Quivira Mining Company

Marvin D. Freeman
Vice President

Certified Mail
Return Receipt Requested P 144 785 072

June 24, 1997

Mr. Joe Holonich
Uranium Recovery Branch
Division of Low Level Waste Management & Decommissioning
U.S. Nuclear Regulatory Commission, Mail Stop T7J9
11555 Rockville Pike
Rockville, MD 20850

Re: Ambrosia Lake Facility
License SUA-1473, Docket No. 40-8905
License Condition #22, Annual Surety Update

Dear Mr. Holonich:

Quivira Mining Company submits the following 1997 annual surety update to the source material license referenced above. Quivira proposes a new reclamation surety of $10.557 million. The new surety uses the 1996 NRC approved surety as the cost basis and updates the surety for completed work items subsequent to last year's approved surety and approved license amendments. The proposed surety contained in Appendix A also has been updated to account for inflation through March 1997.

Contained in Appendix B pursuant to requirements in license condition #22, are the pertinent documents necessary to continue the Parent Company Guarantee. These include:

(1) Letter from the Chief Financial Officer of Rio Algom Limited (Proposed);

(2) Coopers & Lybrand (Auditor) Special Report and attached schedule (Proposed);

(3) Rio Algom Limited Parent Company Guarantee (Proposed);

(4) Rio Algom Limited Annual Report of Financial Statements For Year Ending December 31, 1996 (audited by Coopers & Lybrand).

Signed originals of items (1), (2), and (3) will be submitted to NRC within 90 days of NRC approval of the new proposed surety. Should you have any questions in regards to this submittal, please contact me at (405) 848-1187.

Sincerely,

Marvin Freeman

Marvin Freeman

Attachments: As stated

ML05 1/1

xc: T. Fletcher w/attachments (Ambrosia Lake)
P. Luthiger w/attachments (Ambrosia Lake)
D. Kavanagh w/attachments (Toronto)
Division of Radiation Safety (NRC/Arlington, TX)
file

APPENDIX A

RECLAMATION COST BREAK-DOWN

QUIVIRA MINING COMPANY
ANNUAL ADJUSTMENT OF RECLAMATION SURETY - 1997

Shown below is the 1997 proposed annual surety adjustment for the Ambrosia Lake facility. The 1997 annual surety adjustment uses the previous year's approved reclamation surety as a basis for this year's revised surety.

During the review period, NRC approved through license amendment #37 the disposal of 11e(2) byproduct materials.[1] License condition #41A requires that a revised surety estimate, if necessary, must be submitted prior to receipt of any material under license condition #41. This proposed surety includes a new line item to provide for that bonding requirement.

The amended 1997 proposed surety accounts for the completion of distinct reclamation work units and where applicable, utilizes the inflation rate of 29.9% from 1988 to 1997, and an inflation rate of 20.2% from 1990 through March 1997. The proposed 1997 reclamation surety amount is $10.557 million. The table below indicates the basis for the proposed 1997 surety.

NRC RECLAMATION SURETY
AMBROSIA LAKE, NEW MEXICO
QUIVIRA MINING CO.

WORK UNIT	PROPOSED NRC 1997-98 BOND AMOUNT ($000)
Cover for Mill Tailings (1988$)	
Pond 1 Interim Cover	Complete
Pond 2 Interim Cover	Complete
Pond 1 Low Perm Layer	Complete
Pond 1 Radon Barrier Foot 1	Complete
Pond 1 Radon Barrier Foot 2	Complete
Pond 1 Radon Barrier Foot 3	Deleted by Amendment #31
Pond 2 Low Perm Layer	Complete
Pond 2 Radon Barrier Foot 1	Complete
Pond 2 Radon Barrier Foot 2	Complete
Pond 2 Radon Barrier Foot 3	Deleted by Amendment #31
Pond 1 Erosion Cover	Deleted by Amendment #29
Pond 2 Erosion Cover	Deleted by Amendment #29
Pond 3 Cover	Deleted by Amendment #31
SUB-TOTAL	**0**

[1] Mr. Joe Holonich (NRC)to Quivira Mining Company, approval dated May 16, 1997. Incorporated within License SUA-1473, Docket 40-8905, condition #41, license amendment #37

WORK UNIT	PROPOSED NRC 1997-98 BOND AMOUNT ($000)
Pond 2 Sand Contour	Complete
Pond 2 Fill to Grade South of "R" Line	Complete
SUB-TOTAL	**0**
Rock Protection	1,482
SUB-TOTAL	**1,482**
Contour and/or Cover:	
Pond 2	Complete
Pond 4	16
Pond 5	6
Pond 7	73
Pond 9	34
Pond 10	4
Interceptor Trench	20
SUB-TOTAL	**153**
Lined Ponds 11-21	
Remove Contam. Material (16-21)	299
Remove Berm (11-15)	430
Cover With Six-Inch Material	97
Erosion Protection-West Side	81
SUB-TOTAL	**907**
Clean Up Windblown Material	
Section 30 Area	Complete
Section 5 Area	Complete
Sec. 32 & Area N. of Pond 9	Complete
Area N. of Pond 1	52
SUB-TOTAL	**52**
Reclaim IX-Mill Pond Area	126
Reclaim Borrow Area	118
Reclaim Quarry	Deleted by Amendment #29
SUB-TOTAL	**244**
SUB-TOTAL OF ALL ABOVE	**2,838**

WORK UNIT	PROPOSED NRC 1997-98 BOND AMOUNT ($000)
Salary - 45% Labor as Above	223[1]
Overhead and Profit at 10%	284
Mill Decommissioning	1,208
SUB-TOTAL OF ALL ABOVE	**4,553**
Revegetation	
Pond 1 & 2 Areas	Not Applicable
Pond 4 & 5 Areas	34
Pond 6 & 8 Areas	Complete
Pond 7	29
Windblown Cleanup Areas	98
Borrow Areas	138
Pond 9 & 10 & Mill Areas	42
Ponds 11-21	306
SUB-TOTAL	**647**
Radiation Monitoring	50[2]
Soil Testing	101[3]
SUB-TOTAL OF ALL ABOVE	**5,351**
Contingency @ 15%	803
N.M. Gross Receipt Tax @ 5.75%	308
SUB-TOTAL OF ALL ABOVE	**6,462**
Inflation 1988 - 1997 (29.9%)[6]	1,932
Groundwater Cleanup 1990 - 1997 (20.2%)[7]	1,326[4]
NRC Long-Term Fee 1990 – 1997 (20.2%)	577[5]
SUB-TOTAL OF ALL ABOVE	**10,297**

WORK UNIT	PROPOSED NRC 1997-98 BOND AMOUNT ($000)
Old Stope Leaching (1996$)	
Shaft Reclamation	6
Ventilation Holes	8
Injection Holes	6
Site Reclamation	2
Re-vegetation	4
SUB-TOTAL	**26**
Solid Byproduct Disposal Area (1996$)	
Disposal Area	26
Soil Testing	2
SUB-TOTAL	**28**
Old Stope Leach & Byproduct Disposal	
Overhead and Profit at 10%	5
Contingency @ 15%	8
N.M. Gross Receipt Tax @ 5.75%	3
Inflation 1996 - 1997 (1.8%) [8]	1
SUB-TOTAL	**17**
De-Minimis 11(e)2 Disposal (1997$) [9]	
Disposal Area Radon Barrier	54
Disposal Area Rock Cover	69
Salary/Management	10
Soil Testing	3
Radiation/Health Safety	9
Overhead and Profit at 10%	14
Contingency @ 15%	22
New Mexico Gross Receipts @ 5.75%	8
Inflation 1997 – 1997 (0%)	0
SUB-TOTAL	**189**
TOTAL	**10,557**

[1]See attached Enclosure 1 for Salary Details.
[2]Adjusted for Work Completed From Salary Detail - (0.3357 * $150K)
[3]Adjusted for Work Completed From Salary Detail - (0.3357 * $300K)
[4]From NRC's Revised Cost Estimate dated 10/4/90 and updated to 3/97 $ ($1,103K * 1.202 = $1,326K).
[5]From NRC's Revised Cost Estimate dated 10/4/90 and updated to 3/97 $ ($ 480K * 1.202 = $ 577K).
[6]1988 – 1997 Inflation (GNP-IPD) = 110.95 ÷ 85.41 = 1.299 or 29.9%
[7]1990 – 1997 Inflation (GNP-IPD) = 110.95 ÷ 92.29 = 1.202 or 20.2%
[8]1996 – 1997 Inflation (GNP-IPD) = 110.95 ÷ 109.00 = 1.018 or 1.8%
[9]See attached Enclosure 2 for 11(e)2 disposal details.

ENCLOSURE 1

SALARY DETAIL
BASE ALLUVIAL LABOR COSTS, TOTAL COSTS, & SALARY COSTS ADJUSTED FOR RECONCILIATED YARDAGE

SALARY DETAIL
BASE ALLUVIAL LABOR COSTS, TOTAL COSTS, AND SALARY COSTS ADJUSTED FOR RECONCILIATED YARDAGE

This schedule adjusts the alluvial earthwork salary cost to 45% of total remaining labor costs based on the total work requirements to reclaim the mill tailings, the lined ponds, windblown impacted areas, and related disturbances. The final value reflects the completion of distinct work units.

Salary Costs Adjusted To Reflect Completed Work Units

Data

Subtotal of Alluvial Earthwork Remaining = $2,838,000

Subtotal of Alluvial Earthwork in Initial Surety = $8,454,886

Salary – 45% Labor in Initial Surety = $665,065

Adjusted proportionally for work completed (June 1988 $)

Adjusted Salary = $665,065 [$2,838,000 / $8,454,886]

Adjusted Salary = $665,065 [0.3357] = $223,262

ENCLOSURE 2

DE-MINIMUS 11(e)2 DISPOSAL DETAIL

DE-MINIMIS 11(e) 2 DISPOSAL DETAIL
Surety Requirement

1.0 Cost Summary 1997$

	Dollars
• Radon Barrier for Disposal Area	$ 53,634
• Rock Cover for Disposal Area	69,002
• Salary/Management Costs	9,688
• Soil Testing	3,387
• Radiation/Health Safety Technician 1 man X 3 months X $3,000/mo.	9,000
Total Direct Cost	$ 144,711

2.0 Surety Costs Calculations Basis

- Five (5) year Forward Basis
- Average Disposal Volume 25,000 yds./yr.
- Single Disposal Cell of five (5) acres [1]

Radon Barrier Placement Cost	
2.0 feet soil – 16,130 cu. yds. At $1.90/cy [2]	$ 30,647
1.0 feet clay – 8,065 cu. yds. At $1.90/cy	15,324
0.5 feet soil – 4,033 cu. yds. At $1.90/cy	7,663
Subtotal	$ 53,634
Erosion Protection Placement Cost	
Rock Cover (3" top layer) 2,016 cu. yds. at $9/cy [3]	$ 18,144
Side Slopes – 6" side layer – 2,615 cu.. yds. @ $9/cy	23,535
Rock Haul & Placement 4631 cu. yds. @ 4.00/cy [4]	18,524
Spread & Blade Rock 4631 cu. yds. at $1.90/cy	8,799
	$ 69,002
Salary/Management	
Salary Cost (7.9%[5] X $122636 direct cost)	$ 9,688
Soil Testing	
Soil Testing @ $0.12[5] /cu yds. X 28228 cy	$ 3,387

[1] Five (5) acres X 20 feet high = 161,000 cubic yards capacity (provides 25% excess)
[2] Quivira's 1996 Bond – Disposal Calculation as accepted by NRC ($1.40/yd^3) inflated to 1997$.
[3] Ambrosia Lake Rock Supply Contract Avg. Cost Plus 10%
[4] Ambrosia Lake Rock Haul Contract Rate
[5] Quivira Proposed Rates in 1996 Surety Calculation on Byproduct Disposal and Accepted by NRC

APPENDIX B

SURETY DOCUMENTS

Rio Algom Limited

June 30, 1997

Proposed Letter

Mr. Joe Holonich, Branch Chief
Uranium Recovery Branch
Division of Low-Level Waste Management
and Decommissioning, NMSS (5 E2)
Nuclear Regulatory Commission
11555 Rockville Pike
Rockville, MD 20850

Re: Chief Financial Officer Letter
Parent Company Guarantee
Ambrosia Lake Facility, SUA-1473, Docket 40-8905

Dear Mr. Holonich:

I am the chief financial officer of Rio Algom Limited (Rio Algom), 120 Adelaide Street West, Suite 2600, Toronto, Ontario M5H 1W5, Canada, an Ontario Corporation. This letter is in support of Rio Algom's use of the financial test to demonstrate financial assurance, as specified in 10 CFR Part 40, Appendix A.

Rio Algom guarantees, through the parent guarantee submitted to demonstrate compliance under 10 CFR Part 40, Appendix A, the decommissioning of the following facility owned by its subsidiary, Rio Algom Mining Corp. The current cost estimate for the reclamation, decommissioning, and long term surveillance and control of the facility is as follows:

NAME OF FACILITY	LOCATION OF FACILITY	CURRENT COST ESTIMATE
Quivira Mining Company Ambrosia Lake Facility NRC License SUA-1473 Docket No. 40-8905	In McKinley County Near Grants, NM	$10.557 million

Rio Algom is required to file a Form 40-F with the Securities and Exchange Commission for the latest fiscal year. The fiscal year of Rio Algom ends on December 31. The figures for the items marked with an asterisk on the attached Alternative I summary are derived from Rio Algom's independently audited, year end financial statements and footnotes for the fiscal year that ended December 31, 1996.

I hereby certify that the content of this letter is true and correct to the best of my knowledge.

Sincerely,

Michael S. Parrett
Vice-President and
Chief Financial Officer

Attachments: As Stated

120 Adelaide Street West, Toronto, Ontario, CANADA M5H 1W5 • (416)367-4000 • FAX (416)365-6870

RIO ALGOM LIMITED
PARENT COMPANY GUARANTEE
FOR
RIO ALGOM MINING CORP. & QUIVIRA MINING COMPANY

ALTERNATIVE I

	Millions of Dollars CDN $'s	U.S. $'s [1]
1. Decommissioning cost estimate (includes Ambrosia Lake/SUA-1473, Lisbon/SUA-1119 & Smith Ranch/SUA-1548)	$ 29	$ 21
2. Total Liabilities	$ 946 [*]	$ 691
3. Tangible Net Worth (excluding Rio Algom Mining Corp. and its subsidiary Quivira Mining Company, at cost)	$ 1049	$ 766
4. Net Worth	$ 1142 [*]	$ 834
5. Current Assets	$ 895 [*]	$ 653
6. Current Liabilities	$ 341 [*]	$ 249
7. Net Working Capital [line 5 minus line 6]	$ 554	$ 404
8. Net income (before extraordinary items) plus depreciation and amortization	$ 159 [*]	$ 116
9. Total assets in U.S.	$ 645 [*]	$ 471

	YES	NO
10. Is line 3 at least $20 million?	X	
11. Is line 3 at least 6 times line 1?	X	
12. Is line 7 at least 6 times line 1?	X	
13. Are at least 90 percent of the firm's assets located in the U.S.? If not, complete line 14.		X
14. Is line 9 at least 6 times line 1?	X	
15. Is line 2 divided by line 4 less that 2.0?	X	
16. Is line 8 divided by line 2 greater than 0.1?	X	
17. Is line 5 divided by line 6 greater than 1.5?	X	

[*] *Denotes figures derived from audited financial statement.*

[1] Year end exchange rate of $0.7301 US$/CDN$

I hereby certify that the content of this letter is true and correct to the best of my knowledge.

MICHAEL S. PARRETT
Vice-President
Chief Financial Officer
June 30, 1997

COOPERS & LYBRAND | chartered accountants | 145 King Street West, Toronto, Ontario, Canada M5H 1V8 | telephone (416) 869-1130, telex 06-23590, fax (416) 863-0926

June 30, 1997

Proposed Letter

Mr. Joe Holonich, Branch Chief
Uranium Recovery Branch
Division and Low Level Waste Management and
Decommissioning, NMSS (5 E2)
Nuclear Regulatory Commission
11155 Rockville Pike
Rockville, MD 20850

Re: Auditor's Special Report
Parent Company Guarantee
Ambrosia Lake Facility, SUA-1473, Docket 40-8905

Dear Mr. Holonich:

We have audited the financial statements of Rio Algom Limited ("the Corporation") for the year ended December 31, 1996, and our opinion on these consolidated financial statement is included in the Corporation's Annual Report (Page 45). We conducted our audit in accordance with generally accepted auditing standards.

Our audit of the consolidated financial statements for the year ended December 31, 1996 comprised audit tests and procedures deemed necessary for the purposes of expressing an opinion on such financial statements taken as a whole. We did not perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of transactions.

We understand that Rio Algom Limited has prepared documents to demonstrate its financial responsibility under the NRC's financial assurance regulations, in compliance with Appendix A, of 10 CFR Part 40. This letter is furnished solely to assist the licensee, Quivira Mining Company, NRC License SUA-1473, in complying with these regulations and should not be used for other purposes.

The attached schedule reconciles the specified information furnished in the chief financial officer's (CFO's) letter dated June 30, 1997 with the Corporation's consolidated financial statements. In connection therewith, we have:

1. Compared the amounts in the column "per Financial Statements" with amounts contained in the Corporation's consolidated financial statements for the year ended December 31, 1996 and found them to be in agreement;

2. Compared the amount in the column "per CFO's Letter" with the letter prepared in response to the NRC's request (Mr. Michael S. Parrett letter dated June 30, 1997) and found them to be in agreement;

3. Compared the amounts in the column "Reconciling Items" with analyses prepared by the Corporation setting forth the indicated items and found them to be in agreement; and

4. Re-performed the arithmetic calculations in the schedule and found them to be correctly calculated.

Because the procedures in 1-4 above do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on the manner in which the amounts were derived in the items referred to above.

We make no representations as to questions of legal interpretation or as to the sufficiency for your purposes of the procedures enumerated above.

Yours very truly,

Coopers & Lybrand

RIO ALGOM LIMITED
YEAR ENDED DECEMBER 31, 1996

Line Number in attached Alternative I summary to CFO's Letter		Thousands - Canadian $'s Per Financial Statements	Reconciling Items	Per CFO's Letter
2	Total Liabilities (Page 47)	945,824	NONE	945,824
4	Net worth (Page 47)	1,141,565		
	Goodwill (Page 57 - Footnote 10)		(14,979)	
	Investment in Rio Algom Mining Corp. at cost		(77,757)*	
3	Tangible Net Worth (Net worth excluding goodwill and investment in Rio Algom Mining Corp. at cost)			1,048,829
5	Current Assets (Page 47)	895,440	NONE	895,440
6	Current Liabilities (Page 47)	341,464	NONE	341,464
8	Net Earnings before extraordinary items (Page 46)	100,438		
	Depreciation and Amortization (Page 46)		58,500	
	Net Earnings before extraordinary items plus depreciation and amortization			158,938

* US $56,770,226 ÷ 0.7301 (December 31, 1996 rate)

Rio Algom Limited

June 30, 1997

Proposed Letter

Mr. Joe Holonich, Branch Chief
Uranium Recovery Branch
Division of Low-Level Waste Management
and Decommissioning, NMSS (5 E2)
Nuclear Regulatory Commission
11555 Rockville Pike
Rockville, MD 20850

Re: Quivira Mining Company
Parent Company Guarantee
Ambrosia Lake Facility, SUA-1473, Docket No. 40-8905

Dear Mr. Holonich:

Guarantee made this 30th day of June, 1997 by Rio Algom Limited, a corporation organized under the laws of the Providence of Ontario, herein referred to as "guarantor", to the United States Nuclear Regulatory Commission (NRC), "obligee" on behalf of our subsidiary Quivira Mining Company (QMC) of 6305 Waterford Blvd., Suite 325, Oklahoma City, Oklahoma, 73118, NRC License Number SUA-1473.

Recitals

1. Guarantor has full authority and capacity to enter into this guarantee under its bylaws, articles of incorporation, and the laws of the Providence of Ontario, its Providence of incorporation. Guarantor has approval from its Board of Directors to enter into this guarantee.

2. This guarantee is being issued to comply with regulations issued by the NRC, an agency of the United States Government, pursuant to the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974. NRC has promulgated regulations in Title 10, Chapter I of the Code of Federal Regulations, Part 40, Appendix A, Criteria 9 and 10. These regulations require that a holder of a materials license issued pursuant to 10 CFR Part 40 provide assurance that funds will be available when needed for required decommissioning activities.

3. The Guarantee is issued to provide financial assurance for decommissioning activities for QMC's Ambrosia Lake NRC License No. SUA-1473 as required by 10 CFR Part 40. The decommissioning cost estimate for this facility is $10.557 million.

4. Guarantor meets or exceeds the following financial test criteria under Alternative I and agrees to comply with all notification requirements as specified in 10 CFR Part 40, Appendix A:

   (a) Guarantor's tangible net worth is at least $20 million dollars.

