
Book value per common share				
Rio Algom.....	\$30.91			
Preston.....			\$20.93	
Amalco.....				\$26.42

RIO ALGOM LIMITED (AMALCO)

Notes to Pro Forma Combined Consolidated Statement of Financial Position as at September 30, 1979 (unaudited)

(Expressed in Canadian dollars in thousands)

1. PRO FORMA TRANSACTIONS

The pro forma combined consolidated statement of financial position as at September 30, 1979 gives effect as of that date to:

(a) The statutory amalgamation, under the provisions of Section 196 of The Business Corporations Act (Ontario), of Rio Algom and Preston in accordance with an agreement of amalgamation. Since the amalgamation is a combination of two corporations under common control, it is accounted for in a manner similar to a pooling of interests. The pro forma combined consolidated statement of financial position has been prepared by adding together the amounts shown for assets, liabilities, preference shares, common shares, contributed surplus and retained earnings on the individual statements of financial position for each of the two corporations and without any adjustment of the amounts at which such assets and liabilities were stated in the accounts of the combining corporations, except for the adjustments listed in (b) below.

(b) The following adjustments:

	<u>Debit</u>	<u>Credit</u>
(i) Common shares.....	\$ 43,516	
Contributed surplus.....	8,919	
Retained earnings.....	130,476	
Investment in Rio Algom Limited.....		\$182,911
To eliminate Preston's investment in Rio Algom		
(ii) Cash and short term deposits.....	\$ 266	
Due to affiliates.....	268	
Receivables.....		\$ 534
To eliminate intercompany accounts and record cash in transit		
(iii) Common shares.....	\$ 44,152	
Second Preference Shares.....		\$ 44,152
To record the issue of 8,830,499 Second Preference Shares		
Series A at \$5.00.		

2. For details of authorized and issued common and preference shares see "Capitalization" on page 21.

BUSINESS OF RIO ALGOM

Rio Algom and its subsidiaries are engaged in two principal lines of business, mining operations and steel operations. The mining operations consist of the exploration for and mining of ores and minerals and its principal products are uranium oxide, copper and molybdenum, all of which are marketed mainly in concentrate form. Steel operations consist of the production and marketing, for further manufacture by others, of a wide variety of stainless and specialty steel mill products and the marketing of metal products purchased from other producers.

Uranium Mining Operations

The uranium operations consist of the mining and milling of uranium ore to produce uranium oxide (U_3O_8) in concentrates. These operations are conducted in the Elliot Lake area in Ontario, Canada and near Moab, Utah in the United States of America.

Elliot Lake area

Properties. Rio Algom owns uranium properties in the Elliot Lake area of Ontario, Canada. Prior to the amalgamation of four companies to form Rio Algom in 1960 as the result of the uranium market developments referred to under "Business of Preston", operations conducted by these companies comprised seven separate mines each consisting of a mill and production shaft and underground workings. At present, the principal operations carried on by Rio Algom in the Elliot Lake area involve the Quirke mine workings, the currently operating portion of which was placed in operation in 1968, and the Quirke mill, the capacity of which was enlarged from 4,500 to 7,000 tons of ore a day in a program essentially completed in March, 1978. The total capital cost of the Quirke expansion is expected to be approximately \$73 million, including interest capitalized during construction. The workings at the Quirke mine facilities, from which all of the current production is now obtained, centre on a 2,260 foot five-compartment production shaft from which ore is hauled 1.4 miles on a semi-automatic railway to the concentrating mill located at the old Quirke mine production shaft. The Quirke mill produces U_3O_8 in concentrate form by a method involving sulphuric acid leaching, purification by ion exchange resins and ammonia precipitation.

In 1977 a program was commenced to develop the closed down Panel mine and mill to an ore processing rate of 3,300 tons of ore per day. The workings at the Panel mine facilities centre on a 1,840 foot seven-compartment production shaft and an internal incline shaft which is being developed to service the mine workings below the 1,200 foot level. Ore will be concentrated at the mill located at the production shaft. The Panel mill utilizes essentially the same type of concentrating circuit as at the Quirke mill. The property was deemed to have commenced commercial production in November, 1979 and it is estimated that the overall cost of the program, to be completed in 1980, will be some \$127 million, including interest capitalized during construction.

The expansion of capacity at the Quirke property and the development of the closed down Panel mine and mill are part of a major program initiated in 1975 in order to expand mining and milling capacity to fulfill delivery requirements under then existing contracts and possible new contracts and, in part, to offset the declining grade of ore reserves. The mill equipment at the other mines remains idle or has been sold or used in other operations and the mines at these properties, after recovery of useable or saleable underground equipment, have been allowed to flood.

Long Term Sales Contracts. The following table summarizes the quantities of U₃O₈ scheduled for delivery from the Elliot Lake operations under long term contracts existing on November 30, 1979.*

Calendar Year	Total Pounds At Fixed or Escalated Prices (in thousands)	Total Pounds At Market- Related Prices (in thousands)	Total Pounds (in thousands)
1979 (December 1 to December 31).....	386	—	386
1980.....	3,837	200	4,037
1981.....	3,246	2,100	5,346
1982.....	1,489	3,600	5,089
1983.....	1,539	4,760	6,299
1984.....	—	4,920	4,920
1985.....	—	5,160	5,160
1986.....	—	4,560	4,560
1987.....	—	4,380	4,380
1988.....	—	4,200	4,200
1989.....	—	4,200	4,200
1990.....	—	4,000	4,000
1991.....	—	2,000	2,000
1992.....	—	900	900
	<u>10,497</u>	<u>44,980</u>	<u>55,477</u>

*For this purpose the TVA contract, entered into in 1974 and referred to under "The Proposed Amalgamation - Special Factors - Westinghouse Litigation and TVA Contract", is not treated as an existing contract.

Commitments at fixed or escalated prices are those that remain under sales contracts entered into in 1966 with purchasers in Canada and the United Kingdom and provide for deliveries of an aggregate of 10.5 million pounds of U₃O₈ by 1983. During 1979, renegotiation of prices was completed for all deliveries after July 1, 1978 under the United Kingdom contract, and the management of Rio Algom now expects that the renegotiated pricing under this export contract, which terminates in 1982, will probably protect Rio Algom substantially against the combined effects of future increases in labor and other costs and progressively lower ore grades to be mined during the remaining term of this contract. At December 17, 1979, negotiations in respect of a pricing adjustment on deliveries after January 1, 1979 under the 1966 Canadian contract were in progress with the purchaser. Without such a pricing adjustment it is unlikely that total unit costs would be covered under the contract, which continues through 1983, on the aggregate quantity of 6.5 million pounds of U₃O₈ remaining to be delivered after December 1, 1979.

Commitments under sales contracts entered into in 1974 with purchasers in the United Kingdom, the United States and Japan provide for deliveries of an aggregate of 43.4 million pounds of U₃O₈ over various periods between 1981 and 1992. The prices for the deliveries will be determined on an annual basis at the higher of (i) a minimum price based in general on Rio Algom's actual mining costs during the delivery year plus allowances for exploration, income tax and profit, and (ii) a settlement price to be determined in advance of each delivery year by the parties taking into account current market conditions for U₃O₈ in the United States and other free world countries with respect to such delivery year. Failing agreement, the settlement price is to be determined by an independent expert or by arbitration. With respect to one contract for an aggregate of 20 million pounds of U₃O₈, if the settlement price is not arrived at by the specified procedures, Rio Algom may elect to sell at the price proposed by the buyer or at the minimum price or cancel deliveries for the year in question. The mining costs to be taken into account by Rio Algom in determining the minimum price will include allowances for overhead; the interest cost of carrying reasonable amounts of concentrate inventory and mine supplies; and amortization of capital costs. The allowable mining costs, other than amortization, are subject to downward adjustment from costs actually incurred if the actual recovered grade per ton milled during the year is less than an assumed minimum recovered grade of 1.4 pounds per ton or if the total poundage of concentrates produced during the year is less than a stipulated minimum for any reason other than force majeure. The allowances for exploration, income taxes and profit which are components of

the minimum prices are subject to escalation in accordance with general wholesale and consumer price indices in Canada. Disputes under the agreements are subject to arbitration.

Another of the 1974 contracts, for an aggregate of 20 million pounds of U_3O_8 , is with a United States utility, Duke Power Company ("Duke"), and provides for delivery and payment in Canada between 1981 and 1990. The agreement provides that Duke is obligated to receive and to pay for the material subject to the contract notwithstanding the existence of any laws or regulations of the United States restricting the importation into and/or end use in the United States of uranium of foreign origin, unless the Canadian government declines to permit exportation of the affected uranium to other non-communist countries of sufficient importance to afford Duke a reasonable possibility of finding substitute buyers. Consequently, except as indicated, Rio Algom's rights under this sales contract would not be affected if import restrictions were to be imposed in the future preventing Duke from importing uranium under existing contracts or under the terms of the "embargo" on foreign uranium existing at the time this contract was executed. The "embargo" referred to is the provision of existing legislation under which the United States Department of Energy may not furnish toll enrichment services for privately owned uranium of non-United States origin which is intended for use in reactors in areas subject to the jurisdiction of the United States unless it is determined that such restriction is not necessary to ensure the maintenance of a viable uranium industry in the United States. In October, 1974, a revised policy came into effect under which the "embargo" would be phased out on a gradual basis between 1977 and 1984. As indicated under "The Proposed Amalgamation - Special Factors - Westinghouse Litigation and TVA Contract", Rio Algom is unable to determine the impact which the developments referred to under that section may have upon the Duke contract.

In September, 1979, a contract was entered into with a purchaser in Japan providing for the delivery in Canada of an aggregate of 1.6 million pounds of U_3O_8 between March, 1980 and 1989. The contract provides for a fixed selling price for the initial delivery which reflects the market price for U_3O_8 current at the time of execution of the contract with a suitable price escalation allowance to reflect the time of delivery. The balance of deliveries under the contract are to be priced in a manner similar to that under the market-related contracts entered into in 1974 referred to above.

In June, 1979, a contract was entered into with a purchaser in the Republic of Korea providing for delivery in Canada of 200,000 pounds of U_3O_8 in 1979; in October, 1979, a contract was entered into with a purchaser in Canada providing for the delivery in Canada of 300,000 pounds of U_3O_8 in 1979; in November, 1979 another contract was entered into with a purchaser in Belgium providing for the delivery in Canada of 240,000 pounds of U_3O_8 in 1979 and in November, 1979, a further contract was entered into with a purchaser in Germany providing for the delivery in Canada of 350,000 pounds of U_3O_8 in 1979. The selling prices under these contracts reflected the then current market prices for U_3O_8 . The above table does not include deliveries pursuant to the June, October and November, 1979 contracts all of which have been made.

On September 5, 1974, the Canadian federal government announced a policy which, in general, would require Canadian uranium mining companies to reserve for Canadian utilities uranium resources economically recoverable at twice the current world market price in amounts sufficient to assure such utilities a 30 year supply of uranium to operate, at an annual capacity factor of 80%, nuclear reactors presently operating, under construction or planned for operation ten years into the future. Each mining company has or will have a reviewable reserve margin allocated to it based on the ratio of its uranium resources to the total Canadian recoverable resources from all such companies as estimated by a Canadian federal government appraisal group. Canadian utilities will be required to demonstrate that they are maintaining a contracted forward supply of nuclear fuel to enable them to operate at an annual capacity factor of 80% for at least 15 years. The policy further provides that export contract approvals are to be limited to a maximum of ten years from the date of the signing of the contract, with contingent approval possible for an additional five years. Such contingent approval will not be given unless provision is made for renegotiation of price for the uranium to be supplied during such additional period and will be subject to Canadian utilities having a right of recall through the Canadian Atomic Energy Control Board on a portion of the material subject to contingent approval. Under the policy, a domestic utility must give the Canadian Atomic Energy Control Board prior notice of at least five years that the right of recall will be exercised and must demonstrate that it is unable by other means to maintain its 15 year forward commitment. Any uranium so recalled could be supplied, on a short term basis, from the Canadian federal government stockpile. For producers with contracts calling for deliveries beyond ten years from the date of signing, the government may, on request, allow the ten year firm delivery period to move forward in time on an annual basis on the anniversary date of the contract signing. In the absence of specific exemption, uranium must be exported in the most advanced form possible in Canada

(which at present involves conversion to uranium hexafluoride (UF_6) in the case of uranium to be used in enriched form), and foreign purchasers will be required to agree not to re-export the uranium, except subject to certain conditions. This policy applies to all contracts entered into by Rio Algom in 1974 and 1979. Pursuant to this September 5, 1974 policy, government approvals had been obtained prior to December 31, 1976 for the export contracts entered into in 1974 except for two contracts providing for the delivery of an aggregate of 3.4 million pounds of U_3O_8 between 1982 and 1987. These contracts required modification in certain important respects including a provision for delivery thereunder of uranium in UF_6 rather than U_3O_8 in concentrates before they could receive government approval. Rio Algom renegotiated the terms of these contracts which required modification in order to comply with government policy and reapplied for approval which was granted on December 21, 1979. The 1979 contracts contemplate that the buyers will arrange for the conversion in Canada of the U_3O_8 in concentrates to be purchased by them, and it is anticipated that any contracts not yet approved by the Canadian government will be so approved in due course.

On December 20, 1974, the Canadian federal government announced a further policy requiring the governments of all countries to which uranium is to be exported to agree, as a condition of such export, to safeguards arrangements containing a binding assurance that such uranium will not be used to produce a nuclear explosive device, whether the development of such a device be stated to be for peaceful purposes or not. Existing and future uranium export contracts are now subject to these safeguards arrangements.

All export contracts require annual Canadian federal export permits.

With the exception of the two contracts for the delivery of an aggregate of 3.4 million pounds of U_3O_8 , the 1974 export contracts have received exemption under Ontario legislation requiring, generally, that minerals produced from Ontario mining claims be processed in Canada. It is expected that such exemption will also be available for the 1979 contracts.

Geology. Major uranium-bearing orebodies have been located in the Elliot Lake area, the uranium minerals consisting primarily of uraninite, with some thorium accompanying the uranium. The ore consists of a quartz-pebble conglomerate, with pebbles of quartz and chert commonly one-half to one and one-half inches in diameter, in a matrix of feldspathic quartzite, which is almost invariably mineralized with approximately 5% pyrite.

In general, the geology of the Elliot Lake area may be said to consist of a series of Huronian (younger Precambrian) sediments unconformably overlying a basement of older Precambrian rocks, consisting of metamorphosed sediments and lavas intruded by acid and basic igneous rocks. The out-crop of the contact between these two groups of rocks forms the shape of a flattened "Z", of which the northern angle is a synclinal basin of the younger sediments and the southern angle is the anticlinal core of the older Precambrian basement rocks, both pitching west.

Uranium ore in the area takes the form of mineralized conglomerate beds at or near the base of the Huronian series. The lowest horizon of the Huronian series is known as the Matinenda formation, and the lowest member of this formation consists of quartzites and conglomerate beds. When present, one or more of such conglomerate beds may be persistently mineralized over a thickness that is usually between five and fifteen feet. The mineralized conglomerate beds may lie close to the basement contact or may be separated from it by up to a hundred feet of intervening rocks.

Ore Estimates, Production Data and Operating Plans. In the Rio Algom annual report on Form 10-K for 1978 filed with the United States Securities and Exchange Commission it was stated that as of December 31, 1978, Rio Algom held contracts for the sale of 74,708,000 pounds of U_3O_8 to be delivered from its Elliot Lake operations during the period January 1, 1979 through 1992; that Rio Algom expected to recover this quantity of U_3O_8 by the mining of 43 million tons of uranium bearing material with an average recovered grade of 1.75 pounds of U_3O_8 per ton (representing an average processing recovery of 93.3%); that of this tonnage approximately 27 million tons averaging 1.80 pounds of U_3O_8 per ton were located at the Quirke property serviced by the existing Quirke shaft and approximately 16 million tons averaging 1.66 pounds of U_3O_8 per ton recoverable were located at the Panel property then under development; that such tonnages had been delimited on at least two sides or were of a uniform character and had been outlined by diamond drill holes with a general maximum spacing of 1,000 feet between intersections; that such tonnage and grade figures contained a dilution factor and an allowance for mine support pillars; and that such estimates had been calculated by the Rio Algom staff. The foregoing statements were made on the basis that the TVA contract, referred to under "The Proposed Amalgamation - Special Factors - Westinghouse Litigation and TVA Contract" and "Legal Proceedings", continued in effect. However, in light of the actions taken by TVA

in July, 1979, referred to under "Legal Proceedings", the TVA contract is considered by Rio Algom as no longer in force. Rio Algom's marketing efforts for the period July, 1979 to November, 1979 have resulted in the procurement of contracts for the delivery of 2.5 million pounds of U_3O_8 . Rio Algom is unable to predict at this time the extent to which additional contracts for the sale of U_3O_8 will be obtainable on terms which are commercially acceptable and which would be approved by the Canadian governmental authorities. However, Rio Algom at this time expects to operate the Quirke and Panel properties on production schedules which assume that the U_3O_8 that would have been delivered under the TVA contract will be sold to others. Insofar as inventory accumulations may result from such operations, they will be financed from the general revenues of Amalco and/or short term bank loans.

On the assumption (which, however, the Rio Algom management considers unrealistic) that no additional contracts will be obtained, Rio Algom expects to recover the 55.5 million pounds of U_3O_8 for which long term contracts were held at November 30, 1979 by mining 32 million tons of uranium bearing material with a recovered grade averaging 1.77 pounds of U_3O_8 per ton (representing an average processing recovery of 93.4%). Of this tonnage approximately 21 million tons, averaging 1.66 pounds of U_3O_8 per ton recoverable, are located at the Quirke property and approximately 11 million tons, averaging 1.98 pounds of U_3O_8 per ton recoverable, are located at the Panel property.*

In the event of the development of more favorable markets for U_3O_8 , it is expected that in the longer term ore mined from Rio Algom's closed-down Spanish American property will be processed at either the Quirke or Panel mills. In addition, Rio Algom's Milliken, Lacnor and Nordic mines, which have been closed down for some years, contain substantial uranium deposits which may be commercially recoverable depending on the course of future economic conditions, including production costs, market prices and demand. Studies to determine the most effective means of developing these properties for production are continuing. No decisions have been made as to either the timing or the method of development, but it is currently believed that this could be done most effectively as a single unified operation conducted from the Milliken property. Since the underground workings at all of these shut down properties have been allowed to flood, their physical condition is not known, but no significant deterioration is anticipated.

The report of the Presidential Commission appointed by the President of the United States to investigate an accident in a nuclear reactor at the Three Mile Island power plant, in the vicinity of Harrisburg, Pennsylvania, at the end of March 1979 was made public on October 30, 1979. The report raises questions with respect to the future of nuclear reactor programs in the United States. Other inquiries in the United States by the Nuclear Regulatory Commission, the Congress, the State of Pennsylvania, and the nuclear industry were in progress at December 17, 1979. In June, 1979, the then Canadian government announced its intention to institute an inquiry into the Canadian nuclear industry which was expected to include a review of environmental and nuclear safeguards issues. A committee of the Ontario legislature has, since January, 1978, been inquiring into the affairs of Ontario Hydro, the principal producer of electrical power in Ontario and a large user of U_3O_8 . Pending completion of all such inquiries, Rio Algom has not undertaken a reassessment of future markets for U_3O_8 . However, the Rio Algom studies referred to above with respect to possible development of closed down properties are continuing.

The comparative milling, metallurgical, production and shipping data from the Elliot Lake uranium operations, all of which were conducted at Quirke during the periods indicated, are as follows:

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
Tons of ore processed (thousands)	1,446	1,466	1,562	1,676	2,166	1,513	1,746
Average tons processed per day...	4,240	4,350	4,574	4,774	6,223	5,909	6,769
Average recovery of U_3O_8 per ton (lbs.).....	3.4	3.1	2.8	2.6	2.3	2.4	2.3
Average processing recovery.....	95.3%	95.1%	94.2%	94.1%	93.7%	93.7%	93.7%
Pounds of U_3O_8 produced (thousands).....	4,931	4,639	4,483	4,326	4,952	3,582	3,994
Pounds of U_3O_8 delivered (thousands).....	5,057	5,592	5,300	5,295	5,420	3,885	3,256

*Rio Algom intends to make provision for depreciation and amortization of mining properties and preproduction expenditures with respect to its Quirke and Panel properties on the assumption that the U_3O_8 that would have been delivered under the TVA contract will be sold to others on a commercially acceptable

Owing to rapid increases between 1974 and 1979 in all categories of mining costs in the Elliot Lake area and the declining grade of ore reserves, the percentage change during this period in overall cost of production of U_3O_8 (including depreciation, depletion and other amortization, as well as area costs such as environmental compliance and the cost of subsidizing employee housing, but excluding exploration, interest and head office administrative and corporate expenses) on a per pound produced basis has been about twice as great as the percentage change in revenue per pound produced. However, the third quarter 1979 level of such production costs is somewhat less than half of the October, 1979 market value of U_3O_8 for near-term deliveries which appeared to be in the range of U.S. \$42-43 a pound. Accordingly, depending on the extent to which Rio Algom is able to make sales on commercially acceptable terms of the U_3O_8 which would have been delivered under the TVA contract, referred to under "The Proposed Amalgamation—Special Factors—Westinghouse Litigation and TVA Contract", there is a prospect of substantial operating profit on sales under contracts providing for market-related prices, such as those referred to above. On the other hand, in light of the most recent price trends in the market for U_3O_8 there can be no assurance that the world market price for U_3O_8 will keep pace with the level of production costs which Rio Algom may incur.

Housing and Other Matters. At full production the expanded Quirke and the developed Panel operations are expected to require a permanent work force which will be about 1,500 larger than that employed by Rio Algom at Elliot Lake prior to the expansion programs. To provide for essential accommodation needs a housing expansion program was initiated in 1975. To December 10, 1979 construction of a total of 1,287 housing units had been approved, of which 1,000 units had been completed. The remaining 287 units are expected to be completed by September 30, 1980, subject to possible delays in obtaining site approvals referred to below. The housing units are of high quality and include detached and semi-detached dwellings, townhouses and apartments. The housing is owned by Rio Algom and is rented to employees at rates that are significantly below the cost of similar accommodation elsewhere. Such rates are not abnormal in towns which are substantially populated by employees of large resource companies in relatively remote locations in Canada.

Delays in obtaining government approvals for new housing sites, caused in part by the Ontario Environmental Assessment Board hearings between April, 1977 and March, 1979, are delaying the construction of the housing units that are required to accommodate the people who will be employed to carry out development programs and subsequent operations at Rio Algom's projects in this area. Unless the government's building site approval process is accelerated to permit an orderly increase in employment at Elliot Lake, the major program to be carried out by Rio Algom to reactivate Preston's Stanleigh mine may also be impeded.

The courses established in 1973 to qualify trainees as miners and tradesmen have been successful and have been expanded in scope each year. Shortages of skilled workers have not resulted in appreciable reductions in the level of Rio Algom's mining operations in recent years.

See "Business of Preston" for information relating to development and production plans for Preston's Stanleigh uranium mining property.

Moab, Utah, U.S.A.

Rio Algom Corporation ("RAC"), a subsidiary of one of Rio Algom's subsidiaries, leases and owns uranium properties known as the Lisbon mine in the Big Indian Mining District approximately 35 miles from Moab, Utah.

Operations. The Lisbon mine was brought into production on October 1, 1972. Operations are conducted pursuant to the provisions of a Source Material License issued by the Nuclear Regulatory Commission, an agency of the United States Government.

Following a gas ignition accident in April, 1973 which caused no significant damage to property or serious personal injury, the Industrial Commission and Labor Relations Board of the State of Utah declared the Lisbon mine to be a gassy mine. As a result the requirements of the United States federal regulations which relate to the manner of conducting mining operations and the type of equipment to be used in potentially gassy areas have been or are being adopted by RAC. Variances from these standards have been granted with respect to equipment operated in fresh air. All other obtainable equipment needed to comply with these standards has been purchased. Equipment that is not now obtainable is the subject of an exemption order extending the time for compliance with the standards until such equipment can be purchased. It is expected

basis. If this assumption proves to be incorrect (which, as indicated above, management believes to be an unrealistic possibility) the amount of capital costs which would otherwise have been amortized over the unreplaced poundage would be approximately \$20 million (taking into account the fact that certain additional capital costs, an estimate of which is included in the amortization base, would not be incurred).

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**PRESS RELEASE ISSUED ON
OCTOBER 23, 1979
BY RIO ALGOM LIMITED
AND PRESTON MINES LIMITED**

Rio Algom Limited and Preston Mines Limited today announced that their respective boards of directors have approved the share conversion ratios and other terms and conditions of the proposed statutory amalgamation of Rio Algom and Preston. Under the amalgamation, the outstanding shares of Rio Algom and Preston will be converted into shares of the amalgamated corporation on the following bases:

- (1) each outstanding common share of Rio Algom not owned by Preston will be converted into one common share of the amalgamated corporation (all Rio Algom common shares owned by Preston will be cancelled without any repayment of capital thereon);
- (2) each outstanding Rio Algom \$5.80 cumulative redeemable First Preference Share, Series A will be converted into one \$5.80 cumulative redeemable First Preference Share, Series A of the amalgamated corporation;
- (3) each outstanding common share of Preston will be converted into 0.75 of a common share and one 8.5% cumulative redeemable Second Preference Share of the par value of \$5.00 of the amalgamated corporation.

The shareholders of Rio Algom and Preston will be asked to approve the amalgamation agreement at general meetings of their respective shareholders which, subject to the obtaining of necessary clearances from or consents of securities and other regulatory authorities having jurisdiction, are proposed to be held in mid-December, 1979.

Assuming such shareholder approval is obtained, it is currently anticipated that the amalgamation will take effect on December 31, 1979 and that Rio Algom and Preston will continue as one corporation under the name "Rio Algom Limited".

This document is an integral part of the Interim Reports to the Shareholders of Rio Algom Limited and Preston Mines Limited for the nine months ended September 30, 1979.

that the cost of obtaining all equipment needed to meet gassy mine requirements will be approximately U.S. \$350,000. In accordance with United States federal and state regulations, an emergency escapeway from the mine has been installed in the ventilation shaft.

The Lisbon mine and mill are fully integrated. The concentrator produces U_3O_8 concentrate by sodium carbonate leaching and caustic soda precipitation followed by purification. Since the commencement of commercial operations the milling rate has been increased from 500 to 700 tons per day.

Sales Contracts. As of December 31, 1978 outstanding commitments under a contract dated as of December 30, 1975 provided for the sale of 1.3 million pounds of U_3O_8 to be delivered from the Lisbon mine to a United States utility by June 30, 1980. This contract replaced contracts dated as of December 30, 1968 and March 31, 1970 entered into with the same United States utility for delivery in the aggregate of the same quantities of U_3O_8 . In 1977, pricing provisions were revised and the United States utility was granted options for the purchase under certain conditions of all further economically recoverable quantities of U_3O_8 in excess of firm deliveries. During 1978 the United States utility exercised one of its options and has agreed to purchase an additional 2.0 million pounds of U_3O_8 with deliveries commencing after completion of deliveries under the 1975 contract. During 1979 the United States utility did not exercise its remaining option.

On December 27, 1978 the contract was amended. Further price adjustments were agreed upon which are expected to provide full cost protection for the remaining deliveries under the contract from January 1, 1979. The pricing provision with respect to the additional 2.0 million pounds sold are also expected to provide adequate cost protection as well as an anticipated profit margin. Under the amendment the purchaser was granted certain additional options to have the purchaser process at the RAC mill any uranium ore supplied by the purchaser and to purchase any uranium which RAC processes at its mill from any ore obtained by it from properties other than its existing mine.

Reference is made to "Legal Proceedings" for information on developments which may affect Rio Algom's interest in RAC.

Geology. The Lisbon property is located on the east side of the Lisbon Valley fault. The fault is post mineralization and it is believed that the west side has been uplifted approximately 2,000 feet with respect to the east side. On the west side of the fault, in the same geological horizon but at shallow depths, uranium has been mined by other companies over a strike length of more than six miles and has produced approximately seven million tons grading approximately seven pounds of U_3O_8 per ton. The mineralization on the Lisbon property occurs at a depth of 2,700 feet in the Mossback member of the Chinle formation of Triassic age within a few feet of the unconformity between the Chinle and the underlying Cutler formation of Permian age. The uranium mineral is uraninite and is accompanied by pyrite and minor galena and occurs in thin tabular ore bodies in lensy siltstones, silty calcarenites, grits and conglomerates. The mineralized horizon has a known strike length of 7,000 feet, varies in thickness from two feet to seven feet, and contains 20% to 30% calcium carbonate and erratically distributed carbonaceous material.

Ore Estimates and Production Data. It is estimated that at January 1, 1979, proven and probable ore with a cut-off grade of 2.0 pounds of U_3O_8 per ton at the Lisbon property aggregated approximately 1.2 million tons with a mine grade of 3.3 pounds of U_3O_8 per ton, after allowing for losses in mine extraction and for dilution. After allowing for milling losses, a total of 3.58 million pounds of U_3O_8 is considered recoverable. Such total represents some 280,000 pounds over the quantities contracted for by the American utility.

The comparative milling, metallurgical, production and shipping data from the Lisbon mine are as follows:

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
Tons of ore processed (thousands)...	233	253	267	272	267	201	205
Average tons processed per day....	652	702	734	749	741	748	751
Average recovery per ton of U_3O_8 (lbs.).....	5.4	4.6	3.9	4.2	4.0	4.2	3.6
Average processing recovery.....	91.9%	92.0%	92.6%	94.4%	94.6%	95.0%	93.9%
Pounds of U_3O_8 produced (thous- ands).....	1,263	1,167	1,051	1,142	1,076	849	726
Pounds of U_3O_8 delivered (thous- ands).....	1,197	1,200	1,000	1,100	1,000	750	900

Although the grade of mill feed has generally declined over the period covered, the renegotiation of contract prices together with escalation provisions has permitted the rate of increase in revenue per pound produced over the period to approximate the rate of increase in production costs.

Rossing

Rio Algom holds a 10% interest in the equity share capital of Rossing Uranium Limited ("Rossing"), an indirect subsidiary of Rio Tinto-Zinc, which has developed a large low grade uranium deposit in South West Africa/Namibia supported by major long term uranium sales contracts. Rio Algom and all other equity shareholders of Rossing have pledged their shares to secure the performance by Rossing of its obligations under certain outstanding loan agreements. As of December 31, 1978, Rio Algom's total investment in Rossing included \$6,965,953 for share capital and \$9,412,510 in advances of which Rands 1,000,000 (Cdn. \$1,125,910) was advanced prior to 1977 on open account and U.S. \$7,500,000 (Cdn. \$8,286,600) was advanced between August, 1977 and April, 1978. The U.S. dollar advances bear interest at 13% and are repayable in monthly instalments between July, 1979 and August, 1981. Rossing had repaid to Rio Algom U.S. \$3,150,000 (Cdn. \$3,480,372) as at December 10, 1979.

Copper and Molybdenum Mining Operations

Lornex Mining Corporation Ltd. ("Lornex"), a 68.1% owned subsidiary of Rio Algom, operates a large scale low grade copper-molybdenum open pit mine and concentrating facility located on the southern slope of the Highland Valley, approximately 28 miles from Ashcroft, British Columbia. Copper-molybdenum bearing ore is mined and milled to produce copper, molybdenum and certain other associated minerals in concentrates, which are sold primarily to independent purchasers for smelting and refining. The management and direction of the operations and development of the Lornex property are carried on by Rio Algom pursuant to the provisions of an agreement which expires in December, 1984.

Operations. The mine and mill commenced commercial operations in 1972. The Lornex mill is located adjacent to the mine, and the mine and mill are fully integrated. Copper minerals and molybdenite are recovered in concentrates produced by conventional flotation processes. Since commencement of operations in 1972 the milling rate has increased from 38,000 to 48,000 tons per day. On October 22, 1979 the board of directors of Lornex approved the expansion of its mine and an increase in the milling rate of approximately 68% to be financed from general funds of Lornex supplemented by temporary bank borrowings if and when necessary at an estimated cost of \$160 million. The expansion is scheduled for completion in mid-1981 and will require a third slightly larger semi-autogenous mill line, a new crusher, 18 new 170 ton trucks, 3 new 23 cubic yard shovels and other facilities including housing.

The comparative milling, metallurgical, production and shipping data from the Lornex mine are as follows:

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
Tons of ore milled (thousands).....	16,445	12,893	17,016	17,065	17,557	12,860	13,191
Average tons milled per operating day.....	45,056	38,259	46,877	46,753	48,100	47,106	48,320
Average millhead grade							
—copper.....	0.457%	0.495%	0.511%	0.481%	0.446%	0.445%	0.445%
—molybdenum.....	0.016%	0.016%	0.016%	0.015%	0.016%	0.017%	0.015%
Average mill recovery							
—copper.....	88.1%	87.1%	86.7%	88.9%	89.5%	89.1%	90.7%
—molybdenum.....	75.8%	74.3%	69.7%	72.2%	71.6%	72.6%	74.5%
Pounds of payable metal in concentrate produced (thousands)							
—copper.....	128,064	107,160	145,712	141,111	135,422	98,632	102,970
—molybdenum.....	4,038	3,084	3,769	3,795	3,985	3,082	2,966
Pounds of payable metal in concentrate delivered (thousands)							
—copper.....	103,992	117,891	144,301	153,792	134,621	93,036	107,183
—molybdenum.....	3,936	3,170	3,782	4,071	4,110	3,060	3,307

Production costs per ton milled (including depletion, depreciation and amortization but excluding interest, management fees and other head office expenses) have increased approximately 46% from 1974 to the nine months ended September 30, 1979. Although revenue per ton milled is dependent primarily on fluctuating market prices, at no time during the 5 $\frac{3}{4}$ year period did operating profits drop below 26% of the net revenues from mine production.

Sales Contracts. The entire copper concentrate production from the two Lornex mill lines was contracted for by a group of Japanese companies until December 31, 1984, at a price based on the price at which the principal copper producers in non-communist countries sell their principal production of electrolytic copper wire bars on period contracts for delivery c.i.f. main European ports to major European fabricators of copper (which price is presently the official London Metal Exchange cash seller's price for electrolytic copper wire bars). The agreement with the Japanese purchasers was amended in October, 1975 to provide for the delivery by Lornex of fixed amounts of copper concentrates in each of the years 1976 through 1979 and for Lornex to have the right to sell elsewhere in each of the said years copper concentrates expected to be produced in excess of such fixed amounts and from accumulated inventories. An agreement with another purchaser dated as of May 1, 1975 provided for the delivery of fixed amounts of copper concentrates through 1979, representing essentially the balance of planned production not taken by the Japanese purchasers. This agreement was amended at the request of Lornex to permit Lornex to terminate deliveries under it effective March 31, 1978 and to sell the cancelled quantities elsewhere.

An agreement with the Japanese purchasers of copper concentrates was entered into in August, 1977, under which the refining charge borne by Lornex was increased for the period April 1, 1977 through March 31, 1979. In September, 1979 new terms were negotiated with the Japanese purchasers for deliveries subsequent to April 1, 1979. The new agreement provides for the delivery of specified amounts of copper concentrates to the same group of Japanese companies and the term of deliveries has been extended from December 31, 1984 until December 31, 1989. At December 17, 1979, the key terms for the sale of significant additional quantities of copper concentrates, to be produced from the expanded mine and mill facilities and delivered from 1981 through 1985, had been agreed to with another major buyer, subject to conclusion of a formal agreement between the parties. Pricing of these additional quantities would be essentially similar to pricing under the new agreement with the Japanese purchasers. The foregoing agreement and arrangement would commit the bulk of planned production from Lornex through 1985. Any concentrates produced in excess of committed amounts will be available for sale in the spot market.

Approximately two-thirds of the molybdenum in concentrates that Lornex estimates will be produced during the period July 1, 1979 to December 31, 1980 either has been contracted for by a Canadian company or, alternatively, will be sold as concentrate through a sales agent. The balance of the molybdenum production during the period will be converted to molybdic oxide under a toll conversion agreement and the oxide product sold by Lornex through the sales agent.

Geology. The Lornex porphyry-type copper and molybdenum deposit occurs in a strongly fractured and altered portion of the Guichon Batholith of Lower Jurassic age. Mineralization consists principally of chalcopyrite, bornite and molybdenite in fractures and as disseminations within the host rock.

Ore Reserves. The ore reserves at December 31, 1978 were estimated to be 466.3 million tons of ore with an average grade of 0.408% copper and 0.014% molybdenum. The estimated reserves will permit continuation of operations for over 15 years at the expanded milling rate referred to above.

Minerals Exploration

Rio Tinto Canadian Exploration Limited ("Riocanex"), a wholly-owned subsidiary of Rio Algom, conducts a wide range of exploration and development programs in Canada. All major drilling work is performed by outside contractors. In addition to exploration programs carried out by Rio Algom and its subsidiaries, independent exploration groups are retained to conduct programs in Canada and other countries. In March, 1979 exploration activities in the United States carried out by the Rioamex division of RAC were terminated and its interests in properties will be disposed of when practicable. Technical personnel operate from Riocanex's head office in Toronto, and regional offices in Toronto and Vancouver and branch and field offices in Fredericton, N.B., Quebec City, P.Q., Thunder Bay, Ontario, St. John's, Newfoundland and Whitehorse, Yukon.

Exploration expenditures by Rio Algom and its subsidiaries, including expenditures on the Sage Creek coking coal property in British Columbia, aggregated approximately \$6 million in 1978. It is estimated that approximately \$10 million was spent in 1979.

Drilling on a copper property in the Chibougamau area of Quebec has delineated one million tons of mineralization grading in excess of 2% copper. The deposit occurs in a flatly-dipping quartz vein zone and is almost all less than 300 feet below the surface. At December 17, 1979, negotiations were in progress for the sale of this property. A 747,000 ton zinc-copper deposit in the Chibougamau area grading 6.91% zinc and 0.55% copper, held by a joint venture in which Rio Algom's interest is 33 1/3%, also is of economic interest because of its proximity to available milling capacity in the Chibougamau mining camp.

Drilling in the Cape Ray property in southwestern Newfoundland has indicated 1,000,000 tons of mineralized material grading 0.22 ounces of gold. Rio Algom's interest in the property is 90%, subject to a production royalty.

A review has been made of available data (drilling records, an exploration adit and preliminary metallurgical testing) on the molybdenum property owned by Pidgeon Molybdenum Mines Limited, which corporation is 60% owned by Rio Algom. The review and a feasibility analysis have indicated the possibility of an open-pittable, porphyry-type deposit grading 0.08%-0.1% molybdenum. Geophysical and drilling programs designed to confirm such a deposit are underway.

The Sage Creek coking coal property, in which Riocanex has a 60% interest, has been assessed in detail. Studies indicate that if the coal market improves substantially the property could be brought into production at various rates depending upon market conditions.

It is intended that additional work be carried out on a number of other properties held in Canada. Exploration activity has been initiated in South America and several properties are under investigation.

Steel Operations

The principal activity of Rio Algom's steel operations is the production and marketing of stainless and specialty steels. Production is carried on under the name "Atlas Steels" at plants in Welland, Ontario and Tracy, Quebec. Marketing is carried on directly by the Atlas Steels mill sales group and under the name of "Atlas Alloys" by a service centre distribution network.

Operations at the Welland plant involve the conversion of carbon, stainless and alloy steel scrap and alloy material into a wide variety of mill products, including billets, bars, forgings, sheet, strip and plate, which are used by others in the fabrication of end-use products. Products can be grouped in three major categories: stainless, machinery and other steels (including tool and die, mining and drilling and special purpose steels). These products are used in the automotive, machine tool, aircraft, railroad, mining, pulp and paper, electrical, agriculture, marine, chemical, construction, consumer products, nuclear and numerous other industries.

Operations at the Tracy plant involve the conversion of steel scrap and alloy materials into stainless steel sheet in coils and cut lengths in widths up to 1.25 metres.

The Atlas Steels mill sales group, with offices in Welland, Toronto, Montreal and Edmonton, is in charge of bulk sales to the Atlas Alloys group, independent distributors, large customers and sales agents in certain countries. The Atlas Alloys group markets in North America and elsewhere both the steel products of Atlas Steels and steel and other metal products purchased from other manufacturers. Such products of other manufacturers have constituted approximately 30% of consolidated steel sales revenue during the last five years.

The following table sets forth the sales value of the main categories of steel products produced by Atlas Steels and includes (at Atlas Steels' sales prices) sales to the Atlas Alloys group for further distribution:

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
	(Expressed in Canadian dollars in thousands)						
Stainless.....	\$ 96,444	\$ 78,159	\$ 81,433	\$107,816	\$122,018	\$ 87,090	\$ 65,961
Machinery.....	33,890	37,738	39,896	46,468	68,870	48,887	60,701
Other Steels.....	26,443	24,009	21,811	28,676	33,214	25,146	34,623
	<u>\$156,777</u>	<u>\$139,906</u>	<u>\$143,140</u>	<u>\$182,960</u>	<u>\$224,102</u>	<u>\$161,123</u>	<u>\$161,285</u>

The following table sets forth by market area the sales value of the production of Rio Algom's steel plants at Welland, Ontario and Tracy, Quebec, sold during the periods indicated. The Atlas Alloys figures for each area include (at Atlas Steels' sales prices) sales to the Atlas Alloys group metal service centres in Canada and sales to foreign subsidiaries for distribution in service centres and for resale to others:

	Year ended December 31										Nine months ended September 30			
	1974		1975		1976		1977		1978		1978		1979	
	(Expressed in Canadian dollars in millions)													
Canada	%	%	%	%	%	%	%	%	%	%	%	%	%	%
—Atlas Alloys..	\$ 33.6	21.4	\$ 23.3	16.6	\$ 24.8	17.3	\$ 30.0	16.4	\$ 39.8	17.8	\$ 29.9	18.6	\$ 30.2	18.7
—Others.....	95.7	61.1	94.8	67.8	96.6	67.5	113.0	61.8	128.4	57.3	93.1	57.8	95.5	59.2
United States														
—Atlas Alloys..	10.8	6.9	10.6	7.6	8.3	5.8	12.9	7.1	17.1	7.7	12.0	7.5	8.8	5.5
—Others.....	—	—	—	—	—	—	9.0	4.9	22.0	9.8	14.4	8.9	19.1*	11.8
International														
—Atlas Alloys..	6.2	3.9	2.9	2.1	1.5	1.0	2.0	1.1	2.2	0.9	6.0	3.7	1.1	0.7
—Others.....	10.5	6.7	8.3	5.9	12.0	8.4	16.0	8.7	14.6	6.5	5.7	3.5	6.6	4.1
	<u>\$156.8</u>	<u>100.0</u>	<u>\$139.9</u>	<u>100.0</u>	<u>\$143.2</u>	<u>100.0</u>	<u>\$182.9</u>	<u>100.0</u>	<u>\$224.1</u>	<u>100.0</u>	<u>\$161.1</u>	<u>100.0</u>	<u>\$161.3</u>	<u>100.0</u>

*Includes sales of mill lots to an unaffiliated Canadian distributor which purchases products in Canada for resale in the United States.

No single customer has accounted for more than 9% of third party plant sales of Atlas Steels in any recent year. In 1978 such plant sales were made to more than 450 customers.

Welland Plant

The Welland plant, located approximately in the centre of the Niagara Peninsula in Ontario, has ready access to railway, highway and St. Lawrence Seaway transportation and hydro-electric power. The plant and related buildings cover approximately 26.5 acres of floor space and are of steel frame or masonry construction. Production involves all of Atlas Steels' three main categories of steel products.

Melting facilities consist of two 60 ton and one 25 ton electric arc melting furnaces together with a 65 ton vacuum refining system for stainless and specialty steels. Construction of these units was completed in 1977 replacing 5 smaller electric arc melting furnaces. In addition to conventional ingot casting facilities, a continuous casting unit is operated which eliminates the ingot stage for certain products and permits the direct casting of slabs and billets with resulting higher yield of saleable steel per ton melted.

Forging equipment includes a 2,000 ton and a 1,000 ton forging press and smaller forge hammers. Hot rolling facilities include a blooming mill, Sendzimir hot planetary mill capable of reducing stainless steel slabs 6.35 centimetres thick to hot bands down to 0.3175 of a centimetre thick in a single pass through the mill and two bar and rod mills. There are three Sendzimir cold rolling mills.

The production capacity of the Welland plant, based on the product mix manufactured and sold in 1978, is approximately 175,000 finished tons per annum, of which capacity approximately 97% was utilized in that year. Based upon the product mix manufactured and sold in 1977, the Welland plant was estimated to have a capacity of approximately 150,000 finished tons, of which 96% was utilized.

Tracy Plant

The Tracy plant, located at Tracy, Quebec, approximately 65 miles east of Montreal on the south shore of the St. Lawrence River, also has ready access to railway, highway and seaway transportation and hydro-electric power. The plant buildings cover approximately 9 acres and are of steel frame construction. The integrated facilities include a 60 ton electric arc melting furnace, a Sendzimir hot planetary mill, two Sendzimir cold rolling mills and related finishing facilities. The Tracy plant uses natural gas as its sole source of energy for reheating steel under a contract with Gaz Metropolitain, Inc.

The stainless steel production capacity of the Tracy plant, based on the product mix manufactured and sold in 1978, was approximately 55,000 finished tons, of which capacity approximately 99% was utilized in that year. Based on the product mix manufactured and sold in 1977, the same facilities were estimated to have a capacity of approximately 54,000 finished tons, of which capacity approximately 94% was utilized.

A collective agreement between Rio Algom and the United Steelworkers of America covering some 350 production and maintenance employees at the Tracy plant expired on November 30, 1978. Rio Algom

commenced negotiations with respect to a new collective agreement with the Confederation of National Trade Unions ("CNTU") which had been certified as the legal bargaining agent for such employees on December 6, 1978. However, in light of a significant reduction in the level of productivity at the Tracy plant caused, in Rio Algom's view, by concerted and illegal action of employees aimed at restricting production during the negotiations, Rio Algom announced on March 21, 1979 that it was uneconomical to continue operations and that the plant had been shut down until further notice. On March 24, 1979 Rio Algom obtained a preliminary injunction (made permanent on April 2, 1979) restricting the number of pickets at the plant and prohibiting the blocking or harassment of supervisors, maintenance personnel and others wishing to enter or leave the plant. On April 12, 1979 Rio Algom commenced a civil action against the CNTU to recover damages, including loss of profits, resulting from the work slowdown. Negotiations between Rio Algom and representatives of the CNTU were held under the auspices of a conciliation officer. A report by the conciliation officer recommending the basis of a settlement, handed down on December 14, 1979, was accepted by the union membership and by Rio Algom on December 19, 1979. Issues relating to a return to work, not dealt with in the conciliation officer's report, were resolved on December 20, 1979. (Among other things, Rio Algom agreed to withdraw the action against the CNTU and seek dissolution of injunctions obtained by it.) Rio Algom estimates that the Tracy plant will be restored to full operating capability by mid-January, 1980 but the level of production thereafter would depend on the amount of orders received and anticipated.

Marketing

The Atlas Steels mill sales group makes bulk sales from offices in Welland, Toronto, Montreal and Edmonton to the Atlas Alloys group, independent distributors, large customers, and in certain circumstances to customers through sales agents.

The Atlas Alloys group has its headquarters in Toronto. Rio Algom owns metal service centres located in Canada and wholly-owned foreign subsidiaries of Rio Algom conduct operations in the United States, the United Kingdom, Australia and Mexico. The metal service centres operated in Canada at Etobicoke, Sarnia, Sudbury, Thunder Bay and Windsor in Ontario and in Montreal, Winnipeg, Saskatoon, Edmonton, Calgary, Vancouver and Prince George sell and distribute Atlas Steels products and products purchased from other producers. In the United States, metal service centres in Valley View, Ohio, Detroit, Michigan, and Chicago, Illinois sell and distribute certain Atlas Steels products and products of other distributors. (Reference is made to "Legal Proceedings" below for information which affects Rio Algom's interest in Atlas Alloys Inc., a wholly-owned subsidiary which conducts the United States service centre operations.) In the United Kingdom, from offices in Dunstable and the metal service centres operated in Luton and Leeds, certain Atlas Steels products and products purchased from other producers are sold and distributed. In Australia, the metal service centres operated in Melbourne, Sydney and Adelaide and the sales office in Brisbane principally sell and distribute products purchased from other producers. The metal service centre in Mexico City sells and distributes steel products purchased mainly from other producers. Each of the metal service centres provides warehousing and distribution services, including warehouse processing services, to meet the needs of customers in the market area served by the centre.

Raw Materials and Other Requirements

The principal raw materials used by the steel operations are carbon steel scrap, manganese and stainless and alloy steel scrap, nickel, chrome, molybdenum, tungsten and vanadium compounds. Substantial quantities of electricity and natural gas are used in melting and reheating steels.

With respect to the supply of necessary raw materials, energy and supplies, no major supply difficulties have been experienced. Cost increases continued to occur in 1978 at a moderate level but in 1979 prices have escalated rapidly. This escalation in raw material costs is expected to continue but the full effect has been partially offset by more economical usage of raw materials and forward buying of nickel. Where the market permits, selling prices have been increased to offset these cost increases. The major supplier of molybdenum was strike-bound from mid-February to early November, 1979 and therefore normal supply was reduced. However, the close-down of the Tracy plant and cut back in grades of steel requiring high molybdenum content ameliorated the effect of the reduced supply. It is expected that molybdenum may be in short supply for several years. Energy costs have grown significantly over the past several years and special emphasis is being placed on energy conservation programs.

Market Trends and Order Backlog

As indicated below the steel operations face a high level of competition.

During 1978 the decline in value of Canadian currency encouraged an increase in exports by Canada's secondary manufacturers resulting in increased demand for low and high alloy bar products. The strong North American production rate of automobiles and trucks continued and sales of low alloy bar and stainless flat rolled products to transportation related end-users continued through the first half of 1979 at relatively high levels. Export markets, except for the United States, were depressed during the first part of 1978 but recovered during the second half of that year and sales volume to these markets was approximately at the same level as in the previous year. Increased sales into the United States market in 1978 were made possible by the expanded capacity of the new melt shop at the Welland plant. Some softening in automotive production occurred in the second half of 1979; this reduced demand has been replaced by sales to other domestic end users and by improved sales to export customers.

Imports of some grades of stainless steel sheet from Japan and West Germany, and stainless steel plate from Japan and South Africa decreased sharply in 1978 as a result of a favorable decision of the Canadian Anti-Dumping Tribunal in January, 1978. However, these reductions in imports were generally offset by increased imports from the United Kingdom, Sweden and other countries to the extent that in 1978 total imports of these products were higher than those of the previous year.

There is a high degree of uncertainty concerning the specific regulations and probable impact on Atlas Steels of the quotas and trigger prices which are expected to remain in effect in the United States market as well as the "minimum import prices" in Europe under the Davignon Plan. A climate of protectionism continues in most major markets. In 1978 the Canadian government established an offset surveillance program on steel imports which it is expected will continue. The governments of most steel producing nations of the world are currently engaged in a series of meetings under the sponsorship of the Organization for Economic Co-operation and Development in an attempt to resolve steel trade issues, but no early resolution is expected. In the shorter term, a weakened Canadian dollar has provided a measure of stimulation to both Canadian and export sales.

The following table sets out the approximate backlog of firm orders of the Welland plant as of September 30, 1979 and the Welland and Tracy plants as of December 31, 1978 and December 31, 1977 of the principal product categories of the steel operations (values calculated at 1979 selling prices):

Product Category	Backlog as of September 30, 1979	Backlog as of December 31, 1978*	Backlog as of December 31, 1977*
	(in thousands)		
Stainless.....	\$18,973	\$31,784	\$25,288
Machinery.....	15,348	14,757	10,282
Other.....	10,758	12,297	7,628
Total.....	<u>\$45,079</u>	<u>\$58,838</u>	<u>\$43,198</u>

*Includes Tracy backlog of \$17,040 at December 31, 1978 and \$12,706 at December 31, 1977.

All of the orders constituting the Welland plant order backlog as of September 30, 1979, are expected to be filled within twelve months of that date.

There are no seasonal or other material aspects to the order backlog.

Competition

Atlas Steels is in active competition in world markets with businesses producing the same or similar products and, in some instances, with businesses producing different products designed for the same uses. Atlas Steels is Canada's largest integrated producer of stainless and specialty steels. The competitive positions of Atlas Steels' operations depend on vigorous sales efforts, competitive pricing, high levels of service to customers, and the maintenance of high quality standards.

Environment

Rio Algom and its subsidiaries have substantially complied with or are in the process of complying with environmental requirements applicable to their mining and steel operations. In the five years ended December 31, 1978, Rio Algom and its subsidiaries have made capital expenditures of approximately \$27.3 million in meeting these environmental requirements.

It is expected that Rio Algom and its subsidiaries may incur capital expenditures of approximately \$43.4 million through 1983, of which it is estimated that \$9.9 million will be spent in 1979 and \$33.5 million

will be spent in the years 1980 through 1983, to comply with already authorized pollution control programs to meet anticipated requirements. Of these expenditures, approximately \$31.6 million would apply to mining operations and approximately \$11.8 million to steel operations. The foregoing amounts do not reflect additional expenditures, if any, that may become necessary as a result of the Environmental Assessment Board hearings referred to below. Rio Algom has no reliable means of predicting what operating expenditures will be incurred in years subsequent to 1979 in respect of matters relating to the protection of the environment or of predicting the effect of such expenditures on its competitive position in world markets.

The Ontario Environmental Assessment Board was authorized and directed in September, 1976 to hold hearings regarding the effect on the environment of the planned expansion of uranium mining and milling operations in the Elliot Lake area. Initial hearings were held between April, 1977 and March, 1978. A detailed environmental study was prepared in relation to the expanded operations of Rio Algom and submitted to the Board on April 25, 1978. Further hearings commenced in August, 1978 and were completed in March, 1979. The final report of the Board was released in May, 1979. This report contains a review of the extensive evidence that was presented and the findings and recommendations of the Board with respect to the expansion of the uranium mining operations of Rio Algom, Preston and Denison Mines Limited at Elliot Lake.

The Environmental Assessment Board was of the general opinion that the technology exists to carry out the expansion at Elliot Lake in an environmentally acceptable manner in the short term. The Board made a total of 109 recommendations of which 60 were directed to Rio Algom, Preston and Denison Mines Limited with the balance being directed to various government agencies and departments. Of the recommendations directed to Rio Algom, several have already been implemented and others are being studied. At December 17, 1979, the Ontario government was studying the findings and recommendations of the Board. It was expected that once that government decided on its response to the Board's report, a statement would be issued by the provincial Minister of Environment with respect to the government's position. Because the recommendations of the Board were under review, Rio Algom had not reached any estimates of the additional expenditures which would be required if any or all of the recommendations not yet implemented by Rio Algom were to be adopted by the Ontario government. However, several of such recommendations, if adopted by the Ontario government, could result in a substantial increase in expenditures relating to environmental matters.

In June, 1979, the then Canadian government announced its intention to institute an inquiry into the Canadian nuclear industry which was expected to include a review of environmental and nuclear safeguards issues.

Research and Development

Rio Algom's research expenditures relate mainly to improving mining methods and milling techniques in its mining operations and to achieving process improvements, operating cost reductions, improved product yield and utilization of less expensive raw materials in its steel operations.

Approximately \$1,009,000 was expended in 1978 (\$656,000 in 1977) on research and development in mining operations mainly related to the expansion programs at Elliot Lake, improvements in milling operations, environmental matters and improvements in underground working conditions. In steel operations approximately \$690,000 was spent during 1978 (\$661,000 in 1977) in research and development with the objectives referred to above.

Employees

As at September 30, 1979, Rio Algom and its subsidiaries (including the United States subsidiaries) employed a total of 6,679 persons. Mining operations had 2,486 production employees and 853 employees engaged in executive, technical, administrative and clerical capacities and 48 employees engaged in exploration activities. Steel operations had 1,867 production employees, 902 sales employees and 376 employees engaged in executive, administrative and clerical capacities. The Rio Algom corporate staff consisted of 147 persons.

Labor contracts in respect of mining operations are in effect in the Elliot Lake area for hourly rated employees, office and technical employees and production and maintenance employees and the operating engineers until September 1, 1981; at the Lisbon mine for the production and maintenance employees until February 28, 1982; at the Lornex mine for production, maintenance, office and technical employees until June 30, 1980.

Labor contracts in respect of steel operations are in effect at the Welland plant for production and maintenance employees until February 16, 1982 and for office and technical employees until September 1, 1982. The Tracy plant has been closed down since March, 1979 and it is expected to reopen in mid-January 1980. See "Business of Rio Algom - Steel Operations" for more detail.

Rio Algom Debentures

As at December 14, 1979, there were outstanding \$8,135,500 principal amount of 6 3/4% Sinking Fund Debentures Series A (out of an original issue in 1963 of \$50,000,000) and \$49,415,000 principal amount of 11 1/2% Sinking Fund Debentures Series B (out of an original issue of \$50,000,000 in 1975). See note 5 of the "Notes to Consolidated Financial Statements" of Rio Algom contained elsewhere herein. The Series A Debentures and the Series B Debentures of Rio Algom have been issued under a trust indenture and a trust deed of hypothec, mortgage and pledge, both dated as of April 1, 1963, as supplemented and amended by supplemental indentures dated May 2, 1975 and July 2, 1975 (collectively the "Trust Deed"). See "The Proposed Amalgamation - Modification of Rio Algom Trust Deed" for information relating to modifications of the Trust Deed which have been approved by the debenture holders and which are intended to take effect immediately prior to the Amalgamation.

Security for the Debentures. Under the Trust Deed in its present form, both the Series A and the Series B Debentures are secured by a first floating charge on all the undertaking, property and assets of Rio Algom for the time being, both present and future. The floating charge does not hinder or prevent Rio Algom from selling, mortgaging, disposing of or dealing with the subject matter of the floating charge in the ordinary course of its business and for the purpose of carrying on and extending the same providing such action is not in breach of any covenant contained in the Trust Deed and assuming Rio Algom is not in default thereunder.

Sinking Fund. The Trust Deed provides for a sinking fund for the retirement of the Series A Debentures, into which Rio Algom has agreed to pay amounts sufficient to retire \$2,000,000 principal amount of Series A Debentures on October 1 in each of the years 1969 to 1974 inclusive and \$3,000,000 principal amount in each of the years 1975 to and including 1982.

The Trust Deed also provides for a sinking fund for the retirement of the Series B Debentures, into which Rio Algom has agreed to pay amounts sufficient to retire \$2,500,000 principal amount of Series B Debentures on July 15 in each of the years 1981 to 1994, both inclusive. Rio Algom also has the non-cumulative right at its option to make voluntary sinking fund payments of up to a further \$500,000 in each of such years.

Redemption. The Series A Debentures are redeemable by Rio Algom at its option at the principal amount thereof plus a premium of 0.95% if redeemed during the 12 months ended April 1, 1980, and at a premium that is reduced by 0.30% during each 12 month period thereafter to April 1, 1982. Thereafter and prior to maturity, the Series A Debentures are redeemable without premium. The Series B Debentures are not redeemable for financial advantage prior to July 15, 1990. Subject to the foregoing restrictions, Series B Debentures are redeemable by Rio Algom at its option at the principal amount thereof plus a premium of 8.90% if redeemed during the 12 month period ended July 15, 1980 and at a premium that is reduced by 0.65% for each consecutive 12 month period thereafter so as to be redeemable during the 12 months ending July 15, 1993 at a premium of 0.45% and so as to be redeemable thereafter and prior to maturity at par.

Debt Restrictions. The Trust Deed in its present form provides, subject to certain exceptions, that Rio Algom will not create any encumbrance upon any of its assets to secure any debts or other obligations unless at the same time it secures equally and rateably with such debts or other obligations all the Debentures then outstanding. The Trust Deed further provides that Rio Algom will not issue any additional Debentures under the Trust Deed or become liable for any indebtedness the principal amount of which by its terms is not payable on demand and matures more than 18 months after the date of its creation unless the average annual consolidated net earnings of Rio Algom and its designated subsidiaries for the two completed fiscal years next preceding such issue or becoming liable, as the case may be, have been equal to at least 2 1/2 times the aggregate annual net requirements of all consolidated funded obligations of Rio Algom and its designated subsidiaries to be outstanding immediately after such issue or becoming liable and unless the consolidated net tangible assets of Rio Algom and its designated subsidiaries are at least equal to twice the principal amount of all consolidated funded obligations of Rio Algom to be outstanding after such issue or becoming liable. There are no designated subsidiaries under the Trust Deed.

Restrictions on Dividends. The Trust Deed further provides that Rio Algom will not declare or pay any dividends (other than in shares of Rio Algom's capital) on any shares at any time outstanding, or redeem, reduce, purchase or otherwise pay off any of its shares outstanding (except out of the proceeds of the issue of shares made prior to or contemporaneously with such redemption, reduction, purchase or payment) unless immediately after giving effect to such action the sum of: (a) all dividends paid or declared payable after December 31, 1974, and (b) the amounts applied after December 31, 1974, to all such redemptions, reductions, purchases or payments does not exceed (i) consolidated net income of Rio Algom and its designated subsidiaries after December 31, 1974 plus (ii) the aggregate net value of the consideration, if any, received by Rio Algom subsequent to December 31, 1974 upon the issuance of its shares (otherwise than upon the conversion of any of its shares into shares of another class) plus (iii) \$15,000,000. As of September 30, 1979 the amount available for these purposes under such restrictions was approximately \$95 million. The foregoing restriction does not prevent Rio Algom from paying fixed cumulative dividends on any of its preference shares or from retiring in any one year through the operation of any mandatory sinking or purchase fund up to 5% of any issue of its preference shares.

Modification of the Trust Deed. The Trust Deed contains provisions permitting Rio Algom and the Trustee to modify the Trust Deed with the consent of the debenture holders expressed by extraordinary resolution at a meeting of debenture holders. An extraordinary resolution requires the favorable votes of the debenture holders holding not less than 75% of the principal amount of the Debentures represented at the meeting. At any such meeting the holders of 51% of the principal amount of the Debentures then outstanding, present in person or by proxy, constitute a quorum but at an adjourned meeting the debenture holders present in person or by proxy form the quorum.

Westinghouse Litigation

Legal Proceedings

In October, 1976, Westinghouse Electric Corporation commenced an action in the United States District Court for the Northern District of Illinois (the "Court") in which 29 defendants were named, including Rio Algom and Rio Algom Corporation ("RAC"), a United States subsidiary of Atlas Alloys Inc., a United States subsidiary of Rio Algom. The complaint filed by Westinghouse alleged illegal combinations and conspiracies among the defendants to restrain both the interstate and foreign commerce of the United States in uranium in violation of the Sherman Antitrust and Wilson Tariff Acts, and sought to recover treble damages and to secure injunctive relief from each of the defendants. On the advice of counsel, Rio Algom did not appear in the action and the resulting default was noted on the court record. RAC has filed an appearance in the action and is contesting Westinghouse's complaint. On January 3, 1979 the Court entered a final judgment on the issue of liability against Rio Algom and the other defaulting defendants. (Such order did not, however, contain any determination of the amount of the defendants' liability.) On January 24, 1979 the Court issued a preliminary injunction enjoining Rio Algom and other defaulting defendants from:

- (i) transferring, or causing or permitting others to transfer, any interest in property located within the United States,
- (ii) withdrawing, or causing or permitting others to withdraw, any United States assets from the jurisdiction of the United States, and
- (iii) taking any other action which would result in divesting the defaulting defendants of ownership or control of United States assets or in withdrawing such assets from the jurisdiction of the United States.

Excluded from the effect of the injunction were transfers in the ordinary course of business of assets whose fair market value is less than \$10,000 (U.S.) and any transfer, 20 days prior notice of which is given to counsel for the plaintiff and to the Court.

On April 24, 1979 the Court issued a preliminary injunction enjoining Atlas Alloys Inc. from paying \$1,866,048 to Rio Algom with respect to which notice had been given under the preliminary injunction of January 24, and ordered Atlas Alloys Inc. to place such sum in escrow on April 30 with a bank in Chicago under the jurisdiction of the Court for the benefit of Rio Algom and Westinghouse as their interests may appear with the funds to be invested to the extent practicable in securities of the United States Government or agencies. Atlas Alloys Inc. made the required deposit in a series of payments between May 11 and 17.

Pursuant to an order to show cause which, among other things, recited Westinghouse's allegations that certain transfers of funds from Atlas Alloys Inc. to Rio Algom were in violation of the preliminary injunction

of January 24, or may have been in violation of a temporary restraining order entered on January 15 to the same effect (which allegations were denied by counsel for Atlas Alloys Inc.), the Court issued on May 4 an additional preliminary injunction which (as modified on May 7) enjoined Atlas Alloys Inc. from making payments or transferring assets to Rio Algom or any affiliate without the consent of Westinghouse or permission of the Court, other than payments of amounts due for the purchase of products delivered after March 12, 1979, provided that Atlas Alloys Inc. gives the Court and counsel for Westinghouse 20 days notice of the proposed payment and affirms that the goods were purchased in good faith and are worth the purchase price; enjoined the payment of some \$169,000 (U.S.) to Rio Algom notices with respect to which were also given under the preliminary injunction of January 24 and required that such amount be paid into the escrow account referred to above (which amount was paid in on May 14); and enjoined Atlas Alloys Inc. from making deposits in bank accounts located outside the United States. The order also enjoined Rio Algom and its directors, officers or employees from making any withdrawal from or acting as signatories with respect to bank accounts of Atlas Alloys Inc.; and required Atlas Alloys Inc. to produce for deposition in Chicago on May 7 and 9 certain of its officers who were also officers or employees of Rio Algom. On advice of their personal counsel, such individuals have resigned as officers (and in one case, also as a director) of Atlas Alloys Inc. and have declined to appear in response to the court order. Westinghouse has moved for an order judging Atlas Alloys Inc. in contempt of court in this regard. It is the position of Atlas Alloys Inc. that it is not within its power to cause the individuals in question to appear. Appeals by Atlas Alloys Inc. from the court orders of April 24 and May 7 were filed and consolidated with the appeal of RAC from the Court order of June 29, 1979 referred to below, and were heard by the United States Court of Appeals for the Seventh Circuit on September 20, 1979. As yet the Court of Appeals has not handed down its decision on any of the appeals.

On May 4, 1979 Westinghouse consented to payments by Atlas Alloys Inc. to Rio Algom of a total of approximately \$1,270,000 (U.S.) against concurrent purchases of products and has not objected to subsequent 20 day notices with respect to other such purchases. However, on May 16, Westinghouse moved for an order appointing a "monitor" for the business of Atlas Alloys Inc. who would be an employee of Westinghouse and would, among other things and subject to the supervision of the Court, review proposed transactions between Atlas Alloys Inc. and Rio Algom or any affiliate with a view to restricting payments to Rio Algom to those in connection with deliveries of steel or metal products purchased in good faith in the interest of Atlas Alloys Inc. as a separate entity and worth the purchase price. All receipts of Atlas Alloys Inc. from any source would be required to be deposited in bank accounts subject in the first instance to the joint control of the "monitor" and a nominee of Atlas Alloys Inc. In the alternative, Westinghouse's motion requested the appointment of a receiver for the business of Atlas Alloys Inc. The Court has not yet acted on this motion.

On June 20, 1979 the Court issued an order directing Rio Algom to deposit in the registry of the Court the certificates evidencing the shares of Atlas Alloys Inc. owned by Rio Algom and enjoining any transfer or encumbrance of such shares or the issuance of new shares. On the advice of counsel, Rio Algom has not deposited the Atlas Alloys Inc. share certificates with the Court.

In a bench opinion delivered on June 20, the Court indicated that, if a hearing on the amount of damages with respect to the defaulting defendants was held, there was a strong probability from submissions made and documents filed by counsel for Westinghouse in the proceedings that, unless the defaulting defendants appeared to challenge the proof of damages, Westinghouse's judgment against the defaulting defendants could reach well into the hundreds of millions of dollars (U.S.) and might approach billions of dollars. The Court has also indicated in comments from the bench on several occasions that, in its view, both Atlas Alloys Inc. and RAC, together with their assets, are in equity assets of Rio Algom subject to judicial process in the United States. Westinghouse has indicated that, if a money judgment against the defaulting defendants were entered, it would seek to levy upon the shares or assets of Atlas Alloys Inc. to the extent necessary to satisfy such a judgment.

On June 29, 1979 the Court entered a preliminary injunction requiring RAC to deposit the revenues from its Utah mining operations and other business in United States banks; enjoining RAC from making deposits in bank accounts outside the United States, from effecting transfers of U.S. assets outside the United States other than in bona fide payment for goods or services received or to be received in the United States, and from making transfers, without 20 days prior notice to the Court and to Westinghouse, to Rio Algom or affiliated corporations in any amount or to any other person, with certain specified exceptions, of amounts exceeding \$20,000 (U.S.) or outside of the ordinary course of business; and enjoining Rio Algom and its officers, directors and employees from making withdrawals from, or acting as signatories with respect

to, bank accounts of RAC. As referred to above, RAC has appealed the order of the Court. However, the decision of the Court of Appeals has not yet been handed down.

In July, 1979, appearing defendants moved for an order postponing any damage hearing until the trial of the action on the merits, on the grounds, among others, that there was a substantial likelihood that Westinghouse would later be unable to prove recoverable damages against the appearing defendants and that a separate damage hearing with respect to the defaulting defendants would be prejudicial to the appearing defendants at a later trial. These motions were denied by the Court on September 17, 1979; the denial was certified by the Court for interlocutory review. The Court of Appeals accepted the certification and oral argument was heard on November 9, 1979. In connection with its certification, the District Court invited the Court of Appeals to consider on review either of the pending appeals of RAC and Atlas Alloys Inc. referred to above or of the denial of the motions to defer the damage hearing, the question of the validity of the default judgment on liability entered on January 3, 1979. The District Court also stated that the damage hearing against the defaulting defendants would not go forward on December 10, 1979, the date originally scheduled, if, as at that date, either the Court of Appeals determined the default judgment to be invalid or there were then pending before the Court of Appeals the appeals of RAC and Atlas Alloys Inc. referred to above or the appeal from the denial of the appearing defendants' motions to defer the default damage hearing.

The United Kingdom government filed a memorandum, as *amicus curiae*, with the Court of Appeals in support of the appeal of RAC from the interlocutory order of September 17, 1979. In its memorandum, the United Kingdom government stated with reference to the allegations in the complaint relating to activities outside the United States that such activities appear to have been in accordance with the laws and pursuant to express policies of the sovereign states directly concerned; and that Westinghouse's allegations thus give rise to important questions of international law and comity which were not properly weighed by the District Court.

The governments of Canada, the Republic of South Africa and Australia have filed separate *amicus curiae* briefs with the Court of Appeals in support of RAC's appeal from the interlocutory order of September 17, 1979. The brief of the Canadian government urges that the assessment of damages and other proceedings against the defaulting parties be deferred until after trial of the main case. The brief of the South African government states, *inter alia*, that the association and activities of the South African companies with foreign uranium producers directed at stabilizing the industry outside the United States were fully consistent with South African law and that there is no legal justification for the extra-territorial application of the United States antitrust laws to such activities by South African companies. The brief of the Australian government states, *inter alia*, that the recovery of damages against the defaulting defendants during the period before trial could result in the recovery of vast sums by Westinghouse to which it is not entitled on the merits. Reference is also made in the memorandum to the Australian Foreign Antitrust Judgments (Restriction of Enforcement) Act which enables the enforcement of judgments in Australia to be prohibited by order of the Attorney-General and that orders under this legislation have been made to prohibit enforcement of the default judgment in Australia.

The book value at December 31, 1978 of the total investment of Rio Algoma in Atlas Alloys Inc. (which owns all of the shares of RAC) was approximately 8% of Rio Algoma's consolidated current assets at that date; and the contribution of the two corporations to Rio Algoma's consolidated net earnings for 1978 (as well as to the total of Rio Algoma's consolidated net earnings and deductions for depreciation, depletion and amortization) was approximately 10%. Because of the Court orders which, to the extent indicated above, restrict movement of funds out of the United States, under generally accepted accounting principles the accounts of Rio Algoma's United States subsidiaries have not been consolidated with the accounts of Rio Algoma after January 1, 1979.

Rio Algoma is unable to predict the further effect which the Court orders and other developments referred to above will have on the business and operations of its United States subsidiaries or of its Atlas Steels Division, part of the production of which is sold to Atlas Alloys Inc. Ontario counsel have advised Rio Algoma that any final judgment granted by the Court in the Westinghouse litigation would not be recognized or enforced in Ontario against Rio Algoma or its property or assets, and that United States antitrust laws would not be recognized or enforced in Ontario in a fresh action for the same relief, and that the same result should follow in the other common law jurisdictions in Canada. Quebec counsel have advised Rio Algoma that the same result would follow in the Province of Quebec.