   (b) Guarantor's tangible net worth and net working capital are each equal to or greater than six times the sum of the current decommissioning cost estimates;

(c) Guarantor's assets located in the United States amount to at least six times the sum of the current decommissioning cost estimates; and

(d) Guarantor meets the following financial test ratios: a ratio of total liabilities to net worth less than 2.0 and a ratio of current assets to current liabilities greater than 1.5.

5. Guarantor, through subsidiaries, owns 100 percent of the voting stock of the licensee covered by this guarantee (Quivira Mining Company, Ambrosia Lake Facility, License SUA-1473). Guarantor also certifies that the licensee for which this guarantee is being made has a positive tangible net worth.

6. Decommissioning activities as used below refers to activities as required by 10 CFR Part 40, Appendix A, for decommissioning of facilities identified above.

7. For value received and pursuant to the authority conferred upon the guarantor by resolution of its directors, a certified copy of which is attached, guarantor guarantees to NRC that if the licensee fails to perform the decommissioning activities required by License No. SUA-1473, the guarantor shall:

(a) Carry out the required activities, <u>or</u>

(b) Set up a trust fund in favor of the above identified beneficiary in the amount of the current NRC-approved cost estimates for these activities.

8. Guarantor agrees to submit revised financial statements, financial test data, and a special auditor's report and reconciling schedule annually, within 90 days of completion of the Auditor's report on the parent company guarantor's fiscal year or as required by license condition.

9. Guarantor agrees that if, at the end of any fiscal year before termination of this guarantee, the guarantor fails to meet the financial test criteria, the licensee shall send within 90 days of the end of the fiscal year, by certified mail, notice to the NRC that the licensee intends to provide alternate financial assurance as specified in Appendix A of 10 CFR Part 40. Within 120 days after the end of the fiscal year, the guarantor shall establish such financial assurance if QMC has not done so.

10. The Guarantor also agrees to notify the beneficiary promptly if the ownership of the licensee or the parent firm is transferred and to maintain this guarantee until the new parent firm or the licensee provides alternate financial assurance acceptable to the beneficiary.

11. Guarantor agrees that within 30 days after it determines that it no longer meets the financial test criteria or that it is disallowed from continuing as a guarantor for the facility under License Number SUA-1473, it shall establish an alternate financial assurance, as specified in 10 CFR Part 40, Appendix A, as applicable in the name of QMC, unless QMC has done so.

12. Guarantor as well as its successors and assigns agree to remain bound jointly and severally under this guarantee notwithstanding any or all of the following: amendment or modification of license or NRC-approved decommissioning plan for that facility, the extension or reduction

of the time of performance of required activities or any other modification or alternation of an obligation of the licensee pursuant to 10 CFR Part 40.

13. Guarantor agrees to remain bound under this guarantee for so long as QMC must comply with the applicable financial assurance requirements of 10 CFR Part 40, Appendix A, for the previously listed facility, except that guarantor may cancel this guarantee by sending notice by certified mail to the NRC and to QMC, such cancellation to become effective no earlier than 120 days after receipt of such notice by both NRC and QMC, as evidenced by the return receipts.

14. Guarantor agrees that if QMC fails to provide alternate financial assurance as specified in 10 CFR Part 40, Appendix A as applicable, and to obtain written approval of such assurance from the NRC within 90 days after a notice of cancellation by the guarantor is received by the NRC and QMC from the guarantor, guarantor shall provide such alternate financial assurance in the name of QMC or make full payment under the guarantee.

15. Guarantor agrees to be jointly and severally liable for all litigation costs incurred by the NRC in any successful effort to enforce the agreement against the guarantor.

16. Guarantor expressly waives notice of acceptance of this guarantee by the NRC or by RAMC. Guarantor also expressly waives notice of amendments or modification of the decommissioning requirements and of amendments or modifications of the license.

17. If the guarantor files Financial Reports with the U.S. Securities and Exchange Commission, then it shall promptly submit them to the NRC during each year in which this guarantee is in effect.

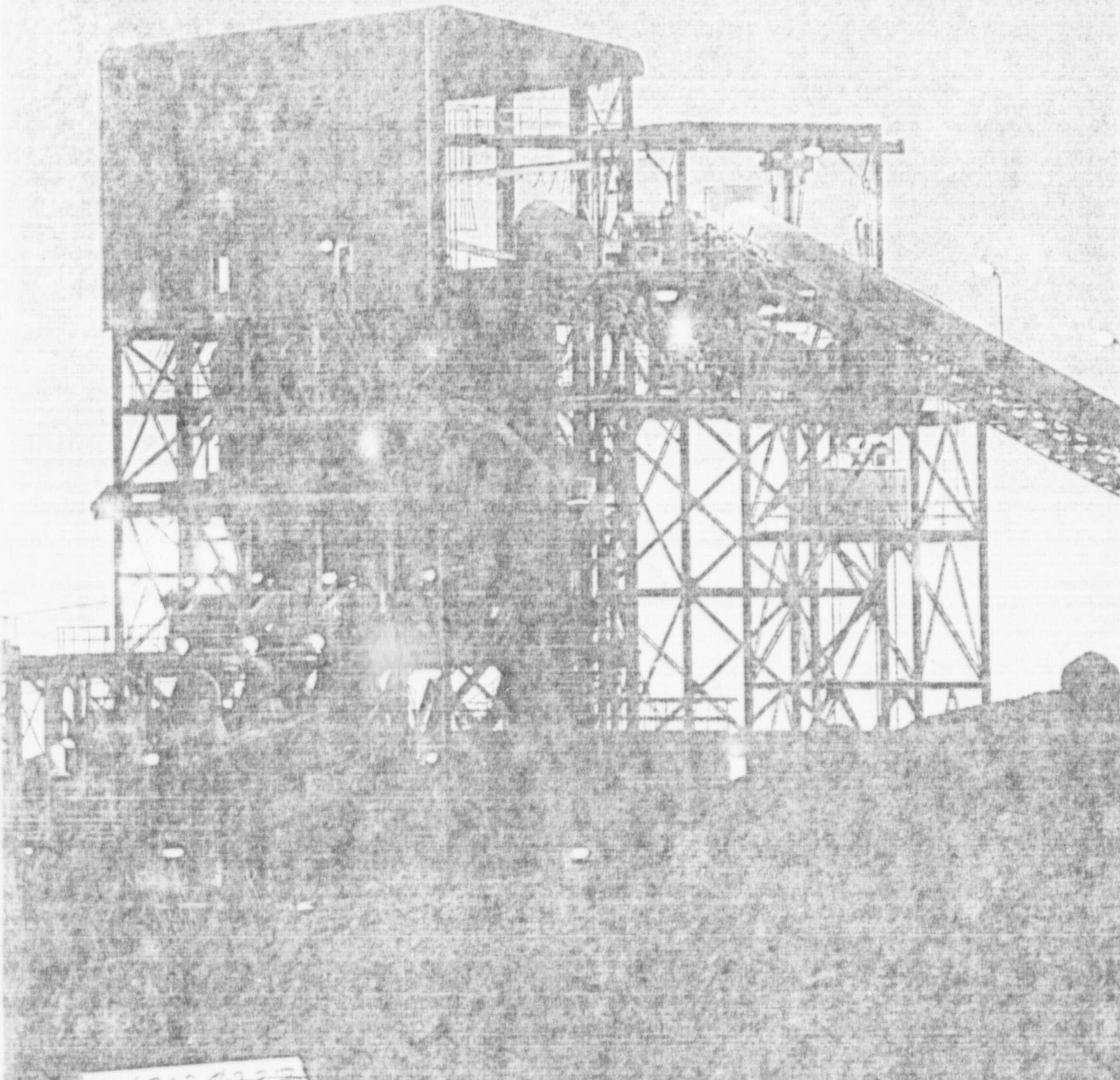
I hereby certify that this guarantee is true and correct to the best of my knowledge.

Attest:	**RIO ALGOM LIMITED**
____________________	____________________
David J. Kavanagh Assistant Secretary	Patrick M. James President & CEO
Attest:	c/s
____________________	____________________
David J. Kavanagh Assistant Secretary	John A. H. Bush Vice-President

Rio Algom

1996

Annual Report



Corporate Profile

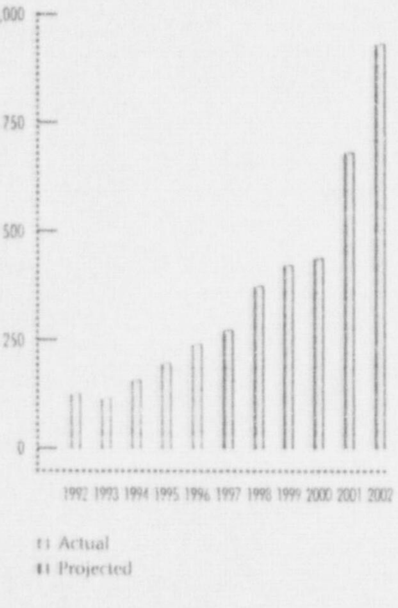
Rio Algom Limited is a growing, international mining, mineral exploration and metals distribution company with headquarters in Toronto, Canada.

Rio Algom currently produces copper, molybdenum, uranium and coal from mines in Canada, the United States and Chile. The Company is developing a uranium property in the United States and participating in the construction of a major copper/ mine in Argentina, both of which are scheduled to begin production in 1997. It has commenced a second expansion of its copper mine in Chile which will be completed in 1998. In addition, a major copper/zinc property in Peru and a large copper discovery in Chile are at the pre-feasibility stage. Together these have the potential to increase the Company's annual copper production significantly, to in excess of 900 million pounds by the year 2002, which would make Rio Algom Canada's premier copper mining company.

Rio Algom also owns and operates one of North America's foremost metals distribution businesses. The North American Metals Distribution Group is one of the largest distributors of stainless steel and aluminum on the continent, with 60 centres serving more than 50,000 customers in Canada, the United States and Mexico.

Rio Algom's common stock is widely held and trades on the Toronto and Montreal stock exchanges in Canada and on the American Stock Exchange in the United States.

COPPER PRODUCTION
(millions of pounds)



CONTENTS

Rio Algom Today	3
Directors' Report to Shareholders	6
Environmental, Health and Safety Policy	10
Mining Operations	11
Mineral Exploration	18
Metals Distribution	19
Financial Section	25
Glossary	69
Eleven Year Review	70
Quarterly Financial Data	73
Corporate Governance	73
Shareholder Information	74
Operating Locations	75
Directors and Executive Officers	76
Notice of 1997 Annual Meeting	IBC

Cover: Screening plant at Rio Algom's Cerro Colorado copper mine in Chile.

The Year's Accomplishments

In 1996, net earnings declined, largely due to lower average metal prices

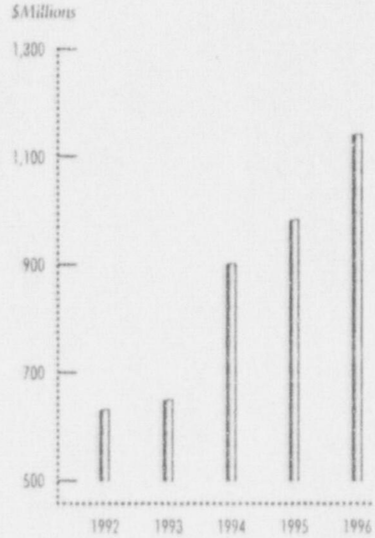
(millions except per share data)	1996	1995
REVENUE	$ 1,833.5	$ 1,982.3
Operating profit	$ 169.9	$ 249.7
Earnings from continuing operations	$ 66.2	$ 125.4
Earnings from discontinued operations	34.2	7.0
NET EARNINGS	$ 100.4	$ 132.4
Operating cash flow from continuing operations	$ 75.0	$ 188.5
Per share data:		
Net earnings	$ 1.82	$ 2.55
Dividends	$ 0.70	$ 0.60

All dollar amounts in this report refer to Canadian dollars unless otherwise stated.

1996 was, nevertheless an exceptional year for Rio Algom. The Company:

- Increased copper production from the Cerro Colorado mine in Chile by 63% to 131 million pounds.
- Initiated a further expansion of Cerro Colorado's annual capacity to 220 million pounds.
- Succeeded in a joint bid for the Antamina copper/zinc property in Peru.
- Participated in the management of the 25%-owned Alumbrera copper/gold project in Argentina, scheduled to begin operation in the third quarter of 1997.
- Began construction of a two million pound per year uranium leaching operation at Smith Ranch, Wyoming, scheduled to start up in mid-1997.
- Continued an active exploration program and, in January 1997, announced the discovery of an inferred 350 million tonne copper deposit (the Spence deposit) in Chile.
- Successfully concluded over 40 years of uranium mining at Elliot Lake, Ontario.
- Consolidated and implemented efficiencies at the U.S. metals distribution operation, which had doubled in size in 1995.

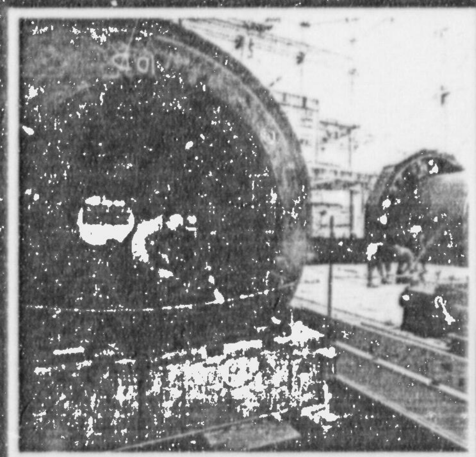
COMMON SHAREHOLDERS' EQUITY



Rio Algom Operations

Rio Algom

A new era



With the closure of its last Elliot Lake uranium mine, Rio Algom has embarked on a new course. Today's Rio Algom is a fast-growing, diversified mining and metals distribution company, driven by a focus on high quality assets and low-cost production.

	Reserves and Resources
	222 million tonnes grading 1.05% copper (proven and probable reserves)
te	496 million tonnes grading 0.419% copper and 0.008% molybdenum (proven and probable reserves)
	400 million tonnes grading 1.2% copper, 1.1% zinc, 0.05% molybdenum and 15 grams per tonne silver (resource)
	550 million tonnes grading 1% copper (resource)
es	700 million tonnes grading 0.54% copper, 0.66 grams per tonne gold (reserves and resources)
	over 60 million pounds of uranium (reserves and resources) – including Reynolds Ranch
	sufficient to satisfy contractual obligations
	4.4 million tonnes grading 15.9% zinc and 4.0% lead (reserve)
	50 million tonnes grading 9.4% zinc and 0.4% copper (resource)

	Activities
	Warehousing, processing, distribution of a wide variety of products for industrial use. Principal processing activities include custom cutting, sawing, slitting and other value added functions.

Our Goals

Become Canada's premier copper mining company, with annual production in excess of 900 million pounds by the year 2002

Grow with quality assets and low-cost production

Establish reserves to support U.S. uranium production of five million pounds per year

Seek further efficiencies and strategic growth in the North American Metals Distribution Group

Strive for excellence in the Company's environmental, health and safety performance

Continue to enhance shareholder value by maintaining adequate financial resources to carry out our aggressive growth program

MINING	Location	Interest held by Rio Algom Limited	1996 Production (Operating Mines) Projected Production
COPPER			
Cerro Colorado *Operating mine*	East of Iquique, Northern Chile	100% owned	150.8 million pounds of cathode copper 220 million pounds annually by 1999
Highland Valley Copper *Operating mine*	Highland Valley area, British Columbia	55.6% partnership	110.1 million pounds of copper in conc 988,000 pounds of molybdenum in conc Rio Algom's share
Antamina *Advanced exploration*	Central Peru	50% interest	
Spence Deposit *Advanced exploration*	Northeast of Antofagasta, Northern Chile	100% owned	
COPPER/GOLD			
Bajo de la Alumbrera *Starting up in 1997*	Northwestern Argentina	25% owned	96 million pounds of copper and 157,00 of gold by 1998 Rio Algom's share
URANIUM			
Smith Ranch *Starting up in 1997*	Powder River Basin, Wyoming	100% owned	2 million pounds of uranium by 1998
METALLURGICAL COAL			
Bullmoose *Operating mine*	Tumbler Ridge, British Columbia	29.1% joint venture	544,000 tonnes Rio Algom's share
ZINC			
Polaris *Operating mine*	Little Cornwallis Island, Canadian Arctic (N.W.T.)	25% royalty interest	120,186 tonnes of zinc in concentrates an 28,055 million tonnes of lead in concentra
Crandon Mining Company *Undeveloped*	Crandon, Wisconsin	50% partnership	
EXPLORATION			
Rio Algom Exploration Inc.	Toronto, Vancouver and Val d'Or, Canada Mendoza, Argentina	100% owned	
Compania Minera Riochilex S.A.	Santiago and Antofagasta, Chile	100% owned	
Rio Algom, Sucursal del Peru	Lima, Peru	100% owned	

METALS DISTRIBUTION	Location	Interest held by Rio Algom Limited	1996 Sales
North American Metals Distribution Group (NAMDG) Service Centres: Atlas Alloys Inc. Vincent Metal Goods Aceromex Atlas S.A.	Headquarters: Minneapolis, Minnesota 12 in Canada 47 in U.S.A. 1 in Mexico	100% owned	Combined sales were $1.5 billion

Directors' Report to Shareholders

For Rio Algom, 1996 was a year of major acc mplishment and growth. Significant steps were taken to secure the basis for fut.ure expansion of the Company, to add shareholder value and to create a new Rio Algom.

In July, Rio Algom and Inmet Mining Corporation were announced as the successful bidders for the Antamina copper/zinc property in Peru. This partially defined deposit has the potential to produce over one million tonnes of copper and zinc concentrates annually. The joint venture has moved ahead rapidly with an aggressive US$39 million drilling program and feasibility study.

Rio Algom's primary goal is to become Canada's premier copper mining company by the year 2002.

Initial results from this program were announced on February 26, 1997, with a new resource estimate within a pit of 400 million tonnes grading 1.2% copper, 1.1% zinc, 0.03% molybdenum and 15 grams per tonne silver. The deposit remains open in a number of directions and drilling continues.

Prior to September 1998 a decision will be made on proceeding with the development of the deposit. Rio Algom and Inmet have agreed to an investment commitment of US$2.5 billion by September 2001, if a development decision is made. If the actual costs, which are currently projected to be at least US$1 billion, are less than US$2.5 billion, Rio Algom and Inmet would pay 30% of the shortfall to the Government of Peru, essentially as a deferred purchase price.

In the latter part of 1996, our exploration team completed a drilling program which confirmed our discovery of the Spence copper deposit in Chile, 200 kilometres south of our Cerro Colorado mine and 140 kilometres northeast of Antofagasta. With an inferred resource of 350 million tonnes averaging one per cent copper, this major deposit has the potential to be a larger copper producer than Cerro Colorado.

Cerro Colorado was brought into production in 1994. In 1996, the mine produced 131 million pounds of copper, over 60% more than the previous year. The increase resulted from an expansion completed late in 1995. A number of successful operational changes made in the year also improved the leaching process and copper recoveries. Late in 1996 Rio Algom began work on a further US$198 million expansion to increase the mine's annual rate of production to 220 million pounds by 1999.

Throughout 1996, construction continued at a fast pace on the Bajo de la Alumbrera development in Argentina. The capital cost of the project, excluding financing costs, is currently estimated to be US$905 million. The sponsors (Rio Algom, North and M.I.M.) have negotiated a US$670 million project financing, with the initial drawdown expected in March 1997. We expect production to begin from this deposit in the third quarter of 1997. Our 25% interest is expected to contribute an average of about 96 million pounds of copper and 137,000 ounces of gold to Rio Algom's annual production, with higher gold production in the early years.

Closure of Elliot Lake

On June 28, 1996, after more than 40 years of continuous underground uranium production, Rio Algom hoisted the last skip of uranium ore from the Elliot Lake area. The Stanleigh mine was the last of the ten mines operated by the Company in the area.

To the men and women who contributed to the success of our

GORDON C. GRAY
Chairman of the Board

Elliot Lake operations over those years, we express our heartfelt thanks: for the community they built, the technological advances they made and for their contribution to creating the basis for the dynamic, diversified Rio Algom of today.

Rio Algom began preparing for the cessation of uranium production at Elliot Lake in the late 1980s, when we embarked on a program to strengthen the Company's mining asset base and balance sheet. We directed our strategy to base metals production, particularly copper. We became more focused and determined to grow, through acquisition and exploration, with high quality properties capable of producing at low cost. Our progress and success are demonstrated by our 1996 achievements. The projects we are developing or are seeking to develop have the potential to increase Rio Algom's copper production to in excess of 900 million pounds annually by 2002.

While our copper production is expanding rapidly, uranium continues to play a role in Rio Algom's future. Early in 1996, we made the decision to develop the Smith Ranch property in Wyoming, utilizing innovative *in situ* leaching extraction techniques. Production is scheduled to commence in mid-1997, reaching the design annual rate of two million pounds of uranium in 1998. We are also studying the potential for significant additional production from Smith Ranch and from the neighbouring Reynolds Ranch property.