Tennessee Valley Authority Litigation

In November, 1977, thirteen companies, including Rio Algom and RAC, were made defendants in three similar actions (later consolidated) brought by Tennessee Valley Authority ("TVA"). In these actions, TVA alleged violations of the United States Sherman Antitrust Act and the Wilson Tariff Act and sought to recover treble damages and to secure injunctive relief from each of the defendants. TVA also sought a declaratory judgment to determine the defendants' liability. On advice of counsel, Rio Algom did not appear in this litigation. RAC has appeared and is contesting TVA's complaint. On September 17, 1979, the court in these actions granted TVA's motion for entering of a default against Rio Algom (which, however, did not contain any determination of the amount of Rio Algom's liability).

TVA was the purchaser under a contract (now considered no longer in force by Rio Algom) with Rio Algom entered into in August, 1974 providing for the delivery, in the form of UF_6 , of the equivalent of 17,000,000 pounds of U_3O_8 in concentrates over the period 1979 to 1990. The contract provided that during each calendar quarter in 1979 Rio Algom was to make shipments to Eldorado Nuclear Limited at Port Hope, Ontario of an aggregate of 250,000 pounds of U_3O_8 in concentrates to be converted by Eldorado to UF_6 ; that the title to such U_3O_8 in concentrates would pass to TVA when the concentrates were placed in storage at Eldorado's plant; that in 1980 and subsequent years title would pass from Rio Algom to TVA when the UF_6 was delivered by Rio Algom at destinations in the United States; that all payments under the contract were to be made in Toronto within 20 days after invoicing by Rio Algom; and that prices of the U_3O_8 components of deliveries were to be determined on an annual basis at the higher of a minimum price (determined by formulae designed to permit profitable production of U_3O_8 in concentrates to meet contractual deliveries) and a settlement price to be determined in advance of each delivery year by the parties, taking into account current market conditions for U_3O_8 in the United States and other free world countries with respect to such delivery year (failing agreement, the settlement price was to be determined by an independent expert).

On February 26, 1979 TVA commenced an action against Rio Algom in the United States District Court for the Southern District of New York for a declaration vacating the expert's determination of the settlement price under the contract for the U_3O_8 component of 1980 deliveries. No answer has been filed by Rio Algom. A request for entry of default was filed by TVA on May 25, 1979. On July 18, 1979 TVA moved for entry of a default judgment. To Rio Algom's knowledge, this court has not as yet acted upon TVA's request or motion.

TVA and Rio Algom agreed on March 29, 1979 to reschedule to June 30, 1979 the deliveries of 250,000 pounds of U_3O_8 in concentrates due in the first quarter of 1979. On June 29, 1979 Rio Algom made delivery to Eldorado Nuclear Limited of 500,000 pounds of U_3O_8 in concentrates for the account of TVA and forwarded to TVA the related invoice indicating an amount due of \$22,710,000 (U.S.). On July 18, 1979 the Court before which the Westinghouse action is pending issued a preliminary injunction enjoining TVA from paying such sum to Rio Algom. The Court ordered TVA to place such sum in escrow with a bank in Chicago under the jurisdiction of the Court for the benefit of Rio Algom, with the funds to be invested to the extent practicable in securities of the United States government or agencies. The Court's order provided that the escrow account would be terminated and the funds paid to TVA (a) if a court finds the 1974 contract between Rio Algom and TVA to be illegal, null and void, or otherwise unenforceable, (b) upon the consent of Westinghouse or (c) if the Court finds that Rio Algom has regained physical possession or control of the uranium concentrates which had been delivered or that there is a substantial certainty that TVA will be prevented from obtaining delivery of such uranium concentrates in the United States pursuant to the 1974 contract. The order also provided that the funds would not be available for levy in satisfaction of any judgment in the Westinghouse action until such time as TVA has taken physical possession of such uranium concentrates in the United States for its own use. Rio Algom has been advised that the sum was placed in escrow.

On July 18, 1979 TVA amended the requested relief in its November, 1977 actions to seek to void the 1974 contract and to enjoin Rio Algom from enforcing or attempting to enforce the 1974 contract.

Rio Algom has taken redelivery of the uranium concentrates delivered on June 29, 1979, and has resold them as TVA failed to pay the amount due of \$22,710,000 (U.S.) in the manner required by the contract by August 3, 1979. As set forth above under "Uranium Mining Operations—Elliot Lake area—Ore Estimates, Production Data and Operating Plans", in light of the actions taken by TVA, Rio Algom regards the 1974 contract as no longer in force.

On August 14, 1979 Rio Algom commenced an action in the Supreme Court of Ontario against TVA for damages in the amount of six hundred million dollars for breach of contract. The action is based on TVA's unilateral repudiation of its aforesaid agreement entered into in August, 1974 to purchase from Rio Algom the equivalent of 17,000,000 pounds of U_3O_8 in concentrates over the years 1979 to 1990. On September 13, 1979 Rio Algom commenced a further action in the Supreme Court of Ontario against Westinghouse and TVA for damages (including punitive damages) in the amount of one billion six hundred million dollars. The claim is based upon actions taken by Westinghouse and TVA in relation to the aforesaid agreement between Rio Algom and TVA entered into in August, 1974. TVA and Westinghouse have brought motions in the Supreme Court of Ontario requesting relief on a number of jurisdictional and procedural grounds.

Under Rio Algom's long standing accounting policy of valuing concentrates awaiting shipment at estimated realizable metal prices, consolidated revenue for the three months ended March 31, 1979 and for the year ended December 31, 1978 reflected selling prices that had been contractually established for deliveries to TVA. As a result of the developments relating to the 1974 contract with TVA downward adjustments were made to consolidated revenue and consolidated net earnings for the three months ended June 30, 1979.

See "The Proposed Amalgamation—Special Factors—Westinghouse Litigation and TVA Contract".

Combines Investigation Act Inquiry

On September 30, 1977, pursuant to the Combines Investigation Act of Canada (the "Act"), the then Minister of Consumer and Corporate Affairs directed the Director of Investigation and Research (the "Director") to conduct a non-public inquiry relating to the production, manufacture, purchase, barter, sale, storage, transportation and supply of uranium and related products. The purpose of the inquiry is to determine whether an offence under the Act has been committed. Rio Algom is one of several corporations into whose conduct inquiry is being made. The inquiry is at a preliminary stage.

The Act provides that the Director may refer the evidence and records of the inquiry to the Attorney General of Canada for such action as the latter may see fit to take, or may submit a statement of the evidence obtained in the inquiry to the Restrictive Trade Practices Commission. In the latter case, and following a mandatory hearing at which every person against whom an allegation is made in the report is afforded a full opportunity to be heard, the Commission is required to make a report to the Minister. The report may make recommendations as to the application of remedies provided in the Act or otherwise and is required to be made public by the Minister unless the Commission recommends otherwise.

BUSINESS OF PRESTON

Preston has no employees and all affairs of Preston are managed by Rio Algom. The principal asset of Preston consists of 5,920,640 common shares of Rio Algom representing 43.80% of the common shares of Rio Algom outstanding on December 10, 1979. The investment in Rio Algom is carried on the equity accounting method.

Stanleigh Uranium Property

Preston also owns a uranium property (the "Stanleigh Mining Property") in the Elliot Lake area in Ontario, Canada. The Stanleigh Mining Property had been idle since the termination of mining in November, 1960 and the closing of the mill in 1961. During the operating period, which commenced in December, 1957, 4.9 million pounds of U_3O_8 were produced from 2.5 million tons of ore or an average recovered grade of 1.96 pounds per ton.

These closures followed a decision by the United States Atomic Energy Commission in November, 1959 that, because of the over-supply of uranium at that time, options would not be exercised to take deliveries of uranium concentrates from Canadian suppliers after the completion of the then existing contracts which ran to 1962 and 1963. At the same time certain alternatives were made available including the transfer of contracts from one Canadian supplier to another, by amalgamation, purchase, or other arrangements, to permit producers to fulfil their contracts by the most advantageous means. Under the circumstances the residual delivery requirements under the contracts in respect of the Stanleigh mine were met by purchasing sufficient quantities of uranium oxide from Rio Algom to supplement the product available from the Stanleigh Mining Property.

Stanleigh Project

In 1978, Preston entered into an agreement (the "Stanleigh Project Agreement") with Ontario Hydro providing for the development and operation of the Stanleigh Mining Property and the sale to Ontario Hydro of all uranium in concentrates produced therefrom (the "Stanleigh Project"). Under the Stanleigh Project Agreement, Ontario Hydro is required to make interest-free advances of the funds required to bring the Stanleigh Mining Property into production, estimated at \$188.5 million in 1975 dollars including an estimate of funds which Ontario Hydro is obliged to advance as the cost of employee housing referred to below. Ontario Hydro is also required to make interest-free advances of the funds necessary for the working and sustaining capital requirements of the Stanleigh Project. All such interest-free advances are secured by first fixed and floating charge security in favor of Ontario Hydro against all the present and future assets and undertaking of the Stanleigh Project, which security is without personal or other recourse to Preston. Preliminary work on the Stanleigh Project is in progress and full production is scheduled to commence in 1984.

The Stanleigh Project Agreement contemplates, subject to the availability of mineralization, deliveries to Ontario Hydro of an aggregate of approximately 72 million pounds of U_3O_8 in concentrates, at an annual rate of about 2,000,000 pounds of U_3O_8 in concentrates for 20 years following 1984 and at a somewhat lower rate thereafter until approximately 2020. The Stanleigh Project Agreement contains certain provisions for increasing or curtailing annual production from the production facilities currently planned and for expansion of such production facilities.

The selling price of the U_3O_8 in concentrates will be determined annually and will equal (a) a base price which includes (i) the total operating costs of the Stanleigh Project; (ii) an allowance for amortization of all preproduction and subsequent capital costs of the Stanleigh Project based upon estimated production from the Stanleigh Mining Property; (iii) taxes attributable to the Stanleigh Project (including mining taxes but excluding income taxes); and (iv) a profit allowance of \$5 per pound of U_3O_8 in concentrates produced (which \$5 is subject to escalation in accordance with the escalation of a certain Canadian price index from the fourth quarter of 1975), plus (b) an additional amount equal to $\frac{1}{3}$ of any excess of the free market price of U_3O_8 in concentrates, as determined under the Stanleigh Project Agreement, over the aforesaid base price.

Advances will be repaid to Ontario Hydro in amounts approximately equal to the amortization allowance included in the base price. The additional amount derived from any such excess of free market price over base price will generally be retained by Ontario Hydro and only become payable over an extended period commencing when the accumulated additional amounts so retained exceed the outstanding balance of advances made by Ontario Hydro.

Ontario Hydro is entitled to terminate the Stanleigh Project Agreement in the event of a determination during the construction period that there will be a substantial increase in the actual or anticipated costs of construction or operation of the Stanleigh Project over the estimates thereof contained in the project report relating to the Stanleigh Project (after escalation of such estimates in accordance with applicable indices). Ontario Hydro is also entitled to terminate the Stanleigh Project Agreement in the event of a failure to meet specified production levels, in the event of prolonged force majeure and on 5 years' notice given at any time following the earlier of the scheduled or actual date of commencement of commercial production. The obligation of Preston to repay its outstanding net indebtedness to Ontario Hydro in the event of such a termination and the manner in which such net indebtedness is to be repaid depend upon the circumstances of the termination. In any event, such outstanding net indebtedness will only be repayable from the proceeds of continued operations or of liquidation of the Stanleigh Project.

The construction program envisaged by the Stanleigh Project Agreement with Ontario Hydro includes the rebuilding or rehabilitation of the mill buildings and the re-equipping of the facility to produce U₃O₈ in concentrates by a process involving semi-autogenous and pebble grinding (replacing the fine crushing and rod and ball milling utilized in the original operations), sulphuric acid leaching, solvent extraction (in lieu of the original ion exchange process) and precipitation.

Underground operations will be conducted from the original main and service shafts, which, however, will be deepened by approximately 900 feet to total depths of 4,692 and 4,563 feet, respectively, below the surface.

Surface preparation work and rehabilitation of the headframe and service hoist are in progress. Dewatering of the mine began in August, 1979 and is expected to be completed in July, 1980, at which time the present condition of the underground workings at the property will be ascertainable. No significant deterioration is anticipated. 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.

In addition to the mine development and construction, housing units must be constructed or acquired over the period 1978 through 1984 as required for the up to 1,100 people who will be directly employed when full production is achieved. Preston is obligated to use all reasonable efforts to obtain from normal mortgage lending sources and at competitive interest rates, the maximum mortgage financing available for such housing units but Ontario Hydro will make interest-free advances of that portion of the cost of such housing units for which third party financing cannot be arranged. Construction or acquisition of the necessary accommodation is in progress. See "Business of Rio Algom - Uranium Mining Operations - Elliot Lake area - Housing and Other Matters."

Management of the Stanleigh Project

Pursuant to the Stanleigh Project Agreement, Preston has entered into an agreement (the "Construction and Management Agreement") with Rio Algom whereby Rio Algom agreed to supervise and manage the evaluation, planning, development, construction, operation and shutdown of the Stanleigh Project on behalf of Preston and in accordance with the Stanleigh Project Agreement. Rio Algom also agreed to provide the work force required for the Stanleigh Project and to provide Preston with the services of such of Rio Algom's head office and Elliot Lake area personnel as are required for the Stanleigh Project. Preston is required to reimburse Rio Algom for all costs, charges, expenses and liabilities, including an appropriate portion of overhead and administrative costs, incurred by Rio Algom in connection with its supervision and management of the Stanleigh Project and which are fairly referable thereto, including those incurred in providing employees for the Stanleigh Project but excluding all salary and overhead costs relating to Rio Algom's senior executives. Such amounts are either to be advanced by Ontario Hydro to Preston as a project cost or included in the calculation of the price of concentrates sold to Ontario Hydro. During the fiscal year ending December 31, 1978, Preston reimbursed or agreed to reimburse Rio Algom for an aggregate of \$1,326,061 in respect of costs and expenses incurred by Rio Algom and which are referable to its supervision and management of the Stanleigh Project. From January 1, 1979 to September 30, 1979, Preston reimbursed or agreed to reimburse Rio Algom for an aggregate of \$2,494,911 in respect of such costs and expenses.

The Construction and Management Agreement provides that, in addition to reimbursement of costs referred to above, Preston will pay to Rio Algom a management fee of \$750,000 per annum for the years 1978 to 1983 inclusive and of \$500,000 per annum thereafter during the term of the Construction and Manage-

ment Agreement, which generally corresponds with the term of the Stanleigh Project Agreement. Such management fees are subject to escalation from the fourth quarter of 1977 and will be prorated for any part year. Preston paid Rio Algom \$786,000 in respect of management fees for the Stanleigh Project during the year ended December 31, 1978, and has paid Rio Algom management fees in respect of the Stanleigh Project of \$635,000 between January 1, 1979 and September 30, 1979.

Under the Stanleigh Project Agreement, Ontario Hydro has advanced to Preston as a project cost an amount equal to \$250,000 in respect of management fees paid to Rio Algom during the 12 month period ending October 31, 1978 and is required to advance to Preston as a project cost an amount equal to \$750,000 per annum in respect of management fees paid to Rio Algom thereafter until the commencement of commercial production from the Stanleigh Project, prorated for any part year. Following the commencement of commercial production, management fees paid by Preston to Rio Algom are not chargeable directly or indirectly to Ontario Hydro. The amounts which Ontario Hydro is required to advance in connection with management fees paid by Preston to Rio Algom are subject to escalation from November 1, 1977.

Amendment of the Stanleigh Project Agreement

Both Rio Algom's obligation to supervise and manage the Stanleigh Project and Preston's obligations under the Stanleigh Project Agreement will, following the Amalgamation, become those of Amalco.

At December 17, 1979, Preston and Ontario Hydro were negotiating certain amendments to the Stanleigh Project Agreement to recognize the continuance of Preston and Rio Algom as a single corporation pursuant to the Amalgamation. Such proposed amendments are primarily of a technical nature and are not expected to affect the rights or obligations of Preston or of Amalco in any material respect. The Construction and Management Agreement will be terminated on consummation of the Amalgamation. It is anticipated, however, that Ontario Hydro will continue to pay Amalco, as a management fee, an amount equal to \$750,000 per annum (subject to escalation) prior to the commencement of commercial production from the Stanleigh Project, which amount would be advanced as a cost of the Stanleigh Project pursuant to the Stanleigh Project Agreement.

Ore Estimates

Ontario Hydro has confirmed to Preston that the project report, including estimates of mineralization present on the Stanleigh Mining Property, had been prepared, completed and reviewed in accordance with the requirements of the Stanleigh Project Agreement. With regard to the major portion of such estimates of mineralization, however, it is to be noted that the underground work and widely spaced diamond drilling which has been conducted on the Stanleigh Mining Property to date has not established the existence of such mineralization with sufficient certainty to warrant its being considered proven or probable ore as those terms are defined in applicable regulations of the United States Securities and Exchange Commission. Under such definitions, "proven ore" means a body of ore so extensively sampled that the risk of failure in continuity of the ore in such body is reduced to a minimum; and "probable ore" means ore for which the risk of failure in continuity is greater than for proven ore, but as to which there is sufficient warrant for assuming continuity of the ore. Additional exploratory drilling or underground work will be necessary to determine whether the existence and continuity of the mineralization is sufficient to warrant its being considered "proven" or "probable" under these definitions. However, it is to be noted that the risks that may be incurred in proceeding with the major expenditures involved in the development of the Stanleigh Mining Property prior to establishing the quantities of proven or probable ore on such property are being borne by Ontario Hydro, whose advances for the development of the Property are on a non-recourse basis.

MANAGEMENT OF RIO ALGOM

Directors of Rio Algom

Set forth below for each of the directors of Rio Algom is the following information: name; age; initial year of election as a director of Rio Algom; present principal occupation; business experience during the past five years; and the companies, if any, which report to the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and of which the individual is a director.

*G. R. Albino (50), (1968) has been President and Chief Operating Officer of Rio Algom since April, 1975 and prior thereto was Executive Vice-President and Chief Operating Officer of Rio Algom. Mr. Albino has been a director of Preston since 1966.

*R. D. Armstrong (63), (1966) has been Chairman and Chief Executive Officer of Rio Algom since April, 1975 and prior thereto was President and Chief Executive Officer of Rio Algom. Mr. Armstrong has been a director of Preston since 1967.

†J. Ian Crookston (69), (1966) has been a financial consultant since February, 1979 and prior thereto at various times held the positions of Deputy Chairman and Chairman of Nesbitt Thomson Securities Limited, Investment Dealers, Toronto. Mr. Crookston has been a director of Preston since 1960 and is also a director of Norcen Energy Resources Ltd.

*†J. G. Edison, Q.C. (68), (1960) is one of Her Majesty's Counsel and has been counsel to Aird & Berlis, barristers & solicitors, Toronto, for more than five years.

A. G. Frame (50), (1979) has been a Deputy Chairman and Chief Executive of Rio Tinto-Zinc since September, 1978 and prior thereto he had been Deputy Chief Executive since January, 1977 and he has been an Executive Director of Rio Tinto-Zinc for more than five years. Mr. Frame is also a director of The Plessey Company Limited.

*†G. C. Gray (52), (1976) has been Chairman and Chief Executive Officer of A. E. LePage Limited, Realtors, Toronto, since January 1, 1979, and prior thereto was President of that corporation.

Sam Harris (67), (since 1961 except for one month in 1973) has been a senior partner of Fried, Frank, Harris, Shriver & Jacobson, attorneys-at-law, New York, N.Y., U.S.A. for more than five years. Mr. Harris is also a director of Callahan Mining Corporation, Energy Fund Inc. and GAF Corporation.

R. S. Hurlbut (55), (1979) has been Chairman and President of General Foods, Limited, manufacturer of packaged grocery products, Toronto, for more than five years. Mr. Hurlbut is also a director of The Consumers' Gas Company, Northern Telecom Limited and North American Life Assurance Co.

D. S. R. Leighton (51), (1978) has been Director of The Banff Centre, Banff, Alberta, for more than five years.

W. Moodie (65), (1976) retired in April, 1979, he had been President of Canadian Pacific Investments Limited, an investment company, Montreal, since 1975 and prior thereto was an officer of The Royal Bank of Canada.

J. Herbert Smith (70), (1960) has been a consulting engineer, Toronto, for more than five years.

*Sir Mark Turner (73), (1961) has been Chairman of Rio Tinto-Zinc since 1975, was Chief Executive of that corporation from 1975 to September, 1978 and prior to 1975 was Deputy Chairman.

*R. J. Turner (49), (1977), has been President and Chief Executive Officer of Genstar Limited, a diversified Canadian company, Montreal, since 1976 and prior thereto was President of Genstar Western Limited. Mr. Turner is also a director of Genstar Limited.

R. W. Wright, C.B.E. (65), (1960) has been a director of Rio Tinto-Zinc for more than five years.

*Denotes a member of the Executive Committee of Rio Algom.

†Denotes a member of the Audit Committee of Rio Algom.

The Business Corporations Act (Ontario) requires that Rio Algom have an Audit Committee of not fewer than three directors, a majority of the members of which may not be officers or employees of Rio Algom or of an affiliate, which is to review the financial statements of Rio Algom before submission to the full board of directors. The Audit Committee may require the auditors of Rio Algom to appear before it. The auditors also have the right to be heard at any meeting of the Audit Committee. The Audit Committee also systematically reviews Rio Algom's accounting and financial controls and reporting procedures and reports its finding to the full board of directors. The members of the Audit Committee are as indicated above.

The Executive Committee, the members of which are also indicated above, is generally empowered to exercise all of the powers vested in or exercisable by the board of directors except that, in situations not involving an emergency or an exceptional opportunity which must be dealt with without delay, the Executive Committee may not exercise certain major powers enumerated in the resolution of the board of directors which serves as the charter of the Executive Committee, such as the power to declare dividends, to elect or appoint directors or officers, to authorize the issuance of shares or to pledge or mortgage any of the assets of Rio Algom. With respect to matters involving compensation of officers and employees, the Executive Committee functions as the Compensation Committee of Rio Algom, with authority to review and to approve compensation of officers and employees not covered by collective agreements. The Compensation Committee also may grant options under Rio Algom's stock option plans (see "Remuneration" below) within limits approved by the full board of directors. Rio Algom does not have a nominating committee.

During 1978 six meetings of the board of directors, one meeting of the Executive Committee acting as the Compensation Committee and two meetings of the Audit Committee were held. Each of the directors, other than Messrs. Albino, Armstrong, Dean, Edison and Harris, attended fewer than 75% of the aggregate of (1) the total number of directors' meetings held during his tenure as a director and (2) the total number of meetings of committees on which he served during his tenure on such committee.

Security Ownership of Management

As at December 10, 1979, the directors individually and directors and executive officers of Rio Algom as a group beneficially owned, directly or indirectly, or exercised control or direction over the following securities of Rio Algom, its parents and subsidiaries:

	Shares owned as at December 10, 1979 (1)					Amalco Pro Forma	
	Rio Algom Common	Preston Common	Lornex Common	Rio Tinto-Zinc Ordinary	Oceanic (2) Common	Common	Second Preference Shares Series A
G. R. Albino.....	—	1,000	1,000	—	—	750	1,000
R. D. Armstrong.....	8,287	—	—	—	—	8,287	—
J. Ian Crookston.....	1,200	132	—	—	—	1,299	132
J. G. Edison.....	682	—	200	—	15,000	682	—
A. G. Frame.....	—	—	—	836	—	—	—
G. C. Gray.....	—	—	—	—	—	—	—
Sam Harris.....	1,000	—	—	5,000	—	1,000	—
R. S. Hurlbut.....	100	—	—	—	—	100	—
Dr. D. S. R. Leighton.....	—	—	—	—	—	—	—
W. Moodie.....	—	—	—	—	—	—	—
J. Herbert Smith.....	2,000	—	—	—	—	2,000	—
Sir Mark Turner	—	—	—	35,354(3)	—	—	—
R. J. Turner.....	200	300	—	—	—	425	300
R. W. Wright.....	—	—	—	52,279	—	—	—
All directors and executive officers as a group including the above(4)(5)	27,970	1,432	1,000	83,464	15,000	29,044	1,432

- (1) Directly and with sole voting and investment power, unless otherwise indicated.
- (2) Oceanic Iron Ore of Canada Limited ("Oceanic"), an Ontario corporation, is 45.5% owned by Rio Algom.
- (3) Including 1,835 shares held in Sir Mark and Lady Turner's Charitable Trust with respect to which investment and voting power are shared.
- (4) None of the directors had the right to acquire common shares of Rio Algom pursuant to Rio Algom's stock option plans but the executive officers of Rio Algom, as a group, have the right to acquire 14,495 common shares as at December 10, 1979.
- (5) The directors and executive officers as a group held less than 1% of the respective classes of securities of Rio Algom, its parents and subsidiaries.

Remuneration

The following table sets forth the aggregate remuneration paid or payable by Rio Algom and its subsidiaries in respect of Rio Algom's fiscal year ending December 31, 1978 to:

- (i) the directors of Rio Algom in their capacity as directors of Rio Algom and any of its subsidiaries;
- (ii) the five senior officers (as defined in The Business Corporations Act (Ontario)) of Rio Algom in receipt of the largest amounts of remuneration, in their capacity as officers or employees of Rio Algom and any of its subsidiaries, and
- (iii) the officers (as defined in The Business Corporations Act (Ontario)) of Rio Algom including those in (ii) who received in their capacity as officers or employees of Rio Algom and any of its subsidiaries aggregate remuneration in excess of \$50,000 in that year.

The estimated aggregate amount of all benefits proposed to be paid as at December 31, 1978 to the persons

referred to above under any pension or retirement plan upon retirement at a normal retirement age and the aggregate of all remuneration payments, other than those of the type referred to above, made in or in respect of Rio Algom's fiscal year ended December 31, 1978, by Rio Algom or any of its subsidiaries to the persons referred to above are also set forth below:

	Aggregate Remuneration	Estimated Annual Benefits Upon Retirement Under Salaried Employees Pension Plan	Other Remuneration Payments
Directors (Total Number: 16 individuals)			
(A) From Rio Algom and wholly-owned subsidiaries.....	\$ 41,011	\$ —	\$ —
(B) From partially-owned subsidiary, Lornex..	3,100	—	—
5 Senior Officers:			
(A) From Rio Algom and wholly-owned subsidiaries.....	809,357	183,056	272,007
(B) From partially-owned subsidiary, Lornex..	—	—	—
All Officers receiving over \$50,000 (including senior officers):			
(A) From Rio Algom and wholly-owned subsidiaries.....	1,871,989	584,065	272,007
(B) From partially-owned subsidiary, Lornex..	—	—	—

Reference is made to Notes 4, 5, 6, and 7 below.

The following table sets forth the current remuneration paid or payable by Rio Algom and its subsidiaries on an accrual basis for services rendered during the fiscal year ended December 31, 1978 to each of the five most highly compensated executive officers (as defined in the Regulations under the United States Securities Exchange Act of 1934) or directors of Rio Algom whose total cash and cash equivalent forms of remuneration exceeded \$50,000 (U.S.) and to all directors and executive officers of Rio Algom as a group, and the aggregate of their contingent forms of remuneration:

Name and Capacity in Which Remuneration Was Received	Cash and Cash-Equivalent Forms of Remuneration(1)			Aggregate of Contingent Forms of Remuneration(3)
	Salary and Directors' Fees	Awards under Incentive Bonus Plan	Other(2)	
R. D. Armstrong, Director, Chairman and Chief Executive Officer of Rio Algom and Director of Lornex.....	\$ 205,500(4)	\$80,000(5)	\$ 2,946	\$178,257(6)(7)
G. R. Albino, Director, President and Chief Operating Officer of Rio Algom and Director of Lornex.....	164,900(4)	64,000(5)	2,645	93,750(7)
A. V. Orr, Vice-President, General Manager of Atlas Steels.....	85,020	28,000(5)	1,966	—
W. D. Dobbin, Vice-President, General Manager of Atlas Alloys.....	66,960	24,000(5)	1,783	—
E. W. Cheeseman, Vice-President, Under-ground Mining Operations.....	60,000	20,100(5)	1,538	—
All directors and executive officers as a group including the above.....	1,652,696(4)	465,600(5)	33,088	272,007(6)(7)

- (1) Includes remuneration paid or accrued for the period in 1978 during which a person was a director, executive officer or other officer of Rio Algom, without giving effect to the forgoing or postponement of payments referred to below in Notes (4) and (5).
- (2) Includes the value of non-monetary personal benefits provided to officers and directors consisting of personal use of company automobiles and the portion of premiums paid by Rio Algom in respect of provincial medical plans and group insurance, the amount of each benefit being the value thereof determined according to guidelines issued in conjunction with the Income Tax Act (Canada).

(3) All officers are entitled to benefits under Rio Algom's Salaried Employees Pension Plan. However, the table does not contain the amounts expensed by Rio Algom for financial statement purposes representing Rio Algom's contribution or accrual with respect to the individual officer or officers as a group inasmuch as it is not practicable to allocate in this manner the cost to Rio Algom of providing such pension benefits. The aggregate contributions (including contributions for past service) by Rio Algom under the Plan for 1978 were approximately 11% of the total remuneration of all employees, including officers, covered by the Plan. Such total remuneration includes salaries and bonuses paid to officers and employees. The Plan is financed in part by employee contributions. The amount of pension (computed under the same formula for all employees) is based upon the employee's years of service and average earnings including bonus paid under the Incentive Bonus Plan in the highest 36 months during the last 120 months prior to retirement; the annual pension payable may not exceed the limit established by rules promulgated for purposes of the Income Tax Act (Canada), currently \$1,715 times years of service not exceeding 35 years. The estimated annual benefits payable upon retirement under the Plan to the persons referred to in the table are as follows:

	Years of Service	Estimated Annual Benefits upon Retirement under Salaried Employees Pension Plan
R. D. Armstrong.....	15	\$ 25,725
G. R. Albino.....	29	41,066
A. V. Orr.....	42	53,704
W. D. Dobbin.....	38	39,259
E. W. Cheeseman.....	24	23,302
All directors and executive officers as a group.....	—	676,300

Calculations of such estimated annual benefits are necessarily based on assumptions, certain of which are (1) that the employee remains in the employ of Rio Algom or a subsidiary and receives salary and bonus at current levels until retirement at age 65 and (2) that Rio Algom's Salaried Employees Pension Plan remains in force substantially in its present form until the retirement date. The amounts of benefits above do not include amounts payable, otherwise than under the Salaried Employees Pension Plan, as post-retirement benefits or annuities referred to elsewhere in this section.

(4) The amounts set out as salaries and directors' fees for Messrs. Armstrong and Albino include \$100,000 and \$90,000, respectively, of their basic 1978 salaries which they elected to forgo. These amounts as well as \$135,000 and \$106,500, respectively, of their 1977 salaries and bonus awards and \$75,000 and \$75,000, respectively, of their 1976 salaries and bonus awards, the payment of which they elected to forgo in those years, were retained by Rio Algom and enhanced, at the annual interest rates of 6% for salaries not paid and 9.66% for bonus awards not paid, until June, 1978 when the aggregate of such unpaid salaries, bonus awards and interest were paid by Rio Algom to an insurance company under a depository contract. The purpose of the contract is to fund Rio Algom's future obligations under a Special Superannuation Plan of Rio Algom effective as of December 31, 1977 and formally executed in June, 1978. The enhancement of deferred remuneration under the plan is at the insurance company's five-year interest rate for deposits. The Plan provides post-retirement benefits or alternative death benefits for certain Rio Algom employees, initially Messrs. Armstrong and Albino. Further information concerning the Plan is set forth below.

(5) Amount of awards under Rio Algom's Incentive Bonus Plan as currently in effect, approved by the board of directors of Rio Algom in respect of services in 1978 of senior members of management who are best able to influence Rio Algom's results of operations. Such bonuses were paid in March, 1979 except insofar as payment was postponed by an election by the entitled recipients on or before November 30, 1978. Such amounts of postponed bonus accumulate at a rate of enhancement approved by the board of directors of Rio Algom for each year (such rate was 9.66% for 1978) compounded semi-annually and will be payable on retirement or other termination of service or death except that Rio Algom may, in justifiable circumstances, pay the amount postponed at an earlier date. Rio Algom has set aside for the purposes of this Plan in respect of 1978 services an amount of \$823,450 of which the five senior officers of Rio Algom in receipt of the largest amounts of remuneration during Rio Algom's 1978 fiscal year, including Messrs. Armstrong and Albino, are entitled to receive \$216,100 and of which all officers of Rio Algom in receipt of annual remuneration in excess of \$50,000 during Rio

Algom's 1978 fiscal year are entitled to receive \$431,100 and of which twelve executive officers who are not senior officers as defined in The Business Corporations Act (Ontario) are entitled to receive \$156,500. These amounts are included in the above table before giving effect to any postponement of receipt of bonuses.

Not shown in the table above are amounts payable in current years in connection with deferred bonuses granted with respect to periods prior to 1976; these amounts are set forth below.

- (6) Includes premium of \$22,007 paid by Rio Algom to an insurance company to provide for an annuity to Mr. Armstrong (or a payment on death to his estate).
- (7) Includes charges (Mr. Armstrong - \$156,250; Mr. Albino - \$93,750) to Rio Algom's 1978 earnings made (on the basis of dividends paid on Rio Algom's common shares and changes in the market price of such shares) in respect of awards granted in 1973 under Rio Algom's Incentive Performance Plan adopted in that year.

Pursuant to discretionary deferred bonus arrangements in effect for years prior to 1976 for the benefit of certain of its officers and employees, Rio Algom had set aside an aggregate amount of \$841,000 charged against 1975 earnings. Except in the event of death, total disability or retirement, it was a prerequisite to the receipt of any deferred bonus payment that the officers or employees remain in the employ of Rio Algom or an affiliated company (as defined in The Business Corporations Act (Ontario)) until the end of the preceding year. Each officer and certain employees were granted the right, on or before November 30 of the preceding year, to elect to postpone receipt of the deferred bonus payment. The aggregate amounts of such deferred bonus with respect to which such election has been exercised, accumulate on the basis referred to in Note (5) to the above table and are payable on retirement or death, except that Rio Algom may in justifiable circumstances pay the accumulated amounts of postponed compensation at an earlier date. The amounts of deferred bonus paid or payable to the individuals in the above table and the directors and officers of Rio Algom as a group in each of 1978 and 1979 (without giving effect to any further voluntary postponement of receipt of instalments by recipients of bonuses or to the percentage accumulation referred to above) are as follows: Mr. Armstrong: \$33,333; Mr. Albino: \$25,000; Mr. Orr: \$10,000; Mr. Dobbin: \$8,333; Mr. Cheeseman: \$6,000; the five senior officers of Rio Algom in receipt of the largest amounts of remuneration during the Rio Algom's 1978 fiscal year: \$82,066; all officers of Rio Algom in receipt of annual remuneration in excess of \$50,000 during the Rio Algom's 1978 fiscal year: \$143,999; directors, executive officers and other officers as a group: \$147,332.

The Special Superannuation Plan referred to in Note (4) to the above table provides generally that a participating employee may determine that a portion of the remuneration to which he is entitled for each year, is to be forgone by him and retained by Rio Algom and Rio Algom is to make corresponding payments to an insurance company under a depository agreement. The amounts paid by Rio Algom to the insurance company are to be enhanced at a rate to be established by agreement between Rio Algom and the insurance company, and Rio Algom will record the amounts forgone by the employee from time to time as being enhanced at the same rate. Upon retirement, the participating employee may require Rio Algom to make monthly payments to such employee which are equivalent to annuity benefits which Rio Algom would receive under an annuity contract (based on the life of such employee) entered into with the insurance company utilizing the funds on deposit with the insurance company, including enhancements. The Plan also includes alternative provisions for payment to a named beneficiary if the employee dies before retirement. In the event that Rio Algom for any reason fails to meet its payment obligations, the insurance company is obligated to do so.

In addition, Rio Algom is obligated to pay \$500 a year in respect of each participating employee to the three trustees who administer the Plan, consisting of the chief executive and operating officers of Rio Algom or such other officers of Rio Algom as may be determined by the board of directors and a third trustee chosen by the first two trustees from the other directors, officers or senior employees of Rio Algom. The trustees are to invest these funds and, on retirement of a participating employee, purchase for such employee an annuity with his portion of the invested funds and earnings thereon net after taxes or expenses. The trustees are also responsible for notifying the insurance company and requiring it to perform its obligations in the event that Rio Algom fails to make required payments under the Plan. The trustees are to be liable under the Plan only for their own wilful misconduct and they are to be indemnified by Rio Algom against any other loss or damage.

The following table shows as to certain directors and executive officers of Rio Algom and as to all directors and executive officers of Rio Algom as a group (i) the number of shares acquired since January 1, 1978 through the exercise of options under the 1967 Rio Algom Stock Option Plan and (ii) the number of shares subject to all unexercised options as at December 10, 1979 under that Plan:

	A. V. Orr	W. D. Dobbin	All Directors and Executive Officers as a Group
Rio Algom			
Common Share Options			
Exercised January 1, 1978 to December 10, 1979:			
Number of shares.....	550	—	2,350
Aggregate option price of options exercised.....	\$13,678	—	\$ 58,444
Aggregate market value of shares on dates options exercised.....	\$20,625	—	\$ 88,606
Unexercised as at December 10, 1979:			
Number of shares.....	1,125	1,560	14,495
Average per share option price.....	\$ 24.87	\$ 24.87	\$ 24.87

The price range of the common shares of Rio Algom in the periods in which the options referred to above were exercised were:

	High	Low
Third Quarter, 1978.....	\$39 2/8	\$33 5/8
First Quarter, 1979.....	\$40	\$34 4/8

No options to acquire Rio Algom common shares were granted under the 1978 Rio Algom Stock Option Plan during the period January 1, 1978 through December 10, 1979.

From time to time corporate officials of Rio Algom who are "officers" for purposes of Section 16(b) of the United States Securities Exchange Act of 1934, as well as other officials who may not be officers for purposes of such Section, have purchased Rio Algom common shares pursuant to stock options and have made sales of corresponding numbers of shares at higher prices within six months of the respective dates of purchase, giving rise to a question whether officers had realized profits recoverable by Rio Algom under that Section. Section 16(b) provides, in effect, that an action to recover such profits realized by a director or officer of the issuer may be instituted in a court of competent jurisdiction by the issuer, or, if the issuer fails or refuses to do so within 60 days after request or fails diligently to prosecute such action, such an action may be instituted on its behalf by the owner of any of its securities.

The securities laws of Ontario do not contain provisions similar to Section 16(b) and the purchase and sale of securities within a six month period at an indicated profit does not involve a violation of, or liability under, these laws. Under such laws, liability could attach to an officer or employee of Rio Algom who purchases or sells securities of Rio Algom with knowledge of a material fact or a material change with respect to Rio Algom that has not been generally disclosed. Such liability would be to compensate the seller or purchaser of the securities for damages and to account to Rio Algom for any benefit or advantage received by the officer or employee as a result of the trade.

In the case of two of these corporate officials of Rio Algom, four transactions since January 1, 1976 involving the exercise of share purchase options and the resale of the shares purchased within six months have resulted in the following indicated profits as computed for the purposes of Section 16(b) of U.S. \$10,000 or more: G. R. Albino - U.S. \$29,016; A. V. Orr - U.S. \$17,187. Details of the individual transactions, including dates, amounts and number of shares involved in each of the transactions, are set forth in Exhibit E on page 129.

Rio Algom has not taken steps to recover the indicated amounts of profit inasmuch as it has been advised by Fried, Frank, Harris, Shriver & Jacobson, United States counsel for Rio Algom, that, on the basis of existing judicial authority, the United States courts would not have *in personam* jurisdiction to enforce alleged liabilities under Section 16(b) against defendants who are not citizens or residents of the United States and who have not been served with process while in the United States, where all transactions out of which the alleged liabilities arose occurred outside the United States; and inasmuch as Rio Algom has been advised by Fasken & Calvin, Canadian counsel for Rio Algom, that, on the basis of existing judicial authority,

the Ontario courts will not enforce liabilities under Section 16(b) or judgments obtained against defendants in United States courts predicated on Section 16(b) liability where such United States courts have no jurisdiction recognized by Ontario courts over the defendants. Accordingly, Rio Algom believes that, insofar as Ontario courts will not enforce against the defendants Section 16(b) liabilities or United States judgments in respect of such liabilities, the directors are not in breach of any fiduciary duty under Canadian law for not attempting to enforce such liabilities.

Fees and disbursements paid or payable by Rio Algom and its subsidiaries on an accrual basis to Fried, Frank, Harris, Shriver & Jacobson, of which Sam Harris of 14 East 75th Street, New York, N.Y., U.S.A., (a director of Rio Algom) is a senior partner, amounted to U.S. \$63,676 in 1978. Such firm has represented Rio Algom, Rio Tinto-Zinc and Preston in the United States for more than five years.

Directors of Preston

MANAGEMENT OF PRESTON

Set forth below for each of the directors of Preston is the following information: name; age; initial year of election as a director of Preston; present position with Preston; business experience during the past five years; and the companies, if any, which report to the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and of which the individual is a director:

G. R. Albino (50), (1968) is President and Chief Operating Officer of Preston. Mr. Albino has been President and Chief Operating Officer of Rio Algom since April, 1975 and prior thereto was Executive Vice-President and Chief Operating Officer of that corporation. Mr. Albino is also a director of Rio Algom.

*R. D. Armstrong (63), (1966) is Chairman and Chief Executive Officer of Preston. Mr. Armstrong has been Chairman and Chief Executive Officer of Rio Algom since April, 1975 and prior thereto was President and Chief Executive Officer of that corporation. Mr. Armstrong has been a director of Rio Algom since 1966.

R. C. Berry (62), (1976) has been Vice-President and General Manager, Secretary-Treasurer of Tinto Holdings Canada Limited, the immediate parent of Preston since 1975 and prior thereto was Vice-President, Finance of Brinco Limited, a resources development corporation, which is an affiliate of Rio Tinto-Zinc.

*J. Ian Crookston (69), (1960) has been a financial consultant since February, 1979 and prior thereto at various times had held the positions of Deputy Chairman and Chairman of Nesbitt Thomson Securities Limited, Investment Dealers, Toronto. Mr. Crookston has been a director of Rio Algom since 1966 and is also a director of Norcen Energy Resources Ltd.

P. H. Dean (40), (1977) has been an Executive Director of Rio Tinto-Zinc since 1974.

*W. C. Pitfield (54), (1960) is Vice-Chairman of Preston. Mr. Pitfield has been President of Pitfield Mackay Ross Limited, Investment Dealers, Toronto, for more than five years. Mr. Pitfield is also a director of White Consolidated Industries, Ltd.

*Denotes a member of the Audit Committee of Preston.

Security Ownership of Management

As at December 10, 1979, the directors individually and directors and executive officers of Preston as a group beneficially owned, directly or indirectly, or exercised control or direction over the following securities of Preston, its parents and subsidiaries:

Name	Shares owned as at December 10, 1979(1)				Amalco Pro Forma	
	Preston Common	Rio Algom Common	Lornex Common	Common	Second Preference Shares Series A	
G. R. Albino.....	1,000	—	1,000	750	1,000	
R. D. Armstrong.....	—	8,287	—	8,287	—	
R. C. Berry.....	—	—	—	—	—	
J. Ian Crookston.....	132	1,200	—	1,299	132	
P. H. Dean.....	—	—	—	—	—	
W. C. Pitfield.....	—	—	—	—	—	
All directors and executive officers as a group including the above(2)(3).....	1,132	9,493	1,000	10,342	1,132	

- (1) Directly and with sole voting and investment power.
- (2) None of the directors has the right to acquire common shares of Rio Algom pursuant to Rio Algom's stock option plans but the executive officers of Preston, as a group, had the right to acquire 1,000 Rio Algom common shares as at December 10, 1979.
- (3) The directors and executive officers as a group held less than 1% of the respective classes of securities of Preston, its parents and subsidiaries.

Remuneration

During the fiscal year ended December 31, 1978, no remuneration was paid or payable to the executive officers of Preston, as such. During such fiscal year, the aggregate direct remuneration paid or payable by Preston to directors of Preston, as such, was \$10,300. Preston has no pension plan. For information concerning direct remuneration paid or payable by Rio Algom and its subsidiaries to executive officers and directors of Preston, see "Management of Rio Algom—Remuneration."

Directors of Amalco

MANAGEMENT OF AMALCO

On the Effective Date of the Amalgamation the board of directors of Amalco will be comprised of fourteen (14) directors. The membership of the board of directors of Amalco will be identical to the membership of the board of directors of Rio Algom immediately preceding the Effective Date and such persons will hold office until the first annual meeting of shareholders of Amalco or until their successors are elected or appointed. Messrs. R. C. Berry, P. H. Dean and W. C. Pittfield, directors of Preston who are not also directors of Rio Algom, will not continue as directors of Amalco. Any vacancy existing in the board of directors of Amalco on or after the Effective Date will be filled in the manner provided in the by-laws of Amalco.

See "Management of Rio Algom" for certain information pertaining to the proposed directors of Amalco.

Officers

The executive officers of Amalco will be:

Executive

R. D. ARMSTRONG, Chairman and Chief Executive Officer
G. R. ALBINO, President and Chief Operating Officer

Corporate

R. G. CONNOCHIE, Vice-President and Executive Assistant to the President
J. G. LITTLEJOHN, General Counsel
A. F. LOWELL, Vice-President, Minerals Marketing
H. A. PAKRUL, Vice-President, Controller
A. C. TURNER, Vice-President, Secretary
J. VAN NETTEN, Vice-President, Treasurer

Mining

E. W. CHEESEMAN, Vice-President, Underground Mining Operations
P. A. CARLOSS, Vice-President, General Manager, Elliot Lake
P. M. KAVANAGH, Vice-President, Exploration
J. E. MOYLE, Vice-President, Mining Engineering

Atlas Steels

A. V. ORR, Vice-President, General Manager
H. L. BRIEN, Vice-President, Engineering
C. E. OHLSON, Vice-President, Sales and Marketing
G. L. SANDLER, Vice-President, Finance

Atlas Alloys

W. D. DOBBIN, Vice-President, General Managers
K. COLLYER, Vice-President, Canadian Operation
J. B. DUNN, Vice-President, Controller
W. I. POLLOCK, Vice-President, Marketing

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The following are the material transactions of Rio Algom and Preston and their respective subsidiaries since January 1, 1978 in which (i) any director or officer of any of the aforementioned corporations; (ii) any proposed director of Amalco; (iii) any person or corporation beneficially owning, directly or indirectly, more than 5% of the common shares of any of the aforementioned corporations or any insider (as defined in The Securities Act, 1978 (Ontario)) of Rio Algom or Preston; and (iv) any associate or affiliate of any of the persons or corporations referred to in (i), (ii) or (iii), had a direct or indirect material interest:

1. In 1978 R.T.Z. Services Limited, 6 St. James's Square, London, SW1Y 4LD, England, an indirect wholly-owned subsidiary of Rio Tinto-Zinc, received a consultative fee of \$300,000 from Rio Algom. It is anticipated that a consultative fee of \$300,000 will be payable for 1979.
2. See "Business of Rio Algom—Uranium Mining Operations—Rossing" for a description of Rio Algom's investment in and advances to Rossing, an indirect subsidiary of Rio Tinto-Zinc.
3. See "Business of Preston" for a description of the Construction and Management Agreement dated January 1, 1978 between Rio Algom and Preston and "The Proposed Amalgamation—Relationships between Rio Algom and Preston" for information as to other management arrangements between Rio Algom and Preston.
4. As of November 24, 1978, Preston, Rio Algom and its subsidiaries arranged for the renewal of the directors' and officers' liability insurance with a limit of \$10,000,000 each policy year (subject to specified retentions and percentage of loss payable) with respect to all directors and officers of the companies as a group and with respect to the companies regarding their liability to indemnify directors and officers. The aggregate annual premium of \$90,000 is being allocated as follows: Preston – \$10,500; Lornex – \$13,000; and Rio Algom and other subsidiaries – \$66,500; 90% of the annual premium with respect to each company is being borne by such company, and the remaining 10% is being borne by the directors and officers of such company.

Mr. R. D. Armstrong of 30 Glenorchy Road, Don Mills, Ontario (a director and Chairman and Chief Executive Officer of both Rio Algom and Preston) is a director and Chairman and Chief Executive Officer of Lornex; Mr. G. R. Albino of 2242 High River Court, Mississauga, Ontario (a director and President and Chief Operating Officer of both Rio Algom and Preston) is a director and President and Chief Operating Officer of Lornex; Mr. A. C. Turner of 229 Owen Boulevard, Willowdale, Ontario (Vice-President, Secretary of both Rio Algom and Preston) is Assistant Secretary of Lornex; and Mr. J. Van Netten of 95 Forest Heights Boulevard, Willowdale, Ontario (Vice-President, Treasurer of Rio Algom and Treasurer of Preston) is a director and Treasurer of Lornex.

5. See "The Proposed Amalgamation—Special Factors—Opinion of Pitfield Mackay" for a description of the engagement by Preston of Pitfield Mackay as investment advisor.

INDEMNIFICATION

Section 147 of The Business Corporations Act (Ontario) provides, in part, as follows:

"(1) *Indemnification of directors.* Subject to subsection (2), the by-laws of a corporation may provide that every director and officer of the corporation and his heirs, executors, administrators and other legal personal representatives may from time to time be indemnified and saved harmless by the corporation from and against,

- (a) any liability and all costs, charges and expenses that he sustains or incurs in respect of any action, suit or proceeding that is proposed or commenced against him for or in respect of anything done or permitted by him in respect of the execution of the duties of his office; and
- (b) all other costs, charges and expenses that he sustains or incurs in respect of the affairs of the corporation.

(2) *Idem.* No director or officer of a corporation shall be indemnified by the corporation in respect of any liability, costs, charges or expenses that he sustains or incurs in or about any action, suit or other proceeding as a result of which he is adjudged to be in breach of any duty or responsibility imposed upon him under this Act or under any other statute unless, in an action brought against him in his capacity as director or officer, he has achieved complete or substantial success as a defendant."

Section 7.03 of By-law No. One of each of Rio Algoma and Preston provides, in part, as follows:

"7.03 Indemnity and Insurance – (1) Subject to subsection (2) of this Section 7.03 every Director and Officer of the Corporation and his heirs, executors, administrators and other legal personal representatives shall from time to time be indemnified and saved harmless by the Corporation from and against,

(a) any liability and all costs, charges and expenses that he sustains or incurs in respect of any action, suit or proceeding that is proposed or commenced against him for or in respect of anything done or permitted by him in respect of the execution of the duties of his office; and

(b) all other costs, charges and expenses that he sustains or incurs in respect of the affairs of the Corporation.

(2) No Director or Officer of the Corporation shall be indemnified by the Corporation in respect of any liability, costs, charges or expenses that he sustains or incurs in or about any action, suit or other proceeding as a result of which he is adjudged to be in breach of any duty or responsibility imposed upon him under the Act or under any other statute unless, in an action brought against him in his capacity as Director or Officer, he has achieved complete or substantial success as a defendant.

(3) The Corporation may purchase and maintain insurance for the benefit of a Director or Officer thereof, except insurance against a liability, cost, charge or expense of the Director or Officer incurred as a result of a contravention of Section 7.02 hereof."

The by-laws of Amalco will contain an identical provision.

Insofar as indemnification for liabilities arising under the United States Securities Act of 1933 may be permitted to directors or officers of, or persons controlling, Rio Algoma or Preston, pursuant to the foregoing provisions, such corporations have been informed that in the opinion of the United States Securities and Exchange Commission such indemnification is against public policy as expressed in such Act and is, therefore, unenforceable. Rio Algoma and Preston are subject to the laws of Ontario insofar as their internal affairs are concerned and have been advised by their Canadian counsel, Messrs. Fasken & Calvin, that, in its opinion, Ontario courts would not consider the indemnification by Rio Algoma and Preston of their respective directors and officers for liabilities arising under the United States Securities Act of 1933 to be contrary to the public policy of Canada to the extent that such indemnification is permitted by the provisions of The Business Corporations Act (Ontario) and their respective by-laws referred to above.

SHARE CAPITAL OF AMALCO

First Preference Shares

Amalco will be authorized to issue 438,016 first preference shares ("Amalco First Preference Shares") of the par value of \$100 each. The Amalco First Preference Shares may from time to time be issued in one or more series, each series consisting of such number of shares as may before the issue thereof be determined by the directors; the directors may (subject to the provisions of the Amalco First Preference Shares and the provisions of The Business Corporations Act (Ontario)) by resolution fix from time to time before the issue thereof the designation, preferences, rights, conditions, restrictions, limitations or prohibitions attaching to the Amalco First Preference Shares of each series. 88,016 Amalco First Preference Shares will be designated as \$5.80 cumulative redeemable first preference shares series A (the "Amalco First Preference Shares Series A") of the par value of \$100 each and will be outstanding upon the Amalgamation. The Amalco First Preference Shares are entitled to priority over the Second Preference Shares (described in "Second Preference Shares" below) and over the common shares of Amalco with respect to payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of Amalco, whether voluntary or involuntary, or any other distribution of the assets of Amalco among its shareholders for the purpose of winding up

its affairs. The holders of the Amalco First Preference Shares Series A will be entitled to receive, as and when declared by Amalco's board of directors, fixed cumulative preferential cash dividends at the rate of \$5.80 per share per year. Amalco will be obligated in each year commencing with the Effective Date to set aside \$300,000 annually as a retirement fund to purchase or redeem Amalco First Preference Shares Series A, subject to certain limitations. Amalco may not call for redemption, purchase for cancellation, reduce or otherwise pay off (1) less than all of the Amalco First Preference Shares Series A or (2) Amalco shares of any junior class, including the Second Preference Shares, unless all dividends up to and including the dividend payable for the last completed quarter on all the Amalco First Preference Shares Series A outstanding have been declared and paid or set apart for payment.

Second Preference Shares

Description of Second Preference Shares

General. Amalco will be authorized to issue 25,000,000 second preference shares (the "Second Preference Shares") of the par value of \$5.00 per share of which 8,830,499 will be designated as 8.5% cumulative redeemable second preference shares, series A (the "Second Preference Shares Series A") and will be issued and outstanding on the Effective Date. The directors may (subject to the provisions of the Second Preference Shares and The Business Corporations Act (Ontario)) by resolution fix from time to time before the issue thereof the designation, preferences, rights, conditions, restrictions, limitations or prohibitions attaching to the Second Preference Shares of any other series before the issue thereof.

The Second Preference Shares will rank junior to the Amalco First Preference Shares and will be subject in all respects to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the Amalco First Preference Shares but will be entitled to priority over the common shares of Amalco with respect to payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of Amalco, whether voluntary or involuntary, or any other distribution of the assets of Amalco among its shareholders for the purpose of winding up its affairs.

See "Dividend and Other Restrictions" below for a description of certain provisions of the Amalco First Preference Shares Series A which may, under certain circumstances, prohibit the payment of dividends on the Second Preference Shares Series A and the redemption or purchase for cancellation of the Second Preference Shares Series A on the basis described below.

Dividends. The holders of Second Preference Shares Series A will be entitled to receive, as and when declared by Amalco's board of directors, fixed cumulative preferential cash dividends at an annual rate of 8.5% of the par value of each Second Preference Share Series A. Dividends will be payable semi-annually on the fifteenth day of June and December in each year.

Retirement Fund. Amalco will be obligated in each year commencing with 1980 to set aside in a retirement fund account an amount equal to 5% of the aggregate par value of the Second Preference Shares Series A issued on the Amalgamation and may, at its option, set aside in each year an amount equal to an additional 5% of such aggregate par value. See "Business of Rio Algoma—Rio Algoma Debentures" for a description of certain provisions of the Rio Algoma Trust Deed which could restrict the exercise by Amalco of such optional right. This account will be used to purchase Second Preference Shares Series A for cancellation in the market at prices not exceeding the amount paid up thereon plus reasonable costs of purchase and/or to redeem Second Preference Shares Series A at a redemption price equal to the amount paid up thereon plus all accrued and unpaid dividends. The foregoing obligation of Amalco is in addition to and not in substitution for the redemption and purchase for cancellation rights of Amalco referred to below.

Purchase for Cancellation. Amalco will be entitled to purchase for cancellation the whole or any part of the outstanding Second Preference Shares Series A at prices not exceeding the amount paid up on such shares plus a premium together with all accrued and unpaid dividends to the date of purchase, plus costs of purchase. The premium will be 3% if the shares are purchased during the 12 month period ending January 1, 1981, and the premium will reduce by 0.50% during each 12 months thereafter to January 1, 1986. Thereafter, shares may be purchased without premium.

Redemption. In addition to the redemption of Second Preference Shares Series A pursuant to its retirement fund obligations, after January 1, 1982 Amalco will be entitled to redeem the whole or any part of the Second Preference Shares Series A on payment for each such share to be redeemed of the amount paid up

on such share plus a premium together with all accrued and unpaid dividends to the date fixed for redemption. The premium will be 2% if the shares are redeemed during the 12 month period ending January 1, 1983, and the premium will reduce by 0.50% during each 12 months thereafter to January 1, 1986. Thereafter shares may be redeemed without premium.

Restriction on Dividends on Retirement of Shares. No dividends may be declared or paid or set apart for payment on any shares of Amalco ranking junior to the Second Preference Shares Series A and Amalco may not call for redemption, purchase for cancellation, reduce or otherwise pay off (i) less than all of the Second Preference Shares Series A or (ii) any class of Amalco shares ranking junior to the Second Preference Shares Series A, unless all dividends up to and including the dividend payable for the last completed semi-annual period on all Second Preference Shares Series A outstanding have been declared and paid or set apart for payment.

Voting Rights. The class provisions attaching to the Second Preference Shares provide that the holders of the Second Preference Shares are not entitled as such to receive notice of or to attend any meeting of the shareholders of Amalco or to vote at any such meeting unless dividends on Second Preference Shares of any series are in arrears to the extent of three semi-annual dividends. In that event and until all arrears of dividends on all outstanding Second Preference Shares shall have been paid, the holders of Second Preference Shares shall be entitled to receive notice of and to attend all meetings of shareholders of Amalco at which directors are to be elected and shall be entitled, voting separately as a class, to elect two (2) of the directors of Amalco.

Modification. A two-thirds majority of the votes cast at a meeting of the holders of Second Preference Shares would be required to authorize any increase in the authorized amount of the Second Preference Shares, the creation of a class of shares ranking on a parity with or prior to the Second Preference Shares, or any change in the preferences or other rights attaching to the Second Preference Shares.

The foregoing summary of Second Preference Shares and Second Preference Shares Series A is qualified in its entirety by reference to the full provisions found in Schedules C and D to the Amalgamation Agreement attached hereto as Exhibit A.

Holders of Amalco First Preference Shares Series A and Second Preference Shares Series A will have no pre-emptive or conversion rights. Amalco First Preference Shares Series A and Second Preference Shares Series A outstanding on the Effective Date will be fully paid and non-assessable.

See the full class provisions attaching to the Amalco First Preference Shares and the Second Preference Shares, and the additional provisions attaching to the Amalco First Preference Shares Series A and the Second Preference Shares Series A, in schedules A, B, C and D, respectively, to the Amalgamation Agreement, appearing as Exhibit A to this Joint Proxy Statement and Information Circular.

Common Shares

Amalco will be authorized to issue 25,000,000 common shares without par value ("Amalco Common Shares"). The number of Amalco Common Shares that will be outstanding on the Effective Date will be 14,219,429.

Holders of Amalco Common Shares will, subject to the special voting rights of holders of Amalco First Preference Shares and Second Preference Shares as set forth in schedules A, B, C and D to the Amalgamation Agreement, have exclusive voting rights. Each holder of Amalco Common Shares will be entitled to one vote per share on all matters submitted to a vote of shareholders; to such dividends as may be declared by the board of directors out of funds legally available therefor, subject to the rights and preferences of the Amalco First Preference Shares and Second Preference Shares and the restrictions described under the caption "Dividend and Other Restrictions" below; and upon any liquidation, dissolution or winding up to share rateably in the net assets available for distribution after the amounts payable to holders of Amalco First Preference Shares and Second Preference Shares have been paid or provided for.

Amalco Common Shares will not have cumulative voting rights and, therefore, the holders of more than 50% of the outstanding Amalco Common Shares, subject to the special voting rights of the Amalco First Preference Shares and Second Preference Shares referred to above, will be able to elect all of the directors of Amalco if they so choose. In that event, the holders of the remaining Amalco Common Shares will be unable to elect any directors. It is anticipated that Tinto Holdings, an indirect wholly-owned subsidiary of Rio

Tinto-Zinc, will own 52.76% of the Amalco Common Shares outstanding on the Effective Date. Holders of Amalco Common Shares will have no pre-emptive or conversion rights. All Amalco Common Shares outstanding on the Effective Date will be fully paid and non-assessable.

Withholding Tax

Under the Income Tax Act (Canada) a non-resident of Canada will be subject to a 20% withholding tax in respect of dividends paid or credited on Amalco shares unless he resides in a country with which Canada has a tax treaty limiting the rate of withholding tax on dividends to a specified rate, in which event such dividends will be subject to withholding tax at the specified rate less 5%. Based on the present treaties between Canada and the United States and Canada and the United Kingdom, dividends paid or credited on Amalco shares to residents of the United States or the United Kingdom will be subject to a 10% withholding tax. Subject to certain limitations, the Canadian tax withheld may be taken as a credit against United States and United Kingdom income taxes. Non-resident shareholders are urged to consult with their own tax advisors.

Dividend and Other Restrictions

The statements made under this heading do not purport to be complete and, in addition, use terms defined in the instruments referred to, which are available for inspection at the executive offices of Rio Algoma and Preston and which have been filed at the offices of the Securities and Exchange Commission in Washington, D.C.

See "Business of Rio Algoma—Rio Algoma Debentures—Restrictions on Dividends" for information relating to the dividend payment restrictions contained in the Trust Deed referred to therein.

Restrictions on payment of dividends and the making of other distributions to the holders of Amalco Common Shares, as well as other restrictions, are contained in the provisions of the Amalco First Preference Shares Series A and the Second Preference Shares Series A, which are reproduced in full in schedules B and D to the Amalgamation Agreement. The restrictions attaching to the Amalco First Preference Shares Series A will prohibit Amalco from declaring, paying or setting apart dividends on or redeeming or purchasing for cancellation any shares ranking junior to the Amalco First Preference Shares if (i) dividends are in arrears on the Amalco First Preference Shares Series A, (ii) there is a default in the retirement fund obligations referred to above or (iii) the aggregate amounts paid subsequent to December 31, 1965 as dividends (including dividends paid on the Rio Algoma and Amalco First Preference Shares) or for retirement of shares ranking junior to the Rio Algoma or Amalco First Preference Shares would exceed consolidated net earnings (as defined) of Rio Algoma and Amalco and certain subsidiaries earned subsequent to December 31, 1965. See clause 7 of schedule B to the Amalgamation Agreement. Unless dividends on the Amalco First Preference Shares Series A are in arrears, certain exceptions to the foregoing restrictions will exist with respect to the payment of stock dividends in shares ranking junior to the Amalco First Preference Shares Series A and with respect to the retirement of junior shares out of the proceeds of an issue of other junior shares. For the purposes of these provisions, "consolidated net earnings" is in general computed in accordance with generally accepted accounting practice in Canada, but without regard to gains or losses on the disposal of investments or fixed assets, and no provision need be made for the amortization of goodwill, patents or other intangible assets (clause 12 of schedule B to the Amalgamation Agreement). As at September 30, 1979, the amount available for dividends on Amalco shares under this restriction was approximately \$277 million. The annual dividends payable in respect of the Amalco First Preference Shares Series A to be outstanding on the Effective Date will be \$511,537. All preferential dividends payable to date by Rio Algoma have been paid in full.

See "Second Preference Shares" for a description of additional restrictions on the payment of dividends on and redemption and purchase of Second Preference Shares Series A and classes of shares ranking junior thereto.

Transfer Agents and Registrars

After the Effective Date, the present transfer agents and registrars of Rio Algoma common shares and Preston common shares, Canada Permanent Trust Company at its offices in Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver, and The Canadian Bank of Commerce Trust Company at its office in New York City, will act as transfer agents and registrars for Amalco Common Shares; and the present transfer agent and registrar for Rio Algoma First Preference Shares Series A, Canada Permanent Trust Company at its offices in Toronto, Montreal, Halifax, Winnipeg and Vancouver, will act as transfer agent and registrar for Amalco First Preference Shares Series A and Second Preference Shares Series A.

Comparison with Share Capital of Rio Algom and Preston

The Amalco First Preference Shares and Amalco First Preference Shares Series A will be identical in number and will have the same attributes as the authorized and issued Rio Algom First Preference Shares and Rio Algom First Preference Shares Series A, respectively.

The Amalco Common Shares will have rights and privileges which are identical to those of the Rio Algom common shares and the Preston common shares.

Dividends and Dividend Policy

In recent years, Rio Algom and Preston have paid dividends on a semi-annual basis. The payment of dividends by Amalco in the future must necessarily be determined by the board of directors of Amalco in the light of future earnings and financial requirements and other relevant factors. See "Dividend and Other Restrictions" above. See "Consolidated Summary of Earnings" for Rio Algom and subsidiaries and "Summary of Earnings" for Preston contained elsewhere herein for information concerning dividends paid by Rio Algom and Preston since 1974.

LEGISLATION AND CONTROLS

Foreign Investment Review Act

Under the Foreign Investment Review Act (Canada), the acquisition of control of Canadian business enterprises and the establishment of new businesses in Canada by non-eligible persons (as defined in the Act) are, with certain exceptions, subject to review and assessment by the Foreign Investment Review Agency and approval by the Governor-in-Council. The main criterion for approval is whether the acquisition or new business is or is likely to be of significant benefit to Canada. Rio Algom, Preston and Amalco may be considered to be non-eligible persons for the purpose of the statute.

Uranium Mining Control

On March 19 and May 5, 1970, the then Minister of Energy, Mines and Resources informed the House of Commons of the Canadian government's position with respect to ownership in the Canadian uranium industry. He stated that the government proposed to limit by regulation the extent of ownership of uranium producing enterprises in Canada by non-residents of Canada, the definition of which, by reason of the holdings of Rio Tinto-Zinc's subsidiaries, would include Rio Algom, Preston and Amalco. Generally, the regulations would require that uranium properties be owned by Canadian incorporated companies and would, with certain exemptions, set a limit of 33% upon the aggregate foreign ownership of any uranium property of established productive capacity and a limit of 10% on the ownership of such a property which may be held by any one foreign investor or group of associated foreign investors. However, foreign owners as of March 2, 1970 would be permitted to retain their then existing holdings in such properties and, with one exception, to transfer interests in those holdings to residents and non-residents alike provided that the result of any such transfer was not to increase either the aggregate foreign ownership or the level of ownership of any one foreign investor or group of associated foreign investors above the prescribed limits. The prescribed limits for companies having less than 33% aggregate foreign ownership and no one foreign investor or group of associated foreign investors having a 10% or more holding, are respectively 33% and 10%. For companies exceeding those limits at the effective date of the proposed regulations, the prescribed limits for aggregate foreign ownership and single or associated group foreign ownership would be those levels of aggregate foreign ownership and single or associated group foreign ownership existing in those companies on the effective date of the regulations. Foreign owners of companies actively engaged in exploration on a uranium property as of March 2, 1970 would also be permitted to avail themselves of the exemption from the 33% and 10% prescribed limits if they proved to the satisfaction of the Canadian Atomic Energy Control Board by March 2, 1976 that they had a commercially viable uranium deposit on such property. Subject to the foregoing and to certain other exceptions stated in the policy, no production permit will be granted in respect of a uranium property unless at that time foreign ownership does not exceed the prescribed limits referred to above.

While the Canadian federal government introduced a bill entitled the Uranium and Thorium Mining Review Act into Parliament in June, 1978, to implement the foregoing policy, the bill died on the order-paper and was not reintroduced prior to the change in government in May, 1979. At December 17, 1979, a comparable bill had not been introduced into Parliament.

For information concerning Canadian federal government restrictions on the export of uranium resources, see "Business of Rio Algom—Uranium Mining Operations—Elliot Lake area."

United Kingdom Controls

Under section 482 of the Income and Corporation Taxes Act 1970 of the United Kingdom, a company resident in the United Kingdom which has control (as defined in such Act) over a company resident outside the United Kingdom must obtain the consent of the United Kingdom Treasury (the "Treasury") before causing or permitting such company to create or issue any shares or debentures. It is the responsibility of the United Kingdom company and its directors and officers (including persons not resident in the United Kingdom) to ensure that any necessary consent is obtained.

Rio Tinto-Zinc, which has control of Rio Algom and Preston and which will have control of Amalco for the purposes of the above United Kingdom legislation, has made application to the Treasury under the Income and Corporation Taxes Act for its consent to the Amalgamation. The Amalgamation is conditional on such consent being granted. There is no present reason to believe that such consent will be refused.

EXPERTS

The audited financial statements of Rio Algom and Preston included herein as of the dates and for the periods indicated in their reports thereon have been examined by Coopers & Lybrand, chartered accountants, and have been included herein in reliance upon such reports, which reports have been given upon the authority of said firm as experts in accounting and auditing. See "The Proposed Amalgamation—Auditors".

SOLICITATION OF PROXIES

Rio Algom and Preston will pay their own expenses for preparing, assembling and mailing to shareholders the notices of the Meetings, this Joint Proxy Statement and Information Circular and the forms of proxy for the Meetings, except that printing expenses will be divided equally between the corporations. See "The Proposed Amalgamation—Expenses". In addition to the solicitation of proxies by mail, officers, directors and regular employees of Rio Algom may, without additional compensation, solicit proxies on behalf of the managements of Rio Algom and Preston personally or by telephone. The respective corporations will also pay to broker-dealers, banks or other holders of record of common shares of Rio Algom and Preston their reasonable expenses in mailing copies of the foregoing material to beneficial owners of shares.

The shares represented by the enclosed form of proxy (if the same is executed in favor of the management nominees and deposited as provided in the particular notice of Meeting) will be voted and, where a choice with respect to any matter to be acted upon has been specified in the proxy, the shares will be voted in accordance with the specifications so made. Voting at the Meetings will be conducted by ballot.

Under the provisions of The Business Corporations Act (Ontario), a shareholder giving a proxy has power to revoke it. The following is the revocation procedure prescribed in section 116(4) of that Act.

"In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a body corporate, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of such meeting on the day of the meeting, or adjournment thereof, and upon either of such deposits the proxy is revoked."

Each shareholder has the right to designate as proxy a person other than Mr. Armstrong or Mr. Albino, the nominees of the managements of Rio Algom and Preston, to attend and act for such shareholder at the respective Meeting at which such shareholder is entitled to vote. Any shareholder desiring to exercise such right may do so by striking out the names of the management nominees in the enclosed form of proxy and inserting in the space provided the name of the person so appointed as proxy, or may do so by executing a proxy in form similar to the enclosed form.

ADDITIONAL INFORMATION

A registration statement under the United States Securities Act of 1933 (the "Act") has been filed with the United States Securities and Exchange Commission (the "SEC") with respect to the Amalco Common Shares and Second Preference Shares Series A into which the Rio Algoma and Preston common shares will be converted as a result of the Amalgamation. This Joint Proxy Statement and Information Circular does not contain all the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. Additional information may be found in the registration statement, including various exhibits thereto, copies of which have been filed at the office of the SEC in Washington, D.C. and are available for inspection during normal business hours at the executive offices of Rio Algoma and Preston. Summaries and references to various documents in this Joint Proxy Statement and Information Circular do not purport to be complete. In each instance, reference is made to the copy of such document filed as an exhibit to the registration statement, and each such summary and reference is qualified in its entirety by reference to such document.

Rio Algoma and Preston are currently subject to the informational requirements of the United States Securities Exchange Act of 1934 and, in accordance therewith, file reports and other information with the SEC. After the Amalgamation, Amalco will succeed to their obligations to file certain reports and other information under such act.

OTHER BUSINESS

The managements do not know of any other matters that may come before the respective Meetings or of any amendments or variations to matters identified in the notices of the Meetings. It should be noted, however, that the enclosed form of proxy is a discretionary proxy and if amendments or variations in the matters identified in the notices of Meetings or any other matters should properly come before the respective Meetings the shares represented by the enclosed form of proxy will be voted by Mr. Armstrong or Mr. Albino, the nominees of the managements of Rio Algoma and Preston, upon such other matters in accordance with the best judgment of such management nominees.

Toronto, Canada
January 7, 1980

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Directors of
RIO ALGOM LIMITED:

We have examined the consolidated statement of financial position of Rio Algom Limited and its subsidiaries as at December 31, 1978 and the consolidated statements of earnings (included under the caption "Consolidated Summary of Earnings"), retained earnings, contributed surplus and changes in financial position for the five years ended December 31, 1978. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of the companies as at December 31, 1978, the results of their operations and the changes in their financial position for the five years ended December 31, 1978, in conformity with generally accepted accounting principles in Canada applied on a consistent basis.

The differences between accounting principles generally accepted in Canada and those generally accepted in the United States, as they affect the accompanying consolidated financial statements, are shown in Note 12.