Metals Distribution

Our North American Metals Distribution Group continued to deliver a significant component of the Company's operating profit in 1996, although world prices for stainless steel and aluminum fell throughout the year. The

Group retained, and in some cases increased, its market share in all major product lines. The consolidation of the extensive additional facilities acquired in 1995 continued successfully, with no interruption of service. Our metals distribution business provides an exceptional return on capital – 21% in 1996 – and has been consistently profitable with significant growth prospects.

Financial Highlights

Lower copper prices and lower prices and margins in the metals distribution business, in part offset by higher production levels at Cerro Colorado, affected our 1996 results. Net earnings in 1996 were $100.4 million or $1.82 per common share, while 1995 net earnings were $132.4 million or $2.55 per common share. Revenue from continuing operations in 1996 was $1.8 billion compared to $2.0 billion in 1995.

The London Metal Exchange copper price averaged US$1.04 per pound in 1996 compared with US$1.33 per pound in 1995. The decline related to uncertainty over new production as well as to trading irregularities ascribed to Sumitomo Corporation. In 1996 Rio Algom's hedging program helped mitigate the effect of lower prices. Although copper settlements for 1997 are currently unhedged, the Company is constantly monitoring markets for appropriate hedging opportunities.

To deal with the cyclicality of copper prices and to optimize operating margins, Rio Algom's principal strategy is to invest in high quality assets with low production costs. In 1996 the cash cost of copper production at our wholly-owned Cerro Colorado mine averaged US$0.51 per pound. Rio Algom's average cash cost per pound is expected to decline as new and expanded operations come on stream.

The metals distribution business provides a relatively stable component to our earnings. For example, it provided 46% of operating profit in 1996. Prudent growth in this business, which complements our mining interests, is another facet of our strategy for maintaining and increasing overall shareholder value.

In anticipation of the closure of the Stanleigh mine, the Elliot Lake operations were accounted for as discontinued operations in the 1995 consolidated financial statements. Earnings from discontinued operations were $34.2 million in 1996 compared to $7 million in 1995. Forgiveness of the outstanding advances from Ontario Hydro and the write-off of the related Stanleigh assets, having an equivalent book value, have been recognized in the accounts for the fourth quarter of 1996. Provisions for deferred taxes amounting to $70.3 million, being no longer required, were reversed and included in earnings from discontinued operations, partially offset by an increase of $40 million after tax in the Company's reclamation provisions related to its discontinued mining operations. This will provide for reclamation, treatment and monitoring which will continue into the next century.

Capital expenditures decreased to $77 million in 1996, from approximately $108 million in 1995. Cerro Colorado accounted for $18 million, compared to $62 million, primarily for expansion costs, in 1995. The 1996 capital expenditures also included $19 million spent on Antamina and $40 million on all other operations.

In February 1996, the Company received proceeds of $88.8 million from the issue of 3.6 million common shares as the result of the exercise of share purchase warrants issued in 1994.

Early in 1997, the Company raised $500 million through an issue of convertible debentures and common shares, and arranged a US$500 million unsecured revolving 5-year line of credit with three major North American banks. These funds will enhance our sound financial base and facilitate new developments, which are the basis of our aggressive growth plans.

Environment, Health and Safety

An integral component of Rio Algom's plans for growth is our determination to continue to excel in the areas of occupational health and safety and environmental responsibility. The Company maintains an active environmental, health and safety management program. As part of the Company's commitment in these areas, in 1996 the Board of Directors approved a strengthened Environmental Policy for all operations and activities.

The Year Ahead

In the year ahead we expect progress in a number of areas. The expansion of Cerro Colorado's production capacity to 220 million pounds of copper per year is under way. Smith Ranch is scheduled to begin producing uranium by mid-year. Alumbrera is expected to start up in the third quarter, adding gold to Rio Algom's production profile. Drilling programs at Antamina, Reynolds Ranch and the Spence deposit will pave the way for full feasibility studies on these projects. We are continuing our exploration activities, directly and through joint ventures. And our North American Metals Distribution Group will reap the benefits of the consolidation of its U.S. operations.

In Conclusion

We pay tribute to the late Lawrie C. Reinertson. Appointed a Director, President and Chief Executive Officer on April 24, 1996, Lawrie died suddenly on July 14. His tenure was short, but his contribution was significant and will benefit the Company for years to come. In his memory the Lawrie Reinertson Palliative Care Trust was established by Rio Algom at St. Joseph's General Hospital in Elliot Lake.

Colin A. Macaulay retired from his position as Vice-Chairman of the Company in December 1996. We thank him for his wise counsel and leadership, which have been of benefit to us all.

To our employees, who have contributed so much to Rio Algom's numerous achievements in 1996, we extend our thanks for their hard work and enthusiasm.

We look forward to continuing the evolution and growth of the new Rio Algom during 1997 and into the future.

Respectfully, on behalf of the Board of Directors,

Gordon C. Gray
Chairman of the Board and
Chief Executive Officer
February 26, 1997

Environmental Health and Safety Policy

Rio Algom Limited is committed to achieving excellence in all aspects of its operations, including environmental protection, health and safety. The Company undertakes to act responsibly as steward of the resources in its charge, working for the well-being of its employees and the communities and the countries in which it operates. Where the Company does not have operating responsibility, it will work with its associate companies to adopt practices consistent with this policy.

In 1996, Rio Algom's Board of Directors approved the following strengthened Environmental, Health and Safety Policy for the Company.

SPECIFICALLY, THE COMPANY WILL:

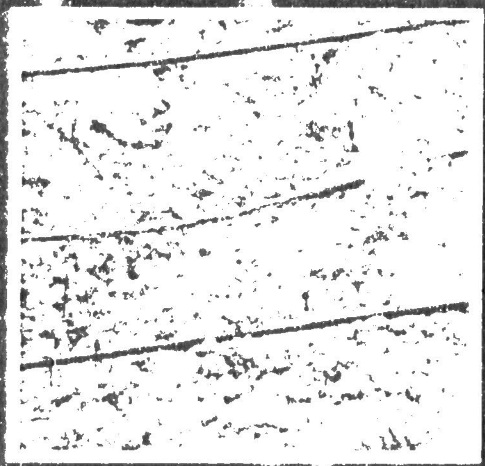
- implement site-specific environmental, health, hygiene, safety and emergency response policies, management programs and practices, with the aim of continuing improvement;
- design, operate, decommission and evaluate its facilities to ensure compliance with government and Company requirements and to minimize risks to health, safety and the environment;
- train and equip employees with the understanding, skills and facilities to achieve an injury-free and healthy workplace and to fulfil their environmental obligations;
- educate its employees on practices to improve the environment, wellness and safety on and off the job;
- require its contractors to implement practices consistent with Company health, safety and environmental policies and procedures;
- encourage conservation and pollution prevention measures;
- provide information and training for the safe handling, use, transport, and disposal of our products;
- communicate openly and on a timely basis with employees, the public, governments, and other stakeholders on activities involving environment, health and safety;
- research processes, practices and technologies that will lead to improved environmental, health and safety performance;
- conduct regular environmental, health, hygiene, safety and emergency response audits, and implement action plans called for by these audits;
- report regularly to the Board of Directors on environment, health, hygiene, safety and emergency preparedness.

Rio Algom Limited and its operations take responsibility for implementing the principles of this policy through the commitments and actions of each employee.

Examples of Rio Algom's commitment to these principles are highlighted on some of the pages that follow.

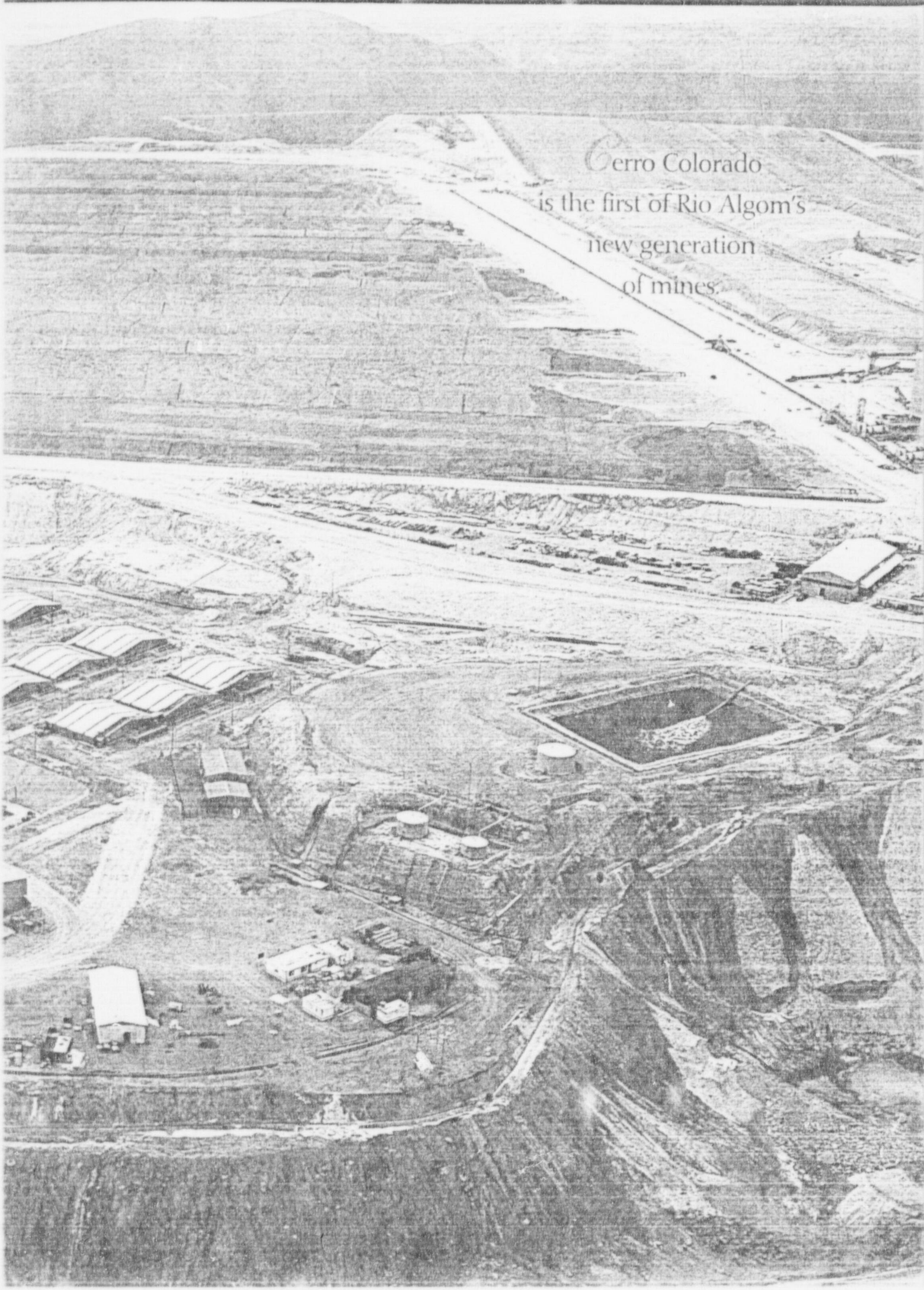
Mining Operations

Innovation at work



As new production in copper, gold and uranium comes on stream, Rio Algom is pioneering innovative extraction technologies and reclamation procedures. The Company's mining activities range from mineral exploration through mine development and production to mine closure.

Processing plant at Cerro Colorado with the leach pads in the distance. [illegible] solution on surface of leach pads.


Cerro Colorado
is the first of Rio Algom's
new generation
of mines.

Mining Operations and Projects

• Mining Properties

COPPER

Cerro Colorado: Rio Algom's wholly-owned Cerro Colorado mine is located in the Atacama Desert in northern Chile, 120 kilometres east of the port city of Iquique, at an altitude of 2,600 metres. The open pit operation, which provides employment for 665 people, began production in 1994. Production has increased steadily since then, owing to an expansion completed in 1995. The implementation of several operating changes has improved the efficiency of the leaching process and increased recoveries. As a result, the Company has made great strides in reducing production costs.

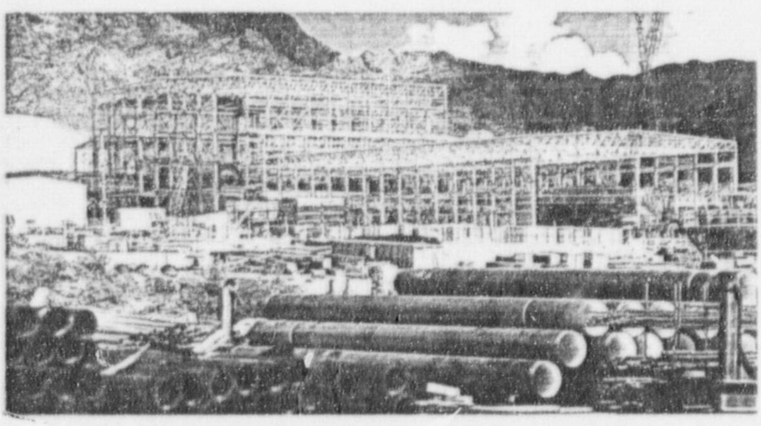
At Cerro Colorado, ore is crushed and treated by bacterial and chemical leaching, followed by a solvent extraction and electrowinning (SX-EW) process to produce finished cathode copper. Rio Algom pioneered the large-scale commercial application of this process to sulphide copper ores.

The mine produced 151 million pounds of copper in 1996. An expansion program initiated late in the year will increase the production capacity to 220 million pounds annually in 1999, at an estimated cost of US$198 million, excluding escalation, working capital and financing costs. This expansion is expected to reduce average cash costs to less than US$0.50 per pound. At the expanded rate of product. Cerro Colorado's proven and probable reserves of 222 million tonnes grading 1.03% copper will support mining operations for the next 20 years.

Highland Valley Copper: Located in south-central British Columbia, Highland Valley is one of North America's largest copper mines. Rio Algom has a 33.6% partnership interest in the operation and shares equally in its management with Cominco Ltd. The operation's Valley and Lornex open pits supply ore to the mill at an average daily rate of 120,000 tonnes.

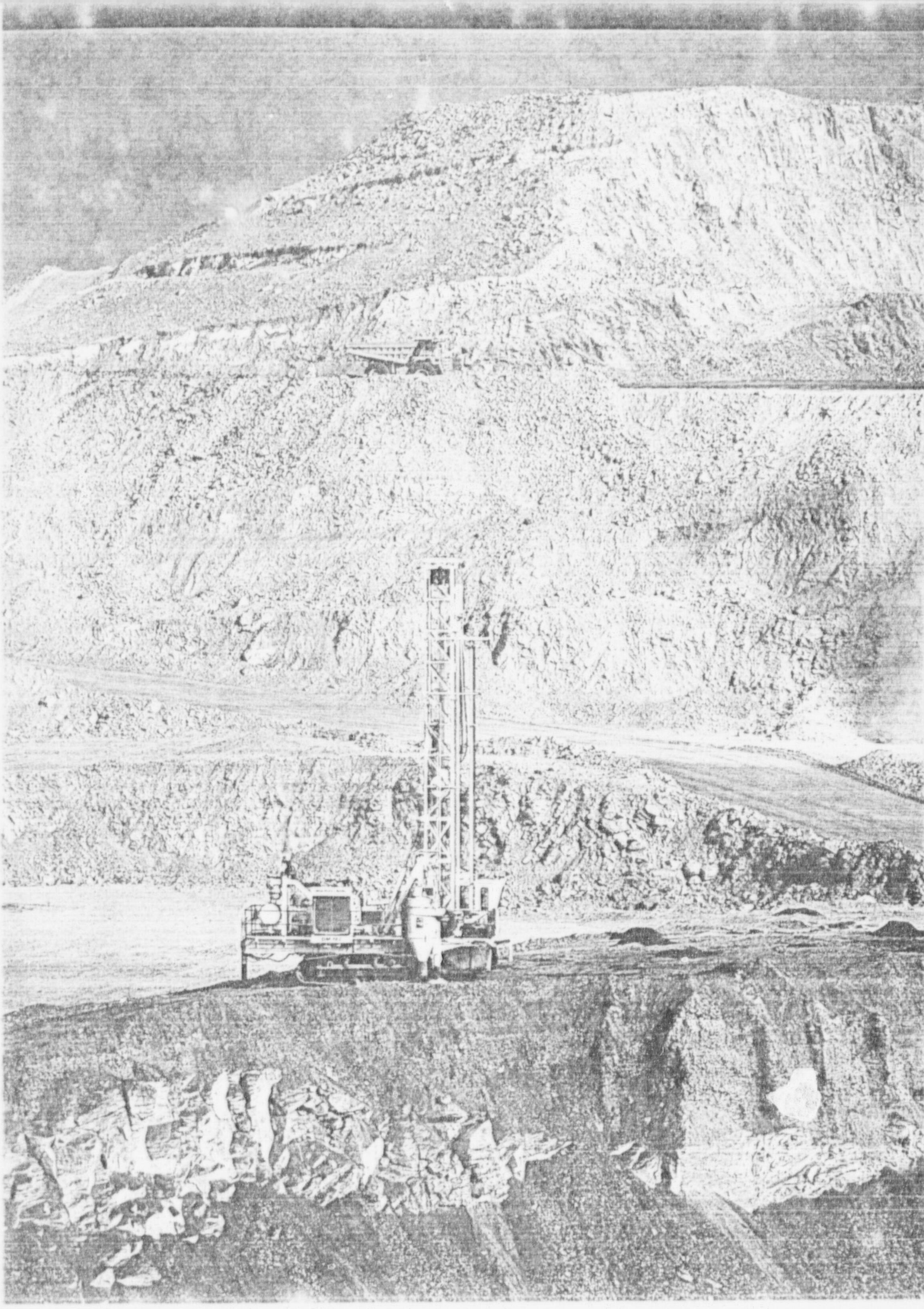
Rio Algom's share of production in 1996 was 110 million pounds of copper and 988,000 pounds of molybdenum in concentrate. Proven and probable reserves will support mining operations at planned rates for at least 10 more years. Studies are continuing to determine the extent and economics of mining additional copper mineralization discovered in 1995 at depth below the Valley pit.

Bajo de la Alumbrera: Argentina's first large-scale open pit base metal mining project is located in the province of Catamarca, at an elevation of 2,600 metres



Concentrator building takes shape at Alumbrera.

Opposite: Mining operations in the Cerro Colorado open pit.



above sea level in the foothills of the Andes. Discovered in 1949, the porphyry deposit is destined to become one of the world's great mines, yielding on average over 380 million pounds of payable copper in concentrate and 545,000 ounces of payable gold annually after production begins in the latter half of 1997. When in operation it will employ 600-700 people; at peak, close to 6,000 were involved in Alumbrera's construction.

Rio Algom's 25% interest in the Alumbrera project is held through Minera Alumbrera Limited, which operates the project under an agreement with Yacimientos Mineros de Agua de Dionisio, the property owner. M.I.M. Holdings Limited of Australia has a 50% interest in Minera Alumbrera and North Limited, also of Australia, holds the remaining 25%.

Excluding interest during construction and other financing fees, the cost of the Alumbrera project is currently estimated to be US$903 million, of which Rio Algom's share will be approximately US$168 million. Over the life of the project, Alumbrera is expected to add 137,000 ounces of payable gold and 96 million pounds of payable copper to Rio Algom's annual production. A higher grade starter pit will provide additional copper and gold in the operation's early years. It is estimated that the cash cost for copper, after byproduct credits, will be in the low US$0.30 per pound range.

Reserves and resources are expected to maintain the Alumbrera operation at planned rates for approximately 20 years.

Ore from the open pit will be crushed and ground, with copper concentrates produced by the flotation process. Free gold will be recovered by gravity methods. For the first four years the mill is expected to treat approximately 80,000 tonnes of ore daily; and will be expanded to 120,000 tonnes per day thereafter. Copper concentrate produced in the mill will be pumped through a 245-kilometre pipeline to a plant near Tucuman, where most of the water will be removed and the filtered concentrate shipped 820 kilometres by rail to a new port facility constructed near Rosario.

Antamina: Located in the Andes 480 kilometres northeast of Lima, Peru at an altitude of 4,200 metres, the Antamina property hosts a partially defined high grade copper/zinc skarn deposit.

A joint bid for the property by Rio Algom and Inmet Mining Corporation was accepted in July 1996. Under the terms of the bid, the two companies are required to spend at least US$13.5 million on a feasibility study on the Antamina property by September 1998, at which point they may return the property or proceed with development. The bid involves an investment commitment of US$2.5 billion by 2001 if the companies elect to proceed. If the development costs, which are currently projected to be at least US$1 billion, are less than US$2.5 billion, Rio Algom and Inmet would pay 30% of the shortfall to the Government of Peru in lieu of further expenditures.

Rio Algom and Inmet have initiated an intensive 60,000-metre drilling program on the Antamina property in advance of the planned feasibility study, with the objective of confirming and expanding reserves. An office was established in Lima and, by the end of 1996, a camp accommodating 200 people was set up on site.

A 1992 estimate by CEPRI-Centromin of Peru reported proven and probable reserves of 128.6 million tonnes grading 1.61% copper, 1.55% zinc, 0.04% molybdenum and 17.7 grams of silver per tonne, with the potential for substantial additional reserves.