Toronto, Ontario
March 2, 1979

COOPERS & LYBRAND
Chartered Accountants

RIO ALGOM LIMITED AND SUBSIDIARIES

Consolidated Statement of Financial Position December 31, 1978 and September 30, 1979 (Expressed in Canadian dollars in thousands)

	December 31, 1978	September 30, 1979
		(unaudited)
Current assets:		
Cash and short term deposits.....	\$ 94,496	\$ 48,232
Receivables (less allowance for doubtful accounts of \$2,036,000 at December 31, 1978 and \$2,044,000 at September 30, 1979) (note 5).....	81,960	103,417
Inventories and concentrates awaiting shipment (notes 2 and 5).....	164,592	173,307
Prepaid expenses.....	4,511	4,564
Total.....	345,559	329,520
Less:		
Current liabilities:		
Bank loans and overdrafts.....	11,948	9,306
Drafts payable (discounted).....	2,299	2,654
Accounts payable and accrued liabilities.....	78,646	73,728
Income and mining taxes.....	19,674	33,059
Long term debt due within one year (notes 5 and 12).....	170	170
Total.....	112,737	118,917
Working capital.....	232,822	210,603
Plant and equipment, less depreciation (note 3).....	248,972	244,178
Construction in progress, at cost.....	78,146	106,712
Mining properties and preproduction expenditures, less amortization (note 4).....	62,152	75,672
Excess of acquisition cost over adjusted book value of Atlas Steels assets, less amortization.....	4,182	3,411
Investment in and advances to affiliated company, at cost (note 8).....	16,378	15,384
Investment in and amounts receivable from U.S. subsidiary companies, at cost plus equity to December 31, 1978 (note 1).....	—	27,234
Debenture discount and financing expenses, less amortization.....	838	782
Total assets less current liabilities.....	643,490	683,976
Deduct:		
Long term debt (notes 5 and 12).....	114,676	92,276
Deferred income and mining taxes.....	104,604	120,213
Minority shareholders' interests in subsidiary company.....	32,519	44,806
	251,799	257,295
Excess of assets over liabilities.....	\$391,691	\$426,681
Represented by:		
Preference shares subject to mandatory sinking fund requirements (note 6).....	\$ 9,502	\$ 8,822
Common shares without par value - authorized 15,000,000 shares; issued 13,511,269 shares at December 31, 1978 and 13,517,194 shares at September 30, 1979 (note 7).....	99,204	99,351
Contributed surplus.....	20,236	20,364
Retained earnings (note 12).....	262,749	298,144
	\$391,691	\$426,681

See accompanying notes

RIO ALGOM LIMITED AND SUBSIDIARIES

Consolidated Statement of Retained Earnings for the five years ended December 31, 1978 and the nine months ended September 30, 1978 and 1979 (Expressed in Canadian dollars in thousands)

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979 (unaudited)
Balance, beginning of period.....	\$127,185	\$158,034	\$173,888	\$191,336	\$218,943	\$218,943	\$262,749
Add:							
Net earnings for the period.....	43,824	30,032	31,629	42,815	61,817	42,393	45,933
	<u>171,009</u>	<u>188,066</u>	<u>205,517</u>	<u>234,151</u>	<u>280,760</u>	<u>261,336</u>	<u>308,682</u>
Deduct:							
Dividends on preference shares....	714	688	675	619	582	442	400
Dividends on common shares.....	12,261	13,490	13,506	14,589	17,429	7,296	10,138
	<u>12,975</u>	<u>14,178</u>	<u>14,181</u>	<u>15,208</u>	<u>18,011</u>	<u>7,738</u>	<u>10,538</u>
Balance, end of period.....	<u>\$158,034</u>	<u>\$173,888</u>	<u>\$191,336</u>	<u>\$218,943</u>	<u>\$262,749</u>	<u>\$253,598</u>	<u>\$298,144</u>

Consolidated Statement of Contributed Surplus for the five years ended December 31, 1978 and the nine months ended September 30, 1978 and 1979 (Expressed in Canadian dollars in thousands)

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979 (unaudited)
Balance, beginning of period.....	\$ 19,797	\$ 20,009	\$ 19,705	\$ 19,776	\$ 20,085	\$ 20,085	\$ 20,236
Add (deduct):							
Profit on purchase of preference shares for cancellation.....	212	104	71	309	151	44	128
Expense of common share capital issue (net of income tax).....	—	(408)	—	—	—	—	—
Balance, end of period.....	<u>\$ 20,009</u>	<u>\$ 19,705</u>	<u>\$ 19,776</u>	<u>\$ 20,085</u>	<u>\$ 20,236</u>	<u>\$ 20,129</u>	<u>\$ 20,364</u>

See accompanying notes

RIO ALGOM LIMITED AND SUBSIDIARIES

Consolidated Statement of Changes in Financial Position for the five years ended December 31, 1978 and the nine months ended September 30, 1978 and 1979

(Expressed in Canadian dollars in thousands)

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
Source of funds:							
Earnings before adjustment for minority interests in subsidiary company.	\$ 53,590	\$ 30,242	\$ 36,956	\$ 45,367	\$ 66,396	\$ 44,832	\$ 58,741
Add items included in earnings not involving current outlay of funds:							
Depreciation, amortization and other charges (net).....	21,830	21,562	21,788	25,790	32,430	23,876	25,010
Deferred income and mining taxes	17,800	13,075	22,650	26,065	21,095	18,030	14,060
<i>Funds provided by operations</i>	93,220	64,879	81,394	97,222	119,921	86,738	97,811
Housing loans and mortgages (net).	—	87	7,501	4,269	16,932	8,491	5,050
Bank loans of subsidiary.....	—	—	68,183	—	—	—	—
Repayment of advances to affiliated company.....	—	—	—	—	—	—	994
Prepaid royalties recovered.....	—	—	—	—	965	136	1,549
Issue of common shares (net of issue expenses).....	61	25,356	452	75	41	41	147
Issue of sinking fund debentures (net of issue expenses).....	—	48,905	—	—	—	—	—
	<u>93,281</u>	<u>139,227</u>	<u>157,530</u>	<u>101,566</u>	<u>137,859</u>	<u>95,406</u>	<u>105,551</u>
Disposition of funds:							
Expenditures (net) for plant and equipment, mining properties and preproduction.....	14,261	29,506	60,952	95,392	86,329	59,058	70,910
Investment in and advances to affiliated company.....	1,191	3,258	3,624	6,031	2,274	2,274	—
Dividends on common shares.....	12,261	13,490	13,506	14,589	17,429	7,296	10,138
Dividends on preference shares....	714	688	675	619	582	442	400
Purchase of minority shareholders' interests in subsidiary company..	819	5,684	230	660	816	816	—
Payment of Lornex dividend to minority shareholders.....	—	—	—	—	527	—	527
Purchase of preference shares for cancellation.....	523	166	123	896	690	143	552
Recoverable royalties.....	—	—	1,955	559	—	—	—
Reduction of long term debt:							
Rio Algom Limited debentures..	1,712	5,066	6,081	2,626	872	538	2,946
Bank loans of subsidiary.....	30,575	3,750	12,318	13,637	23,377	13,637	24,351
8½% income debentures of subsidiary and accrued interest....	—	—	12,530	—	—	—	—
8¾% notes of subsidiary	9,453	16,877	—	—	—	—	—
Housing loans of subsidiary (net).	177	—	—	—	—	—	—
	<u>71,686</u>	<u>78,485</u>	<u>111,994</u>	<u>135,009</u>	<u>132,896</u>	<u>84,204</u>	<u>109,824</u>
Increase (decrease) in working capital (1979 excluding U.S. subsidiaries no longer consolidated as of January 1, 1979).....	21,595	60,742	45,536	(33,443)	4,963	11,202	(4,273)
Working capital, beginning of period.	133,429	155,024	215,766	261,302	227,859	227,859	232,822
Less: Working capital of U.S. subsidiaries at December 31, 1978 included above.....	—	—	—	—	—	—	17,946
Working capital, end of period.....	<u>\$155,024</u>	<u>\$215,766</u>	<u>\$261,302</u>	<u>\$227,859</u>	<u>\$232,822</u>	<u>\$239,061</u>	<u>\$210,603</u>

See accompanying notes

RIO ALGOM LIMITED AND SUBSIDIARIES

(Expressed in Canadian dollars)

ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada; in relation to the statements of Rio Algom these principles are substantially the same as those principles generally accepted in the United States of America except for the differences described in note 12.

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

Basis of Consolidation

The consolidated financial statements include the accounts of all significant subsidiary corporations (including those incorporated in the United States of America to December 31, 1978). Because of the court orders which, to the extent indicated under "Business of Rio Algom - Legal Proceedings", restrict the movement of funds out of the United States, under generally accepted accounting principles the accounts of Rio Algom's United States subsidiaries have not been consolidated with the accounts of Rio Algom after January 1, 1979 and no part of the net earnings of those subsidiaries has been recognized in consolidated earnings (on the equity basis or otherwise) since that date. Accordingly, the consolidated financial statements for the first nine months of 1979 are not fully comparable with those of 1978. See note 12 to financial statements.

The accounts in foreign currencies are stated in Canadian dollars on the following basis:

Current assets and current liabilities at period-end exchange rates; all other assets and any related depreciation and long-term liabilities at rates in effect at time of transactions; and revenues and expenses (other than depreciation) at average rates for the period. See note 12 to financial statements.

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. 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 are valued at estimated realizable metal prices.

Depreciation and Amortization

The following accounting policies are being followed in connection with the depreciation charges of Rio Algom and its subsidiaries:

(i) Mining fixed assets:

Depreciation is being provided on fixed assets on the basis of the shorter of physical life or economic life, as estimated for the individual mining units, the economic life to be adjusted from time to time as conditions warrant.

(ii) Steel fixed assets:

Fixed assets are being 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..... 6 $\frac{2}{3}$ % per annum

Mining properties and preproduction expenditures are being amortized on the same basis as depreciation is provided on mining fixed assets.

Excess of acquisition cost over adjusted book value of Atlas Steels assets is being amortized on a straight line basis over the period ending in 1982.

Debenture discount and financing expenses are being amortized on the debentures outstanding method over the life of the Sinking Fund Debentures Series B of Rio Algom, which mature on July 15, 1995.

The cost of fixed assets retired or otherwise disposed of and the accumulated depreciation are eliminated in the related accounts and the resulting gain or loss has been reflected in income.

Costs of maintenance and repairs are charged to earnings as incurred. Renewals and betterments are capitalized and depreciated or amortized over the useful or economic life of the property.

Capitalization of Interest

Rio Algom 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.

Development Projects and Exploration

Development projects are carried forward as assets while the projects are considered to be of value to Rio Algom. All exploration expenses have been written off.

Income and Mining Taxes

Rio Algom 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 claimed for federal income tax purposes are treated as a reduction of the current year's income tax expense. Such reductions amounted to \$6.3 million in 1978 and \$0.5 million (unaudited) in the nine months ended September 30, 1979.

Revenue

Revenue from uranium production, with respect both to concentrates shipped and concentrates awaiting shipment, is calculated at the basic price provided for in the sales contracts plus an estimate of the additional amount receivable pursuant to the escalation clauses in the contracts, where applicable, or, in the case of contracts providing for prices related to market prices, at the negotiated price. Revenue is adjusted when the actual escalation amounts are determined.

Revenue from copper production, with respect both to concentrates shipped and concentrates awaiting shipment, is calculated at the estimated realizable metal prices in accordance with the relevant sales contracts less a provision for possible fluctuation in price and applicable smelting, refining and marketing charges. Revenue is adjusted as final settlements are received.

Earnings Per Common Share

Primary earnings per common share were computed by dividing net earnings, after provision for preference dividend requirements, by the weighted average number of common shares outstanding. Shares issuable under employee stock options are excluded from the aforementioned weighted average number of common shares on the assumption that their effect is not dilutive as the number of shares involved is not material.

RIO ALGOM LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1978 and September 30, 1979

(Expressed in Canadian dollars)

All data and figures for the five years ended December 31, 1978 are audited; those for the nine months ended September 30, 1978 and September 30, 1979 are unaudited. The data for September 30, 1979 and the nine months then ended exclude Rio Algom's United States subsidiaries.

1. ACCOUNTING POLICIES

The information on the preceding two pages presents a summary of certain accounting policies and is an integral part of these financial statements.

2. INVENTORIES AND CONCENTRATES AWAITING SHIPMENT

	December 31, 1978	September 30, 1979
Inventories		(unaudited)
Steel		
Finished and purchased goods.....	\$ 48,447,908	\$ 49,740,000
Work in process.....	38,288,913	36,878,000
Raw materials.....	6,502,271	11,723,000
Supplies.....	5,695,695	6,192,000
Mine supplies.....	22,429,165	21,279,000
Total inventories.....	121,363,952	125,812,000
Concentrates awaiting shipment.....	43,228,200	47,495,000
	<u>\$164,592,152</u>	<u>\$173,307,000</u>

Inventories determined on the foregoing basis were used in the computation of cost of production as follows:

at December 31, 1974.....	\$ 87,636,142
at December 31, 1975.....	\$ 82,775,340
at December 31, 1976.....	\$ 96,040,977
at December 31, 1977.....	\$106,732,940
at December 31, 1978.....	\$121,363,952
at September 30, 1978.....	\$109,101,000
at September 30, 1979.....	\$125,812,000

3. PLANT AND EQUIPMENT

	December 31, 1978	September 30, 1979
Buildings, at cost.....	\$176,774,959	\$155,768,000
Machinery and equipment, at cost.....	295,891,238	326,796,000
	472,666,197	482,564,000
Less accumulated depreciation.....	225,491,383	239,669,000
	247,174,814	242,895,000
Land, at cost.....	1,796,951	1,283,000
	<u>\$248,971,765</u>	<u>\$244,178,000</u>

Plant and equipment includes \$56,690,052 at December 31, 1978 and \$56,592,587 at September 30, 1979 in respect of assets of mines presently idle which have been fully depreciated.

4. MINING PROPERTIES AND PREPRODUCTION EXPENDITURES	December 31, 1978	September 30, 1979 (unaudited)
Mining properties, at cost.....	\$ 9,296,692	\$ 7,042,000
Less accumulated amortization.....	7,730,604	6,088,000
	1,566,088	954,000
Preproduction expenditures, at cost.....	148,397,069	155,374,000
Less accumulated amortization.....	87,810,741	80,656,000
	60,586,328	74,718,000
	<u>\$ 62,152,416</u>	<u>\$ 75,672,000</u>
5. LONG TERM DEBT	December 31, 1978	September 30, 1979 (unaudited)
Rio Algom Limited Sinking Fund Debentures (a)		
- 6 $\frac{3}{4}$ % Series A maturing on April 1, 1983.....	\$ 11,355,500	\$ 8,256,500
- 11 $\frac{1}{2}$ % Series B maturing on July 15, 1995.....	<u>50,000,000</u>	<u>50,000,000</u>
Lornex Mining Corporation Ltd.		
- Bank loans due as stated hereunder (December 31, 1978— U.S. \$25,000,000) (b).....	24,350,982	—
Housing loans and mortgages payable (c).....	29,140,244	34,190,000
Less portion included in current liabilities.....	170,000	170,000
	<u>28,970,244</u>	<u>34,020,000</u>
Total long term debt.....	<u>\$114,676,726</u>	<u>\$ 92,276,000</u>

(a) Rio Algom is required to make sinking fund payments for the retirement of the Sinking Fund Debentures in principal amounts as follows:

Series A - \$3,000,000 on October 1, 1979 to 1982 inclusive; and

Series B - \$2,500,000 on July 15, 1981 to 1994 inclusive.

During the nine months ended September 30, 1979, \$3,099,000 principal amount of Series A debentures was purchased for cancellation; the 1979 requirement having been satisfied in prior years, a total of \$1,355,500 has been applied to satisfy the 1980 requirements (\$1,644,500 having been purchased prior to December 31, 1978) and \$1,743,500 has been applied toward the 1981 requirement.

No debentures are held by any of the majority owned companies of Rio Algom (parent company only). Both series of debentures are secured pari passu by a first floating charge on all of the property and assets of Rio Algom (parent company only), present and future. For security subsequent to the amendments to the trust deed approved at a meeting of debenture holders on November 5, 1979 becoming effective, see "The Proposed Amalgamation—Modification of Rio Algom Trust Deed."

(b) Repayment of the Lornex bank loans was secured by general assignments of the Lornex accounts and settlements receivable (\$8.2 million at December 31, 1978) and by registered assignments under Section 88 of the Bank Act of all Lornex concentrates awaiting shipment and Lornex mine supplies (\$27.0 million at December 31, 1978).

The interest rate on those loans varied with the base rate for United States dollar loans made in Canada; the December 31, 1978 rate payable by Lornex was 12 $\frac{3}{4}$ % per annum.

Under the terms of the bank loan agreement Lornex was required to repay on February 15 and August 15 in each of the years 1979 to 1981 inclusive, a principal amount equal to the lesser of 75%

of the available cash flow as defined or U.S. \$7,000,000; any balance of the loans was due August 15, 1981. The 1978 instalments were paid in full and, in addition, prepayments of U.S. \$17,000,000 were made in 1978 and the balance of the loans was repaid prior to September 30, 1979.

(c) As at December 31, 1978 the housing loans and mortgages payable generally carried interest rates varying from 10% to 13 1/4%. As at September 30, 1979 such loans and mortgages generally carried interest rates varying from 10% to 14 3/4%.

6. PREFERENCE SHARES SUBJECT TO MANDATORY SINKING FUND REQUIREMENTS

		December 31, 1978	September 30, 1979
Authorized:			
445,022 First Preference Shares (438,220 at September 30, 1979) with a par value of \$100 each, issuable in series			(unaudited)
Issued:			
95,022 \$5.80 Cumulative Redeemable First Preference Shares Series A (88,220 at September 30, 1979) (redeemable at premiums ranging from 2% to 1%).....		\$ 9,502,200	\$ 8,822,000

Rio Algom is obligated on April 1 in each year to set aside \$300,000 as a retirement fund, to be used to purchase or redeem First Preference Shares.

During the nine months ended September 30, 1979, 6,802 First Preference Shares were purchased for cancellation. Rio Algom's obligations referred to above have been fulfilled for the years 1979 to 1983 inclusive.

7. COMMON SHARES

During the three years ended December 31, 1978 and the nine months ended September 30, 1978 and 1979 the following common shares were issued for cash (as indicated) under Rio Algom's stock option plan:

	Year ended December 31			Nine months ended September 30	
	1976	1977	1978	1978	1979
					(unaudited)
Shares issued.....	17,127	2,960	1,660	1,660	5,925
Consideration.....	\$451,853	\$74,730	\$41,284	\$41,284	\$147,355

At December 31, 1978 and September 30, 1979, 130,900 and 124,975 Common Shares, respectively, were reserved under Rio Algom's stock option plan. Outstanding options have been granted to employees to purchase 24,975 Common Shares at September 30, 1979 (30,900 shares at December 31, 1978) at a price of \$24.87 per share expiring April 13, 1983.

There are restrictions on the payment of dividends in the provisions attaching to the Preference Shares and Rio Algom's trust indentures relating to the Series A and Series B Debentures.

8. COMMITMENTS AND CONTINGENCIES

The following commitments and contingencies were outstanding at December 31, 1978 and September 30, 1979.

(a) Estimated total cost to complete capital projects at December 31, 1978 was approximately \$97,252,000 (committed approximately \$22,287,000). Estimated total cost to complete capital projects at September 30, 1979 was approximately \$43,719,000 (committed approximately \$12,380,000). Subsequent to September 30, 1979 a decision has been taken to expand the Lornex mine facilities at a cost of approximately \$160,000,000.

(b) In October, 1976, Westinghouse Electric Corporation commenced an action in the United States District Court for the Northern District of Illinois in which 29 defendants were named, including Rio Algoma Limited and Rio Algoma Corporation (a subsidiary of one of Rio Algoma Limited's subsidiaries). The complaint filed by Westinghouse alleged illegal combinations and conspiracies among the defendants to restrain both the interstate and foreign commerce of the United States in uranium in violation of the Sherman Antitrust and Wilson Tariff Acts, and sought to recover treble damages and to secure injunctive relief from each of the defendants. On the advice of counsel, Rio Algoma Limited did not appear in the action and the resulting default has been noted on the court record. Rio Algoma Corporation has filed an appearance in the action and is contesting Westinghouse's complaint. On January 3, 1979 the court entered a final judgment on the issue of liability against Rio Algoma Limited and the other defaulting defendants. (Such order did not, however, contain any determination of the amount of the defendants' liability.) On January 24, 1979 the court issued a preliminary injunction enjoining Rio Algoma Limited and other defaulting defendants, from:

- (i) transferring any interest in property located within the United States,
- (ii) withdrawing any United States assets from the jurisdiction of the United States, and
- (iii) taking any other action which would result in divesting the respective defendants of ownership or control of United States assets or in withdrawing such assets from the jurisdiction of the United States.

Excluded from the effect of the injunction are transfers in the ordinary course of business of assets valued at less than \$10,000 and any transfer, 20 days prior notice of which is given to counsel for plaintiff and to the court.

Aside from the foregoing orders, the case is in the discovery stages of pretrial proceedings.

In November, 1977 thirteen companies, including Rio Algoma Limited and Rio Algoma Corporation, were made defendants in three separate, but similar, actions brought by Tennessee Valley Authority (TVA). In these actions, TVA alleged violations of the United States Sherman Antitrust Act and the Wilson Tariff Act and sought to recover treble damages and to secure injunctive relief from each of the defendants. TVA also sought a declaratory judgment to determine the defendants' liability. On advice of counsel Rio Algoma Limited did not appear in this litigation. Rio Algoma Corporation has appeared and is contesting TVA's complaint.

TVA is the purchaser under a contract with Rio Algoma Limited entered into in August 1974 providing for the delivery, in the form of UF_6 , of the equivalent of 17,000,000 pounds of U_3O_8 in concentrates over the period 1979 to 1990. During each calendar quarter in 1979 Rio Algoma Limited is to make shipments to Eldorado Nuclear Limited at Port Hope, Ontario of an aggregate of 250,000 pounds of U_3O_8 in concentrates to be converted by Eldorado to UF_6 . The title to such U_3O_8 in concentrates passes to TVA when the concentrates are placed in storage at Eldorado's plant. In 1980 and subsequent years title passes from Rio Algoma Limited to TVA when the UF_6 is delivered by Rio Algoma Limited at destinations in the United States. All payments under the contract are to be made in Toronto within 20 days after invoicing by Rio Algoma Limited.

On February 26, 1979, TVA commenced an action against Rio Algoma Limited in the United States District Court for the Southern District of New York for a declaration vacating the expert's determination of the settlement price under the contract for 1980 deliveries.

TVA and Rio Algoma Limited have agreed to a meeting on March 16, 1979 to discuss, among other matters related to the TVA contract, whether the injunction entered in the Westinghouse litigation would affect TVA's ability or intention to make payments under the contract.

For events subsequent to March 2, 1979, the date of the Report of Independent Public Accountants, see "The Proposed Amalgamation—Special Factors—Westinghouse Litigation and TVA Contract" and "Business of Rio Algoma—Legal Proceedings".

- (c) The shares representing Rio Algoma's investment in an affiliated company have been pledged as security for debt owing by that affiliated company.
- (d) At December 31, 1978 Lornex has a contingent liability to buy back houses and mobile home lots at Lornex' Logan Lake townsite for \$4,808,639 (\$3,747,566 at September 30, 1979). This liability continues until December 31, 1982; the cost of the buyback declines by 5% per annum thereafter.

9. PENSION PLANS

Most employees are covered by either a contributory or a non-contributory pension plan. The funds of all the various pension plans are administered by a corporate trustee. In general some plans provide for benefits at specified rates per month per year of service, and other plans provide for benefits based on years of service and/or individual earnings.

Total pension expense, charged against earnings in the period of payment to the trustee, was:

Year ended December 31					Nine months ended September 30, 1979 (unaudited)
1974	1975	1976	1977	1978	
<u>\$2,179,728</u>	<u>\$2,411,612</u>	<u>\$5,077,507</u>	<u>\$6,071,277</u>	<u>\$6,971,722</u>	<u>\$6,691,792*</u>

The unfunded liability for Rio Algom's pension funds at September 30, 1979 was estimated at \$33,458,000*. This liability is presently being funded over a period of 16 years as follows:

- (a) \$1,172,000 in the balance of 1979,
- (b) \$3,617,000 per annum for 1980 and 1981,
- (c) \$3,494,000 per annum for 1982 to 1988 inclusive,
- (d) \$3,280,000 per annum for 1989 and 1990,
- (e) \$1,990,000 in 1991,
- (f) \$1,697,000 in 1992,
- (g) \$1,574,000 in 1993, and
- (h) \$198,000 in 1994.

*Does not include United States subsidiaries.

The corresponding unfunded liability at December 31, 1978 was \$18,483,000 (including pension funds of United States subsidiaries).

10. BONUS, PROFIT SHARING AND OTHER SIMILAR PLANS

Rio Algom's Incentive Bonus Plan which was adopted by the directors in 1976 and amended in February, 1977, provides for bonuses to be awarded in respect of services rendered in a year by senior members of management who are best able to influence Rio Algom's results of operations. The Plan provides that provision for bonus awards in respect of services rendered in any year is subject to approval by the board of directors of Rio Algom which may from time to time, amend, or at any time, rescind or terminate the Plan as it shall deem advisable and that such provision shall be made only if the consolidated earnings of Rio Algom and its subsidiaries before income and mining taxes and minority interests exceed 15% of shareholders' equity at the end of the preceding year. The amount of an award to an individual is based upon performance, is related to annual salary and is payable in March of the year following the year during which the services were rendered unless payment is deferred. The officers and certain employees have the right on or before November 30 of a year in respect of which bonuses will be awarded to elect to defer payment of any bonus award which may be made to them and employment for the whole of such year will be a condition of entitlement. The accumulated amounts of such deferred bonus in respect of which such election has been exercised will accumulate at a rate or percentage of enhancement approved by the board of directors for each year (such rate was 9.66% for the year ended December 31, 1978 and 9.96% for the nine months ended September 30, 1979 compounded semi-annually commencing January 1 of each year).

Rio Algom set aside for all employees in respect of services rendered in 1978 an amount of \$823,450. Pursuant to an Incentive Performance Plan, \$250,000 was charged to 1978 earnings in respect of awards which had been made in 1973. Under the Plan, recipients of awards are to receive deferred compensation based in general on the following factors: the number of share units awarded to a participant under the Plan; changes in the market price of the common shares prior to the maturity of a participant's interest in the Plan; the amount of dividends declared on the common shares prior to such maturity; and, depending on an election made, changes during the subsequent payment period in either the market price of the common shares or the prime rate of interest. Due to the market price trend of the common shares no provision was deemed necessary with respect to the years 1974 to 1977 inclusive.

11. UNAUDITED QUARTERLY RESULTS

The quarterly revenue, gross profit, 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 amounts):

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
1979 (excludes United States subsidiaries)					
Revenue.....	\$171.0	\$151.7	\$174.0		
Gross profit.....	58.8	45.0	79.1		
Net earnings.....	19.2	7.9	18.8		
Earnings per share.....	1.41	0.58	1.38		
1978					
Revenue.....	\$133.0	\$148.9	\$131.8	\$162.4	\$576.1
Gross profit.....	39.9	49.7	42.6	58.7	190.9
Net earnings.....	12.8	15.1	14.5	19.4	61.8
Earnings per share.....	0.94	1.10	1.06	1.43	4.53

12. EFFECTS OF APPLYING UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Rio Algom's accounting policy for conversion to Canadian dollars of accounts in foreign currencies is in accordance with the United States Financial Accounting Standards Board Statement No. 8 with the exception of its requirement to translate long-term debt at period-end exchange rates. Net unrealized gains on conversion of foreign currencies including current portion of long term debt, amounting to \$3,950,000, were credited to earnings in the nine months ended September 30, 1979 (\$7,144,000 in the year ended December 31, 1978).

Long term debt formerly included bank loans of a subsidiary company, Lornex Mining Corporation Ltd., payable in United States dollars, amounting to U.S. \$25,000,000 at December 31, 1978 which had been converted to Canadian dollars at the rate in effect at the time of the borrowing. These loans were repaid in full during the nine months ended September 30, 1979. If the United States policy had been followed Rio Algom's net earnings would have been increased by \$3,506,000 during the nine months ended September 30, 1979 and by \$363,000 for the year ended December 31, 1978; the increase (decrease) in quarterly earnings would have been as follows:

1979—1st qtr.—\$890,000; 2nd qtr.—\$1,416,000; 3rd qtr.—\$1,200,000.

1978—1st qtr.—\$(990,000); 2nd qtr.—\$574,000; 3rd qtr.—\$(1,051,000); and 4th qtr.—\$1,830,000.

In addition, generally accepted accounting principles in the United States require the restatement of earnings of prior periods to exclude the results of unconsolidated subsidiaries and the public accountants' report to be qualified for consistency of application of generally accepted accounting principles when a change occurs in the consolidated entity such as set forth under "Basis of Consolidation" on page 75.

The effect on consolidated net earnings for the five years ended December 31, 1978 and the nine months ended September 30, 1978 and 1979 of (1) excluding Rio Algom's United States subsidiaries during each period and (2) following the United States policy of converting long term debt at period-end rates of exchange is as follows (expressed in thousands of dollars except per share amounts):

	Year ended December 31					Nine months ended September 30,	
	1974	1975	1976	1977	1978	1978	1979 (unaudited)
Net earnings for the period, as reported.....	\$43,824	\$30,032	\$31,629	\$42,815	\$61,817	\$42,393	\$45,933
Add (deduct):							
Net (earnings) losses of United States subsidiaries...	2,085	(843)	19	(3,290)	(5,541)	(4,306)	*
Gain (loss) on conversion of long term debt at period-end rates of exchange.....	429	(670)	(1,507)	(2,634)	363	(1,467)	3,506
Net earnings for the period (adjusted on a U.S. basis) ..	<u>\$46,338</u>	<u>\$28,519</u>	<u>\$30,141</u>	<u>\$36,891</u>	<u>\$56,639</u>	<u>\$36,620</u>	<u>\$49,439</u>
Primary earnings per common share:							
As reported.....	\$ 3.52	\$ 2.28	\$ 2.29	\$ 3.12	\$ 4.53	\$ 3.10	\$ 3.37
Adjusted on a U.S. basis.....	3.72	2.16	2.18	2.69	4.15	2.68	3.63

*Net earnings of the United States subsidiaries for the nine months ended September 30, 1979 were \$2,662,000, no part of which has been included in net earnings as reported.

13. UNAUDITED REPLACEMENT COST INFORMATION

In compliance with the United States Securities and Exchange Commission's Rule 3-17 of Regulation S-X, Rio Algoma has prepared data on the replacement cost of certain assets and related costs based on replacement cost values. However, the SEC cautions investors and analysts against "simplistic use" of replacement cost information.

The use of the data as presented will not provide either a valid or complete indication of the impact of inflation on Rio Algoma's earnings. The SEC's rule is limited and does not cover all factors that impact on financial position and operations as a result of inflation—for example, no consideration is given to the gains or losses resulting from holding monetary assets or liabilities.

Also, the replacement cost concept embraces total and immediate replacement of productive capacity at current prices, an unrealistic eventuality. Decisions concerning replacement will be made in the light of economic, regulatory, competitive and other conditions existing or forecasted on the date such determinations are made and would probably differ substantially in a number of aspects from the assumptions made on which the data included herein are based.

Rio Algoma believes that the limitations due to estimations requiring subjective judgments and assumptions of management apply specifically to the replacement cost information presented in this note. The technology currently available to Rio Algoma and its subsidiaries is undergoing change in a number of areas, and the effect thereof on replacement decisions, replacement costs and depreciation charges cannot be predicted precisely.

The current replacement cost data presented herein are not necessarily representative of the "current value" of existing inventory and productive capacity. Further, the difference between the replacement cost and historical cost of inventory and productive capacity does not represent additional book value for Rio Algoma's common shareholders.

Replacement cost data in respect of copper and uranium mining operations is presented only for plant and equipment, since the SEC instructions with respect to information to be furnished as to mineral resource assets excludes other assets such as mining properties and preproduction and development expenditures.

The replacement cost of approximately 52% of the raw materials and supplies used in steel operations has been computed based on published or quoted prices. The percentage difference between historical cost and current replacement cost, by category, resulting therefrom was assumed to apply to the remaining items.

The replacement cost of finished goods and in process inventories in the two steel plants has been estimated on the basis of standard costs adjusted to reflect current material, labour and overhead variances, and further adjusted where necessary, to reflect material changes in productivity; depreciation charges are not included in the valuation of inventories.

The replacement cost of finished goods in the metals service centres has been estimated by applying to the December 31, 1978 historical average cost values of major product groups, comprising approximately 88% of the stock, internal indices which reflect turnover and the average price changes during the turnover period; the resultant average percentage increase was applied to the remainder of the stock.

With respect to mining operations the value at which the inventories of concentrates awaiting shipment are carried is not based on cost, but is based on estimated realizable metal prices under contracts applicable to current production. Therefore it would not be meaningful to provide replacement cost figures for those inventories.

The replacement cost of mine supplies was estimated by applying appropriate published industry indices to the historical cost figures.

The replacement cost of the steel operations' warehouse, office and manufacturing facilities was developed in the main from recent appraisals of reproduction costs to which were applied appropriate published industry indices for the purpose of updating.

For approximately 12% of the mining plant and equipment the replacement cost was developed from a recent appraisal of reproduction costs to which were applied appropriate published industry indices for the purpose of updating. The replacement cost of the remaining mining plant and equipment was developed from applying similar published indices to the historical cost of the assets; these assets were

mainly constructed or acquired within the last ten years at new mines which commenced operations in October, 1972.

The replacement cost of steel sales was estimated through adjustment of standard costs and historical costs, where applicable, by the variances in material, labour and overhead for the approximately three-month time lag between incurring of inventory costs and their subsequent conversion into sales revenue.

With respect to the mining cost of sales it would not be meaningful to provide replacement cost figures; inventories of concentrates awaiting shipment are valued at estimated realizable metal prices and, accordingly, revenues and costs related to the production of those revenues are generally recorded in the same year. Such metal prices are in excess of an estimated replacement cost based on current labour and materials costs and on the grade of ore currently mined but using historical amounts for depreciation, depletion and amortization.

Depreciation based on the replacement cost of productive capacity has been estimated using the same bases and rates as applied to the historical cost of such capacity.

Replacement cost data at December 31, 1978 and 1977 and for the years then ended are as follows:

	1978		1977	
	Replacement Cost	Historical Cost	Replacement Cost	Historical Cost
(in millions)				
Inventories:				
Steel operations –				
Raw materials and supplies.....	\$ 12.8	\$ 12.2	\$ 14.5	\$ 14.3
Work in process.....	39.6	38.3	32.3	32.3
Finished goods.....	50.0	48.4	44.4	42.7
	<u>\$102.4</u>	<u>\$ 98.9</u>	<u>\$ 91.2</u>	<u>\$ 89.3</u>
Mining operations –				
Mine supplies.....	<u>\$ 24.3</u>	<u>\$ 22.4</u>	<u>\$ 18.1</u>	<u>\$ 17.6</u>
Property, plant and equipment:				
(excluding land, etc.)				
Steel and corporate assets.....	\$375.1	\$141.0	\$346.7	\$137.3
Accumulated depreciation.....	179.8	73.1	150.7	65.0
	<u>195.3</u>	<u>67.9</u>	<u>196.0</u>	<u>72.3</u>
Mining assets.....	438.4	285.5	304.0	171.1
Accumulated depreciation.....	145.9	95.3	128.7	72.5
	<u>292.5</u>	<u>190.2</u>	<u>175.3</u>	<u>98.6</u>
Total property, plant and equipment.....	\$813.5	\$426.5	\$650.7	\$308.4
Accumulated depreciation.....	325.7	168.4	279.4	137.5
	<u>\$487.8</u>	<u>\$258.1</u>	<u>\$371.3</u>	<u>\$170.9</u>
Steel operations' cost of goods sold, including \$18.9 and \$17.1 respectively, of replacement cost depreciation and \$8.4 and \$7.6, respec- tively, of historical cost depreciation.....	<u>\$280.8</u>	<u>\$264.5</u>	<u>\$241.9</u>	<u>\$228.3</u>
Depreciation of mining fixed assets.....	<u>\$ 29.7</u>	<u>\$ 19.4</u>	<u>\$ 19.6</u>	<u>\$ 12.2</u>

The basic replacement cost data presented above does not reflect any operating cost savings that might result from the replacement or modernization of existing assets with assets in which improved technology might be embodied.

The total of the historical costs of productive capacity as detailed above is significantly less than the amount recorded in the statement of financial position because the figures do not include the values of fully depreciated assets of presently idle mines and construction in progress (representing assets being constructed for the current expansion programs at Elliot Lake).

The replacement cost data above do not reflect all of the effects of inflation and other economic factors on the current cost of operating the business. Rio Algom has not attempted to quantify the total effect of these factors because of the many unresolved conceptual problems involved in so doing. Further, the above replacement cost information standing alone does not reflect the normal relationships between cost changes and selling price changes.

Rio Algom's policy is generally to expense all costs of exploration activities including costs of acquiring mineral rights, leases or properties; such exploration expenditures totalled \$6.0 million in 1978. It has been Rio Algom's experience that exploration expenditures of this magnitude are required annually to maintain the position of Rio Algom and its subsidiaries in the mining industry. Such costs can be expected to increase in future by the effect of inflation. As part of the Elliot Lake expansion programs Rio Algom expended and capitalized \$18.5 million in 1978 on development of ore bodies, including preproduction expenditures and capitalized interest; \$17.3 million is included in mining properties and preproduction expenditures and \$1.2 million in construction in progress in the attached statement of financial position at December 31, 1978. In addition Rio Algom and its subsidiaries expended \$9.3 million on mining properties and \$125.1 million on preproduction and development at existing mines in prior years; during 1978 amortization of these expenditures amounted to \$3.5 million and the net book value of those assets was \$62.2 million at December 31, 1978.

14. BUSINESS SEGMENT DATA

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

<u>Business Segment</u>	<u>Operations</u>
Uranium.....	Underground mining and milling of uranium ore and sale of uranium concentrates.
Copper.....	Open pit mining and milling of copper and molybdenum ore and sale of concentrates.
Steel.....	Manufacture and/or distribution of stainless steels, machinery and other steels and other metal products.

Revenue from mine production and sales of steel and other products, by segment, are as follows (all are to unaffiliated customers):

	Year Ended December 31,				
	1974	1975	1976	1977	1978
			(in thousands)		
– Uranium.....	\$ 68,232	\$ 93,416	\$ 93,326	\$132,008	\$153,074
– Copper.....	96,586	55,378	82,940	75,449	88,096
– Steel.....	225,753	218,588	225,345	279,130	334,885
	<u>\$390,571</u>	<u>\$367,382</u>	<u>\$401,611</u>	<u>\$486,587</u>	<u>\$576,055</u>

The operating profit of each segment is as follows:

– Uranium.....	\$ 35,547	\$ 49,215	\$ 37,270	\$ 58,107	\$ 57,022
– Copper.....	45,900	13,814	34,906	19,281	30,068
– Steel.....	36,431	19,270	7,192	17,733	32,771
	<u>117,878</u>	<u>82,299</u>	<u>79,368</u>	<u>95,121</u>	<u>119,861</u>

Deduct:

Exploration.....	5,143	6,198	6,827	6,391	5,951
Corporate expenses.....	5,170	6,412	6,064	6,376	6,582
Interest (net).....	3,356	3,827	(2,405)	(708)	2,224
	<u>13,669</u>	<u>16,437</u>	<u>10,486</u>	<u>12,059</u>	<u>14,757</u>
Earnings before taxes and minority interests.....	<u>\$104,209</u>	<u>\$ 65,862</u>	<u>\$ 68,882</u>	<u>\$ 83,062</u>	<u>\$105,104</u>

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

During the last five years the following products contributed the percentages of consolidated revenue shown:

	1974	1975	1976	1977	1978
Uranium.....	17%	25%	23%	27%	27%
Copper and molybdenum.....	25	15	21	16	15
Stainless steels.....	30	27	26	28	27
Machinery steels.....	10	12	8	11	12
Other products.....	18	21	22	18	19
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Identifiable assets of each segment are as follows:

	December 31,				
	1974	1975	1976	1977	1978
			(in thousands)		
Uranium.....	\$ 98,770	\$115,644	\$116,572	\$171,295	\$242,902
Copper and molybdenum.....	173,645	172,817	189,875	188,504	179,209
Steel.....	178,931	180,392	200,147	212,630	235,225
Segment identifiable assets.....	451,346	468,853	506,594	572,429	657,336
General corporate assets.....	20,965	72,262	123,525	110,216	98,891
Total assets.....	<u>\$472,311</u>	<u>\$541,115</u>	<u>\$630,119</u>	<u>\$682,645</u>	<u>\$756,227</u>

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 investment in and advances to an affiliated company.

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

	Year Ended December 31,	
	1977	1978
		(In thousands)
Uranium.....	\$ 7,505	\$ 13,927
Copper.....	8,816	9,001
Steel.....	9,190	9,307
Segment depreciation, depletion and amortization expense.....	25,511	32,235
General corporate depreciation.....	91	93
Total depreciation, depletion and amortization expense.....	<u>\$ 25,602</u>	<u>\$ 32,328</u>

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

	Year Ended December 31,	
	1977	1978
		(In thousands)
Uranium.....	\$ 71,483	\$ 77,283
Copper.....	18,584	4,427
Steel.....	5,213	4,571
Segment capital expenditures.....	95,280	86,281
General corporate capital expenditures.....	112	48
Total capital expenditures (net).....	<u>\$ 95,392</u>	<u>\$ 86,329</u>

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

	Year Ended December 31,	
	1977	1978
	(In thousands)	
Domestic operations - Canada (A).....	\$417,898	\$489,326
Foreign operations - United States of America, Australia, United Kingdom and Mexico.....	68,689	86,729
Consolidated revenue.....	<u>\$486,587</u>	<u>\$576,055</u>

A - (i) Includes export revenue from sales to unaffiliated customers of approximately \$231,830,000 and \$185,874,000 in 1978 and 1977 respectively as follows:

	Year Ended December 31,	
	1977	1978
	(In thousands)	
Japan.....	\$ 80,545	\$ 91,708
United States.....	28,204	47,016
United Kingdom.....	61,149	57,849
Other countries.....	15,976	35,257
	<u>\$185,874</u>	<u>\$231,830</u>

(ii) Does not include revenue from inter-company sales to foreign operations of \$14,926,000 in 1977 and \$19,292,000 in 1978.

Operating profit of domestic and foreign operations is as follows:

	Year Ended December 31,	
	1977	1978
	(In thousands)	
Domestic (Canada).....	\$ 85,385	\$105,690
Foreign.....	9,736	14,171
Operating profit of segments.....	<u>\$ 95,121</u>	<u>\$119,861</u>

Identifiable assets of Rio Algom's foreign operations totalled \$52,569,000 and \$60,971,000 at December 31, 1977 and 1978 respectively.

15. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

Presented below is supplementary profit and loss information for the periods indicated (in thousands of dollars):

	Charged to Costs and Expenses During Year Ended December 31,					Nine Months Ended September 30, (unaudited)
	1974	1975	1976	1977	1978	
Maintenance and repairs.....	\$32,946	\$33,949	\$41,736	\$56,883	\$68,226	\$51,508
Depreciation, depletion and amortization of property, plant and equipment.....	15,095	14,427	16,383	20,777	27,793	24,171
Depreciation and amortization of intangible assets,* deferred research and development expenses, preoperating costs and similar deferrals.....	5,863	5,992	4,461	5,517	4,610	2,838
Taxes other than income taxes....	3,797	4,327	5,370	6,222	6,718	5,424

*Depreciation and amortization of intangible assets includes amortization of excess of cost over adjusted book value of assets acquired as reflected separately in the consolidated summary of earnings.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Directors of
PRESTON MINES LIMITED:

We have examined the statement of financial position of Preston Mines Limited as at December 31, 1978 and the statements of earnings (included under the caption "Summary of Earnings"), retained earnings, contributed surplus and changes in financial position for the five years ended December 31, 1978. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the company as at December 31, 1978, the results of its operations and the changes in its financial position for the five years ended December 31, 1978, in conformity with generally accepted accounting principles in Canada applied on a consistent basis.

The difference between accounting principles generally accepted in Canada and those generally accepted in the United States, as it affects the accompanying financial statements, is shown in Note 6.

Toronto, Canada
March 2, 1979

COOPERS & LYBRAND
Chartered Accountants

PRESTON MINES LIMITED

Statement of Financial Position
December 31, 1978 and September 30, 1979
(Expressed in Canadian dollars in thousands)

	December 31, 1978	September 30, 1979
	(unaudited)	
Current assets:		
Cash and short-term deposits.....	\$ 146	\$ 460
Accounts receivable and prepaid expenses.....	3	48
Total.....	<u>149</u>	<u>508</u>
Less:		
Current liabilities:		
Accounts payable and accrued liabilities.....	443	4,492
Payable to Rio Algom Limited.....	179	268
Unclaimed dividends	<u>331</u>	<u>331</u>
	<u>953</u>	<u>5,091</u>
Working capital (deficiency).....	(804)	(4,583)
Investment in Rio Algom Limited		
5,920,640 common shares (note 1).....	167,352	182,911
Construction in progress – Stanleigh Property (note 3).....	<u>4,273</u>	<u>23,330</u>
Total assets less current liabilities.....	<u>170,821</u>	<u>201,658</u>
Deduct:		
Housing mortgages.....	—	673
Advances from Ontario Hydro (note 3).....	<u>1,920</u>	<u>16,157</u>
	<u>1,920</u>	<u>16,830</u>
Excess of assets over liabilities.....	<u><u>\$168,901</u></u>	<u><u>\$184,828</u></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.....	\$ 37,459	\$ 37,459
Contributed surplus.....	24,963	25,019
Retained earnings.....	<u>106,479</u>	<u>122,350</u>
	<u><u>\$168,901</u></u>	<u><u>\$184,828</u></u>

See accompanying notes

PRESTON MINES LIMITED

Statement of Retained Earnings

for the five years ended December 31, 1978 and the nine months ended
September 30, 1978 and 1979

(Expressed in Canadian dollars in thousands)

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
Balance, beginning of period.....	\$ 46,993	\$ 60,742	\$ 67,445	\$ 74,724	\$ 86,789	\$ 86,789	\$106,479
Add:							
Net earnings for the period.....	19,244	12,884	13,460	18,246	26,754	18,247	19,845
	66,237	73,626	80,905	92,970	113,543	105,036	126,324
Deduct:							
Dividends on common shares.....	5,495	6,181	6,181	6,181	7,064	3,091	3,974
Balance, end of period.....	<u>\$ 60,742</u>	<u>\$ 67,445</u>	<u>\$ 74,724</u>	<u>\$ 86,789</u>	<u>\$106,479</u>	<u>\$101,945</u>	<u>\$122,350</u>

Statement of Contributed Surplus

for the five years ended December 31, 1978 and the nine months ended
September 30, 1978 and 1979

(Expressed in Canadian dollars in thousands)

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
Balance, beginning of period.....	\$ 24,994	\$ 24,994	\$ 24,731	\$ 24,762	\$ 24,897	\$ 24,897	\$ 24,963
Add (deduct):							
Equity in increase (decrease) in con- tributed surplus of Rio Algom Limited.....	—	(133)	31	135	66	19	56
Expense of common share capital issue.....	—	(130)	—	—	—	—	—
Balance, end of period.....	<u>\$ 24,994</u>	<u>\$ 24,731</u>	<u>\$ 24,762</u>	<u>\$ 24,897</u>	<u>\$ 24,963</u>	<u>\$ 24,916</u>	<u>\$ 25,019</u>

See accompanying notes

PRESTON MINES LIMITED

Statement of Changes in Financial Position

for the five years ended December 31, 1978 and the nine months ended
September 30, 1978 and 1979

(Expressed in Canadian dollars in thousands)

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978 (unaudited)	1979
Source of funds:							
Dividends from Rio Algom Limited.	\$ 5,382	\$ 5,921	\$ 5,921	\$ 6,394	\$ 7,637	\$ 3,197	\$ 4,440
Advances received from Ontario Hydro.....	—	—	—	—	1,920	1,547	14,237
Housing mortgages (net).....	—	—	—	—	—	—	673
Excess (deficiency) sundry income over miscellaneous expenses.....	226	2	(97)	(126)	(176)	(128)	(98)
Add charge not affecting working capital—							
Loss on sale of Rio Algom debentures.....	—	—	24	—	—	—	—
	5,608	5,923	5,848	6,268	9,381	4,616	19,252
Issue of common shares (net of issue expense).....	—	10,418	—	—	—	—	—
Proceeds from sale of Rio Algom debentures.....	—	—	453	—	—	—	—
	5,608	16,341	6,301	6,268	9,381	4,616	19,252
Disposition of funds:							
Dividends on common shares.....	5,495	6,181	6,181	6,181	7,064	3,091	3,974
Construction in progress – Stanleigh Property.....	—	—	—	715	2,966	2,004	19,057
Investment in 538,240 shares of Rio Algom.....	—	11,303	—	—	—	—	—
	5,495	17,484	6,181	6,896	10,030	5,095	23,031
Increase (decrease) in working capital.....	113	(1,143)	120	(628)	(649)	(479)	(3,779)
Working capital (deficiency), beginning of period.....	1,383	1,496	353	473	(155)	(155)	(804)
Working capital (deficiency), end of period.....	<u>\$ 1,496</u>	<u>\$ 353</u>	<u>\$ 473</u>	<u>\$ (155)</u>	<u>\$ (804)</u>	<u>\$ (634)</u>	<u>\$ (4,583)</u>

See accompanying notes

Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada; in relation to the statements of Preston these principles are substantially the same as those principles generally accepted in the United States of America except for the difference in conversion of foreign currencies described in Note 6.

PRESTON MINES LIMITED

Notes to Financial Statements

December 31, 1978 and September 30, 1979

(Expressed in Canadian dollars)

All data and figures for the five years ended December 31, 1978 are audited; those for the nine months ended September 30, 1978 and September 30, 1979 are unaudited.

1. INVESTMENT IN RIO ALGOM LIMITED

Preston's investment in common shares of Rio Algom Limited represents 43.80% of the issued common shares of Rio Algom and is carried on the equity accounting basis. The cost of Preston'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:

	December 31, 1978	September 30, 1979
Buildings, machinery and equipment, at cost.....	\$8,340,079	\$ 8,340,079
Less accumulated depreciation.....	<u>8,340,079</u>	<u>8,340,079</u>
	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>
Mining properties, at cost.....	\$ 569,789	\$ 569,789
Less accumulated amortization	<u>569,787</u>	<u>569,787</u>
	<u><u>\$ 2</u></u>	<u><u>\$ 2</u></u>
3. ADVANCES FROM ONTARIO HYDRO	December 31, 1978	September 30, 1979
Balance owing at period-end.....	<u><u>\$1,920,063</u></u>	<u><u>\$16,157,000</u></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 Preston has no liability for income or mining taxes for 1978 and the nine months ended September 30, 1979.

5. MANAGEMENT FEE

Preston's affiliated corporation, Rio Algom Limited, has agreed to manage the development and subsequent operations of the Stanleigh Project and Preston 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 management fees are included in construction in progress in the attached statement of financial position.

6. EFFECTS OF APPLYING UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Rio Algom's accounting policy for conversion to Canadian dollars of accounts in foreign currencies is in accordance with the United States Financial Accounting Standards Board Statement No. 8 with the exception of its requirement to translate long-term debt at period-end exchange rates. Long-term debt of Rio Algom formerly included bank loans of a subsidiary company, Lornex Mining Corporation Ltd., payable in U.S. dollars, amounting to U.S. \$25,000,000 at December 31, 1978, which had been converted to Canadian dollars at the rate in effect at the time of borrowing. If the United States policy had been followed Preston's net earnings and equity in the earnings of Rio Algom for the nine months ended September 30, 1979 would have been increased by \$1,536,000 (\$159,000 for the year ended December 31, 1978). The effect on Preston's earnings for the five years ended December 31, 1978 and the nine months ended September 30, 1978 and 1979 of following the United States policy of converting long-term debt at period-end rates of exchange as compared to Rio Algom's policy of converting such debt at the rates in effect at the time of borrowing is as follows (expressed in thousands of dollars except per share amounts):

	Year ended December 31					Nine months ended September 30	
	1974	1975	1976	1977	1978	1978	1979
						(unaudited)	
Net earnings for the period as reported.....	\$19,244	\$12,884	\$13,461	\$18,246	\$26,754	\$18,247	\$19,845
Add (deduct) equity in Rio Algom profit (loss) on conversion of long-term debt at period-end rates of exchange.....	188	(294)	(660)	(1,154)	159	(643)	1,536
Net earnings for the period, adjusted.....	<u>\$19,432</u>	<u>\$12,590</u>	<u>\$12,801</u>	<u>\$17,092</u>	<u>\$26,913</u>	<u>\$17,604</u>	<u>\$21,381</u>
Primary earnings per common share:							
As reported.....	\$2.45	\$1.54	\$1.52	\$2.07	\$3.03	\$2.07	\$2.25
Adjusted.....	2.48	1.51	1.45	1.94	3.05	1.99	2.42

7. 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	
	1978	1979	1978	1979	1978	1979
March 31.....	\$ 5.4	\$ 8.4	\$ 5.4	\$ 8.3	\$0.61	\$0.94
June 30.....	6.7	3.4	6.6	3.4	0.75	0.39
September 30.....	6.3	8.1	6.2	8.1	0.71	0.92
December 31.....	8.5		8.6		0.96	
	<u>\$26.9</u>		<u>\$26.8</u>		<u>\$3.03</u>	

EXHIBIT A

AMALGAMATION AGREEMENT made as of the 17th day of December, 1979
BETWEEN:

RIO ALGOM LIMITED, a corporation incorporated under
the laws of the Province of Ontario (hereinafter called
"Rio Algom")

OF THE FIRST PART

—and—

PRESTON MINES LIMITED, a corporation incorporated
under the laws of the Province of Ontario (hereinafter called
"Preston")

OF THE SECOND PART

WHEREAS Rio Algom is a corporation continued under The Corporations Act, 1953 (Ontario) by letters patent of amalgamation dated June 30, 1960; and

WHEREAS Preston is a corporation continued under The Corporations Act, 1953 (Ontario) by letters patent of amalgamation dated August 31, 1960; and

WHEREAS the authorized capital of Rio Algom is divided into 438,016 first preference shares of the par value of \$100 per share issuable in one or more series, of which 88,016 shares, designated \$5.80 cumulative redeemable preference shares Series A, ("Rio Algom First Preference Shares") have been issued and are outstanding as fully paid and nonassessable; and 15,000,000 common shares without par value ("Rio Algom Common Shares") of which 13,517,194 have been issued and are outstanding as fully paid and nonassessable; and

WHEREAS the authorized capital of Preston is divided into 1,069,925 4% cumulative redeemable preference shares of the par value of \$0.50 per share, none of which have been issued or are outstanding; and 10,000,000 common shares without par value ("Preston Common Shares") of which 8,830,499 have been issued and are outstanding as fully paid and non-assessable; and

WHEREAS Rio Algom and Preston, acting under the authority contained in The Business Corporations Act (Ontario), have agreed to amalgamate upon the terms and conditions hereinafter set out; and

WHEREAS the parties have each made full disclosure to one another of their respective assets and liabilities; and

WHEREAS it is desirable that the said amalgamation should be effected;

NOW THEREFORE THIS INDENTURE WITNESSETH as follows:

1. In this Agreement
 - (a) "Amalgamated Corporation" and "Corporation" mean the corporation continuing from the amalgamation of Rio Algom and Preston;
 - (b) "Amalgamation Agreement" or "Agreement" means this amalgamation agreement;
 - (c) "Act" means The Business Corporations Act (Ontario); and
 - (d) words and phrases used herein and defined in the Act shall have the same meaning herein as in the Act unless the context otherwise requires.
2. Rio Algom and Preston hereby agree to amalgamate as of the later of the close of business on December 31, 1979, or the close of business on such other date as may be contained in the certificate of amalgamation issued to the Amalgamated Corporation (such date on which the amalgamation becomes effective being hereinafter called the "Effective Date") under the provisions of section 196 of the Act and to continue as one corporation under the terms and conditions hereinafter set out.

3. The name of the Amalgamated Corporation shall be Rio Algoma Limited and the objects of the Amalgamated Corporation shall be as follows:

- (a) To carry on in all its branches the business of mining, milling, reduction and development;
- (b) To acquire, own, lease, prospect for, open, explore, develop, work, improve, maintain and manage mines and mineral lands and deposits, and to dig for, raise, crush, wash, smelt, assay, analyze, reduce, amalgamate, refine, pipe, convey and otherwise treat ores, metals and minerals, whether belonging to the Corporation or not, and to render the same merchantable and to sell or otherwise dispose of the same or any part thereof or interest therein;
- (c) To take, acquire and hold as consideration for ores, metals or minerals sold or otherwise disposed of or for goods supplied or for work done by contract or otherwise shares, debentures or other securities of or in any other corporation having objects similar in whole or in part to those of the Corporation and to sell and otherwise dispose of the same;
- (d) To carry on the business of geophysical, geological, industrial and management consultants;
- (e) Subject to The Professional Engineers Act (Ontario), to carry on the business of engineering;
- (f) To make geological, geophysical, forestry and other scientific and natural resources surveys and to carry on experimental, development and commercial work in connection therewith;
- (g) To manufacture, produce, prepare, smelt, refine, buy, sell and trade and otherwise deal in metals of every nature and kind including the manufacture of iron, steel, brass, bronze and copper bars of every description and open hearth, electric and crucible steel, alloy steel and tool steel of every nature and kind and to manufacture and otherwise deal in and with iron, steel and all other metals from the ore to the finished product thereof;
- (h) To manufacture, buy, sell and trade and deal in and with all chemicals, goods, wares and merchandise of all kinds;
- (i) To manage businesses of all kinds and to furnish advice and services with respect to the organization, reorganization and management of businesses and to receive in payment therefor fees, royalties and commissions, either in cash, securities or other property and to organize, reorganize and develop business enterprises;
- (j) To negotiate for and obtain, either on behalf of the Corporation or on behalf of any other person, firm or corporation, and to enter into, undertake, perform, carry out and execute contracts for the construction, erection, equipping, maintenance, repair and operation of roads, highways, streets, pavements, buildings, works, undertakings, developments and projects, public or private, of every kind and description, and to employ persons to supervise and direct any such work, project or operations;
- (k) To purchase, acquire and hold debentures or other securities of or in any other corporation having objects similar in whole or in part to those of the Corporation;
- (l) To guarantee the payment or performance of any debts, contracts or obligations whatsoever or to become surety for any person, firm or corporation for any purpose whatsoever; and
- (m) To carry on any lawful trade, business or undertaking whatsoever which can be advantageously carried on by the Corporation and to which the authority of the Legislature extends except those of a corporation, the incorporation of which is provided for in any other Act.

IT IS HEREBY DECLARED that the objects specified in each of the foregoing clauses shall be regarded as independent objects and accordingly, shall in no way be limited or restricted by reference to or inference from the terms of any other clause but may be exercised in as full a manner and construed in as wide a sense as if each of the said clauses defines the objects of a separate corporation.

4. Subject to the provisions of the Act, the Amalgamated Corporation may purchase any of its issued common shares.

5. The board of directors of the Amalgamated Corporation may from time to time, in such amounts and on such terms as it deems expedient:

- (a) borrow money on the credit of the Corporation;
- (b) issue, sell or pledge debt obligations including bonds, debentures, notes or other similar obligations, secured or unsecured, of the Corporation; and

(c) charge, mortgage, hypothecate or pledge all or any currently owned or subsequently acquired real or personal, moveable or immoveable, property of the Corporation, including book debts, rights, powers, franchises and undertaking, to secure any securities or any money borrowed, or other debt, or any other obligation or liability of the Corporation.

The powers hereby conferred shall be deemed to be supplementary to and not in substitution for any powers to borrow money for the purposes of the Corporation possessed by its directors or officers independently hereof.

6. The head office of the Amalgamated Corporation shall be in the Municipality of Metropolitan Toronto in the Province of Ontario.

7. The address of the head office of the Amalgamated Corporation shall be 120 Adelaide Street West, Toronto, Ontario M5H 1W5.

8. The authorized capital of the Amalgamated Corporation shall be divided into:

(a) 438,016 first preference shares (the "First Preference Shares") of the par value of \$100 each, issuable in series, having attached thereto, as a class, the preferences, rights, conditions, restrictions, limitations and prohibitions set forth in Schedule A hereto, of which 88,016 of said First Preference Shares of the par value of \$100 each shall be designated "\$5.80 Cumulative Redeemable First Preference Shares Series A" (the "First Preference Shares Series A"), which in addition to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the First Preference Shares as a class, shall have the preferences, rights, conditions, restrictions, limitations and prohibitions set forth in Schedule B hereto;

(b) 25,000,000 second preference shares (the "Second Preference Shares") of the par value of \$5.00 each, issuable in series, having attached thereto, as a class, the preferences, rights, conditions, restrictions, limitations and prohibitions set forth in Schedule C hereto, of which 8,830,499 of said Second Preference Shares of the par value of \$5.00 each shall be designated "8.5% Cumulative Redeemable Second Preference Shares Series A" (the "Second Preference Shares Series A"), which in addition to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the Second Preference Shares as a class, shall have the preferences, rights, conditions, restrictions, limitations and prohibitions set forth in Schedule D hereto; and

(c) 25,000,000 common shares without par value.

9. The issued and outstanding shares in the capital of Rio Algoma and Preston shall be converted on the Effective Date into issued and outstanding fully paid shares in the capital of the Amalgamated Corporation as follows:

(a) Each Rio Algoma Common Share issued and outstanding on the Effective Date, other than any of such shares which are held by or on behalf of Preston, shall be converted into one issued and fully paid common share without par value of the Amalgamated Corporation;

(b) Each Rio Algoma First Preference Share issued and outstanding on the Effective Date, other than any of such shares which are held by or on behalf of Preston, shall be converted into one issued and fully paid First Preference Share Series A of the Amalgamated Corporation;

(c) Each Preston Common Share issued and outstanding on the Effective Date, other than any of such shares which are held by or on behalf of Rio Algoma, shall be converted into 0.75 of an issued and fully paid common share without par value of the Amalgamated Corporation and one issued and fully paid Second Preference Share Series A of the Amalgamated Corporation; and

(d) All issued and outstanding shares of Rio Algoma held by or on behalf of Preston (there being 5,920,640 common shares so held at the date hereof) and all issued and outstanding shares of Preston held by or on behalf of Rio Algoma (there being no such shares held at the date hereof) shall be cancelled without any repayment of capital in respect thereof and shall not be converted into shares of the Amalgamated Corporation;

provided that the issued capital of the Amalgamated Corporation, subject to the decrease provided for in clause (d) above, shall be equal to the aggregate of the issued capital of each of Rio Algoma and Preston immediately before the Effective Date.

The shareholders of Rio Algoma shall not be required to surrender their share certificates for new share certificates of the Amalgamated Corporation but shall be entitled in all respects to treat share certificates

of Rio Algoma as representing shares of the Amalgamated Corporation on the basis set forth in this section; provided however, that any shareholder of Rio Algoma, may at such shareholder's option, exercised by notice in writing to the Amalgamated Corporation, require the Amalgamated Corporation to issue to such shareholder new certificates of the Amalgamated Corporation (representing shares of the Amalgamated Corporation to which such shareholder is entitled) against surrender of such shareholder's Rio Algoma share certificates. The shareholders of Preston, when requested by the Amalgamated Corporation, shall surrender the certificates representing the Preston shares held by them and, subject to the provisions of the Act, in return shall be entitled to receive therefor certificates for shares of the Amalgamated Corporation on the basis aforesaid.

10. The affairs and business of the Amalgamated Corporation shall be managed by its board of directors in accordance with the provisions of the articles and by-laws of the Amalgamated Corporation and the Act. The board of directors of the Amalgamated Corporation, until otherwise changed in accordance with the Act, shall consist of fourteen directors and the persons listed hereunder shall be the first directors of the Amalgamated Corporation:

<u>Full Name</u>	<u>Residence Address</u>
GEORGE ROBERT ALBINO.....	2242 High River Court, Mississauga, Ontario L5H 3K4
ROBERT DOUGLAS ARMSTRONG.....	30 Glenorchy Road, Don Mills, Ontario M3C 2P9
JAMES IAN CROOKSTON.....	187 Cottingham Street, Toronto, Ontario M4V 1C4
ALISTAIR GILCHRIST FRAME.....	Birdlands, The Glade, Holmbury St. Mary, Dorking, Surrey, England
JOHN GALBRAITH EDISON.....	133 Dunvegan Road, Toronto, Ontario M4V 2R2
GORDON CECIL GRAY.....	Drynoch Farm, R.R. # 1, Richmond Hill, Ontario L4C 4X7
SAM HARRIS.....	14 East 75th Street, New York, New York 10021, U.S.A.
ROBERT ST. CLAIR HURLBUT.....	18 Sandfield Road, Don Mills, Ontario M3B 2B6
DAVID STRUAN ROBERTSON LEIGHTON.....	101 St. Julien Road, Banff, Alberta T0L 0C0
WILLIAM MOODIE.....	P.O. Box 664, Sutton West, Ontario L0E 1R0
JOHN HERBERT SMITH.....	44 Charles Street West, Apartment 4811, Toronto, Ontario M4Y 1R5
SIR RONALD MARK CUNLIFFE TURNER.....	3 The Grove, Highgate Village, London, England
ROSS JAMES TURNER.....	1455 Sherbrooke Street West, Apt. 3204, Montreal, Quebec H3G 1L2
ROY WILLIAM WRIGHT.....	Cobbers, Forest Row, Sussex, England

The first directors shall hold office until the first annual meeting of the shareholders of the Amalgamated Corporation, or until their successors are elected or appointed. The election of subsequent directors shall take place thereafter in accordance with the provisions of the articles and by-laws of the Amalgamated Corporation and the Act. The subsequent directors shall, subject to the rights, if any, of the holders of the First Preference Shares, the Second Preference Shares and any other class of shares carrying preferential voting rights, be elected each year thereafter by a majority of the votes cast at an annual or general meeting of shareholders of the Amalgamated Corporation duly called and held for such purpose.

11. The by-laws of the Amalgamated Corporation shall, so far as applicable, be the by-laws of Rio Algom until the same shall be added to, repealed, amended or altered.
12. Upon the Effective Date, the Amalgamated Corporation shall possess all the property, rights, privileges, and franchises and shall be subject to all liabilities, contracts, disabilities and debts of each of Rio Algom and Preston as shall exist immediately before the Effective Date.
13. All rights of creditors against the property, rights and assets of each of Rio Algom and Preston and all liens upon their respective property, rights and assets shall be unimpaired by the amalgamation and all debts, contracts, liabilities and duties of each of Rio Algom and Preston shall thenceforth attach to the Amalgamated Corporation and may be enforced against the Amalgamated Corporation.
14. No action or proceeding by or against either of Rio Algom or Preston shall abate or be affected by the amalgamation.
15. Rio Algom and Preston may, by resolutions of their respective boards of directors, assent to any modification of this Agreement which their respective shareholders by special resolution, or the Minister, may require and this Agreement shall be deemed to include any such modification.
16. Upon the confirmation by the shareholders of each of Rio Algom and Preston of a special resolution approving this Agreement, the parties hereto shall jointly file with the Minister articles of amalgamation in duplicate for the purpose of bringing the amalgamation into effect.
17. This Agreement may be terminated by the board of directors of either Rio Algom or Preston at any time before the Effective Date notwithstanding approval of this Agreement by the shareholders of either or both of Rio Algom or Preston.

IN WITNESS WHEREOF this Amalgamation Agreement has been duly executed by the parties hereto under their respective corporate seals as witnessed by the signatures of their proper officers in that behalf.

RIO ALGOM LIMITED

By: R. D. ARMSTRONG
Chairman

c/s

A. C. TURNER
Secretary

PRESTON MINES LIMITED

By: R. D. ARMSTRONG
Chairman

c/s

A. C. TURNER
Secretary

SCHEDULE A

First Preference Shares

The First Preference Shares shall, as a class, have attached thereto the following preferences, rights, conditions, restrictions, limitations and prohibitions:

- (a) The First Preference Shares may at any time or from time to time be issued in one (1) or more series, each series to consist of such number of shares as may before the issue thereof be determined by the directors; the directors of the Corporation may (subject as hereinafter provided) by resolution fix from time to time before the issue thereof the designation, preferences, rights, conditions, restrictions, limitations or prohibitions attaching to first preference shares of each series including, without limiting the generality of the foregoing, the rate of preferential dividends, the dates of payment thereof, the redemption price and the terms and conditions of redemption, conversion rights (if any) and the sinking fund or purchase fund or other provisions, the whole subject to the filing of the prescribed statement with the Minister, and the issuance of his certificate in respect thereof;
- (b) The First Preference Shares of each series shall be entitled to preference over the common shares of the Corporation, and any other shares ranking junior to the first preference shares, with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs and may also be given such other preferences over the common shares of the Corporation and any other shares ranking junior to the First Preference Shares as may be determined as to the respective series authorized to be issued;
- (c) The First Preference Shares of each series shall rank on a parity with the First Preference Shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs; no series of First Preference Shares shall be authorized which shall have a dividend rate in excess of seven percent (7%) per annum on the amounts from time to time paid up thereon or be entitled to receive upon the liquidation, dissolution or winding-up or upon redemption a sum in excess of one hundred and seven percent (107%) of the amounts paid up thereon plus a sum equivalent to all unpaid dividends accumulated thereon;
- (d) The holders of the First Preference Shares shall not be entitled as such (except as hereinafter specifically provided) to receive notice of or to attend any meeting of the shareholders of the Corporation or to vote at any such meeting (but shall be entitled to receive notice of meetings of shareholders of the Corporation called for the purpose of authorizing the dissolution of the Corporation or the sale of its undertaking or a substantial part thereof) unless and until the Corporation from time to time shall fail to pay in the aggregate six (6) quarterly dividends on the First Preference Shares of any one (1) series on the dates on which the same should be paid according to the terms thereof and unless and until six (6) quarterly dividends on such shares shall remain outstanding and shall be unpaid whether or not consecutive and whether or not such dividends have been declared and whether or not there are any moneys of the Corporation properly applicable to the payment of dividends; thereafter but only so long as any dividends on the First Preference Shares of any series remain in arrears, the holders of the First Preference Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Corporation and shall be entitled to one (1) vote in respect of each First Preference Share held and shall be entitled, voting separately and as a class, to elect one-third ($\frac{1}{3}$) of the total number of the directors of the Corporation or, if the total number of the directors be not evenly divisible by three (3), then the next highest number above one-third ($\frac{1}{3}$); nothing herein contained shall be deemed to limit the right of the Corporation from time to time to increase or decrease the number of its directors;

Notwithstanding anything contained in the by-laws of the Corporation, all directors of the Corporation in office at any time when the right to elect directors shall accrue to the holders of the

First Preference Shares as herein provided, or who may be elected as directors thereafter and before a meeting of the shareholders hereinafter referred to, shall retire at the next annual meeting of shareholders or at the general meeting of shareholders which may be held for the purpose of electing directors at any time after the accrual of such right without prejudice to their right to stand for re-election; any such general meeting of shareholders to elect directors may be called upon not less than twenty-one (21) days' written notice and shall be called by the Secretary of the Corporation upon the written request of the holders of record of at least one-tenth (1/10) of the outstanding First Preference Shares; in default of the calling of such general meeting by the Secretary within ten (10) days after the making of such request, such meeting may be called by any holder of record of First Preference Shares; any vacancy or vacancies occurring among members of the board elected to represent the holders of First Preference Shares in accordance with the foregoing provisions may be filled by the board of directors with the consent and approval of the remaining director or directors elected to represent the holders of First Preference Shares but, if there be no such remaining director or directors, the board may elect or appoint sufficient holders of First Preference Shares to fill the vacancy or vacancies; whether or not such vacancy or vacancies is or are so filled by the board, the holders of record of at least one-tenth (1/10) of the outstanding First Preference Shares shall have the right to require the Secretary of the Corporation to call a meeting of the holders of First Preference Shares for the purpose of filling the vacancy or vacancies and the provisions of this paragraph shall apply with respect to the calling of any such meeting;

Notwithstanding anything contained in the by-laws of the Corporation

- (i) upon any termination of the voting rights of the holders of the First Preference Shares, the term of office of the directors elected to represent the holders of the First Preference Shares shall forthwith terminate and
- (ii) the holding of one (1) First Preference Share shall be sufficient to qualify a person for election or appointment as a director of the Corporation to represent the holders of First Preference Shares; and
- (e) The authorization required by subsection 4 of section 189 of The Business Corporations Act to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the First Preference Shares as a class or to create special shares ranking in priority to or on a parity with the First Preference Shares may be given by at least two-thirds (2/3) of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose and held upon at least twenty-one (21) days' notice at which the holders of at least a majority of the outstanding First Preference Shares are present or represented by proxy; if at any such meeting the holders of a majority of the outstanding First Preference Shares are not present or represented by proxy within one-half (1/2) an hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than fifteen (15) days later and to such time and place as may be appointed by the Chairman and not less than ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called; at such adjourned meeting the holders of First Preference Shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than two-thirds (2/3) of the votes cast at such meeting shall constitute the authorization of the holders of the First Preference Shares referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed by the by-laws of the Corporation with respect to meetings of shareholders.