On February 26, 1997, Rio Algom and Inmet jointly announced an interim resource estimate for Antamina within a pit of 400 million tonnes grading 1.2% copper, 1.1% zinc, 0.03% molybdenum and 13 grams per tonne silver. The deposit remains open in a number of areas and drilling continues.

At the time of the July 1996 bid it was envisaged that Antamina could provide Rio Algom with at least 200 million pounds of copper and 175 million pounds of zinc production annually for at least 15 years, beginning in 2001. This projection was based on a milling rate of 40,000 tonnes per day and the production of one million tonnes of copper and zinc concentrates annually. In view of the encouraging results from the drilling program to-date, studies will be undertaken to evaluate the economics of higher milling rates for Antamina.

URANIUM

Rio Algom's uranium activities in the United States are conducted by its wholly-owned subsidiary, Rio Algom Mining Corp. The long-term goal of the U.S. uranium operations is to develop and/or acquire reserves which will support total production of about five million pounds of uranium per year.

Smith Ranch: Production of uranium from the US$44 million Smith Ranch project near Casper in northeast Wyoming is expected to begin in May 1997, with design production of two million pounds per year to be achieved in mid-1998. Studies are in progress to determine the feasibility of increasing production from Smith Ranch.

Uranium will be produced by *in situ* leaching, a method favoured over more traditional mining methods for its lower capital and operating costs and its much diminished environmental impact. In this process, injection and extraction wells are drilled into uranium-bearing zones approximately 200 metres below the surface. An environmentally benign mining solution is pumped into the ore zone where it dissolves the uranium. The uranium is extracted at a central processing facility and the mining solution recycled. Cash costs for the operation are expected to be less than US$12 per pound.

Reynolds Ranch: Early in 1997 Rio Algom began an 18-month, US$4.1 million program at Reynolds Ranch, Wyoming, immediately north of the Smith Ranch area, to confirm and expand resources of 8.2 million pounds of uranium, and to conduct environmental baseline studies for possible production beginning in the year 2000.

Ambrosia Lake: Rio Algom produces uranium by solution mining in the Ambrosia Lake area north of Grants, New Mexico, where it owns nine closed underground mines and a large closed uranium mill. The process involves circulating mine water through the old workings and then through an ion exchange plant. Increasing uranium prices have led to plans to increase production from 185,000 pounds in 1996 to 550,000 pounds in 2000.

ZINC

Polaris, Antamina, Crandon: Rio Algom's current interest in zinc production is held through a 25% net proceeds royalty in the Polaris zinc/lead mine on Little Cornwallis Island in the Canadian Arctic. On the horizon lies potential production from Antamina in Peru and from the Crandon zinc/copper deposit in Wisconsin. Crandon could produce 150,000 tonnes of zinc in concentrate annually. Rio Algom has a 50% interest in Crandon Mining Company, a joint venture with Exxon Coal and Minerals. It is anticipated that permitting for the project will be completed by 1999. If a production decision is made, construction would take about three years.

ENVIRONMENT HEALTH & SAFETY

- *A comprehensive environmental baseline study is under way at Antamina, to commence the groundwork for a possible future mining project and to monitor the effects of the exploration program.*
- *In March 1997, Rio Algom will be presented with a special award by the Prospectors and Developers Association of Canada in recognition of its reclamation activities at Elliot Lake.*
- *Staff at the Smith Ranch project meet regularly with local ranchers to exchange information and hear any concerns about the new uranium operation.*
- *The average lost-time accident frequency rate at Rio Algom's operations in 1996 decreased to 0.62 accidents per 200,000 working hours, compared to 0.80 in 1995.*

COAL

Bullmoose: The Bullmoose Coal joint venture, in which Rio Algom has a 29.1% interest, is an open pit metallurgical coal mining operation in northeastern British Columbia, Canada. Operated by Teck Corp., the facility produces approximately two million tonnes of metallurgical coal annually.

Reserves are sufficient to more than fulfil existing contractual obligations, currently amounting to approximately 4.3 million tonnes, to be delivered up to March 31, 1999. Most of the coal produced is sold under long-term contracts to nine Japanese steel-making firms. Contract negotiations are under way with regard to sales beyond 1999.

Mineral Exploration

Rio Algom believes that a focused and consistent mineral exploration program is one of the principal means by which the Company can achieve its ambitious growth plans. Rio Algom's targets are large tonnage, low cost deposits of copper, gold and zinc.

The Company has been active in Chile for a number of years, conducting its own exploration as well as pursuing joint venture projects. More recently, it has extended its activities to Argentina, Peru and Brazil. Rio Algom is also active in North America and Ireland.

Exploration expenditures amounted to $15.7 million in 1996 and are expected to reach $24.0 million in 1997, with a major portion of the increase being spent on drilling programs on the Spence deposit in Chile and the Santa Cruz joint venture with Yamana Resources Inc. in Argentina.

The October 1996 agreement with Yamana Resources allows the Company to earn a 50% interest in some of Yamana's extensive gold prospects in Santa Cruz Province of southern Argentina by spending US$20 million on exploration before August 31, 2001. Rio Algom can increase its stake to 60% if it completes a feasibility study and elects to place a property in production.

Spence deposit: The effectiveness of the Company's exploration strategy was clearly demonstrated with the announcement early in 1997 of the discovery by Company geologists of a major copper deposit in northern Chile. The Spence deposit is located at an elevation of 1,700 metres between the cities of Antofagasta, on the coast, and Calama, on claims held by Compania Minera Riochilex S.A., a wholly-owned subsidiary of Rio Algom. It is named after Colin Spence, the Company's former Western Canadian exploration manager who was killed in a tragic incident in the Philippines in June 1996.

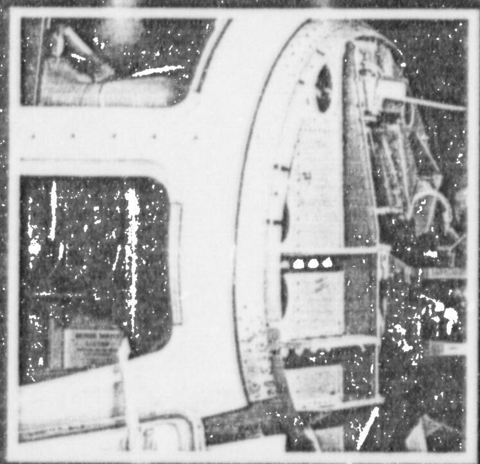
A 24,000-metre diamond drilling program carried out to an average depth of 280 metres on the Spence deposit in 1996 outlined an inferred resource containing an estimated 350 million tonnes averaging one per cent copper, with minor values in silver and molybdenum. Based on initial studies, it appears the deposit will be amenable to open pit mining and conventional metallurgical treatment, with the potential to produce copper at a higher rate than the Cerro Colorado mine.

The deposit consists of two adjacent zones centred on granitic porphyries which intrude sediments and volcanic rocks. It is covered by gravel and leached rock ranging in thickness from 50 to 145 metres. Typical of many Chilean copper deposits, an oxide cap overlays an enriched sulphide zone which grades into primary sulphides at depth. The oxide cap makes up approximately 12% of the total resource.

Detailed diamond drilling, to be followed by preliminary metallurgical testing, was initiated in January 1997 to upgrade the inferred resource to a proven and probable reserve. It is expected that a feasibility study to determine the appropriate method of developing the deposit for production will commence during the second half of the year.

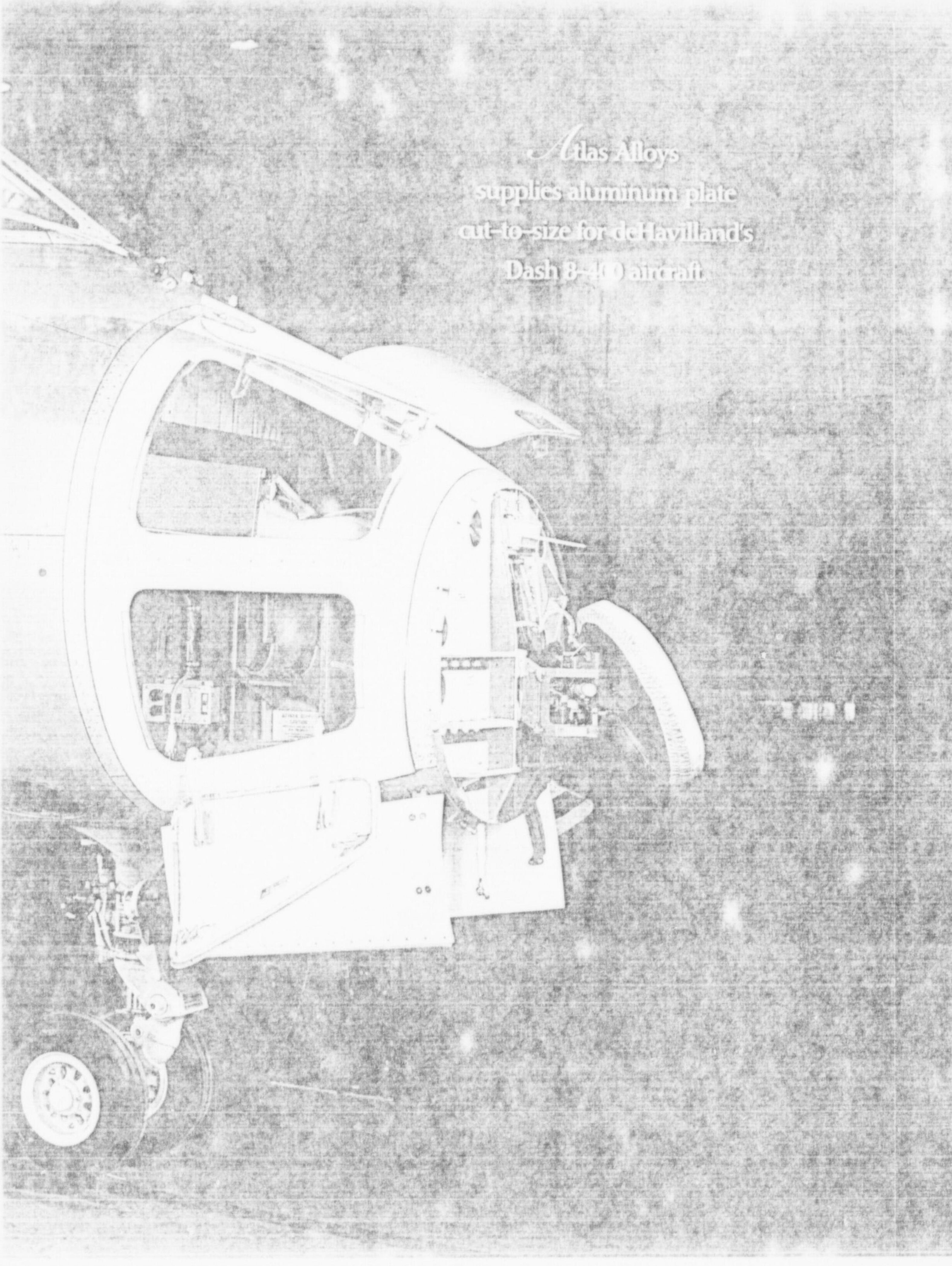
Metals Distribution

An industry leader

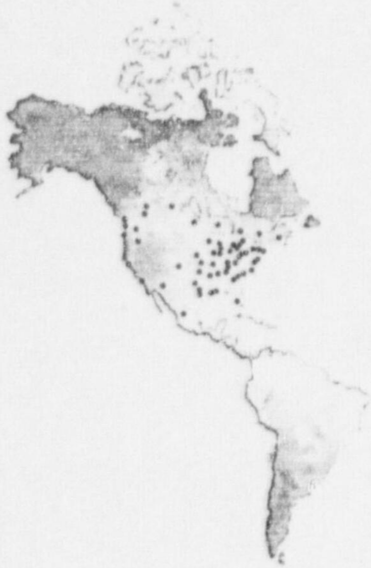


One of the largest metals distributors in North America, Rio Algom's metals distribution group is consistently profitable, provides exceptional return on capital and has significant prospects for growth. Its 60 centres serve over 50,000 customers in Canada, the United States and Mexico.


Sierracin
PPG
482


Atlas Alloys
supplies aluminum plate
cut-to-size for deHavilland's
Dash 8-400 aircraft.

Metals Distribution



• North American Metals Distribution Group

The North American Metals Distribution Group, serving 50,000 customers, is one of the largest metals distribution businesses in North America. With headquarters in Minneapolis, the Group comprises Vincent Metal Goods and its 47 service centres in the United States, Atlas Alloys and its 12 centres in Canada and Aceromex at its single location in Mexico City.

For Rio Algom, the metals distribution business provides an attractive rate of return at low risk, excellent prospects for profitable growth and adds a degree of stability to the Company's earnings and cash flow. Such returns and stability are important as the Company brings new mining developments into production.

In 1996, the North American Metals Distribution Group generated $1.5 billion of revenues, and $77.8 million of operating profit or 81% of the Company's total revenue and 46% of total operating profit. It also provided a 21% rate of return on capital employed and a significant portion of the Company's operating cash flow.

NAMDG purchases stainless and carbon steel, aluminum, copper and brass and nickel alloys direct from producing mills. The Group warehouses these materials and processes them as required (for example by custom cutting, polishing, sawing, slitting or shearing) and delivers the end product to customers in the manufacturing, resource, construction and other industries.

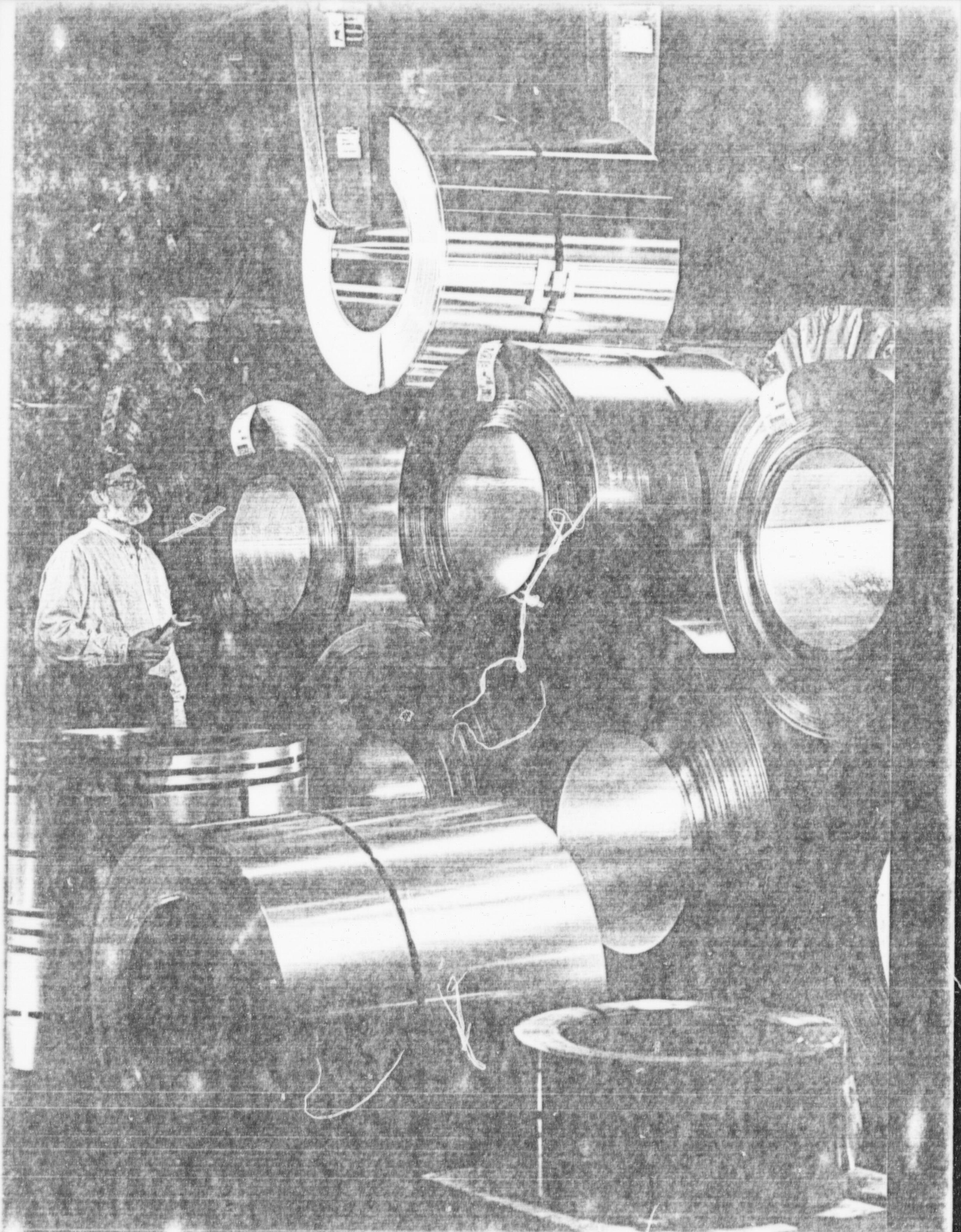
With its network of service centres, attention to value-added processing requirements and commitment to timely delivery, Rio Algom's North American Metals Distribution Group is able to operate very effectively in a highly competitive business.

Vincent Metal Goods' principal products are stainless steel, aluminum, nickel alloys, carbon flat rolled steel, carbon and alloy bar and tubing, copper and brass. In Canada, Atlas Alloys' business is segregated into two product groups. Its specialty metals group includes aluminum, stainless steel, high nickel alloys, tool steels and machinery steels in a wide range of shapes and sizes. Its engineered products group includes pipe, tube, fittings, flanges, valves, fasteners and welding consumables, in a variety of alloy materials.

Stainless steel products accounted for 45% of the Group's sales in 1996, while aluminum products represented approximately 28% and carbon steel products about 8%. The Company believes the growth prospects for

Racking at new Vincent Metal Goods centre in Minneapolis, allows for efficient materials storage and handling.

Opposite: Operator directs crane that lifts aluminum and stainless steel coils at Vincent Metal Goods.



ENVIRONMENT
HEALTH & SAFETY

- *The North American Metals Distribution Group has performed site assessments at all metals distribution locations to ensure that environmental issues are minimal.*
- *All of the NAMDG processing locations are actively involved in recycling activities for items such as metal scrap.*
- *1996 safety performance of the North American Metals Distribution Group was better than most of it's competitors in the industry. New safety programs were initiated during the year to further improve performance in 1997.*

aluminum and stainless steel are highly favourable. The properties of these metals add value to products made from them, resulting in their increased demand. As well, international acceptance of stainless steel and aluminum is facilitating growth for these modern metals which outpaces the general growth of the economies in which they are sold. Their use is widespread in the transportation, aerospace, food processing, architectural, hydro-carbon processing, chemical, metallurgical, forest products, power generation, information technology, medical, agricultural, water treatment, waste management and marine industries.

During 1996 NAMDG continued to consolidate and integrate the former Metal Goods division of Alcan Aluminum into Vincent Metal Goods. Rio Algom purchased the Alcan unit in 1995, virtually doubling the size of its metals distribution business, expanding its coverage from coast to coast in the United States and providing greater flexibility, purchasing power and economies of scale, as well as exposure to new markets.

The Group is continually examining ways to improve efficiencies and productivity and thus, its competitive position. Recent investments have resulted in improved materials handling and distribution capabilities. Over US$2 million was spent in 1996 to integrate the management information systems which keep track of almost 90,000 inventory items, accounting records and ordering systems. In addition, the Group continues to investigate and assess potential acquisitions which would strengthen product sales and its geographic spread.

Financial Section

Management's Discussion & Analysis of Financial & Operating Results 26

Management's Report 45

Auditors' Report to the Shareholders 45

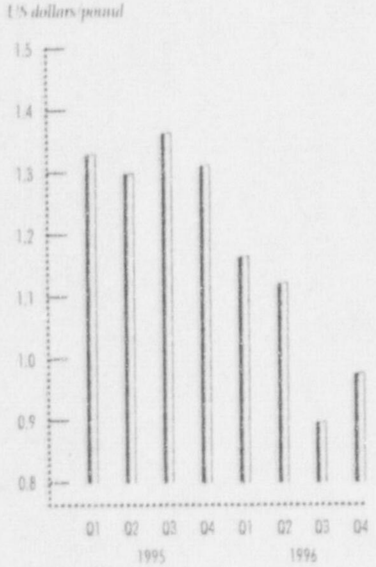
Consolidated Financial Statements 46

Notes to the Consolidated Financial Statements 50

Management's Discussion & Analysis of Financial & Operating Results

OVERVIEW

LME COPPER CASH PRICE
(quarterly average)



Earnings Profile

In 1996, net earnings of $100.4 million were lower than the 1995 level of $152.4 million. The most significant factors underlying the decrease were:

Mining: Lower LME copper prices, which declined 22% to an average of US$1.04 per pound in 1996 from an average of US$1.33 per pound in 1995, partially offset by 65% higher production at our Cerro Colorado operation.

Metals: Oversupply in stainless steel markets and changes in aluminum pricing structures, contributing to reduced prices and margins in the Company's metals distribution business.

Cash Profile

Several significant events in 1996 affected the Company's cash position. Total cash and equivalents of $215.4 million were down from $314.4 million at December 31, 1995.

Significant sources of cash were:

- continuing operations, contributing $75.0 million; and
- proceeds of $95.7 million from the issuance of common shares, primarily through the exercise of share purchase warrants.

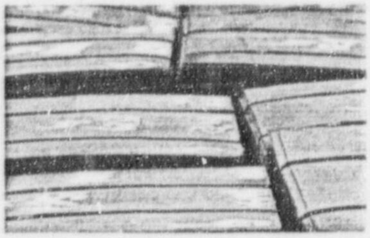
Significant uses of cash were:

- advances of $112.2 million to the Alumbrera project which are expected to be repaid from project financing in 1997;
- net capital expenditures of $77.5 million, including $19.0 million relating to the Antamina project;
- dividends to shareholders of $39.1 million compared to $31.2 million in 1995; and
- repayments of long term debt and other obligations of $37.7 million, principally at Cerro Colorado, compared to $12.6 million in 1995.

Income Statement

Revenue from operations decreased 7.5% to $1.8 billion in 1996 from $2.0 billion in 1995.

Revenue from copper operations decreased to $291.4 million in 1996 from $325.9 million in 1995 due to lower average LME copper prices, which declined by 22% from the prior year, partially offset by increased production at Cerro Colorado.



Cathode copper bundles await shipment from Cerro Colorado.

Revenue from the metals distribution business decreased to $1.5 billion in 1996 from $1.6 billion in 1995, due primarily to lower stainless steel and aluminum prices.

Operating profit from continuing operations decreased to $169.9 million in 1996 from $249.7 million in 1995. Mining operating profit from continuing operations decreased to $92.0 million in 1996 from $156.6 million in 1995. The decrease was due to lower copper prices during 1996 as well as a decline in production and higher operating costs at Highland Valley Copper. These declines were partially offset by increased production at Cerro Colorado.

Metals distribution operating profit decreased to $77.8 million in 1996 from $93.2 million in 1995. Metals distribution 1995 results include only nine months revenue and operating profit from Metal Goods, which was acquired March 31, 1995. The 1995 results also include the Company's 60.9% interest in Atlas Steels Limited of Australia which was sold in late 1995.

The Canadian/US dollar exchange rate remained relatively stable. The average rate for 1996 was C$1.56 per US dollar compared to C$1.57 per US dollar in 1995.

(millions except per share data)		1996		1995
Earnings from continuing operations	$	66.2	$	125.4
Earnings from discontinued operations		34.2		7.0
Net earnings	$	100.4	$	132.4
Net earnings per common share:				
Earnings from continuing operations	$	1.20	$	2.41
Net earnings for the year	$	1.82	$	2.55

Discontinued Operations The Stanleigh mine, the Company's last operating mine at Elliot Lake, closed on June 30, 1996 after producing 1.1 million pounds of uranium in the year. In 1995, Rio Algom's Elliot Lake operations, consisting of the Stanleigh, Quirke and Panel, Pronto, Lacnor, Nordic, Buckles, Spanish American and Milliken underground uranium mines, were reclassified as discontinued operations.

Under the Stanleigh contract, Ontario Hydro made interest-free advances of the funds required to bring the Stanleigh Project into production and the funds necessary for its working and sustaining capital requirements. The funds advanced were to be repaid to Ontario Hydro over the delivery period, as defined in that agreement, in amounts approximately equal to the amortization allowance included in the base price of uranium delivered. As a result of Ontario Hydro's decision to terminate the contract and following conclusion of various contractual matters, all outstanding advances were forgiven. Such forgiveness and the write-off of the Stanleigh assets, having an equivalent book value, have been reflected in the accounts for the fourth quarter of 1996. Deferred tax provisions in the amount of $70.5 million relating to the discontinued operations, being no longer required, have been reversed and are included in income from discontinued operations.

The Company regularly reviews its estimate of reclamation costs in light of various factors, including current and proposed regulatory requirements. Rio Algom has reviewed the adequacy of its reclamation provisions relating to its discontinued mining operations at Elliot Lake and elsewhere, and has increased its environmental provisions by $60 million ($40 million net of tax) to provide for reclamation, treatment and monitoring which will continue well into the next century.

These matters are reflected in discontinued operations in the Company's Statement of Earnings.

In 1996 Cerro Colorado produced 131 million pounds of cathode copper

OPERATING RESULTS

MINING OPERATIONS

(millions of dollars)	1996	1995
REVENUE		
Copper	$ 291.4	$ 323.9
Other Mining	63.9	61.6
	$ 355.3	$ 385.5
OPERATING PROFIT		
Copper	$ 86.8	$ 148.5
Other Mining	5.2	[illegible]
	$ 92.0	$ 156.6

RIO ALGOM'S SHARE OF PRODUCTION

	1996	1995
(thousands of pounds)		
COPPER		
Cerro Colorado	**130,786**	80,342
Highland Valley Copper	**110,139**	116,798
	240,925	197,140
Combined Average Cash Cost (US$ per pound)	**0.61**	0.64
MOLYBDENUM		
Highland Valley Copper	**988**	1,158
URANIUM		
Elliot Lake	**1,055**	1,825
Rio Algom Mining Corp.	**183**	134
	1,238	1,959
(thousands of tonnes)		
METALLURGICAL COAL		
Bullmoose	**544**	558

COPPER AND MOLYBDENUM

Prices and Markets

Copper Western World refined copper consumption increased 3.0% to 10.5 million tonnes in 1996 from 10.2 million tonnes in 1995. The U.S. and Asia, excluding Japan, enjoyed strong copper markets in 1996 with consumption increases estimated at 6% and 8% respectively over 1995. The economies of Western Europe remained weak and as a result, European consumption rose by less than 1% from 1995. The Japanese economy showed promise of a recovery at the beginning of the year but slowed as the year progressed, and consequently, Japanese copper consumption remained close to 1995 levels.

Total refined copper production grew by more than 6% in 1996 to over 9.9 million tonnes as the output of copper in concentrates and electrowon cathode from leaching operations increased. The majority of the increase in copper concentrates came from both Chilean and Indonesian mines while the increase in electrowon cathode came principally from new Chilean mines.

For the first five months of 1996, copper prices averaged US$1.18 per pound. In June, copper prices fell precipitously on the news of significant write-offs taken by Sumitomo Corporation as a result of unauthorized copper trading. For the remaining seven months of 1996, copper prices averaged US$0.94 per pound. The LME average spot price for grade A copper was US$1.04 per pound in 1996, a 22% decrease from the 1995 average of US$1.33 per pound. The LME price for grade A copper on December 31, 1996 was US$1.01 per pound.

The adverse effect of lower copper prices was mitigated somewhat by Rio Algom's

hedging program, which was implemented in September 1995. Put options for the first half of 1996 were purchased at a strike price of US$1.10 per pound, and for the second half of the year at US$1.00 per pound, costing on average US$0.015 per pound. More than 80% of the Company's 1996 copper settlements were covered by these put options, resulting in gross proceeds to the Company of US$9.4 million. The Company's 1997 copper settlements remain unhedged.

Molybdenum In 1996 molybdenum prices declined from US$4.50 per pound in January to reach a low of US$3.16 per pound in May. Later in the year, as demand for molybdenum rose, the price increased to a high of US$4.72 per pound in October before declining near the end of the year to US$4.50 per pound. Molybdenum prices averaged US$3.79 per pound in 1996 compared to the unusually high US$8.04 per pound in 1995 due to above average levels of stainless steel production early in that year.

Cerro Colorado

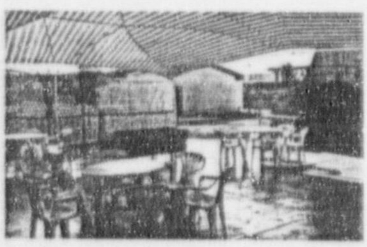
Cerro Colorado is a wholly-owned, open pit copper mine located near Iquique, Chile. Finished cathode copper is produced using heap leaching followed by solvent extraction and electrowinning (SX-EW).

The Cerro Colorado operation mined over 26 million tonnes of ore and waste in 1996.

In 1996 copper production increased 63% to 130.8 million pounds from 80.3 million pounds in 1995, due mainly to the 1995 expansion of production capacity. Average annual copper recoveries also improved to 68.5% in 1996 from 60.1% in 1995 due to:

- lower fines content in the ore delivered to the leach pads;
- increased use of sulphuric acid and longer leaching time;
- implementation of a leach solution recirculation system; and
- improved heating and aeration of the leach pads.

Rio Algom announced in December 1996 that it is proceeding with a further expansion of Cerro Colorado. Annual production capacity will be increased 67% to 220 million pounds of refined copper from the existing level of 132 million pounds. The expansion, which commenced in January 1997, is estimated to cost US$198 million, excluding escalation, working capital and financing costs, and is planned to be completed by mid-1998.



Employee facilities at Cerro Colorado.

Under the terms of sales contracts expiring December 31, 2008, Cerro Colorado is committed to deliver a total of 106 million pounds of cathode copper annually to Mitsubishi Corporation and Norddeutsche Affinerie A.G. Remaining production is sold under short-term contracts to various international purchasers. Prices under all contracts are based on average LME spot prices in or around the month of delivery.

Estimated proven and probable reserves at Cerro Colorado at the end of 1996 were 221.9 million tonnes with an average grade of 1.05% copper. Opening reserves of 187.7 million tonnes were reduced by the 5.7 million tonnes mined

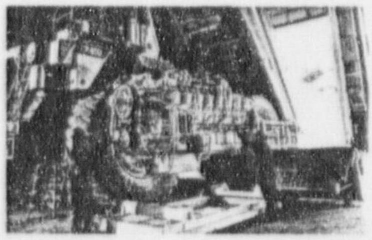
and increased by 39.9 million tonnes of additional reserves discovered during the year through exploration drilling. Based on these reserves, the current mine plan and design recoveries, the expected life of the expanded mine is approximately 20 years.

CERRO COLORADO PRODUCTION PROFILE	1996	1995
(millions)		
Total tonnes mined	**26.2**	24.6
Tonnes waste mined	**20.5**	18.9
Tonnes ore mined	**5.7**	5.7
Cathode copper production (lbs.)	**130.8**	80.5
(percent)		
Average ore grade mined (copper)	**1.46**	1.51

Overhead view of Highland Valley's No. 4 in-pit crusher in the Valley pit.

Highland Valley Copper

Rio Algom owns a 33.6% partnership interest in Highland Valley Copper, a large scale open pit copper/molybdenum mine located in south-central British Columbia. Management of the operation is shared equally with Cominco Ltd.



Mine maintenance mechanics performing a quick engine change at Highland Valley Copper.

Copper production was 5.7% lower in 1996 than in 1995 due to coarser ore. Operating costs were adversely affected by a fault system in the Valley pit and relocation of the in-pit primary crushers.

Highland Valley Copper has four long-term copper concentrate contracts representing, in the aggregate, approximately 70% of sales. A group of Japanese smelters holds two of these contracts, with commitments to purchase approximately 50% of production. Prices are based on LME prices, generally three months after delivery.

At currently planned operating levels, the mine is expected to remain in production until the year 2008. Highland Valley Copper's 1996 year end estimate of proven and probable reserves was 495 million tonnes at an average grade of 0.419% copper and 0.008% molybdenum, compared to the 1995 year end estimate of 504 million tonnes at an average grade of 0.422% copper and 0.008% molybdenum. The reserves were reduced by 45 million tonnes for 1996 production and were increased by 35 million tonnes due to changes in cut-off grade and mine design.

HIGHLAND VALLEY PRODUCTION PROFILE	1996	1995
(millions)		
Total tonnes mined	**90.4**	95.1
Tonnes waste mined	**47.8**	49.6
Tonnes ore milled	**42.6**	45.5
Rio Algom's share of contained copper production (lbs.)	**110.1**	116.8
(percent)		
Average ore grade milled (copper)	**0.596**	0.594
Copper recovery	**91.2**	91.0
Mill availability	**91.5**	91.6

URANIUM

Prices and Markets

The new Smith Ranch uranium in situ leaching facility will be in production in 1997.

Western World consumption of uranium rose in 1996. Consumption exceeded production, resulting in drawdowns of utility inventory levels.

The average uranium spot market price in 1996, as quoted by the Uranium Exchange, was US$15.40 per pound as compared to US$11.47 per pound in 1995. At December 31, 1996, the uranium spot market price was US$14.70 per pound compared to US$12.25 per pound at December 31, 1995.

Exports of uranium from Russia into the United States are subject to restrictions until the year 2004. These restrictions require sales of Russian uranium into the U.S. to be matched with an equivalent amount of newly produced U.S. material. In addition, sales of Russian highly enriched uranium into the U.S. in excess of annual quotas must also be matched by new U.S. production. Under matched sales, U.S. material is generally sold at prices higher than the spot price. The corresponding Russian uranium is sold at prices lower than spot price, with the resulting combined price to the customer at, or close to, the spot price.

Elliot Lake

Rio Algom's wholly-owned Stanleigh underground mine at Elliot Lake in northern Ontario produced uranium under contract with Ontario Hydro on a cost plus basis. As a result of Ontario Hydro's decision to terminate purchases of uranium under this contract, the Stanleigh mine ceased operations effective June 30, 1996. As this was the Company's last operating mine in this region, the Elliot Lake operations, consisting of the Stanleigh, Quirke and Panel and six other underground uranium mines, were reclassified in 1995 as discontinued operations.

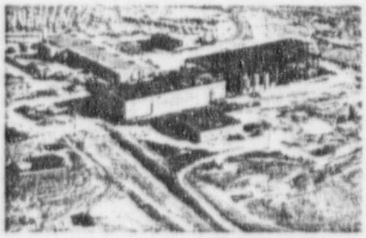
During the year, the mine produced 1.1 million pounds of uranium for Ontario Hydro in accordance with contract requirements. The operating profit for 1996 was comparable to 1995 after adjusting for the lower pounds produced.

Rio Algom Mining Corp.

Rio Algom Mining Corp. (RAMC) is a wholly-owned U.S. subsidiary with an *in situ* uranium leaching mine and processing plant under construction in Wyoming, uranium properties in New Mexico, and uranium reclamation projects in New Mexico and Utah. RAMC produced 183,000 pounds of uranium in 1996 from mine water recovery activities in New Mexico, compared to 154,000 pounds in 1995.

Development of Smith Ranch, the Wyoming *in situ* uranium leaching project, commenced in May 1996 and is proceeding ahead of schedule at an estimated cost of US$44 million. Operations are expected to begin in the second quarter of 1997, and the mine facility is projected to reach a production rate of two million pounds of uranium annually by 1998.

RAMC has sales contracts signed and pending for future deliveries of production totaling 6.6 million pounds to the year 2005, representing approximately 70% of Smith Ranch's first five years of production. Approximately 60% of these are matched sale contracts, requiring an equivalent quantity of Russian origin uranium.



Compared to traditional mining methods, in situ leaching at Smith Ranch will result in lower capital and operating costs and minimized environmental impact.

RAMC's properties had over 60 million pounds of uranium reserves and resources at December 31, 1996, unchanged from 1995. In addition, the Company committed in early 1997 to expend up to US$4.1 million for exploration to confirm resources of 8.2 million pounds of uranium on the Reynolds Ranch property, adjacent to Smith Ranch.

COAL

Bullmoose

Rio Algom holds a 29.1% interest in the Bullmoose Coal joint venture, an open pit metallurgical coal mining operation located in northeastern British Columbia. The project is operated by Teck Corp. which holds a 60.9% interest. The remaining 10% is held by Nissho Iwai Canada Limited.

While Bullmoose's revenue for 1996 increased slightly from 1995, operating profit declined by 18% as a result of higher per tonne operating costs. Production for 1996 remained constant with 1995; however, costs increased by 15% in 1996 due to higher pit maintenance and operating costs.

The majority of Bullmoose coal production is sold in fixed annual quantities under long-term contracts to nine Japanese steel-making firms. Prices are adjusted quarterly based on inflation, as measured by various Canadian cost and price indices. The contracts provide both buyer and seller optional price reviews at specific intervals. The most recent price review occurred in early 1995. The next pricing review date is April 1997. These contracts require coal deliveries of 1.7 million tonnes annually from March 1995 to March 1999.

Discussions are under way concerning possible renewal of the contracts beyond 1999. Prices currently paid under the contracts are significantly higher than world market coal prices. In addition, Bullmoose Coal renewed a contract in 1995 with Quintette Coal to produce and deliver 400,000 tonnes of metallurgical coal per year to March 31, 1997, with the potential for a one-year renewal.

Bullmoose Coal's remaining reserves are considered more than sufficient to fulfill the existing contractual obligations.

ZINC

Polaris

The Polaris underground zinc/lead mine is located on Little Cornwallis Island in the Canadian Arctic. The Company owns a 25% royalty interest in the annual net proceeds of production from this mine.

After amortization of its investment, Rio Algom earned $2.1 million from this royalty in 1996 compared to $1.5 million in 1995. The increase was mainly due to higher lead prices. Total royalty income to the Company to the end of 1996 was $24.7 million.

Based on current reserve estimates, production at Polaris is expected to cease at the end of the first quarter of 2001.

EXPLORATION AND DEVELOPMENT

Bajo de la Alumbrera

Rio Algom has a 25% indirect interest in Minera Alumbrera Limited, the operator of a large copper/gold porphyry deposit located in northwestern Argentina. Construction of the project began in 1995 and was more than three-quarters complete by the end of 1996.

Construction of the Alumbrera project involved close to 6,000 people at its peak.

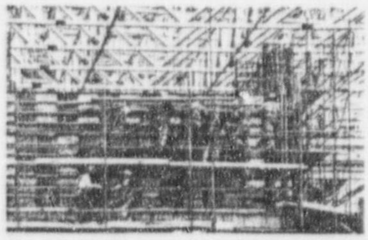
A view of the Alumbrera camp.

The property is being developed under an agreement with Yacimientos Mineros Agua de Dionisio (YMAD), the owner of the property. YMAD is entitled to a 20% net profits interest, after cost recovery.

The open pit is estimated to contain mineable reserves and resources of 700 million tonnes with an average grade of 0.54% copper and 0.66 grams per tonne of gold. The concentrator will have a capacity of 80,000 tonnes per day and is planned to be expanded to 120,000 tonnes per day after the first four years. Current reserves are expected to support a mine life of approximately 20 years.

An update to the Alumbrera capital cost estimate was completed in 1996 and, including overall project enhancements amounting to US$42 million, the total project capital cost before financing costs was revised from US$798 million to

US$905 million. A resulting benefit of the enhancements is an early target date for commissioning of the concentrator. It is now expected that startup will occur in the third quarter of 1997. At December 31, 1996, out of the total current project cost of US$905 million, actual expenditures and commitments amounted to US$775 million.



Two views of the concentrator building under construction at Alumbrera.

Project debt financing negotiations with a consortium of international lenders were completed in early 1997 and are expected to result in the first debt drawdown in March 1997. A maximum of approximately US$670 million of senior debt will be provided and Rio Algom has provided a several guarantee for 25% of that amount, being approximately US$168 million. The guarantee will terminate upon satisfaction of completion tests and contains exclusions for certain political risks. Financing of construction in 1996 was primarily achieved by means of shareholder loans, to be repaid from the first drawdown from the project financing. At December 31, 1996, loans outstanding from Rio Algom to the project were US$82 million (Cdn.$112.2 million) which were included in receivables and prepaid expenses. In addition, the Company guaranteed 25% of third party short-term loans of which US$100 million was outstanding at December 31, 1996.

The Company's equity investment in Minera Alumbrera Limited, as shown in the 1996 consolidated financial statements, increased to $269.9 million from $256.8 million.

Concentrate sales commitments have been made for approximately 90% of annual production. Sales contracts are with 13 purchasers, which are located in Europe and Asia as well as North and South America.

Antamina

In 1996, Rio Algom and Inmet Mining Corporation were announced as the successful bidders for the Antamina copper/zinc deposit in Peru which was auctioned by CEPRI-Centromin (Centromin), an agency of the Peruvian Government.

The successful 50/50 joint bid required a cash payment of US$20 million and further expenditures of at least US$13.5 million by September 1998, at which time Rio Algom and Inmet may elect to return the property to Centromin or to proceed with development. In connection with the bid, Rio Algom and Inmet have made an investment commitment of US$2.5 billion by September 2001, in the event that they elect to proceed with development. If the actual investment, which is currently estimated to be at least US$1 billion, is less than the investment commitment, 50% of the shortfall would be payable to Centromin in lieu of further expenditures.

Drilling at Antamina is laying the groundwork for a full feasibility study in 1997.

A drilling program commenced on the property in August 1996. By the end of December 1996, approximately 24,000 metres had already been drilled as part

of an ongoing program to fully determine the extent of mineralization and the feasibility of this project. The Company's share of the drilling program costs to December 31, 1996 was US$3.9 million.