SCHEDULE B

First Preference Shares Series A

The first series of the First Preference Shares shall consist of Eighty-Eight Thousand and Sixteen (88,016) shares of the par value of one hundred dollars (\$100) each, all of which shall be designated "\$5.80 Cumulative Redeemable First Preference Shares Series A" (hereinafter called the "Series A preference shares"), and which, in addition to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the First Preference Shares as a class, shall have attached thereto the following:

- (1) The holders of the Series A preference shares shall be entitled to receive and the Corporation shall pay thereon as and when declared by the board of directors out of moneys of the Corporation properly applicable to the payment of dividends fixed cumulative preferential cash dividends at the rate of five dollars and eighty cents (\$5.80) per share per annum payable quarterly on the first day of January, April, July and October in each year on the amounts from time to time paid up thereon; such dividends shall accrue from such date or dates not later than three (3) months after the respective dates of issue as may in the case of each issue be determined by the board of directors of the Corporation or in case no date be so determined then from the date of allotment; cheques of the Corporation payable at par at any branch of the Corporation's bankers for the time being in Canada (far northern branches excepted) shall be issued in respect of such dividends; if on any dividend payment date the dividend payable on such date is not paid in full on all of the Series A preference shares then issued and outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates determined by the board of directors of the Corporation on which the Corporation shall have sufficient moneys properly applicable to the payment of the same; the holders of the Series A preference shares shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided for;
- (2) In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs (hereinafter called "such distribution"), the holders of the Series A preference shares shall be entitled to receive the amount paid up on such shares, plus a premium of two percent (2%) of the amount paid up thereon in the event that such distribution to the holders of Series A preference shares occurs after the first day of April, 1978, and on or before the first day of April, 1982, or a premium of one percent (1%) of the amount paid up thereon in the event that such distribution to the Series A preference shares occurs after the first day of April, 1982, together in each case with the sum equal to all accrued and unpaid preferential dividends (which for such purpose shall be calculated as if the dividends on the Series A preference shares were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date specified for such distribution) before any amount shall be paid or any property or assets of the Corporation distributed to the holders of the common shares or shares of any other class ranking junior to the Series A preference shares; after payment to the holders of the Series A preference shares of the amount so payable to them they shall not be entitled to share in any further distribution of the property or assets of the Corporation;
- (3) No dividends shall at any time be declared or paid on or set apart for payment on any shares of the Corporation ranking junior to the Series A preference shares unless all dividends up to and including the dividend payable for the last completed quarter on the Series A preference shares then issued and outstanding shall have been declared and paid or set apart for payment at the date such declaration or payment or setting apart for payment on such shares of the Corporation ranking junior to the Series A preference shares nor shall the Corporation call for the redemption or purchase for cancellation or reduce or otherwise pay off
 - (i) less than all of the Series A preference shares then outstanding, or
 - (ii) any shares of the Corporation ranking junior to the Series A preference shares, unless all dividends up to and including the dividend payment for the last completed quarter on the Series A preference shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such call for redemption, purchase, reduction or other payment off;

- (4) Subject to the provisions of clause (3) hereof, the Corporation may at any time or times purchase (if obtainable) for cancellation all or any part of the Series A preference shares outstanding from time to time in the market (including purchase through or from an investment dealer or firm holding membership on a recognized stock exchange) or by invitation for tenders addressed to all the holders of record of the Series A preference shares outstanding at the lowest price or prices at which, in the opinion of the directors, such shares are obtainable but not exceeding the price at which at the date of purchase such shares are redeemable as provided in clause (5) hereof, plus costs of purchase; if upon any invitation for tenders under the provisions of this clause the Corporation shall receive tenders at the lowest price which the Corporation may be willing to pay for more Series A preference shares than the Corporation is prepared to accept, the Series A preference shares so tendered shall be purchased as nearly as may be pro rata (disregarding fractions) according to the number of Series A preference shares so tendered by each holder thereof;
- (5) Subject to the provisions of clause (3) hereof, the Corporation may upon giving notice as hereinafter provided redeem at any time the whole or from time to time any part of the then outstanding Series A preference shares on payment for each share to be redeemed of the amount paid up on such shares, plus a premium of two percent (2%) of the amount paid up thereon with respect to Series A preference shares redeemed after the first day of April, 1978, and on or before the first day of April, 1982, or a premium of one percent (1%) of the amount paid up thereon with respect to Series A preference shares redeemed after the first day of April, 1982, together in each case with a sum equal to all accrued and unpaid preferential dividends (which for such purpose shall be calculated as if the dividends on the Series A preference shares were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date specified for such redemption);
- (6) In any case of redemption of Series A preference shares under the provisions of clause (5) hereof the Corporation shall at least thirty (30) days before the date specified for redemption mail to each person who at the date of mailing is a registered holder of Series A preference shares to be redeemed a notice in writing of the intention of the Corporation to redeem such Series A preference shares; such notice shall be mailed in a prepaid letter addressed to each such shareholder at his address as it appears on the books of the Corporation or in the event of the address of any such shareholder not so appearing then to the last known address of such shareholder, provided, however, that accidental failure or omission to give any such notice to one (1) or more of such holders shall not affect the validity of such redemption; such notice shall set out the redemption price and the date on which redemption is to take place and if part only of the Series A preference shares held by the person to whom it is addressed is to be redeemed the number thereof so to be redeemed; on or after the date so specified for redemption the Corporation shall pay or cause to be paid to or to the order of the registered holders of the Series A preference shares to be redeemed the redemption price on presentation and surrender at the head office of the Corporation or any other place designated in such notice of the certificates representing the Series A preference shares so called for redemption; such payment shall be made by cheques payable at par at any branch of the Corporation's bankers for the time being in Canada (far northern branches excepted); if a part only of the Series A preference shares represented by any certificate shall be redeemed, a new certificate for the balance shall be issued at the expense of the Corporation; from and after the date specified for redemption in any such notice, the Series A preference shares called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be made upon presentation of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected; the Corporation shall have the right at any time after the mailing of notice of its intention to redeem any Series A preference shares as aforesaid to deposit the redemption price of the Series A preference shares so called for redemption or of such of the said shares represented by certificates as have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption to a special account in any chartered bank or any trust company in Canada named in such notice to be paid without interest to or to the order of the respective holders of such Series A preference shares called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same and upon such deposit being made the Series A preference shares in

respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit shall be limited to receiving without interest their proportionate part of the total redemption price so deposited against presentation and surrender of the said certificates held by them respectively; any interest allowed on any such deposit shall belong to the Corporation;

- (7) So long as any of the Series A preference shares are outstanding, the Corporation shall not
 - (i) declare or pay any dividends (other than stock dividends in shares of the Corporation ranking junior to the Series A preference shares) on any of its shares at any time outstanding and ranking junior to the Series A preference shares; or
 - (ii) redeem, reduce, purchase or otherwise pay off any of its shares at any time outstanding and ranking junior to the Series A preference shares (except out of the proceeds of an issue of shares ranking junior to the Series A preference shares made at any time after the first day of May, 1966 and prior to or contemporaneously with any such redemption, reduction, purchase or payment off); or
 - (iii) elect to pay any tax on undistributed income under the Income Tax Act (Canada) as now enacted or as the same may from time to time be amended or re-enacted or elect to pay any tax under any similar provisions

at any time when there is a retirement fund default (as hereinafter defined) or at any time if, immediately after giving effect to any such action, the aggregate amount (a) declared and/or paid as dividends (other than stock dividends as aforesaid but including all dividends paid on the First Preference Shares) and (b) paid on or in connection with the redemption, reduction, purchase or payment off of any of its shares at any time outstanding and ranking junior to the Series A preference shares (except amounts paid on or in connection with the redemption, reduction, purchase or payment off out of the proceeds of an issue of shares as aforesaid) and (c) paid by way of tax on undistributed income as aforesaid, in each case subsequent to the thirty-first day of December, 1965, would exceed consolidated net earnings (as hereinafter defined) of the Corporation and its subsidiaries earned subsequent to the thirty-first day of December, 1965;

For the purposes of this clause (7), the directors of the Corporation may from time to time determine the consolidated net earnings of the Corporation and its subsidiaries as of a date not more than ninety (90) days prior to the making of such determination and may determine such consolidated net earnings to be not less than a stated amount without determining the exact amount thereof; in making any such determination, the directors shall consider and may rely on the last available audited consolidated balance sheet of the Corporation and its subsidiaries and/or the last available audited balance sheet of the Corporation reported on by the Corporation's auditors and may consider and rely on the last available unaudited consolidated balance sheet of the Corporation and its subsidiaries and/or the last available unaudited balance sheet of the Corporation prepared by the accounting officers of the Corporation and upon any other financial statement, report or other data which they may consider reliable provided that the directors shall not make any such determination on the basis of any such balance sheet, statement, report or other data if to their knowledge any event has happened which would materially and adversely affect such consolidated net earnings as determined on such basis; upon any determination having been made by the directors under the provisions hereof the consolidated net earnings of the Corporation and its subsidiaries as at any date within a period of ninety (90) days following the date as of which such determination is made (unless any further determination of such consolidated net earnings is so made within the said period) shall be conclusively deemed to be not less than the amount stated in such determination and such determination shall be conclusive and binding on the Corporation and the holders of shares of every class;

- (8) Subject as hereinafter provided, so long as any of the Series A preference shares are outstanding, the Corporation shall on or before the first day of April in each year commencing on the first day of April, 1969, set aside on its books to the credit of a retirement fund account, which credit shall be reflected in the financial statements of the Corporation, an amount to be used for the purchase for cancellation or redemption of Series A preference shares as hereinafter provided equal to two per-

cent (2%) of the aggregate par value of the greatest number of Series A preference shares theretofore issued; provided that, if under the foregoing provisions the Corporation would be required to set aside in any year an amount which, when added to the amounts theretofore set aside as a retirement fund and not used or applied for the purposes hereinafter provided, would aggregate an amount in excess of six hundred thousand dollars (\$600,000), then the Corporation in such year shall only be required to set aside for retirement fund purposes an amount which, when added to the said amounts theretofore set aside and not used or applied as aforesaid, will equal six hundred thousand dollars (\$600,000);

Subject to the provisions of clause (3) hereof and subject as hereinafter provided, the amounts from time to time set aside as a credit to the said retirement fund shall be applied as soon as practicable to the purchase of Series A preference shares (if obtainable) in the market at the price or prices at which such shares are obtainable but not exceeding the amount paid up thereon plus reasonable costs of purchase; if on the thirty-first day of December immediately following any first day of April the amount set aside as a credit to the said retirement fund on the said first day of April shall not have been applied in full to the purchase of Series A preference shares as above provided, the Corporation shall, subject as hereinafter provided, call for redemption on the fifteenth day of February immediately following the said thirty-first day of December, at a redemption price equal to the amount paid up on each Series A preference share to be redeemed and all accrued and unpaid preferential dividends (which for such purposes shall be calculated as if the dividends on the Series A preference shares were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of such redemption) such number of Series A preference shares as shall exhaust as nearly as may be the amount standing to the credit of the said retirement fund on the said thirty-first day of December; such redemption shall be carried out in the manner provided in clause (6) hereof; provided always that no such call for redemption need be made if on any thirty-first day of December, the amount standing to the credit of the retirement fund shall be less than fifty thousand dollars (\$50,000);

Notwithstanding anything herein contained, the Corporation shall not be required to purchase or call for redemption any Series A preference shares as required herein if and so long as any such purchase or redemption would constitute a breach by the Corporation of the provisions of any indenture between the Corporation and a trustee acting for the holders of any bonds, debentures or similar obligations of the Corporation issued pursuant to said indenture and in such event the amount so set aside to the credit of the retirement fund or the amount thereof not applied to the purchase or call for redemption of Series A preference shares, as the case may be, shall be carried forward and shall be used in a subsequent year or years when the application of the said amount would not constitute such a breach; subject as hereinafter provided, a retirement fund default for the purposes of clause (7) hereof shall exist when pursuant to the provisions of this clause (8) the amount set aside to the credit of the retirement fund on the first day of April in any year shall not have been applied in full, as nearly as may be, to the purchase or redemption of Series A preference shares on or before the fifteenth day of February immediately following the said first day of April and such default shall continue until on or before any fifteenth day of February the full amount, as nearly as may be, previously set aside to the credit of the retirement fund on any previous first day of April shall have been applied to the purchase or redemption of Series A preference shares as above provided; no such retirement fund default shall be deemed to exist if on or before the fifteenth day of February immediately following the said first day of April the full amount set aside to the credit of the retirement fund on the said first day of April shall not have been applied to the redemption of Series A preference shares as above provided by reason only of the fact that on the preceding thirty-first day of December the amount standing to the credit of the said retirement fund was less than fifty thousand dollars (\$50,000);

Any amount set aside in the retirement fund in accordance with the foregoing provisions need not be kept separate from other moneys of the Corporation, and pending the use or application thereof for the purposes hereinbefore provided, may be employed in the business of the Corporation; for all purposes of this clause (8), the Corporation may at any time anticipate the whole or any part of

its retirement fund obligations by purchasing or redeeming Series A preference shares as herein provided and applying the cost of or the amount required to redeem such Series A preference shares purchased or redeemed in reduction of any retirement fund obligations thereafter becoming due;

- (9) The Corporation shall not issue any First Preference Shares in excess of the one hundred and fifty thousand (150,000) Series A preference shares without the prior approval of the holders of the Series A preference shares given as hereinafter specified unless
 - (a) average annual consolidated net earnings before taxes (as hereinafter defined) of the Corporation and its subsidiaries for the three (3) completed fiscal years immediately preceding the date of issuance have been at least equal to six (6) times the annual dividend requirements on all first preference shares and any shares ranking in any way prior to or on a parity with the first preference shares which will be outstanding not more than thirty-five (35) days after such issue, and
 - (b) average annual consolidated net earnings (as hereinafter defined) of the Corporation and its subsidiaries for the three (3) completed fiscal years immediately preceding the date of issuance have been at least equal to three (3) times the annual dividend requirements on all first preference shares and any shares ranking in any way prior to or on a parity with the first preference shares which will be outstanding not more than thirty-five (35) days after such issue;
- a report of the Corporation's auditors for the time being as to whether the Corporation is or is not entitled to issue any first preference shares without the prior approval as aforesaid shall be conclusive and binding on the Corporation and the holders of shares of every class;
- (10) So long as any of the Series A preference shares are outstanding, the Corporation shall not without, but may from time to time with, the approval of the holders of Series A preference shares given as hereinafter specified sell or otherwise dispose of by conveyance, transfer, lease or otherwise the assets and undertaking of the Corporation as an entirety or substantially as an entirety;
- (11) No class of shares may be created or issued ranking as to capital or dividends prior to or on a parity with the First Preference Shares without the approval of the holders of the Series A preference shares given as hereinafter specified nor shall the authorized amount of First Preference Shares be increased without such approval; provided that nothing in this clause (11) contained shall prevent the Corporation from issuing additional series of the First Preference Shares without such approval as permitted by clause (9) hereof;
- (12) In these share provisions, the following terms shall have the following respective meanings:
"consolidated net earnings" means all the gross earnings and income of the Corporation and its subsidiary companies from all sources less all administrative, selling and operating charges and expenses of every character and all fixed charges of the Corporation and its subsidiary companies (but excluding gains or losses on the disposal of investments and fixed assets) arrived at on a consolidated basis in accordance with generally accepted accounting practice; without limitation of the generality of the foregoing, operating expenses shall include insurance, maintenance, repairs, renewals (except such expenditures for renewals as are charged to capital account in accordance with generally accepted accounting practice), rentals, licences, taxes (including taxes payable under The Mining Tax Act (Ontario) and under similar legislation in any other province or jurisdiction in which the Corporation or a subsidiary carries on business and including taxes payable on income and profits), all interest, such provisions or allowance for bad and doubtful debts as the directors in their discretion, with the approval of the Corporation's auditors, may determine, exploration, prospecting and development expenses (except such part thereof as may have been capitalized with the approval of the Corporation's auditors) and reasonable allowance or provision for depreciation, depletion, amortization and other property retirement (other than amortization of goodwill, patents or other intangible assets); the net earnings of any subsidiary company for the purpose of this definition shall only include such part of the net earnings and income of such subsidiary company calculated as aforesaid as under generally accepted accounting practice is applicable to those shares of such subsidiary company which are held by the Corporation or any other subsidiary company;

"consolidated net earnings before taxes" means consolidated net earnings of the Corporation and its subsidiary companies determined as herein provided after adding back all amounts deducted in the computation of consolidated net earnings in respect of taxes payable on income and profits other than taxes payable under The Mining Tax Act (Ontario) and under similar legislation in any other province or jurisdiction in which the Corporation or a subsidiary carries on business;

If, at the time of determining consolidated net earnings or consolidated net earnings before taxes for any past period, the Corporation or any subsidiary has acquired, is in the process of acquiring, or proposes to acquire, any property or any shares of any other company (sufficient with any shares of such other company already owned by the Corporation or a subsidiary to result in such other company becoming a subsidiary) and if the net proceeds of a then proposed issue of First Preference Shares are to be applied directly or indirectly towards the cost of or in reimbursement of the cost of the acquisition of such property or shares (as to which a resolution of the directors shall be conclusive and binding) then the net earnings or net losses of such property or such other company for the same past period (calculated in accordance with the provisions herein contained respecting consolidated net earnings and consolidated net earnings before taxes) shall, if in the opinion of the Corporation's auditors the Corporation has access to data sufficient to enable such auditors to determine such net earnings or net losses, be treated as net earnings or net losses, as the case may be, in the computation of consolidated net earnings and consolidated net earnings before taxes; for the purposes of clause (10) hereof and subject to the foregoing provisions hereof, consolidated net earnings and consolidated net earnings before taxes shall be determined by the auditors of the Corporation;

"subsidiary company" or "subsidiary" means, for the purposes of these conditions only, any corporation or company, incorporated under the laws of Canada or of a province of Canada or of a state of the United States of America and substantially all of the assets of which are located in Canada or the United States of America, of which more than fifty per cent (50%) of the outstanding voting stock or shares are for the time being owned by or held for the Corporation and/or any subsidiary of the Corporation and includes any such corporation or company in like relation to a subsidiary; "voting stock or shares" as is used in this definition means stock or shares of any class carrying voting rights but shall not include stock or shares of any class carrying limited voting rights or carrying voting rights by reason of the happening of any contingency whether or not such contingency shall have happened;

- (13) The foregoing provisions, the provisions of this clause and the provisions of clause (14) hereof may be deleted, varied, modified, amended or amplified by articles of amendment but only with the approval of the holders of the Series A preference shares given as hereinafter specified, in addition to any vote or authorization required by The Business Corporations Act;
- (14) The approval of holders of the Series A preference shares as to any and all matters referred to herein (in addition to or as distinct from any vote or authorization required by The Business Corporations Act) may be given by resolution passed at a meeting of the holders of the Series A preference shares duly called and held upon at least twenty-one (21) days' notice at which the holders of at least a majority of the outstanding Series A preference shares are present or represented by proxy and carried by the affirmative vote of the holders of not less than two-thirds ($\frac{2}{3}$) of the Series A preference shares represented and voted at such meeting cast on a poll; if at any such meeting the holders of a majority of the outstanding Series A preference shares are not present or represented by proxy within half an hour after the time appointed for the meeting, then the meeting shall be adjourned to such date being not less than fifteen (15) days later and to such time and place as may be appointed by the Chairman and at least ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called; at such adjourned meeting the holders of Series A preference shares present in person or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by the affirmative vote of the holders of not less than two-thirds ($\frac{2}{3}$) of the Series A preference shares represented and voted at such adjourned meeting cast on a poll shall constitute the approval of the holders of Series A preference shares referred to above; the formalities to be observed with respect to the giving of notice of any such

meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Corporation with respect to meetings of shareholders; on every poll taken at every such meeting or adjourned meeting every holder of Series A preference shares shall be entitled to one vote in respect of each Series A preference share held; and

(15) Any authorization required by subsection 4 of section 189 of The Business Corporations Act to be given by the holders of the Series A preference shares to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the Series A preference shares (as distinct from any authorization required to be given by the holders of the First Preference Shares as a class) may be given by at least two-thirds ($\frac{2}{3}$) of the votes cast at a meeting of the holders of the Series A preference shares duly called for that purpose and held upon at least twenty-one (21) days' notice at which the holders of at least a majority of the outstanding Series A preference shares are present or represented by proxy; if at any such meeting the holders of a majority of the outstanding Series A preference shares are not present or represented by proxy within one-half ($\frac{1}{2}$) an hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than fifteen (15) days later and to such time and place as may be appointed by the Chairman and not less than ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called; at such adjourned meeting the holders of Series A preference shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than two-thirds ($\frac{2}{3}$) of the votes cast at such meeting shall constitute the authorization of the holders of the Series A preference shares referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed by the by-laws of the Corporation with respect to meetings of shareholders.

SCHEDULE C

Second Preference Shares

The Second Preference Shares shall, as a class, have attached thereto the following preferences, rights, conditions, restrictions, limitations and prohibitions:

- (a) The Second Preference Shares may at any time or from time to time be issued in one (1) or more series, each series to consist of such number of shares as may before the issue thereof be determined by the directors of the Corporation; the directors of the Corporation may (subject as provided hereinafter and in the Act) by resolution fix from time to time before the issue thereof the designation, preferences, rights, conditions, restrictions, limitations or prohibitions attaching to the Second Preference Shares of each series including, without limiting the generality of the foregoing, the rate of preferential dividends, the dates of payment thereof, the redemption price and the terms and conditions of redemption, conversion rights (if any) and any sinking fund or purchase fund or other provisions;
- (b) The Second Preference Shares of each series shall in all respects rank junior to the First Preference Shares of each series and shall be subject in all respects to the preferences, rights, conditions, limitations and prohibitions attaching to the First Preference Shares of each series but shall be entitled to preference over the common shares of the Corporation and any other shares ranking junior to the Second Preference Shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs and may also be given such other preferences over the common shares of the Corporation and any other shares ranking junior to the Second Preference Shares as may be determined as to the respective series authorized to be issued;
- (c) The Second Preference Shares of each series shall rank on a parity with the Second Preference Shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs;
- (d) The holders of the Second Preference Shares shall not be entitled as such (except as hereinafter specifically provided) to receive notice of or to attend any meeting of the shareholders of the Corporation or to vote at any such meeting (but shall be entitled to receive notice of meetings of shareholders of the Corporation called for the purpose of authorizing the dissolution of the Corporation or the sale of its undertaking or a substantial part thereof) unless and until the Corporation from time to time shall fail to pay in the aggregate three (3) semi-annual dividends on the Second Preference Shares of any one (1) series on the dates on which the same should be paid according to the terms thereof and unless and until three (3) semi-annual dividends on such shares shall remain outstanding and be unpaid whether or not consecutive and whether or not such dividends have been declared; thereafter but only so long as any dividends on the Second Preference Shares of any series remain in arrears the holders of the Second Preference Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Corporation at which directors are elected and shall be entitled, voting separately as a class, to elect two (2) of the directors of the Corporation; nothing herein contained shall be deemed to limit the right of the Corporation from time to time to increase or decrease the number of its directors;

For the purpose of electing directors as provided in this clause, the holders of Second Preference Shares shall be entitled to one (1) vote in respect of each Second Preference Share held and a quorum of holders of Second Preference Shares shall be two (2) holders of Second Preference Shares present in person or represented by proxy and holding or representing at least one-tenth (1/10) of the number of issued and outstanding Second Preference Shares; the absence of a quorum of the holders of common shares, First Preference Shares or any other class of shares entitled to vote in respect of the election of directors shall not affect the exercise by the holders of Second Preference Shares of

their right to elect two (2) directors as aforesaid; except as expressly provided herein the formalities to be observed in respect of the giving of notice of any such meeting and the conduct thereof shall be those from time to time prescribed by the by-laws of the Corporation with respect to meetings of shareholders.

Notwithstanding anything contained in the by-laws of the Corporation, all directors of the Corporation in office at any time when the right to elect directors shall accrue to the holders of the Second Preference Shares as herein provided, or who may be elected or appointed as directors thereafter and before a meeting of the shareholders hereinafter referred to, shall retire at the next annual meeting of shareholders or at a general meeting of shareholders which may be held for the purpose of electing directors at any time after the accrual of such right without prejudice to their right to stand for re-election; any such general meeting of shareholders to elect directors may be called upon not less than twenty-one (21) days' written notice and shall be called by the Secretary of the Corporation upon the written request of the holders of record of at least one-tenth (1/10) of the outstanding Second Preference Shares; in default of the calling of such general meeting by the Secretary within ten (10) days after the making of such request, such meeting may be called by any holder of record of Second Preference Shares; any vacancy occurring among members of the board elected to represent the holders of Second Preference Shares in accordance with the foregoing provisions may be filled by the remaining director elected to represent the holders of Second Preference Shares and, if such vacancy is not so filled, the holders of record of at least one-tenth (1/10) of the outstanding Second Preference Shares shall have the right to require the Secretary of the Corporation to call a meeting of the holders of Second Preference Shares for the purpose of filling the vacancy and the provisions of this paragraph shall apply with respect to the calling of any such meeting; if there be no such remaining director, the holders of Second Preference Shares at a meeting thereof that may be called by any holder of Second Preference Shares may elect qualified persons to fill the vacancies;

Notwithstanding anything contained in the by-laws of the Corporation, upon any termination of the voting rights of the holders of the Second Preference Shares, the term of office of the directors elected to represent the holders of the Second Preference Shares shall forthwith terminate; and

- (e) The authorization required by subsection 4 of section 189 of The Business Corporations Act to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the Second Preference Shares as a class or to create special shares ranking in any respect in priority to or on a parity with the Second Preference Shares may be given by at least two-thirds (2/3) of the votes cast at a meeting of the holders of the Second Preference Shares duly called for that purpose and held upon at least twenty-one (21) days' notice at which the holders of at least a majority of the outstanding Second Preference Shares are present or represented by proxy; if at any such meeting the holders of a majority of the outstanding Second Preference Shares are not present or represented by proxy within one-half (1/2) an hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than fifteen (15) days later and to such time and place as may be appointed by the Chairman and not less than ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called; at such adjourned meeting the holders of Second Preference Shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than two-thirds (2/3) of the votes cast at such meeting shall constitute the authorization of the holders of the Second Preference Shares referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed by the by-laws of the Corporation with respect to meetings of shareholders; on every poll taken at every such meeting or adjourned meeting every holder of Second Preference Shares shall be entitled to one vote in respect of each Second Preference Share held.

SCHEDULE D

Second Preference Shares Series A

The first series of the Second Preference Shares shall consist of eight million eight hundred and thirty thousand four hundred and ninety-nine (8,830,499) shares of the par value of five dollars (\$5) each, all of which shall be designated "8.5% Cumulative Redeemable Second Preference Shares Series A" (hereinafter called "Second Preference Shares Series A"), and which, in addition to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the Second Preference Shares as a class, shall have attached thereto the following preferences, rights, conditions, restrictions, limitations and prohibitions:

- (1) The holders of the Second Preference Shares Series A shall be entitled to receive and the Corporation shall pay thereon, as and when declared by the board of directors out of moneys of the Corporation properly applicable to the payment of dividends, fixed cumulative preferential cash dividends at the rate of eight and one-half percent (8.5%) per share per annum on the amount from time to time paid up thereon, payable as nearly as may be in equal semi-annual instalments of \$0.2125 each on the fifteenth days of June and December in each year (except in the case of the instalment payable on June 15, 1980 which shall be in the amount accrued to such date); such dividends shall accrue from the date of issue; cheques of the Corporation payable at par at any branch of the Corporation's bankers for the time being in Canada (far northern branches excepted) shall be issued in respect of such dividends; if on any dividend payment date the dividend payable on such date is not paid in full on all of the Second Preference Shares Series A then issued and outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates determined by the board of directors of the Corporation on which the Corporation shall have sufficient moneys properly applicable to the payment of the same; the holders of the Second Preference Shares Series A shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided for;
- (2) In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs (hereinafter called "such distribution"), the holders of the Second Preference Shares Series A shall be entitled to receive the amount paid up on such shares, plus a premium of three percent (3%) of the amount paid up thereon in the event that such distribution to holders of Second Preference Shares Series A occurs on or before the first day of January, 1981, or a premium of two and one-half percent (2.5%) of the amount paid up thereon in the event that such distribution to holders of Second Preference Shares Series A occurs after the first day of January, 1981 and on or before the first day of January, 1982, or a premium of two percent (2%) of the amount paid up thereon in the event that such distribution to holders of Second Preference Shares Series A occurs after the first day of January, 1982 and on or before the first day of January, 1983, or a premium of one and one-half percent (1.5%) of the amount paid up thereon in the event that such distribution to holders of Second Preference Shares Series A occurs after the first day of January, 1983 and on or before the first day of January, 1984, or a premium of one percent (1%) of the amount paid up thereon in the event that such distribution to holders of Second Preference Shares Series A occurs after the first day of January, 1984 and on or before the first day of January, 1985, or a premium of one-half percent (0.5%) of the amount paid up thereon in the event that such distribution to holders of Second Preference Shares Series A occurs after the first day of January, 1985 and on or before the first day of January, 1986, or without premium in the event that such distribution to holders of Second Preference Shares Series A occurs after the first day of January, 1986, together in each case with a sum equal to all accrued and unpaid preferential dividends thereon (which for such purpose shall be calculated as if the dividends on the Second Preference Shares Series A were accruing for the period from the expiration of the last semi-annual period for which dividends have been paid up to the date specified for such distribution), before any amount shall be paid or any property or assets of the Corporation distributed to the holders of common shares or shares of any other class ranking junior to the Second Preference Shares Series A; after payment to the holders of the Second Preference Shares Series A of the amounts so payable to them they shall not be entitled to share in any further distribution of the property or assets of the Corporation;
- (3) No dividends shall at any time be declared or paid or set apart for payment on any shares of the Corporation ranking junior to the Second Preference Shares Series A unless all dividends up to and

including the dividend payable for the last completed semi-annual period on the Second Preference Shares Series A then issued and outstanding shall have been declared and paid or set apart for payment at the date of such declaration or payment or setting apart for payment of the dividend on such shares of the Corporation ranking junior to the Second Preference Shares Series A nor shall the Corporation call for redemption or purchase for cancellation or reduce or otherwise pay off

- (i) less than all of the Second Preference Shares Series A then outstanding, or
- (ii) any shares of the Corporation ranking junior to the Second Preference Shares Series A, unless all dividends up to and including the dividend payable for the last completed semi-annual period on the Second Preference Shares Series A then issued and outstanding shall have been declared and paid or set apart for payment at the date of such call for redemption, purchase, reduction or other payment off;

(4) Subject to the provisions of clause (3) hereof, the Corporation may at any time or from time to time purchase (if obtainable) for cancellation all or any part of the Second Preference Shares Series A then outstanding in the market (including purchase through or from an investment dealer or firm holding membership on a recognized stock exchange) or by invitation for tenders addressed to all the holders of record of the Second Preference Shares Series A outstanding at the lowest price or prices at which, in the opinion of the directors, such shares are obtainable but not exceeding a price equal to the amount which, at the date of purchase, the holders of Second Preference Shares Series A would be entitled to be paid in respect thereof upon the liquidation, dissolution or winding-up of the Corporation or any other distribution as provided in clause (2) hereof, plus costs of purchase; if upon invitation for tenders under the provisions of this clause the Corporation shall receive tenders at a price which the Corporation may be willing to pay for more Second Preference Shares Series A than the Corporation is prepared to accept, the Second Preference Share Series A so tendered shall be purchased as nearly as may be pro rata (disregarding fractions) according to the number of Second Preference Shares Series A so tendered by each holder thereof;

(5) Subject to the provisions of clause (3) hereof and this clause (5), the Corporation may upon giving notice as hereinafter provided redeem at any time the whole or from time to time any part of the then outstanding Second Preference Shares Series A on payment for each share to be redeemed of the amount paid up on such share, plus (unless the redemption is made pursuant to clause (8) hereof) a premium of two percent (2%) of the amount paid up thereon with respect to Second Preference Shares Series A redeemed after the first day of January, 1982 and on or before the first day of January, 1983, or a premium of one and one-half percent (1.5%) of the amount paid up thereon with respect to Second Preference Shares Series A redeemed after the first day of January, 1983 and on or before the first day of January, 1984, or a premium of one percent (1%) of the amount paid up thereon with respect to Second Preference Shares Series A redeemed after the first day of January, 1984 and on or before the first day of January, 1985, or a premium of one-half percent (0.5%) of the amount paid up thereon with respect to Second Preference Shares Series A redeemed after the first day of January, 1985 and on or before the first day of January, 1986, together in each case with a sum equal to all accrued and unpaid preferential dividends thereon (which for such purpose shall be calculated as if the dividends on the Second Preference Shares Series A were accruing for the period from the expiration of the last semi-annual period for which dividends have been paid up to the date specified for such redemption); the Corporation shall not redeem Second Preference Shares Series A pursuant to the provisions of this clause (5) until after the first day of January, 1982;

(6) In any case of redemption of Second Preference Shares Series A under the provisions of clause (5) hereof the Corporation shall at least thirty (30) days before the date specified for redemption mail to each person who at the date of mailing is a registered holder of Second Preference Shares Series A to be redeemed a notice in writing of the intention of the Corporation to redeem such Second Preference Shares Series A; such notice shall be mailed in a prepaid letter addressed to each such shareholder at his address as it appears on the books of the Corporation or in the event of the address of any such shareholder not so appearing then to the last known address of such shareholder, provided, however, that accidental failure or omission to give any such notice to one (1) or more of such holders shall not affect the validity of such redemption; such notice shall set out the redemption price and the date on which redemption is to take place and if part only of the Second Preference Shares Series A held by the person to whom it is addressed is to be redeemed the number thereof so to be redeemed; on or after the date so specified for redemption the Corporation shall pay or cause to be paid to or to the order of each registered

holder of the Second Preference Shares Series A to be redeemed the redemption price on presentation and surrender at the head office of the Corporation or any other place designated in such notice of the certificates representing the Second Preference Shares Series A so called for redemption; such payment shall be made by cheques payable at par at any branch of the Corporation's bankers for the time being in Canada (far northern branches excepted); if a part only of the Second Preference Shares Series A represented by any certificate shall be redeemed, a new certificate for the balance shall be issued at the expense of the Corporation; from and after the date specified for redemption in any such notice, the Second Preference Shares Series A called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be made upon presentation of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected; the Corporation shall have the right at any time after the mailing of notice of its intention to redeem any Second Preference Shares Series A as aforesaid to deposit the redemption price of the Second Preference Shares Series A so called for redemption or of such of the said shares represented by certificates as have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption to a special account in any chartered bank or any trust company in Canada named in such notice to be paid without interest to or to the order of the respective holders of such Second Preference Shares Series A called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same and upon such deposit being made or upon the date specified for redemption in such notice, whichever is later, the Second Preference Shares Series A in respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit shall be limited to receiving without interest their proportionate part of the total redemption price so deposited against presentation and surrender of the said certificates held by them respectively; any interest allowed on any such deposit shall belong to the Corporation;

(7) So long as any of the Second Preference Shares Series A are outstanding, the Corporation shall not

- (i) declare or pay any dividends (other than stock dividends in shares of the Corporation ranking junior to the Second Preference Shares Series A) on any of its shares at any time outstanding and ranking junior to the Second Preference Shares Series A; or
- (ii) redeem, reduce, purchase or otherwise pay off any of its shares at any time outstanding and ranking junior to the Second Preference Shares Series A (except out of the proceeds of an issue of shares ranking junior to the Second Preference Shares Series A made at any time after the thirty-first day of January, 1980, and prior to or within thirty (30) days after any such redemption, reduction, purchase or payment off);

at any time when there is a retirement fund default (as hereinafter defined);

(8) Subject as hereinafter provided, so long as any of the Second Preference Shares Series A are outstanding, the Corporation shall, on or before the twenty-eighth day of February in each year commencing on the twenty-eighth day of February, 1980, set aside on its books to the credit of a retirement fund account, which credit shall be reflected in the financial statements of the Corporation, an amount to be used for the purchase for cancellation or redemption of Second Preference Shares Series A as hereinafter provided equal to five percent (5%) of the aggregate par value of the greatest number of Second Preference Shares Series A theretofore issued; provided that, if under the foregoing provisions the Corporation would be required to set aside in any year an amount which, when added to the amounts theretofore set aside as a retirement fund and not used or applied for the purposes hereinafter provided, would aggregate an amount in excess of two million five hundred thousand dollars (\$2,500,000), then the Corporation in such year shall only be required to set aside for retirement fund purposes an amount which, when added to the said amounts theretofore set aside and not used or applied as aforesaid, will equal two million five hundred thousand dollars (\$2,500,000); in addition to the foregoing, the Corporation shall have the non-cumulative right and option, exercisable on or before the twenty-eighth day of February in each year commencing on the twenty-eighth day of February, 1980, to set aside on its books to the credit of said retirement fund account, an additional amount to be used for the purchase for cancellation or redemption of Second Preference Shares Series A as hereinafter provided equal to five percent (5%) of the aggregate par value of the greatest number of Second Preference Shares Series A theretofore issued;

Subject to the provisions of clause (3) hereof and subject as hereinafter provided, the amounts from time to time set aside as a credit to the said retirement fund shall be applied as soon as practicable to the purchase of Second Preference Shares Series A (if obtainable) in the market at the price or prices at which such shares are obtainable but not exceeding the amount paid up thereon plus reasonable costs of purchase; if on the fifteenth day of December immediately following any twenty-eighth day of February the amount set aside as a credit to the said retirement fund on the said twenty-eighth day of February shall not have been applied in full to the purchase of Second Preference Shares Series A as above provided, the Corporation shall, subject as hereinafter provided, call for redemption on the thirty-first day of January immediately following the said fifteenth day of December, at a redemption price equal to the amount paid up on each Second Preference Share Series A to be redeemed plus all accrued and unpaid dividends (which for such purposes shall be calculated as if the dividends on the Second Preference Shares Series A were accruing for the period from the expiration of the last semi-annual period for which dividends have been paid up to the date of such redemption), such number of Second Preference Shares Series A as shall exhaust as nearly as may be the amount standing to the credit of the said retirement fund on the said fifteenth day of December; such redemption shall be carried out in the manner provided in clause (6) hereof; provided always that no such call for redemption need be made if on any fifteenth day of December the amount standing to the credit of the retirement fund shall be less than one hundred thousand dollars (\$100,000); for the purposes of this paragraph amounts required to be set aside as a credit to the said retirement fund shall be deemed to have been applied in full to the purchase or redemption of Second Preference Shares Series A as hereinbefore provided before any additional amounts credited to the said retirement fund shall be deemed to have been applied for such purpose;

Notwithstanding anything herein contained, the Corporation shall not be required to purchase or call for redemption any Second Preference Shares Series A as required herein if and so long as any such purchase or redemption would constitute a breach by the Corporation of the provisions of any indenture between the Corporation and a trustee acting for the holders of any bonds, debentures or similar obligations of the Corporation issued pursuant to said indenture and in such event the amount so set aside to the credit of the retirement fund or the amount thereof not applied to the purchase or call for redemption of Second Preference Shares Series A, as the case may be, shall be carried forward and shall be used in a subsequent year or years when the application of the said amount would not constitute such a breach; subject as hereinafter provided, a retirement fund default for the purposes of clause (7) hereof shall exist when pursuant to the provisions of this clause (8) the amount set aside to the credit of the retirement fund on the twenty-eighth day of February in any year shall not have been applied in full, as nearly as may be, to the purchase or redemption of Second Preference Shares Series A on or before the thirty-first day of January immediately following the said twenty-eighth day of February and such default shall continue until on or before any thirty-first day of January the full amount, as nearly as may be, previously set aside to the credit of the retirement fund on any previous twenty-eighth day of February shall have been applied to the purchase or redemption of Second Preference Shares Series A as above provided; no such retirement fund default shall be deemed to exist if on or before the thirty-first day of January immediately following the said twenty-eighth day of February the full amount set aside to the credit of the retirement fund on the said twenty-eighth day of February shall not have been applied to the redemption of Second Preference Shares Series A as above provided by reason only of the fact that on the preceding fifteenth day of December the amount standing to the credit of the said retirement fund was less than one hundred thousand dollars (\$100,000);

Any amount set aside in the retirement fund in accordance with the foregoing provisions need not be kept separate from other moneys of the Corporation, and pending the use or application thereof for the purposes hereinbefore provided, may be employed in the business of the Corporation; for all purposes of this clause (8), the Corporation may at any time anticipate the whole or any part of its retirement fund obligations by purchasing or redeeming Second Preference Shares Series A as herein in clauses (4) and (5) provided and applying an amount equal to the aggregate par value of such Second Preference Shares Series A so purchased or redeemed in reduction of any retirement fund obligations thereafter becoming due;

- (9) So long as any of the Second Preference Shares Series A are outstanding, the Corporation shall not without, but may from time to time with, the approval of the holders of Second Preference Shares Series A given as hereinafter specified sell or otherwise dispose of by conveyance, transfer, lease or otherwise the assets and undertaking of the Corporation as an entirety or substantially as an entirety;

(10) So long as any of the Second Preference Shares Series A are outstanding, the Corporation shall not, without the prior approval of the holders of the Second Preference Shares Series A as hereinafter specified, create or issue any shares ranking prior to or on a parity with the Second Preference Shares Series A, provided that the Corporation may without approval create additional Second Preference Shares and, if all dividends then accrued on the Second Preference Shares Series A shall have been paid and if a retirement fund default shall not exist, may issue additional series of Second Preference Shares;

(11) The foregoing provisions, the provisions of this clause and the provisions of clause (12) hereof may be deleted, varied, modified, amended or amplified by articles of amendment but only with the approval of the holders of the Second Preference Shares Series A given as hereinafter specified, in addition to any vote or authorization required by The Business Corporations Act;

(12) The approval of holders of the Second Preference Shares Series A as to any and all matters referred to herein (in addition to or as distinct from any vote or authorization required by The Business Corporations Act) may be given by resolution passed at a meeting of the holders of the Second Preference Shares Series A duly called and held upon at least twenty-one (21) days' notice at which the holders of at least a majority of the outstanding Second Preference Shares Series A are present or represented by proxy and carried by the affirmative vote of the holders of not less than two-thirds ($\frac{2}{3}$) of the Second Preference Shares Series A represented and voted at such meeting cast on a poll; if at any such meeting the holders of a majority of the outstanding Second Preference Shares Series A are not present or represented by proxy within half an hour after the time appointed for the meeting, then the meeting shall be adjourned to such date being not less than fifteen (15) days later and to such time and place as may be appointed by the Chairman and at least ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called; at such adjourned meeting the holders of Second Preference Shares Series A present in person or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by the affirmative vote of the holders of not less than two-thirds ($\frac{2}{3}$) of the Second Preference Shares Series A represented and voted at such adjourned meeting cast on a poll shall constitute the approval of the holders of Second Preference Shares Series A referred to above; the formalities to be observed with respect to the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Corporation with respect to meetings of shareholders; on every poll taken at every such meeting or adjourned meeting every holder of Second Preference Shares Series A shall be entitled to one vote in respect of each Second Preference Share Series A held; and

(13) Any authorization required by subsection 4 of section 189 of The Business Corporations Act to be given by the holders of the Second Preference Shares Series A to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the Second Preference Shares Series A (as distinct from any authorization required to be given by the holders of the Second Preference Shares Series A as a class) may be given by at least two-thirds ($\frac{2}{3}$) of the votes cast at a meeting of the holders of the Second Preference Shares Series A duly called for that purpose and held upon at least twenty-one (21) days' notice at which the holders of at least a majority of the outstanding Second Preference Shares Series A are present or represented by proxy; if at any such meeting the holders of a majority of the outstanding Second Preference Shares Series A are not present or represented by proxy within one-half ($\frac{1}{2}$) an hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than fifteen (15) days later and to such time and place as may be appointed by the Chairman and not less than ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called; at such adjourned meeting the holders of Second Preference Shares Series A present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than two-thirds ($\frac{2}{3}$) of the votes cast at such meeting shall constitute the authorization of the holders of the Second Preference Shares Series A referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed by the by-laws of the Corporation with respect to meetings of shareholders; on every poll taken at every such meeting or adjourned meeting every holder of Second Preference Shares Series A shall be entitled to one vote in respect of each Second Preference Share Series A held.

EXHIBIT B

**NESBITT
THOMSON**



October 25, 1979

The Board of Directors
Rio Algom Limited
120 Adelaide Street West
Toronto, Ontario
M5H 1W5

Dear Sirs:

We have been retained by Rio Algom Limited (Rio Algom) to consider the proposed amalgamation of Rio Algom and Preston Mines Limited (Preston) and to provide to the Board of Directors an opinion as to whether the Share Conversion Ratios described below, which have been approved by the Board of Directors of Rio Algom, are fair and reasonable from a financial point of view to the holders of the common shares of Rio Algom.

We understand that, in connection with the proposed amalgamation, each outstanding common share of Rio Algom (other than shares held by Preston) will be converted into one common share of the amalgamated company and each outstanding common share of Preston will be converted into 0.75 of a common share and one 8.5% cumulative redeemable second preference share of the par value of \$5.00 of the amalgamated company (the Share Conversion Ratios). Further, we understand that it is anticipated that the amalgamation as proposed will take effect, subject to shareholder approval, on or about December 31, 1979.

Our advice is based on our extensive familiarity with the affairs of Rio Algom gained in our position as its fiscal agent and financial advisor over a period of years. In addition, in connection with our opinion we have reviewed the following information and data furnished us by Rio Algom: the Stanleigh Project Agreement; a summary of the termination provisions of such Agreement; draft copies of the Joint Proxy Statement and Information Circular relating to the proposed amalgamation (the Information Circular); an analysis of the tax considerations referred to in the Information Circular; and a forecast by management of Rio Algom of the revenues from and expenditures on the Stanleigh Project through 1992. In forming our opinion, we also took into consideration the relative market prices of the common shares of the two companies and reviewed certain public financial and other information as we considered appropriate under the circumstances in order to assess the nature and prospects of the businesses of the two companies and their respective financial condition.

We have considered and discussed the information received from Rio Algom with its senior management to satisfy ourselves to the extent practicable that the information is accurate and complete. Although we believe the information received to be reliable, we have not conducted an independent enquiry to verify the accuracy or completeness thereof.

In connection with our evaluation of the Rio Algom common shares we estimated the contribution to cash flow from Rio Algom's uranium operations based on existing uranium contracts related to its Elliott Lake properties and from its major interest in the Lornex copper-molybdenum mine based on our understanding of estimated reserves and on an assessment of the future market prices for copper and molybdenum. We evaluated Rio Algom's Canadian steel operations by estimating the reasonably sustainable level of earnings and capitalizing such earnings at an appropriate multiple.

In estimating cash flow from Rio Algom's uranium operations we believed it reasonable to assume that the uranium originally contracted for by the Tennessee Valley Authority will be resold at anticipated world market prices but with a year's delay in delivery schedules and we assumed no contribution would be made from its uranium operations in the United States in view of current legal proceedings.

In connection with our evaluation of the Stanleigh Mining Property, we developed a range of values that would be acceptable for the Stanleigh Mining Property from Rio Algom's viewpoint. The range of values was determined by analyzing projected cash flows under the terms of the Stanleigh Project Agreement with due regard for (i) the degree of risk arising from the exercise of the rights of termination by Ontario Hydro as provided for in the Stanleigh Project Agreement, (ii) the projected cash flow expected to be received by Preston under the profit allowance provisions of the Stanleigh Project Agreement, (iii) the expectation that production of uranium concentrates will not commence until late 1983, and (iv) our judgment as to the current environment and future outlook for uranium markets and market prices. In arriving at a range of values for the Stanleigh Mining Property we relied primarily on Rio Algom's forecast of production and assumed mineralization sufficient to enable deliveries under the Stanleigh Project Agreement as contemplated.

The determination of the fairness of the Share Conversion Ratios from Rio Algom's point of view was based on our evaluation of the respective companies as outlined above and our further consideration of the possibility of the utilization of certain tax deductions and allowances and credits pertaining to the development and operation of the Stanleigh Project that would accrue to the amalgamated company. In arriving at our opinion, we have also examined the proposed terms of the Second Preference Shares given current market conditions.

We are of the view that the tax benefits expected to be achieved from the amalgamation will result in improved earnings and cash flow to the mutual benefit of the Rio Algom and Preston shareholders to the extent of their respective interests in the ownership of the amalgamated company.

Based on our review, we are of the opinion that, at the date hereof, the Share Conversion Ratios set out above are fair and reasonable from a financial point of view to the holders of the common shares of Rio Algom.

Yours very truly,

NESBITT THOMSON SECURITIES LIMITED

A. S. H. TAYLOR
Senior Vice-President and Director

EXHIBIT C

Pitfield Mackay Ross

W. C. Pitfield
D. C. Mackay
A. F. MacAllaster
C. Heusser
H. T. Seymour
J. C. Caty
H. K. McMahon
D. Brown
W. R. Mackay
N. Fraser

Limited

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D. L. Torrey
W. Y. Soper
H. H. Turnbull
J. H. Claydon
M. R. Caceres
M. J. Wiggan
G. S. Lackenbauer
M. L. Cullen
D. K. Beazley
W. Mackness

Telex
065-24419

Telephone
(416) 865-3500

October 24, 1979

The Board of Directors,
Preston Mines Limited,
Suite 2600,
120 Adelaide Street West,
Toronto, Ontario.
M5H 1W5

Dear Sirs:

We understand that Preston Mines Limited ("Preston") and Rio Algom Limited ("Rio") are considering an amalgamation. We further understand that special shareholders' meetings of Preston and Rio will be called to consider and, if deemed advisable, confirm with or without variation, Special Resolutions passed by the respective Boards of Directors on October 23, 1979 approving an amalgamation agreement. We understand that if the amalgamation is approved by the shareholders of Preston and Rio, each common shareholder of Rio other than Preston will receive one common share of the amalgamated company ("Amalco") for each Rio common share presently outstanding and each Preston shareholder will receive .75 of a common share and one \$5 par value Second Preference Share, having attributes as set forth in the joint proxy statement and information circular, of Amalco for each Preston common share presently outstanding.

We have been retained by Preston to act as financial advisor and to furnish an opinion as to the fairness from a financial point of view of the consideration to be received by Preston common shareholders in the proposed amalgamation. Shortly following our appointment, Preston management initially indicated that the consideration to be received by Preston common shareholders would consist of common shares and preferred shares of Amalco and that the number of Amalco common shares to be received for each Preston common share presently outstanding would be equal to the quotient expressed as a fraction derived by dividing the number of Rio common shares owned by Preston by the number of Preston common shares presently outstanding.

In connection with our opinion as to the fairness of the consideration to be received in the proposed amalgamation by Preston common shareholders, among other things, we have:

- (a) reviewed internal financial projections for the Stanleigh Mine Project;
- (b) analyzed taxation implications of the proposed amalgamation;
- (c) reviewed the Stanleigh Mine Project Agreement between Preston and Ontario Hydro;
- (d) read drafts of the joint proxy statement and information circular;
- (e) reviewed financial statements for each of the five and one-half years ended June 30, 1979 for Preston and Rio;
- (f) reviewed publicly available documents filed with the Securities and Exchange Commission by Preston and Rio;
- (g) examined relevant industry and investment data from public sources; and
- (h) made such other analyses and examinations as we deemed necessary.

In our work we have relied upon the accuracy and completeness of the financial and other information provided us, including the drafts of the Joint Proxy Statement and Information Circular, and have not undertaken independently to verify the accuracy of such information.

In our evaluation of the Stanleigh Mining Project, we considered a discounted cash benefits analysis as the appropriate approach making allowance for the possibility that the owner of the Stanleigh Property would have substantial current taxable earnings. A present value of the projected future cash benefits was derived by applying discount factors at varying rates. The discount rates and present value worth were established and adjusted for uncertainties related to the possible termination of the Stanleigh Mine Project Agreement, possible adverse changes in applicable tax legislation, the allocation of taxation benefits as between Preston and Rio, and other factors.

While we are generally familiar with Rio, other than our review of publicly available financial statements and filings with the Securities and Exchange Commission and our consideration of litigation matters, we did not conduct an evaluation of Rio except to the extent necessary to satisfy ourselves that it is not unreasonable to value on a market price basis the small additional fraction of a common share included in the Share Conversion Ratio.

We reviewed the proposed terms and conditions of the Second Preference Shares in the context of the capitalization of the amalgamated company, comparable instruments and prevailing yield levels.

Based upon and subject to the foregoing and other matters we consider pertinent, it is our opinion that, at the date hereof the consideration to be received by the common shareholders of Preston in the proposed amalgamation with Rio is fair and reasonable from a financial point of view.

Yours very truly,

PITFIELD MACKAY ROSS LIMITED

By: NORMAN FRASER
Vice-President and Director

EXHIBIT D

THE RIO TINTO-ZINC CORPORATION LIMITED

DIRECTORS

<u>Name</u>	<u>Residential Address (Citizenship) (Age)</u>	<u>Principal Occupation and Business Address</u>	<u>Material Occupations During Past Five Years</u>
*SIR MARK TURNER		Chairman The Rio Tinto-Zinc Corporation Limited ("Rio Tinto-Zinc"), 6 St. James's Square, London SW1Y 4LD, England	Chairman, Rio Tinto-Zinc, since December, 1975 and prior thereto was Deputy Chairman.
*A. G. FRAME	3 The Grove, Highgate Village, London N. 6, England. (United Kingdom) (73)	Deputy Chairman and Chief Executive, Rio Tinto-Zinc, 6 St. James's Square, London SW1Y 4LD, England	Deputy Chairman and Chief Executive, Rio Tinto-Zinc, since September, 1978, and prior thereto was Deputy Chief Executive, Rio Tinto- Zinc January, 1974 through September, 1978; and has been an Executive Director of Rio Tinto-Zinc for more than five years.
THE RT. HON. LORD SHACKLETON	A. G. FRAME Birdlands, The Glade, Holmbury St. Mary, Dorking, Surrey, U.K. (United Kingdom) (50)	Deputy Chairman, Rio Tinto-Zinc, 6 St. James's Square, London SW1Y 4LD, England	Deputy Chairman, Rio Tinto-Zinc, since 1974.
*†R. D. ARMSTRONG	47A Lower Belgrave Street, London SW1, England. (United Kingdom) (68)	Chairman and Chief Executive Officer, Rio Algoma Limited, Suite 2600, 120 Adelaide Street West, Toronto, Ontario, M5H 1W5	Chairman and Chief Executive Officer, Rio Algoma Limited, since April, 1975 and prior thereto was President of Rio Algoma.
R. J. L. ALTHAM	30 Glenorchy Road, Don Mills, Ontario, M3C 2P9. (Canada) (63)	Joint Managing Director, R.T.Z. Borax Ltd., Borax House, Carlisle Place London SW1, U.K.	Joint Managing Director, R.T.Z. Borax Ltd., since 1969.
THE RT. HON R. J. ASSHETON	Crunnells Green House, Preston, Hitchin, Hertfordshire, U.K. (United Kingdom) (55)	Chairman, R.T.Z. Borax Ltd., Borax House, Carlisle Place, London SW1, U.K.	Chairman, R.T.Z. Borax Ltd., since 1979 and prior thereto had been Joint Managing Director of R.T.Z. Borax Ltd. since 1969.

*Also a director of Rio Algoma.

†Also a director of Preston.

THE RIO TINTO-ZINC CORPORATION LIMITED

DIRECTORS (cont'd.)

<u>Name</u>	<u>Residential Address (Citizenship) (Age)</u>	<u>Principal Occupation and Business Address</u>	<u>Material Occupations During Past Five Years</u>
A. E. BUXTON 36 Burnsall Street, London SW 3, England. (United Kingdom) (44)		Executive Director, Rio Tinto-Zinc, 6 St. James's Square, London SW1Y 4LD, England	Executive Director, Rio Tinto-Zinc, since 1974.
SIR RODERICK CARNEGIE 15 St. George's Road, Toorak, Victoria, Australia. (Australia) (47)		Chairman and Chief Executive, Conzinc Riotinto of Australia Limited, 95 Collins Street, Melbourne, Victoria, Australia	Chairman and Chief Executive, Conzinc Riotinto of Australia Limited, since 1974.
THE RT. HON. LORD CHARTERIS The Provost's Lodge, Eton College, Windsor, Berkshire, England SL4 6DM (United Kingdom) (66)		Provost of Eton College, Eton College	Provost of Eton College, since January, 1978 and prior thereto was Private Secretary to H.M. The Queen for more than five years.
†P. H. DEAN 52 Lanchester Road, Highgate, London N. 6, England. (United Kingdom) (40)		Executive Director, Rio Tinto-Zinc, 6 St. James's Square, London SW1Y 4LD, England	Executive Director, Rio Tinto-Zinc, since November 1974.
J-L DHERSE 18 Chester Street, London SW1X 7LB, England. (France) (46)		Executive Director, Rio Tinto-Zinc, 6 St. James's Square, London SW1Y 4LD, England	Executive Director, Rio Tinto-Zinc, since January 1974.
D. EDWARDS "Kings Lawn", Sandy Lane Road, Charlton Kings, Cheltenham Glos., England. (United Kingdom) (48)		Deputy Chairman, R.T.Z. Industries Limited, Cleveland House, St. James's Square, London	Deputy Chairman, R.T.Z. Industries Limited, since June 1975 and Executive Director of R.T.Z. Industries Limited since 1973.
SIR BASIL GOULDING Dargle Cottage, Enniskerry, Co. Wicklow, Ireland. (Ireland) (70)		Chairman, Fitzwilson Limited, Wilton Place, Dublin, Ireland	Chairman, Fitzwilson Limited, since 1974.

*Also a director of Rio Algom.

†Also a director of Preston.

THE RIO TINTO-ZINC CORPORATION LIMITED

DIRECTORS (cont'd.)

Name <u>Residential Address (Citizenship) (Age)</u>	Principal Occupation <u>and Business Address</u>	Material Occupations <u>During Past Five Years</u>
LORD GREENE OF HARROW WEALD 26 Kynaston Wood, Harrow Weald, Harrow, Middx. HA3 6UA, England. (United Kingdom) (69)	Retired	General Secretary of National Union of Railwaymen from Jan. 1974 to Feb. 1975.
*SAM HARRIS 14 East 75th Street, New York City, N.Y. 10021, U.S.A. (U.S.A.) (67)	Senior Partner, Fried, Frank, Harris, Shriver & Jacobson, 120 Broadway, New York, N.Y. 10005, U.S.A.	Senior Partner, Fried, Frank, Harris, Shriver & Jacobson, Attorneys-at-Law, since 1947.
M. LITTMAN, Q.C. 79 Chester Square, London SW 1, England. (United Kingdom) (59)	Deputy Chairman British Steel Corporation, 33, Grosvenor Place, London S.W. 1., England	Deputy Chairman, British Steel Corporation, since 1970.
G. A. MACMILLAN 23 Victoria Avenue, Melrose, Johannesburg, 2196 Republic of South Africa, (South Africa) (58)	Chairman and Chief Executive, Rio Tinto South Africa Limited, P.O. Box 62240, 2107 Marshalltown	Chairman and Chief Executive, Rio Tinto South Africa Limited, since May, 1974 and prior thereto was General Manager of Industrial Development Corporation of South Africa Limited.
R. T. MADIGAN 60 Broadway, East Camberwell, Victoria, Australia. (Australia) (59)	Deputy Chairman and Executive Director, Conzinc Riotinto of Australia Limited, 95 Collins Street, Melbourne, Victoria, Australia	Deputy Chairman Conzinc Riotinto of Australia Limited, since November, 1978 and an Executive Director of that corporation since 1968.
J. A. PATERSON "Saraguay" Fifield, Milton-under-Wychwood, Oxon OX7 6HP, England. (Canada) (53)	Chairman and Chief Executive, R.T.Z. Industries Limited, Cleveland House, 19 St. Jame's Square, London SW1Y 4JG	Chairman and Chief Executive, R.T.Z. Industries Limited, since 1973.

*Also a director of Rio Algoma.
†Also a director of Preston.

THE RIO TINTO-ZINC CORPORATION LIMITED

DIRECTORS (cont'd.)

<u>Name</u>	<u>Residential Address (Citizenship) (Age)</u>	<u>Principal Address and Business Address</u>	<u>Material Occupations During Past Five Years</u>
S. SPIRO		Director, Hambros Limited, 41 Bishopsgate, London, EC2P 2AA, England	Director, Hambros Limited since November 1977 and prior thereto was Chairman of Charter Consolidated Limited.
R. S. WALKER	9 Cedar House, Marloes Road, London, W8 5LA, England. (United Kingdom) (65)	Executive Director, Rio Tinto-Zinc, 6 St. James's Square, London SW1Y 4LD, England	Executive Director, Rio-Tinto Zinc since July, 1977 and also Chairman of Rossing Uranium Limited since April, 1977. Chairman of Rio Tinto (Rhodesia) Limited from 1974 to March 1977.
*R. W. WRIGHT	Cobbers, Forest Row, Sussex RH18 5JZ, England. (United Kingdom) (65)	Director, Rio Tinto-Zinc, 6 St. James's Square, London SW1Y 4LD, England	Director, Rio Tinto-Zinc since 1962.

*Also a director of Rio Algom.

†Also a director of Preston.

RIO ALGOM LIMITED

DIRECTORS

<u>Name</u>	<u>Residential Address (Citizenship) (Age)</u>	<u>Principal Occupation and Business Address</u>	<u>Material Occupations During Past Five Years</u>
R. D. ARMSTRONG		See "Rio Tinto-Zinc—Directors"	
G. R. ALBINO 2242 High River Court, Mississauga, Ontario. L5H 3K4. (Canada) (50)		President and Chief Operating Officer, Rio Algom Limited, Suite 2600, 120 Adelaide Street West, Toronto, Ontario, M5H 1W5	President and Chief Operating Officer, Rio Algom Limited, since April, 1975 and prior thereto was Executive Vice- President of Rio Algom Limited.
J. I. CROOKSTON 187 Cottingham Street, Toronto, Ontario M4V 1C4. (Canada) (69)		Financial Consultant, P.O. Box 35, Toronto-Dominion Centre, Toronto, Ontario, M5K 1C4	Financial Consultant, since February, 1979 and prior thereto at various times held the positions of Chairman and Deputy Chairman of Nesbitt Thomson Securities Limited, Toronto for more than five years.
J. G. EDISON, Q.C. 133 Dunvegan Road, Toronto, Ontario M4V 2R2. (Canada) (68)		Counsel, Messrs. Aird & Berlis, 15th Floor, 145 King Street West, Toronto, Ontario, M5H 2J3	Counsel, Aird & Berlis, since February, 1974.
A. G. FRAME		See "Rio Tinto-Zinc—Directors"	
G. C. GRAY Drynoch Farms, R.R. #1, Richmond Hill, Ontario, L4C 4X7. (Canada) (52)		Chairman and Chief Executive Officer, A. E. Lepage Limited, P.O. Box 100, Toronto-Dominion Centre, Toronto, Ontario, M5K 1G8	Chairman and Chief Executive Officer, A. E. Lepage Limited, since 1979 and prior thereto was President of that corporation.
SAM HARRIS		See "Rio Tinto-Zinc—Directors"	
R. S. HURLBUT 18 Sandfield Road, Don Mills, Ontario, M3B 2B6. (Canada) (55)		Chairman and President, General Foods, Limited, 2200 Yonge Street, Toronto, Ontario. M4S 2C6	Chairman and President, General Foods, Limited, since 1968.
DR. D. S. R. LEIGHTON 101 St. Julien Road, Banff, Alberta, (Canada) (51)		Director, The Banff Centre, P.O. Box 1020, Banff, Alberta T0L 0C0	Director, The Banff Centre, for more than five years.

RIO ALGOM LIMITED

DIRECTORS (cont'd.)

<u>Name</u>	<u>Principal Occupation and Business Address</u>	<u>Material Occupations During Past Five Years</u>
W. MOODIE P.O. Box 664, Sutton West, Ontario, L0E 1R0. (Canada) (65)	Retired	Prior to his retirement in April, 1979 had been President of Canadian Pacific Investments Limited, Montreal since 1975 and prior thereto was an officer of The Royal Bank of Canada.
J. HERBERT SMITH Apartment 4811, 44 Charles Street West, Toronto, Ontario, M4Y 1R8. (Canada) (70)	Consulting Engineer, P.O. Box 107, Commerce Court, Toronto, Ontario, M5L 1E2	Consulting Engineer, since 1972.
SIR MARK TURNER	See "Rio Tinto-Zinc—Directors"	
R. J. TURNER Apt. 3204 Port Royal Apartments, 1455 Sherbrooke St. W., Montreal, Quebec, H3G 1L2. (49)	President and Chief Executive Officer, Genstar Limited, Suite 4105, One Place Ville Marie, Montreal, Quebec, H3B 2R1	President and Chief Executive Officer, Genstar Limited, since 1976 and prior thereto was President of Genstar Western Limited.
R. W. WRIGHT	See "Rio Tinto-Zinc—Directors"	

PRESTON MINES LIMITED

DIRECTORS

<u>Name</u>	<u>Principal Occupation and Business Address</u>	<u>Material Occupations During Past Five Years</u>
R. D. ARMSTRONG	See "Rio Algom Directors"	
G. R. ALBINO	See "Rio Algom Directors"	
J. IAN CROOKSTON	See "Rio Algom Directors"	
R. C. BERRY Apt. 1405, 33 Harbour Square, Toronto, Ontario, M5J 2G2. (Canada) (62)	Vice-President, General Manager & Secretary-Treasurer, Tinto Holdings Canada Ltd., P.O. Box 206, Toronto-Dominion Centre, Toronto, Ontario, M5K 1J3	Vice-President, General Manager & Secretary-Treasurer, Tinto Holdings Canada Limited, since April 1975.
P. H. DEAN	See "Rio Tinto-Zinc—Directors"	
W. C. PITFIELD 6 Highland Avenue, Toronto, Ontario M5J 2G2. (Canada) (54)	President, Pitfield Mackay Ross Ltd., Box 54, Royal Bank Plaza, Toronto, Ontario, M5J 2K5	President, Pitfield Mackay Ross Ltd., for more than five years.

RIO ALGOM LIMITED

EXECUTIVE OFFICERS

NOTE: The Chairman, President, Vice-President, Minerals Marketing, Vice-President, Controller, Vice-President, Secretary and Vice-President, Treasurer are elected or appointed annually by the board of directors of Rio Algom. All other Executive Officers are appointed by either the Chairman or the President and their terms of office are at the pleasure of management. The inclusion herein of all such persons as persons who might be deemed "Executive Officers" should not be taken as an admission that such persons are "Officers" for purposes of Section 16 of the Securities Exchange Act of 1934.

<u>Name</u>	<u>Residential Address (Citizenship) (Age)</u>	<u>Principal Occupation with Rio Algom Limited</u>	<u>Material Occupations During Past Five Years</u>
R. D. ARMSTRONG		See "Rio Tinto-Zinc—Directors"	
G. R. ALBINO		See "Rio Algom—Directors"	
R. G. CONNOCHIE 12 Goswell Road, Islington, Ontario. (Canada) (38)		Vice-President, Executive Assistant to the President	Vice-President, Executive Assistant to the President, since August 27, 1979. Vice-President, Planning, from Jan. 1977 to Aug. 1979. Manager, Corp. Planning, from Nov. 1974 to Dec. 1976. Asst. Manager, Corp. Planning, from Jan. 1973 to Oct. 1974.
J. G. LITTLEJOHN 117 Lytton Boulevard, Toronto, Ontario, M4R 1L5. (Canada) (54)		General Counsel	General Counsel, since 1975 and prior thereto was Legal Counsel.
A. F. LOWELL Suite E-4, 296 Mill Road, Islington, Ontario, M9C 4X8. (United Kingdom) (54)		Vice-President, Minerals Marketing	Vice-President, Minerals Marketing, since 1969.
H. A. PAKRUL 1567 Camelford Road, Mississauga, Ontario, L5J 3C8. (Canada) (58)		Vice-President, Controller	Vice-President, Controller, since 1971.
A. C. TURNER 229 Owen Boulevard, Willowdale, Ontario, M2P 1G9. (Canada) (56)		Vice-President, Secretary	Vice-President, Secretary, since 1971.

RIO ALGOM LIMITED
EXECUTIVE OFFICERS (cont'd.)

<u>Name</u>	<u>Principal Occupation with Rio Algom Limited</u>	<u>Material Occupations During Past Five Years</u>
J. VAN NETTEN 95 Forest Heights Boulevard, Willowdale, Ontario. M2L 2K7. (Canada) (54)	Vice-President, Treasurer	Vice-President, Treasurer, since 1971.
E. W. CHEESEMAN 55 Anglesey Boulevard, Islington, Ontario, M9A 3B8. (Canada) (63)	Vice-President, Underground Mining Operations	Vice-President, Underground Mining Operations, since 1970.
P. A. CARLOSS 42 Willoughby Road, Elliot Lake, Ontario. (Canada) (52)	Vice-President, General Manager, Elliot Lake Operations	Vice-President, General Manager, Elliot Lake Operations, since 1975 and prior thereto was General Manager, Elliot Lake.
P. M. KAVANAGH 463 Lytton Boulevard, Toronto, Ontario, M5N 1S5. (Canada) (51)	Vice-President, Exploration	Vice-President, Exploration, since September, 1975 and prior thereto was President, Newmont Mining Corp. of Canada Limited.
J. E. MOYLE 102 Three Valleys Drive, Don Mills, Ontario, M3A 3B9 (Canada) (60)	Vice-President, Mining Engineering	Vice-President, Mining Engineering for more than five years.
A. V. ORR 4 Wood-Dale Drive, St. Catharines, Ontario, L2T 1Y8. (Canada) (54)	General Manager, Atlas Steels	General Manager, Atlas Steels, since 1974.
H. L. BRIEN 158 Fitch Street, Apt. 202, Welland, Ontario, (Canada) (60)	Vice-President, Engineering, Atlas Steels	Vice-President, Engineering, Atlas Steels for more than five years.
C. E. OHLSON 3507 Eton Crescent, Niagara Falls, Ontario (Canada) (41)	Vice-President, Sales and Marketing, Atlas Steels	Vice-President, Sales and Marketing, Atlas Steels, since May, 1977 and prior thereto was Vice-President, Marketing.

RIO ALGOM LIMITED

EXECUTIVE OFFICERS (cont'd.)

<u>Name</u>	<u>Principal Occupation with Rio Algom Limited</u>	<u>Material Occupations During Past Five Years</u>
G. L. SANDLER 15 Leawood Court, St. Catharines, Ontario, L2T 3R5. (Canada) (54)	Vice-President, Finance, Atlas Steels	Vice-President, Finance, Atlas Steels, since 1968.
W. D. DOBBIN 1333 Bloor Street East, Mississauga, Ontario, (Canada) (61)	Vice-President and General Manager, Atlas Alloys	Vice-President and General Manager, Atlas Alloys, since 1965.
K. COLLYER 62 Edenvale Crescent, Islington, Ontario, (Canada) (56)	Vice-President, Canadian Operations, Atlas Alloys	Vice-President, Canadian Operations, Atlas Alloys, since 1975 and prior thereto was Manager, Canadian Operations.
J. B. DUNN 1485 Ashington Court, Mississauga, Ontario, (Canada) (51)	Vice-President, Controller, Atlas Alloys	Vice-President, Controller, Atlas Alloys, since 1975 and prior thereto was Manager, Finance.
W. I. POLLOCK 1609 Birchwood Drive, Mississauga, Ontario. (Canada) (47)	Vice-President, Marketing, Atlas Alloys	Vice-President, Marketing, Atlas Alloys, since 1978 and prior thereto was Vice- President, Metals Marketing of Falconbridge International Limited.

EXHIBIT E

CERTAIN TRANSACTIONS IN SHARES PURCHASED UNDER SHARE OPTIONS*

Name.....	A. V. Orr	A. V. Orr	A. V. Orr	G. R. Albino
	<u>1973 Option</u>	<u>1973 Option</u>	<u>1968 Option</u>	<u>1967 Option</u>
Date option exercised.....	Feb. 10, 1976	Feb. 1, 1979	Feb. 10, 1976	Mar. 2, 1976
Number of shares purchased.....	550	550	1,925	5,000
Aggregate purchase price for purposes of Section 16(b)**.....	\$15,295	\$16,087	\$55,885	\$131,420
Date shares sold.....	Feb. 10, 1976	Feb. 1, 1979	Feb. 10, 1976	Mar. 2, 1976
Number of shares sold.....	550	550	1,925	5,000
Aggregate selling price.....	\$18,700	\$21,475	\$66,031	\$171,250
Potential recoverable profit after application of Rule 16b-6.....	\$2,613	\$5,250	\$10,146	\$28,750
U.S. dollar equivalent.....	U.S. \$2,623	U.S. \$4,380	U.S. \$10,184	U.S. \$29,016

*Expressed in Canadian dollars, unless otherwise indicated.

**The higher of the option exercise price or the market price on the date on which the portion of the option exercised first became exercisable.