Based on earlier studies, proven and probable reserves were estimated in 1992 by Centromin at 128.6 million tonnes grading 1.61% copper, 1.35% zinc, 17.7 grams per tonne silver and 0.04% molybdenum.

On February 26, 1997, Rio Algom and Inmet jointly announced a new resource estimate for Antamina within a pit of 400 million tonnes grading 1.2% copper, 1.1% zinc, 0.03% molybdenum and 13 grams per tonne silver. The deposit remains open in a number of areas and drilling continues.

Spence Deposit

In January 1997, the Company announced the discovery of the Spence copper deposit in northern Chile about 140 kilometres northeast of Antofagasta. A recently concluded drilling program, including more than 24,000 metres of diamond drilling, has outlined an inferred resource estimated at approximately 350 million tonnes averaging 1% copper with minor silver and molybdenum values. The deposit appears amenable to open pit mining and conventional metallurgical treatment.

A program of drilling spaced at 100-metre intervals and preliminary metallurgical testing commenced in January 1997 to establish proven and probable reserves in preparation for a feasibility study, which is currently expected to begin in the second half of 1997.

Exceptional customer service is NAMDG's standard of performance.

METALS DISTRIBUTION OPERATIONS

(millions of dollars)	1996	1995
REVENUE		
North American Metals Distribution Group (1)	$ 1,478.2	$ 1,347.5
Atlas Steels Limited (2)	–	249.3
	$ 1,478.2	$ 1,596.8
OPERATING PROFIT		
North American Metals Distribution Group (1)	$ 77.8	$ 70.8
Atlas Steels Limited (2)	–	22.4
	$ 77.8	$ 93.2

(1) 1995 comparatives include results of Metal Goods from April 1, 1995 onward.

(2) Amounts disclosed for Atlas Steels Limited, a previously owned 60.9% subsidiary, are the entity's total revenue and operating profit to October 31, 1995, when Rio Algom sold its interest.

North American Metals Distribution Group

In 1996, the North American Metals Distribution Group (NAMDG) continued to contribute significant levels of profit to Rio Algom notwithstanding

competitive pressures experienced in its marketplaces. Despite price pressures, average daily sales volumes remained relatively constant.

Most major contracts with large customers were successfully renewed in 1996. Market share was retained and, for some product lines, increased. However, over-capacity in stainless steel production and a change in pricing structure for aluminum led to a steady decline in selling prices and margins. Favourable interest rates and healthy exports fuelled a strengthening Canadian economy which, together with capital programs in the resources sector, helped Atlas Alloys increase volumes over 1995 levels.

In March 1995, Rio Algom purchased the Metal Goods division of Alcan Aluminium and merged it with Vincent Metals. To increase efficiency and productivity, Vincent Metal Goods continued consolidating branches in 1996.

As part of the Company's strategy to concentrate on the North American metals distribution market, Rio Algom sold its interest in Atlas Steels Limited, its 60.9% Australian subsidiary, in late 1995, producing an after tax gain on disposition of $13 million.

The U.S. metals distribution operations value inventory on a last-in-first-out (LIFO) basis. Falling inventory costs in 1996 resulted in LIFO inventory adjustments and a corresponding increase in operating profit of $24 million compared to a 1995 decrease of $19 million.

Capital expenditures of $8.4 million in 1996 continued at a relatively high level as the move into the new corporate headquarters in Minneapolis was completed. At the same time work continued on the consolidation of computer systems, which is expected to be completed in the first quarter of 1997. Focus then will shift to improving physical facilities in two larger distribution outlets, as well as adding to polishing and leveling capabilities.

Prices and Markets

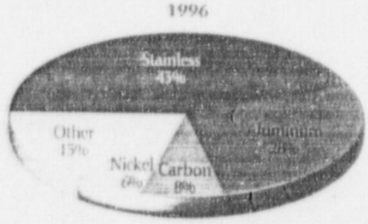
Stainless Steel

Stainless steel remains the most important product line for NAMDG, accounting for approximately 43% of sales in 1996. Additional production capacity in North America, together with increased imports, led to a continuation of the price decline which began in the latter part of 1995, negatively impacting revenues and gross margins. Selling prices were also negatively affected by lower nickel and molybdenum prices, both of which are key commodities in the manufacture of stainless steel.

Trains unload product inside Vincent Metal Goods new Minneapolis service centre.

NAMDG REVENUE MIX

1996



1995*

Stainless	45%
Aluminum	28%
Carbon	7%
Nickel	5%
Other	15%

** Based on Metal Goods' full actual 1995 sales volumes*

Aluminum

Aluminum products constituted approximately 28% of NAMDG's sales in 1996. Aluminum shipments in North America remained constant with 1995 levels, but prices declined as LME-based pricing became more standardized in the industry.

Carbon Steel

Carbon steel products accounted for approximately 8% of NAMDG's 1996 sales. Prices for the product remained stable in 1996 as automotive and appliance manufacturers, both in Canada and the U.S., worked to satisfy high levels of demand.

ENVIRONMENTAL MATTERS

Helicopters are used to seed reclaimed lands at Highland Valley Copper.

Rio Algom's facilities and operations are subject to extensive general and industry-specific health and safety regulations in Canada, the United States, Chile and elsewhere. Such regulations include those relating to mine reclamation and the handling and disposal of solid and hazardous materials, including uranium tailings. Rio Algom, like many of its competitors, has incurred and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations at all locations where it operates. The Company believes that it is in substantial compliance with all such material legal requirements.

Rio Algom implements environmental programs to monitor compliance with licences, permits and regulatory requirements, as well as with the Company's environmental and health and safety protection policies. The environmental programs address matters such as reclamation plans, incident response, health and safety training, water discharges and air emissions. Management reports to the Environmental, Health and Safety Committee of the Company's Board of Directors on compliance with applicable policies, permits, licences, regulatory requirements and reclamation plans.

Rio Algom believes that it is making adequate financial provision for its share of the planned closure and reclamation costs at currently operating facilities. Each operating mine has a plan, reviewed annually, which estimates the cost of necessary measures to rehabilitate the site and protect the environment and public health and safety at the end of the mine's life. The cost of these plans is charged against annual earnings over the life of the operation.

The Company spent approximately $15.9 million for site restoration and related obligations with respect to its closed mine and mill facilities in 1996 (compared to $18.2 million in 1995), and expects to spend approximately $14.0 million in 1997.

In April 1996, the Quebec Ministry of Natural Resources requested that Rio Algom submit a restoration plan for the Poirier mine site which was operated

in the 1960's and '70's and sold by Rio Algom in the mid-1980's. It is expected that a final plan will be submitted for government acceptance in 1997.

In 1996, due to the Federal government's decision to require relicensing of previously closed uranium mines and in consideration of potential costs in respect of other discontinued mining operations, the Company determined it prudent to record additional reclamation provisions of $60 million ($40 million net of tax).

CASH FLOW

Cash and short term investments net of current bank loans and overdrafts decreased to $215.4 million at December 31, 1996 from $314.4 million at December 31, 1995. Cash flow components are detailed in the Consolidated Statement of Changes in Financial Position.

CONTINUING OPERATIONS

Cash from Operating Activities

$75.0 million in 1996 ($188.4 million in 1995)

In 1996 Rio Algom's continuing operations generated cash of $75.0 million (1995 – $188.4 million), which included an increase in non-cash working capital and other of $58.4 million compared to $4.8 million in 1995. The 1996 increase reflects higher tax payments on 1995 income and additional working capital at Cerro Colorado due to expanded production.

Net Cash from Financing Activities

$19.0 million in 1996 ($171.0 million in 1995)

During 1996 financing activities included repayment of the Cerro Colorado debt amounting to $34.8 million as compared to $9.8 million in 1995.

During 1996 sources of cash included $95.7 million received through the issuance of common shares of which $88.8 million resulted from the exercise of warrants issued in 1994.

In 1995 financing activities generated $171.0 million, primarily from the proceeds of $200.9 million from the US$150 million debenture issue.

Reserves at Cerro Colorado are expected to support mining operations for the next 20 years.

Cash Used in Investing Activities

$195.3 million in 1996 ($436.9 million in 1995)

During 1996, investing activities included advances to Minera Alumbrera Limited of $112.2 million.

There were no major acquisitions for cash in 1996. In 1995, two acquisitions –

the $150.1 million purchase of Metal Goods and the $256.8 million purchase of a 25% interest in Alumbrera – amounted to $406.9 million.

In 1995, Rio Algom sold its shares in Atlas Steels Limited for $77.8 million in cash proceeds.

Capital expenditures net of disposals were $77.5 million in 1996 (1995 – $107.7 million).

DISCONTINUED OPERATIONS

Net Cash Generated

$2.3 million ($10.4 million in 1995)
Cash from the Stanleigh mine declined in 1996 due to its closure on June 30, 1996.

LIQUIDITY AND CAPITAL RESOURCES

Cash and short term investments net of current bank loans and overdrafts at December 31, 1996 were $215.4 million compared to $314.4 million at December 31, 1995.

The shareholder advances of $112.2 million made to Minera Alumbrera Limited during the year are expected to be repaid from project financing in 1997.


Construction of the Alumbrera camp for employees.

The Company has accepted an offer of financing from a major Canadian chartered bank to fully underwrite a five-year revolving credit facility of US$500 million, or the Canadian equivalent. Two other North American banks have agreed to participate by underwriting portions of the credit facility. The credit facility will be extendible annually for one further year at the discretion of the lenders. Establishment of the credit facility will be subject to the usual conditions, including the negotiation of final loan documentation. The credit facility will be unsecured and contains debt to total capitalization, minimum tangible net worth and negative pledge covenants which are not expected to materially affect the Company's operations. Under certain circumstances the credit facility will require approval of the lenders to any material asset dispositions by the Company. Pricing of the credit facility will depend upon the credit rating of the Company's senior unsecured debt.

This facility will replace the Company's existing $125 million lines of credit.

In January 1997, Rio Algom arranged a $500 million underwritten financing, comprising $353.4 million convertible redeemable subordinated debentures (the Debentures) and $146.7 million of common shares.

The Debentures, which have been sold on an instalment basis, have a term of ten years and bear an interest rate of 5.5% per annum. Each Debenture will be

convertible into common shares at the option of the holder at any time after payment of the final instalment and prior to maturity at a conversion price of $40 per common share.

The financing, which closed on February 4, 1997, resulted in $508 million to the Company, representing net proceeds on the sale of shares and the first instalment on the Debentures. The second and final instalment is due on or before February 4, 1998 and will result in additional cash of $176.7 million.

In 1995, Rio Algom sold unsecured debentures in the United States in an aggregate principal amount of US$150 million, due November 1, 2005 and bearing interest at 7.05% per annum. Net proceeds of the offering were US$148.6 million.

The senior unsecured debt of Rio Algom is currently rated Baa2 by Moody's Investors Service and BBB by Standard & Poor's. An investment grade rating of Baa3 has been assigned by Moody's Investors Service to the Debentures issued as part of the January 1997 financing. On January 17, 1997, Standard & Poor's announced that it has placed the senior unsecured debt of the Company and the corporate credit ratings of Rio Algom on CreditWatch with negative implications. Management of Rio Algom will meet with Standard & Poor's to fully review the strength of the Company's financial position, operations and strategies for future growth. Following such meeting, Standard & Poor's is expected to issue an affirmation or a downgrade of its current ratings.

The Company expects to incur significant capital expenditures over the next five years. Expenditures on projects currently approved and sustaining capital requirements over the next three years are expected to exceed $500 million.

New potential projects currently under review by the Company, including Antamina, the Spence deposit and the Crandon deposit, could increase capital expenditures by as much as $2.0 billion over the next five years.

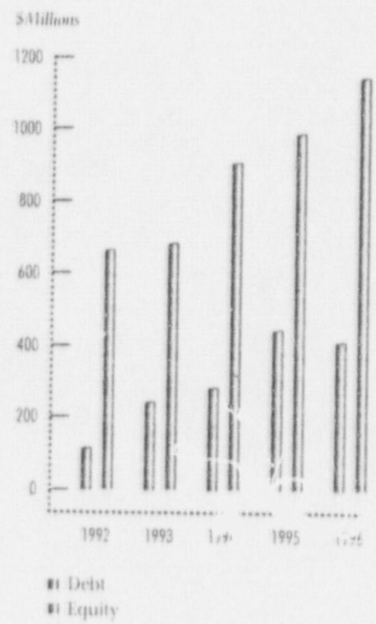
Scheduled debt repayments are $18.8 million in 1997, $24.8 million in 1998, $25.0 million in 1999, $26.0 million in 2000, and $28.1 million in 2001.

Funding of the above commitments and programs is expected to come from existing cash balances, operating cash flows, additional debt and other financing sources as appropriate.

Rio Algom's current ratio at December 31, 1996 improved slightly to 2.6:1 from 2.4:1 at December 31, 1995.

The Company's percentage of debt to the total of debt plus equity at December 31, 1996 decreased to 26% from 31% at December 31, 1995 due to Cerro Colorado debt repayments during the year and the issuance of new shares. Debt used in this calculation for 1995 excluded non-recourse advances from Ontario Hydro. The Cerro Colorado debt will become substantially non-recourse to Rio Algom if

DEBT/EQUITY



the project passes certain completion tests by April 30, 1998.

At December 31, 1996, the balance in Rio Algom's cumulative translation account was $51.5 million, an increase from $50.8 million from December 31, 1995.

RISKS AND UNCERTAINTIES

The following table discloses the estimated sensitivity of Rio Algom's 1996 net earnings and earnings per share to changes in copper prices, metals margins and the Cdn / US dollar exchange rate.

	Change *(Annual average)*	Net Earnings *(millions of $)*	Earnings / Common Share
Copper Price	US$0.01/lb.	$1.9	$0.05
Metals Margin	1%	$8.9	$0.16
Exchange Rate	US$0.01	$1.0	$0.02

Copper Risks The most significant factor influencing the profitability of Rio Algom's mining operations is the price of copper, as much of the Company's mining activities are concentrated in copper. Conversely, in years of lower earnings from mining operations, changes in metals distribution margins have a higher proportionate impact on the Company's consolidated net earnings.

During 1996, the Company continued its copper hedging program, purchasing put options for more than 80% of expected settlements. This program was designed to mitigate the impact of price volatility due to expected increases in worldwide production. The Company's 1997 copper settlements remain unhedged.

Environmental Risks Environmental regulatory review has become a long, complex process which can delay the opening of a new mine or prolong the decommissioning activities at closed mines. Regulatory standards continue to change, increasing environmental and closure costs at operating and closed mining operations. Rio Algom's high standard of commitment to environmental protection and reclamation partly protects against this risk. Nevertheless, while the Company makes reasonable ongoing provisions in its accounts for expected decommissioning costs, any modification in environmental laws or regulations could materially affect such provisions at operating or closed mines. Changes in provisions are recognized by the Company when the required modifications become known.

Acidity levels and costs associated with lime treatment at the closed East Kemptville tin mine have been higher than projected and may result in a longer decommissioning period and higher future costs. Assumptions underlying these longer term treatment costs were factored into the additional reclamation provision taken in 1996.

Rio Algom believes that it has made appropriate recommendations for decommissioning the Quirke and Panel waste management areas in Elliot Lake and that it has made adequate financial provision for the associated costs. In June 1996, the FEARO Panel reported on its hearings, essentially endorsing the Company's proposals for decommissioning. The Panel's recommendations remain subject to confirmation by the federal Minister of the Environment.

Additional costs may arise, depending on the outcome of the AECB relicensing process in connection with the other closed mines in Elliot Lake. The potential for these increased rehabilitation and treatment costs was factored into the additional reclamation provision taken in 1996.

Financial and Political Risks Adverse political and economic developments can affect the performance of an investment. Project financing arrangements may contain exclusions for certain political risks, including those covered by political risk insurance taken out by the relevant commercial bank syndicate.

A weak Canadian dollar provides a favourable exchange effect for Rio Algom because selling prices for commodities such as copper are quoted in US dollars. A significant proportion of the Company's operations are now conducted in US dollars, and future changes in the Canadian to US dollar exchange rate could materially affect the Company's revenue, profitability and unrealized cumulative exchange gains.

Prices for the Company's products tend to increase with the general level of inflation, subject to the supply and demand forces of the market. The Company operates in some countries with above-average inflation rates. Although inflation tends to increase operating costs, declining exchange rates for the currencies of such countries generally offset the effect of inflation.

Other Risks Profitability of the metals distribution business improves in a strong economy when demand for product is high, increasing both sales volumes and unit prices. Periods of economic recession or downturn generally decrease profitability in these businesses. The Company's metals distribution business is highly dependent upon the level of activity in the North American economy.

Western World uranium markets continue to face uncertainty as to the amount of uranium available for export from Russia and other countries. RAMC's matched sales contracts are conditional upon performance of agreements for delivery of equal quantities of Russian-origin uranium.

Bullmoose Coal depends on the B.C. Railway and Canadian National Railway, which transport production from the mine to the port for shipment. The rail lines require a volume of traffic that Bullmoose Coal is unable to provide individually at this time. The majority of the rail volume from the region comes from the Quintette mine, and the continued availability of cost-effective transportation for Bullmoose Coal's product is, therefore, dependent on the

continued operation of Quintette. Contracts for Bullmoose production expire in 1999 unless renegotiated and extended.

Delays in the permitting process for the Crandon project could negatively affect the economics of the project.

OUTLOOK

Eduardo Frei, President of Chile, Marc Lortie, Ambassador of Canada in Chile and Pedro Campino, President of Cerro Colorado, at the signing of the Canada-Chile Free Trade Agreement.

With new mining projects and expansion of facilities currently under construction, Western World refined copper production is forecast to continue increasing for the next three years at an average rate of 5.5% per year, with an estimated total Western World production of 11.5 million tonnes by the end of the century. Refined copper demand is forecast to grow at a level of 5% per year until the end of the century. While refined copper markets were mostly in balance during 1996, a supply surplus is expected in the near term which could place short-term downward pressure on copper prices.

Minera Alumbrera Limited is expected to begin production in the third quarter of 1997. The total estimated project capital cost before interest during construction and other financing costs is currently forecast at US$905 million. The project debt financing is expected to result in an initial drawdown in March 1997 and full repayment in 1997 of all shareholder advances made in 1996.

The Antamina exploration program will continue in order to determine the extent of mineralization and the feasibility of this project. Rio Algom's share of program costs is expected to be a minimum of $15 million in 1997.

The Smith Ranch project is planned to begin production in the second quarter of 1997. Project costs are not expected to exceed US$44 million.

Construction will proceed on the expansion of Cerro Colorado from 132 million pounds of cathode copper per year to 220 million pounds of cathode copper per year. The expansion is expected to be completed by mid-1998.

The general economic outlook for the U.S. and Canadian economies is for slight improvement in 1997, which may produce more favourable market conditions in the North American metals distribution industry.

Management's Report

Management is responsible for preparation of the consolidated financial statements and the information contained throughout this report. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include amounts that are based on informed judgements and best estimates. Other financial information appearing throughout this report is consistent with that in the consolidated financial statements.

Rio Algom Limited maintains systems of internal controls over the financial reporting process, designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors, through an Audit Committee composed of four non-management directors, oversees management's performance of its financial reporting responsibilities. The Board reviews and approves the financial statements.

The Audit Committee, appointed by the Board of Directors, meets periodically with management, internal auditors and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the financial statements and recommends them to the Board for approval. The Committee also considers, for review by the Board and approval by the shareholders, the appointment of the external auditors.

Coopers & Lybrand, the Company's external auditors, have audited the consolidated financial statements, in accordance with generally accepted auditing standards on behalf of the shareholders. They have full and free access to the Audit Committee.

Gordon C. Gray
Chairman and Chief Executive Officer
February 25, 1997

Michael S. Parrett
Vice-President and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Rio Algom Limited as at December 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in Canada.

Coopers & Lybrand
CHARTERED ACCOUNTANTS

Toronto, Canada
February 25, 1997

Consolidated Statements of Earnings

YEARS ENDED DECEMBER 31, 1996 AND 1995

(in thousands of Canadian dollars except per share data)	1996	1995
REVENUE		
Revenue from mine production and sale of metal products	$1,833,487	$1,982,267
EXPENSES		
Cost of mine production and metal sales	1,420,373	1,466,935
Selling, general and administration	206,846	229,254
Depreciation and amortization (note 19)	58,500	54,061
Interest (note 18)	36,191	32,674
Exploration	13,660	8,746
Investment and other income	(18,348)	(18,096)
Gain on sale of subsidiary (note 4)	–	(20,536)
	1,717,222	1,753,058
Earnings before taxes, minority interest and discontinued operations	116,265	229,229
Income and mining taxes (note 20)		
Current	54,708	74,385
Deferred	(4,707)	24,553
	50,001	98,958
Earnings from continuing operations, before minority interest in subsidiary companies	66,264	130,291
Minority interest in net earnings of subsidiary companies	71	4,956
Earnings from continuing operations	66,193	125,335
Discontinued operations, net of tax (note 2)	34,245	7,050
Net earnings for the year	$ 100,438	$ 132,385
Earnings per common share (note 13):		
Earnings from continuing operations	$ 1.20	$ 2.41
Net earnings for the year	$ 1.82	$ 2.55

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

DECEMBER 31, 1996 AND 1995

(in thousands of Canadian dollars)	1996	1995
ASSETS		
Current		
Cash and short term investments	$ 225,661	$ 514,400
Receivables and prepaid expenses (note 9)	340,657	251,414
Inventories (note 6)	308,476	278,154
Discontinued operations (note 2)	22,646	17,290
	895,440	841,258
Property, plant and equipment (note 7)	471,955	461,664
Construction in progress	18,175	17,409
Mining properties (note 8)	400,215	391,122
Investment (note 9)	269,909	256,844
Other assets (note 10)	31,719	41,526
Discontinued operations (note 2)	–	250,585
	$ 2,087,389	$ 2,260,408
LIABILITIES		
Current		
Bank loans and overdrafts	$ 8,257	$ –
Accounts payable and accrued liabilities (notes 11 and 12)	304,865	279,252
Income and mining taxes	22,399	61,825
Discontinued operations (note 2)	5,943	8,806
	341,464	349,883
Long term debt (note 11)	389,334	426,458
Non-current site restoration and related obligations (note 12)	110,450	53,552
Deferred taxes	103,733	199,213
Minority interest in subsidiary company	863	771
Discontinued operations (note 2)	–	246,564
	945,824	1,276,441
CAPITAL STOCK AND RETAINED EARNINGS		
Common shares and warrants (note 13)	342,226	246,952
Contributed surplus	38,188	37,742
Cumulative translation adjustment (note 14)	31,295	30,792
Retained earnings	729,856	668,481
	1,141,565	983,967
	$ 2,087,389	$ 2,260,408

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board of Directors:

James T. Black
Director

Gordon C. Gray
Director

Consolidated Statements of Retained Earnings

YEARS ENDED DECEMBER 31, 1996 AND 1995

(in thousands of Canadian dollars)	1996	1995
Balance, beginning of year	$ 668,481	$ 567,315
Add net earnings for the year	100,438	132,385
	768,919	699,700
Deduct dividends on common shares	39,063	31,219
Balance, end of year	$ 729,856	$ 668,481

Consolidated Statements of Contributed Surplus

YEARS ENDED DECEMBER 31, 1996 AND 1995

(in thousands of Canadian dollars)	1996	1995
Balance, beginning of year	$ 37,742	$ 37,742
Expiration of warrants	446	-
Balance, end of year	$ 38,188	$ 37,742

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Financial Position

YEARS ENDED DECEMBER 31, 1996 AND 1995

(in thousands of Canadian dollars)	1996	1995
OPERATING ACTIVITIES		
Earnings from continuing operations, before minority interest in subsidiary companies	$ 66,264	$ 150,291
Depreciation and amortization	58,500	54,061
Deferred taxes	(4,707)	24,553
Increase in non-cash working capital and other	(38,390)	(4,791)
Site restoration and related obligations – net	(6,663)	(15,668)
	75,004	188,446
Discontinued operations	7,740	21,056
	82,744	209,502
FINANCING ACTIVITIES		
Issue of common shares	95,720	1,956
Issue of US dollar debentures (note 11)	–	200,934
Increase in long term debt	–	14,254
Dividends on common shares	(39,063)	(31,219)
Repayments of long term debt and other obligations	(37,692)	(12,624)
Dividends to minority shareholders	–	(2,280)
	18,965	171,001
Discontinued operations	(5,408)	(10,568)
	13,557	160,433
INVESTING ACTIVITIES		
Acquisitions (note 3)	–	(406,927)
Loan to Minera Alumbrera Limited (note 9)	(112,239)	–
Investment in Minera Alumbrera Limited (note 9)	(13,065)	–
Net capital expenditures (note 3)	(77,436)	(107,735)
Proceeds from sale of subsidiary (note 4)	–	77,805
Proceeds from sale of investment (note 10)	7,463	–
	(195,297)	(436,857)
Discontinued operations	–	(116)
	(195,297)	(436,973)
(Decrease) in cash and equivalents during year	(98,996)	(67,038)
Cash and equivalents, beginning of year	314,400	381,438
Cash and equivalents, end of year (a)	$ 215,404	$ 314,400

(a) Cash and equivalents comprise cash and short term investments less current bank loans and overdrafts.

The accompanying notes are an integral part of these financial statements.

substantially in advance of current production are capitalized and charged to operations on a unit of production basis related to the mineral reserves position. If it is determined that an investment in capitalized mine development or exploration is not recoverable over the productive life of the property, the unrecoverable portion is charged to earnings in the year such determination is made.

Start-up Costs

Start-up costs related to major projects are deferred until the facilities achieve commercial operation. These deferred costs are included in capital assets and amortized on a straight-line or unit of production basis.

Site Restoration and Related Obligations

Estimated site restoration and closure costs for each producing mine are charged to earnings over the expected economic life of each mine using the unit of production method. Provisions of a longer term nature are calculated on a discounted basis.

In determining expected costs, recoveries to be made at the time of shutdown are estimated and taken into account. The process of cost estimation is a continuous one, subject to changing regulations, regulatory approvals, technology and other external factors which will be recognized when applicable.

Current expenditures relating to environmental costs at operating mines are charged to earnings as incurred. Expenditures pertaining to closed mines are charged to the applicable site restoration and related obligation provision.

Income and Mining Taxes

The Company follows deferred income tax accounting for timing differences in the recognition of revenues and expenses for income tax and financial reporting purposes. Investment tax credits are recorded using the cost reduction approach when there is reasonable assurance that the credits will be realized; these credits are deferred and amortized to income on the same basis as the related assets.

Pension Costs and Post-retirement Benefits

The Company's defined benefit pension plans cover most employees. Pension costs and obligations are determined using the projected benefit method of actuarial valuation prorated on the projected length of employee service. Pension surpluses and deficiencies, experience gains and losses and the effects of changes in plan assumptions are amortized on a straight-line basis over the expected average remaining service life of the relevant employee group. The cumulative difference between amounts expensed or credited to income and funding contributions is recorded on the balance sheet.

The Company provides certain health care and life insurance benefits for its retired employees and their dependents. The cost of these benefits is expensed as incurred.

Earnings per Common Share

Earnings per common share are calculated on the basis of the weighted average number of common shares outstanding for the year.

2. Discontinued Operations

(a) On June 30, 1996, the Stanleigh underground mine at Elliot Lake, Ontario ceased operations as a result of Ontario Hydro's decision in 1991 to terminate the uranium supply contract. This resulted in the closure of the Company's last operating mine in the region. In anticipation of this closure, the Elliot Lake operations were accounted for as discontinued operations in 1995. These operations consisted of the Stanleigh, Quirke and Panel, Pronto, Lacnor, Nordic, Buckles, Spanish American and Milliken underground uranium mines at Elliot Lake.

(b) The results of discontinued operations were as follows:

(in thousands of Canadian dollars)	1996	1995
Revenue	$ 59,229	$ 100,457
Cost of mine production	33,515	66,061
Selling, general and administration	11,548	15,495
Depreciation and amortization	5,855	10,357
Provision for taxes	2,540	3,494
	53,258	95,407
Earnings from operations, pre-measurement date		$ 7,050
Earnings from operations, post-measurement date	5,991	
Adjustments to deferred income taxes and reclamation provision (see below)	30,254	
Gain from discontinued operations, net of tax	$ 34,245	

In accordance with the contract, outstanding advances from Ontario Hydro were forgiven and the related Stanleigh assets, having an equivalent book value, written off in the fourth quarter of 1996. Provisions for deferred taxes in the amount of $70.3 million, previously charged in the accounts, being no longer required, have been reversed and reflected in the calculation of the gain from discontinued operations.

The Company regularly reviews its estimate of reclamation costs at all operations, including discontinued operations. Estimated reclamation costs are determined in accordance with the Company's environmental policy, which includes consideration of current and proposed government regulations and policies. Primarily as a result of the Federal government's decision to require relicensing of previously closed Elliot Lake uranium mines and potential costs in respect of other discontinued mining operations, the Company has recorded additional reclamation provisions of $60 million ($40 million net of tax) in determining the gain from discontinued operations.

(c) The net assets of discontinued operations were as follows:

(in thousands of Canadian dollars)	1996	1995
Working capital	$ 16,703	$ 8,484
Property, plant and equipment	–	250,585
Net investment before long term debt	16,703	259,069
Less Ontario Hydro advances	–	246,564
Net assets	$ 16,703	$ 12,505

The above balance sheet amounts exclude income and mining taxes and site restoration obligations. In prior years, a non-recourse first charge was placed against the Stanleigh Project assets as collateral for the advances.

3. **Acquisitions**

(a) Effective July 12, 1996, the Company and Inmet Mining Corporation ("Inmet") were the successful bidders for the Antamina copper/zinc deposit north of Lima, Peru. The Company and Inmet will participate equally in the project. An initial cash payment of US$10 million was made by the Company on September 6, 1996. During the year, a further US$3.9 million was advanced to bring the total invested in the project to US$13.9 million (Cdn$19 million) at December 31, 1996. This investment has been capitalized.

(b) Effective May 19, 1995, Rio Algom Limited and North Limited of Australia jointly acquired all the outstanding common shares of International Musto Explorations Limited at a cash cost of approximately $514 million, with Rio Algom's share being $256.8 million. Through this acquisition, Rio Algom and North acquired a 50% interest in Minera Alumbrera Limited which holds the Bajo de la Alumbrera copper/gold deposit in northwest Argentina. The remaining 50% of Minera Alumbrera Limited is held by M.I.M. Holdings Limited of Australia.

(c) Effective March 31, 1995, Rio Algom's North American Metals Distribution Group acquired all the assets and business operations of Metal Goods, a division of Alcan Aluminium Limited for a cash consideration of $150.1 million. The acquisition was accounted for by the purchase method with the results of the acquired business included from the date of acquisition. The acquisition resulted in goodwill of $15.8 million which is being amortized on a straight-line basis over 20 years.

The net assets acquired were as follows:

(in thousands of Canadian dollars)	March 31, 1995
Current assets	$ 222,989
Property, plant and equipment	38,519
Goodwill	13,786
	275,294
Liabilities assumed	125,210
Total acquisition cost	$ 150,084

4. **Disposition of Subsidiary**

In late 1995, the Company sold its 60.9% interest in Atlas Steels Limited, its metals distribution and manufacturing operations in Australia, for a cash consideration of $77.8 million and a pre-tax gain of $20.5 million.

5. **Partnership and Joint Venture**

(a) The Company holds a 33.6% interest in Highland Valley Copper, a partnership with Cominco Ltd. (50%), Teck Corporation (11.4%) and Highmont Mining Company (5%). The Company and Cominco have equal control and management.

Highland Valley Copper holds and operates large scale copper/molybdenum mining and milling operations in the Highland Valley area of British Columbia, producing copper and molybdenum in concentrates with gold and silver as by-products.

(b) The Company holds a 29.1% interest in Bullmoose Coal, a joint venture with Teck Corporation (60.9%) and Nissho Iwai Coal Development (Canada) Ltd. (10%). The project, an open pit coal mine and processing facility, is located in northeastern British Columbia.

Both of the above operations are accounted for using the proportionate consolidation method. The Company's share in the assets, liabilities, revenue, expenses and cash flow of the partnership and joint venture, respectively, are as follows:

(in thousands of Canadian dollars)	**1996**	1995
Revenue	**$ 169,017**	$ 256,122
Expenses	**145,953**	158,000
Earnings before taxes	**$ 23,064**	$ 98,122
Assets	**$ 245,606**	$ 248,261
Liabilities	**33,860**	27,097
Net investment	**$ 211,746**	$ 221,164
Cash inflow (outflow) from:		
Operating activities	**$ 39,104**	$ 150,284
Financing activities	**(2,174)**	(2,470)
Investing activities	**(16,333)**	(14,638)
Increase in cash	**$ 20,597**	$ 133,176

6. **Inventories**

(in thousands of Canadian dollars)	**1996**	1995
Mining operations		
Concentrates and cathode copper	**$ 30,683**	$ 17,943
Coal	**7,161**	975
Mine supplies	**19,699**	18,277
	57,543	37,195
Metals distribution operations	**250,933**	240,959
	$ 308,476	$ 278,154

Included in metals distribution operations in the United States are inventories valued on a LIFO basis at December 31, 1996 of $210.5 million (1995 – $192.8 million) which had a replacement cost of $219.1 million (1995 – $222.8 million).

7. Property, Plant and Equipment

(in thousands of Canadian dollars)	1996	1995
Buildings, at cost	$ 127,183	$ 120,485
Less accumulated depreciation	41,380	37,511
	85,803	82,974
Plant machinery and equipment, at cost	540,224	504,224
Less accumulated depreciation	169,641	138,692
	370,583	365,532
Land, at cost	15,547	13,158
	$ 471,933	$ 461,664

8. Mining Properties

(in thousands of Canadian dollars)	1996	1995
Mining properties, at cost	$ 504,812	$ 474,167
Less accumulated amortization	104,599	83,045
	$ 400,213	$ 391,122

Included in mining properties are properties held for development having a book value of $38.6 million (1995 – $13.8 million).

In 1996, the Company's investment in Minera Alumbrera Limited was reclassified to Investment (see note 9) from Mining Properties. The 1995 comparative figures have been restated accordingly.

9. Investment

The investment is carried on an equity basis.

(in thousands of Canadian dollars)	% Ownership	1996	1995
Minera Alumbrera Limited	25	$ 269,909	$ 256,844

Effective May 19, 1995, the Company acquired a 25% effective interest in Minera Alumbrera Limited which holds the Bajo de la Alumbrera copper/gold deposit in northwest Argentina. The cost of the Company's 25% interest was $256.8 million. During the year the Company has provided $13.1 million in additional equity to the project.

Construction on the project commenced in 1995. The Minera Alumbrera Limited Board has approved a project budget of US$905 million, excluding interest and financing costs. At December 31, 1996, capital commitments on the project were US$775 million. The Company's share of remaining commitments amounts to US$52 million which will be funded by additional shareholder loans. All such loans are expected to be repaid in 1997 from the proceeds of the project financing.

Project financing is being arranged for the project with loan commitments of US$670 million. The financing is expected to close in 1997. Upon conclusion of the financing the Company will guarantee 25% of the outstanding balance until such time as the project passes certain completion tests.

An interim bridge loan has been arranged during the year with the underwriters of the project financing. As at

December 31, 1996 US$1[illegible] million was outstanding. The Company has guaranteed 25% of the outstanding amount. Upon completion of the project financing arrangements this loan will form part of the total commitment.

The Company has provided $112.2 million in advances which are expected to be repaid from the project financing. Consequently, these advances have been included in receivables and prepaid expenses.

10. Other Assets

(in thousands of Canadian dollars)	1996	1995
Long term investments (a)	$ 3,500	$ 10,968
Goodwill, net of amortization	14,979	16,885
Pension (note 15)	13,240	13,673
	$ 31,719	$ 41,526

(a) At December 31, 1996, long term investments include marketable securities at a value of $nil (1995 – $7 million) and a royalty asset of $3.5 million (1995 – $4 million). The market value at December 31, 1996 of the marketable securities was $1 million (1995-$5.9 million). During 1996, the Company disposed of marketable securities for gross proceeds of $7.5 million.

11. Long Term Debt

(in thousands of Canadian dollars)	1996	1995
Cerro Colorado loans (a)	$ 201,150	$ 235,700
7.05% US dollar debentures due Nov. 1, 2005 (b)	205,440	202,875
Notes, housing loans and mortgages payable	1,567	2,160
	408,157	440,735
Less portion included in current liabilities	18,823	14,277
	$ 389,334	$ 426,458

(a) The Company's Cerro Colorado project loans outstanding at December 31, 1996 were US$147 million (1995 – US$173 million). The average interest rate on loans outstanding at December 31, 1996 was 7.25%. Other financing costs, consisting of commitment fees, agency and trustee fees, political risk insurance premiums and associated standby fees, amounted to 0.75% of the average outstanding on the loans during 1996. The last scheduled payment is in April, 2006. In addition to the scheduled payments, mandatory prepayments may be required from time to time, depending on semi-annual cash flow from the project after scheduled debt service.

These loans are secured by a mortgage and charge on the assets of the project (book value at December 31, 1996 – Cdn.$528.8 million). Pre-completion, Rio Algom has guaranteed the full amount of the loans. The guarantee does not apply in the event of payment defaults related to certain political events. Completion is based on the satisfaction of certain financial and performance criteria of the project. If the project achieves these criteria the loans will become substantially non-recourse to Rio Algom.

(b) In November 1995, the Company issued US$150 million of unsecured 7.05% debentures due November 1, 2005. Costs associated with the issue of the debentures are being amortized over the term of the debt.

(c) Long term debt repayment requirements over the next five years amount to $18.8 million in 1997, $24.8 million in 1998, $25 million in 1999, $26 million in 2000 and $28.1 million in 2001.

12. Site Restoration and Related Obligations

(in thousands of Canadian dollars)	1996	1995
Current portion included in current liabilities	$ 12,839	$ 16,380
Non-current site restoration and related obligations	110,430	53,552
	$ 123,269	$ 69,932

The above provisions are based on the Company's best estimate of its planned shutdown and restoration programs at producing, closed and discontinued mining operations, which it believes meet or exceed existing requirements. Future changes, if any, in requirements, regulations and operating assumptions may be significant and will be recognized when applicable.

13. Capital Stock

	1996	1995	
Authorized:	**350,000**	350,000	First Preference Shares, issuable in series.
	14,109,659	14,109,659	Second Preference Shares, issuable in series.
	Unlimited	Unlimited	Common Shares.
	Nil	3,999,900	Common Share Purchase Warrants.

Issued:

Common Shares	Number	Amount (000's $Cdn.)
Balance, December 31, 1994	51,958,561	$ 245,016
Issued in 1995 under share option plans	108,532	1,933
Warrants exercised for shares	100	3
Balance, December 31, 1995	52,067,193	$ 246,952
Issued in 1996 under share option plans	365,021	6,436
Warrants exercised for shares	3,553,590	88,838
Balance, December 31, 1996	55,985,804	$ 342,226

Earnings per share are calculated using the weighted average number of common shares outstanding during the year of 55,154,284 (1995 – 52,013,587).

(a) The fully diluted earnings per share from continuing operations for 1996 of $1.18 (1995 – $2.50) and for net earnings for 1996 of $1.78 (1995 – $2.45) assumes that all the warrants and options outstanding at December 31, 1996 had been converted into common shares as of January 1, 1996.

(b) Restrictions exist on the payment of common share dividends in the provisions attached to certain loan covenants. The probability of these restrictions occurring is remote. Dividends paid per common share were $0.70 in the year ended December 31, 1996 and $0.60 in the year ended December 31,1995.

(c) A Shareholder Protection Rights Plan exists whereby one right is issued for each common share of the Company. These rights remain attached to the shares and are not exercisable until the occurrence of certain designated events.

The rights become exercisable when a person or group acting jointly acquires 20% or more of the voting shares of the Company except with the approval of the Board of Directors or by a "Permitted Bid". A "Permitted Bid" is one made to all holders of voting shares for all voting shares outstanding on identical terms. The bid must be in

compliance with applicable Canadian and United States securities laws and accepted by holders of more than 50% of the voting shares for which the bid is made. In the event the rights become exercisable, each right will allow shareholders other than the acquiring person or group to acquire common shares of the Company at 50% of the then current market price.

(d) On February 25, 1994, Rio Algom issued 8,000,000 common shares and 4,000,000 common share purchase warrants ("warrants") offered in units consisting of one common share and one-half of one warrant at a unit value of $22.50. Of the unit issue price of $22.50, the Company allocated $22.00 to the common share and $0.50 to the one-half warrant comprising the unit. The warrants were exercisable any time until February 29, 1996 at a price of $25.00 per share.

Share Option Plans

Changes in options to acquire common shares outstanding during 1996 under the various share option plans were as follows:

Share Option Plan	*1987 Plan* **1996**	1995	*1993 Plan* **1996**	1995	*1993 Directors' Plan* **1996**	1995	*1996 Directors' Plan* **1996**	1995
Balance, beginning of year	**311,900**	372,200	**1,109,427**	607,126	**208,000**	151,000	**–**	–
Changes in year								
Granted	**–**	–	**457,400**	559,800	**–**	57,000	**96,757**	–
Exercised	**(148,500)**	–	**(216,521)**	(48,232)	**–**	–	**–**	–
Expired	**–**	(60,300)	**(60,701)**	(9,267)	**–**	–	**–**	–
Balance, end of year	**163,400**	311,900	**1,289,605**	1,109,427	**208,000**	208,000	**96,757**	–

The range of exercise prices and shares reserved for options outstanding at December 31, 1996 were as follows:

Share Option Plan	*1987 Plan*	*1993 Plan*	*1993 Directors' Plan*	*1996 Directors' Plan*
Range of exercise prices	$13.25 – $18.00	$18.00 – $27.55	$17.75 – $27.25	$25.75 – $27.25
Shares reserved	163,400	3,611,005	208,000	600,000

(a) The 1987 Share Option Plan and the 1993 Directors' Plan are now terminated except as to outstanding options which expire at various times up to 2002 and 2005 respectively.

(b) Options under the 1993 Share Option Plan generally have a term of 10 years and vest as to one third of the shares on each of the first, second and third anniversaries of the date of the grant.

(c) Options under the 1996 Directors' Plan vest as to one-third of the shares on each of the first, second and third anniversaries of the date of the grant. The Plan will terminate on June 21, 2001.

14. Cumulative Translation Adjustment

(in thousands of Canadian dollars)	1996	1995
Unrecognized translation gains, beginning of year	$ 50,792	$ 52,294
Decrease attributable to Atlas Steels Limited	–	(5,975)
Increase (decrease) in unrecognized translation gains	503	(17,529)
Unrecognized translation gains, end of year	$ 51,295	$ 50,792

The balance of $51.3 million at December 31, 1996 represents the cumulative unrecognized exchange gain on the Company's foreign assets. The change in the balance during the year reflects the impact of foreign currency fluctuations.

15. Pension Plans

Most employees are covered by non-contributory defined benefit pension plans. The funds of each of the various pension plans are administered by a corporate trustee or an insurance company. Benefits under the plans are generally determined by years of service and employees' compensation, the latter being based on the three highest of the last ten years of employment or a flat dollar benefit.

An actuarial valuation is performed at least triennially with intervening annual reassessments for substantially all plans to determine the present value of the accrued pension benefits. Pension fund assets are carried at values determined by using a three-year average between book and market values.

The following data is based upon reports of independent actuarial consultants at December 31:

(in thousands of Canadian dollars)	1996	1995
Market value of pension fund assets	$ 251,700	$ 227,171
Less actuarial present value of project benefit obligations	201,515	201,451
Total surplus	$ 50,185	$ 25,720
Unrecorded plan surplus	$ 36,945	$ 12,047
Pension asset recognized on the consolidated balance sheet (note 10)	13,240	13,673
Total surplus	$ 50,185	$ 25,720

The total pension expense amounted to $2 million in 1996 and $2.4 million in 1995. The components of the pension expense were as follows:

(in thousands of Canadian dollars)	1996	1995
Current service cost	$ 5,683	$ 4,740
Interest cost on projected benefit obligations	14,102	11,161
Actual return on plans' assets	(20,697)	(19,485)
Net amortization and deferrals	2,940	5,967
Pension expense	$ 2,028	$ 2,383

The interest rate used for determination of plan benefits and return on assets exceeded the assumed annual rate of increase in compensation by 2.6% in each of 1996 and 1995. The unrecorded plan surplus is amortized on a straight-line basis over periods varying from 13 years to 15 years, depending on the pension plan demographics.

16. Commitments and Contingencies

(a) The commitments of Minera Alumbrera Limited are discussed in note 9.

(b) The estimated capital cost at December 31, 1996 to complete the Company's Smith Ranch uranium project was US$24.4 million of which US$5.5 million was committed at that date. The estimated total cost to complete other capital projects, as at December 31, 1996 was approximately $24.7 million (committed $16.8 million).

(c) The Company and Inmet have committed to spend at least a further US$5.7 million on the Antamina project over the next two years, during which time they will undertake a feasibility study. At the end of the two-year period, the Company and Inmet may elect to return the property to Centromin (an agency of the Peruvian government) or to proceed with development. If they elect to proceed with development, they have made an investment commitment of US$2.5 billion in connection with the bid. In 2001, if the actual investment is less than the investment commitment, 30% of the shortfall would be payable in lieu of further expenditures.

(d) The Company is committed to future minimum annual rental payments in the amount of $32.6 million under operating leases which expire from 1997 to 2006. Commitments are $8.2 million in 1997, $6.3 million in 1998, $4.9 million in 1999, $3.3 million in 2000 and $2.4 million in 2001.

(e) Potash Company of America, Inc. ("PCA"), a subsidiary of Rio Algom, and Rio Algom are defendants with other U.S. and Canadian potash producers in a class action civil suit brought by direct potash purchasers in the United States in 1993. The plaintiffs allege the defendants violated various federal anti-trust laws, including the U.S. Sherman Act, with respect to the sale of potash from 1987 to the present. The plaintiffs are claiming damages and other relief on behalf of themselves and certain classes of other direct purchasers. Other substantially identical suits have been brought by indirect potash purchasers in Illinois and in California. The California action against Rio Algom and PCA has been dismissed, and the Illinois action also has been dismissed, although it is on appeal. On January 2, 1997, the District Court in the direct purchaser class action suit, consolidated in Minnesota, ordered that summary judgment be granted in favour of all defendants, including PCA and Rio Algom, and dismissed the plaintiffs' class action complaint. Plaintiffs have appealed the ruling to the Eighth Circuit Court of Appeals in respect of all defendants except Rio Algom Limited.

PCA believes these actions to be unfounded and is continuing to vigorously defend against them.

In January 1994, in a separate action, the United States Department of Justice served PCA with a Grand Jury subpoena seeking certain documents related to the Grand Jury's investigation of possible violations of the Sherman Act and related federal statutes by companies in the potash industry. In June, 1996, PCA was advised that the Grand Jury investigation had been terminated with no action being taken against PCA or any other party.

17. The Effect of Applying United States Generally Accepted Accounting Principles

The effect of applying United States generally accepted accounting principles ("US GAAP") on net earnings is as follows:

(in thousands of Canadian dollars)	1996	1995
Net earnings for the year reported under Canadian GAAP	$ 100,438	$ 132,585
Add (deduct):		
Restatement of concentrate and cathode inventory awaiting shipment to lower of cost and net realizable value (net of tax)	(715)	(454)
Capitalized interest on deferred mine development costs (net of tax) (b)	9,541	7,621
Increase in provision for post-retirement benefits (net of tax) (c)	(2,920)	(949)
Net earnings for the year reported under US GAAP	$ 106,344	$ 138,603
Earnings per share from continuing operations	$ 1.50	$ 2.49
Net earnings per share for the year	$ 1.91	$ [illegible]

(a) The definition of cash and equivalents under US GAAP does not include short term investments with an initial term of greater than 90 days, or current bank loans and overdrafts. This would have the following effect on the consolidated statements of changes in financial position.

(in thousands of Canadian dollars)	1996	1995
Cash and equivalents, US GAAP, beginning of year	$ 288,186	$ 158,721
Operating and investing activities cash flow on a Canadian and US basis	(112,553)	(227,471)
Changes in cash due to US GAAP		
Financing activities on a Canadian basis	13,557	160,433
(Increase) decrease in short term investments	(33,896)	201,458
Increase (decrease) in current bank loans and overdrafts	8,257	(4,955)
Financing activities cash flow, US GAAP	(12,082)	356,936
Cash and equivalents, US GAAP, end of year	$ 163,551	$ 288,186

(b) The Company capitalizes interest on a mine development project only if the interest arises on indebtedness incurred specifically to finance the project. Under US GAAP, a portion of all interest costs incurred must be capitalized as part of the project under development.

(c) Effective January 1, 1995, Statement of Financial Accounting Standards ("SFAS") No. 106 - Post-Retirement Benefits was adopted in the preparation of the Company's financial statements under US GAAP. SFAS No. 106 requires the projected future cost of providing post-retirement benefits, such as health care and life insurance, to be recognized as an expense as employees render services instead of when such costs are paid. In 1995, the Company provided in full for the opening accumulated post-retirement obligation of $58 million (net of tax). The cumulative effect on the Company was a reduction to retained earnings at December 31, 1996 of approximately $55.1 million.

(d) Effective January 1, 1993, SFAS No. 109 – Accounting for Income Taxes, was adopted retroactively in the preparation of the Company's financial statements under US GAAP. SFAS No 109 requires the adoption of the liability method in accounting for deferred income taxes. The principal temporary differences relate to depreciation and amortization of mine development costs and certain financial reserves not deductible for tax purposes until paid. The cumulative effect on the Company was an increase to retained earnings at December 31, 1996 of approximately $13 million.

(e) The Company's share options are measured using the intrinsic value-based method of accounting under which compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

18. Interest Expense

(in thousands of Canadian dollars)	1996	1995
Interest on demand loans and other	$ 4,923	$ 7,581
Interest on long term debt	31,268	25,093
	$ 36,191	$ 32,674

19. Depreciation and Amortization

(in thousands of Canadian dollars)	1996	1995
Plant machinery and equipment	$ 37,641	$ 35,070
Mining properties	20,859	18,991
	$ 58,500	$ 54,061

20. Income and Mining Taxes

Earnings before taxes, minority interest and discontinued operations consist of:

(in thousands of Canadian dollars)	1996	1995
Canadian	$ 23,197	$ 148,307
Foreign	93,068	80,922
	$ 116,265	$ 229,229

Income and mining taxes consist of:

(in thousands of Canadian dollars)	1996	1995
Current		
Canadian	$ 45,775	$ 59,391
Foreign	8,933	14,994
	54,708	74,385
Deferred		
Canadian	(32,735)	7,304
Foreign	28,028	17,249
	(4,707)	24,553
Total income and mining taxes	$ 50,001	$ 98,938

The timing differences giving rise to deferred taxes and their reversal principally relate to depreciation and amortization.

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

	1996		1995	
	(in thousands of Canadian dollars)	%	(in thousands of Canadian dollars)	%
Weighted average Canadian income taxes and rates	**$ 52,105**	**44.8%**	$ 102,050	44.5%
Increase (decrease) resulting from:				
Resource and depletion allowances net of provincial mining taxes	**915**	**0.8**	2,578	1.1
Exempt dividends	**(549)**	**(0.5)**	(1,689)	(0.7)
Tax-free portion of gain on sale of investments	**(24)**	**-**	(2,061)	(0.9)
Foreign taxes	**(4,921)**	**(4.2)**	(3,801)	(1.7)
Other	**2,475**	**2.1**	1,881	0.9
Effective income and mining taxes and rates	**$ 50,001**	**43.0%**	$ 98,958	43.2%

21. Fair Value of Financial Instruments

The carrying amount of cash and short term investments, accounts receivable, bank loans and overdrafts and accounts payable and accrued liabilities in the consolidated balance sheets approximate fair values due to the short term maturities of these instruments.

Fixed rate long term debt instruments are estimated to approximate fair values as actual rates are consistent with rates estimated to be currently available for debt of similar terms and remaining maturities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

22. Industry and Geographic Segment Data

The operations of the Company are grouped into industry and geographic segments.

INDUSTRY SEGMENTS

Mining

- Mining and processing of copper ore into cathode copper in Chile.
- Partnership interest in mining and milling of copper/molybdenum ore in Canada.
- Joint venture interest in mining and treatment of metallurgical coal in Canada.
- Royalty interest in a zinc/lead mine in Canada.
- Exploration and development through offices in North and South America and Ireland.
- 25% interest in the development of a copper/gold deposit in Argentina.
- Development of a uranium *in situ* leaching deposit in the United States.
- Mining and milling of uranium in Canada (discontinued operations).

Metals Distribution

- Marketing through service centres of stainless steel and other metal products in Canada and the United States.

Revenue

(in thousands of Canadian dollars)	1996	1995
Mining	$ 355,337	$ 385,495
Metals distribution	1,478,150	1,596,772
Consolidated	$1,833,487	$1,982,267

Revenue, in the table above, includes revenue from mine production and sales of metal produ ts. All sales are to customers outside the Company.

Operating Profit

(in thousands of Canadian dollars)	1996	1995
Mining	$ 92,043	$ 156,559
Metals distribution	77,835	93,184
Operating profit	169,878	249,743
Deduct:		
Exploration	15,660	8,746
Corporate expenses	22,110	17,726
Gain on sale of subsidiary	–	(20,536)
Interest expense net of investment income	17,843	14,578
	55,613	20,514
Earnings before taxes, minority interest and discontinued operations	$ 116,265	$ 229,229

Operating profit is revenue less applicable operating expenses.

Identifiable Assets

(in thousands of Canadian dollars)	1996	1995
Mining (a)	$1,391,873	$1,485,082
Metals distribution	563,117	525,158
Discontinued operations	22,646	26,875
Segment identifiable assets (b)	1,977,636	1,976,115
General corporate assets (b)	109,753	284,293
Total assets	$ 2,087,389	$2,260,408

(a) See note 5 for details of the Compan 's share of the partnership and joint venture assets and liabilities.

(b) Segment identifiable assets are those as ets that are used in the operations of each segment. General corporate assets are principally cash and short term inve tr ents.

Depreciation and Amortization

(in thousands of Canadian dollars)	1996	1995
Mining	$ 51,173	$ 43,779
Metals distribution	7,083	9,954
Segment depreciation and amortization expense	58,256	53,733
Corporate and exploration depreciation	244	328
Total depreciation and amortization expense	$ 58,500	$ 54,061

Capital Expenditures

(in thousands of Canadian dollars)	1996	1995
Mining (a)	$ 69,632	$ 79,211
Metals distribution (a)	8,414	31,015
Segment capital expenditures	78,046	110,226
Corporate and exploration capital expenditures	706	573
Total capital expenditures	78,752	110,799
Less disposals	(1,296)	(3,066)
Total capital expenditures (net)	$ 77,456	$ 107,733

(a) Includes expenditures on construction in progress.

GEOGRAPHIC SEGMENTS

Revenue

(in thousands of Canadian dollars)	1996	1995
Canada	$ 414,832	$ 485,501
United States	1,245,385	1,111,533
Australia / New Zealand	–	249,277
Chile	173,270	135,956
	$1,833,487	$1,982,267

Operating Profit

(in thousands of Canadian dollars)	1996	1995
Canada	$ 37,929	$ 122,696
United States	63,602	48,104
Australia / New Zealand	–	22,558
Chile	68,347	56,385
	$ 169,878	$ 249,743

Identifiable Assets

(in thousands of Canadian dollars)	**1996**	1995
Canada	**$ 532,670**	$ 677,606
United States	**644,626**	574,548
Chile	**483,415**	478,827
Argentina	**268,048**	256,621
Peru	**19,483**	-
Other countries	**116,501**	4,951
Discontinued operations	**22,646**	267,875
	$ 2,087,389	$2,260,408

OTHER DATA

Export sales from Canada

(in thousands of Canadian dollars)	**1996**	1995
Japan	**$ 103,283**	$ 145,505
United States	**19,160**	11,110
Philippines	**14,839**	20,045
Europe	**3,664**	16,596
Other countries	**41,015**	39,712
	$ 181,961	$ 252,968

The above sales are to customers outside the Company.

Revenue by products sold

(in thousands of Canadian dollars)	**1996**	1995
Copper	**15%**	16%
Stainless steel	**33**	34
Aluminum	**23**	19
Carbon steel	**7**	9
Specialty steels	**10**	6
Other products	**12**	16
	100%	100%

25. Subsequent Event

Convertible Debenture and Equity Offering

In January 1997, Rio Algom Limited arranged a $500 million underwritten financing, comprising $353.4 million of 5.5% convertible redeemable subordinated debentures, evidenced by instalment receipts and 4,417,500 of common shares.

The proceeds from the offering will be used to fund some or all of the Company's planned capital expenditures and for general corporate purposes, which may include acquisitions, investments and the repayment and/or refinancing of debt.

On February 4, 1997, the financing closed and the Company received $308 million, representing the net proceeds on the sale of shares and the first instalment on the convertible debentures. The second instalment on the convertible debentures of $176.7 million is due on or before February 4, 1998.

Credit Facility

The Company has accepted an offer of financing from three major North American banks to fully underwrite a five-year revolving credit facility of US$500 million, or the Canadian equivalent. This facility will replace the Company's existing $125 million lines of credit.

GLOSSARY

CATHODE COPPER

Cathode copper is produced either by electrowinning or electrorefining; at Cerro Colorado, by electrowinning. In the electrowinning process, copper contained in a sulphuric acid-copper sulphate solution is recovered in an electrolytic cell. Electric current flows between a lead anode and a stainless steel cathode, plating the copper out onto the cathode.

CUT-OFF GRADE

Lowest grade of mineralized material which is considered economic for mine planning and calculation of ore reserves.

ELECTROWINNING

See "Cathode Copper".

FLOTATION

A milling process in which some mineral particles are induced to become attached to bubbles and float, and others to sink, thus concentrating the valuable minerals and separating them from the worthless minerals.

IN SITU URANIUM LEACHING

A process involving pumping an environmentally benign solution of water and sodium bicarbonate down an injection well where it flows through the deposit, dissolving uranium. The uranium-bearing solution is pumped to the surface where the uranium is recovered from the solution. *In situ* leaching generally has lower capital and operating costs because it not only replaces more capital intensive mining techniques, but also bypasses a large portion of the traditional milling process.

LEACHING

The process by which a soluble mineral can be economically recovered from ore by dissolution.

LEACH PADS

As used at Cerro Colorado, leach pads are polyethylene-lined surfaces about half a square kilometre in area each, on which approximately 550,000 tonnes of finely crushed ore are placed. The ore is treated for a period of approximately nine months with a weak acid solution which, with the assistance of natural bacterial activity, leaches the copper from the ore.

LME

The London Metal Exchange.

METALLURGICAL COAL

Coal which is suitable for processing into coke for use in steel production.

MILLING

A treatment process involving fine grinding of ore.

OXIDE

A mineral which has been oxidized. Oxidation tends to make material more porous.

PAYABLE COPPER/GOLD

The portion of refined copper/gold contained in concentrate for which payment is made by the smelter/refinery, after allowances for recovery, deductions and other commercial factors.

PORPHYRY

Generally a large body of intrusive rock containing relatively large crystals in a fine-grained groundmass.

RESERVES

The tonnage and grade of mineralization which can be extracted profitably, classified according to the level of confidence that can be placed in the data. Proven reserves have been sampled extensively by closely spaced drill holes or developed by underground workings in sufficient detail to obtain a high level of confidence in the estimate of grade and tonnage; probable reserves cannot be estimated with the same degree of confidence because they have not been sampled in the same detail. "Reserves", as used by Rio Algom in this report only include proven and probable reserves.

RESOURCE

The calculated amount of material in a mineral deposit, based on limited drill information and without sufficient technical or economic certainty to qualify as a reserve. As used by Rio Algom in this report, this includes measured, indicated and inferred resources.

RECOVERY RATE

Percent of the total contained mineral values in ore which are recovered in the milling process.

SETTLEMENTS

Process of making payment for shipments of metals, usually after delivery.

SKARN DEPOSIT

Metamorphosed limestone or dolomitic rocks commonly formed near an igneous intrusion.

SOLVENT EXTRACTION

As applied at Cerro Colorado, the use of an intermediate organic solvent to remove copper from the solution which results from leaching.

SULPHIDE

A compound of sulphur and some other element.

SPOT MARKET PRICE

Price received for product on the open market rather than under long term contract.

TAILINGS

The residue from an ore processing plant after all economically recoverable minerals in ore have been extracted.

URANIUM EXCHANGE

The Uranium Exchange Company is a uranium and fuel services brokerage and consulting firm which publishes uranium market price indicators and The Ux Weekly, a newsletter on uranium.

Eleven Year Review

EARNINGS
(millions of Canadian dollars)

	1996	1995	1994
Revenue	$1,833.5	$ 1,982.3	$ 1,108.6
Cost of mine production and metal sales	1,420.4	1,466.9	780.9
Selling, general and administration	206.8	229.3	173.7
Other income and interest expense	17.9	(5.9)	(10.1)
Depreciation and amortization	58.5	54.1	44.2
Exploration	13.6	8.7	6.9
	1,717.2	1,753.1	995.6
Earnings before taxes, minority interest and discontinued operations	116.3	229.2	113.0
Income and mining taxes	50.0	98.9	43.4
Earnings from continuing operations, before minority interest in subsidiary companies	66.3	130.3	69.6
Minority interest in net earnings of subsidiary companies	0.1	4.9	3.7
Earnings from continuing operations	66.2	125.4	65.9
Discontinued operations, net of tax	34.2	7.0	9.3
Earnings before extraordinary items	100.4	132.4	75.2
Extraordinary items	–	–	–
Net earnings	$ 100.4	$ 132.4	$ 75.2

PRODUCTION DATA
(millions except potash, coal and steel)

	1996	1995	1994
Cathode copper (pounds)	130.8	80.5	58.5
Copper in concentrate (pounds)*	110.1	116.8	119.2
Uranium in concentrate (pounds)	1.2	2.0	1.8
Molybdenum in concentrate (pounds)*	1.0	1.2	1.2
Potash (thousands of tons)	–	–	–
Coal (thousands of tonnes)*	544	558	544
Tin in concentrate (pounds)	–	–	–
Steel (thousands of tons)	–	–	–

*Rio Algom's share

FINANCIAL DATA
(millions of Canadian dollars except per share data)

	1996	1995	1994
Per common share			
Net earnings	$ 1.82	$ 2.55	$ 1.48
Dividends	0.70	0.60	0.60
Equity	20.39	18.90	17.37
Working capital	554.0	498.3	563.0
Plant and equipment	471.9	461.7	425.5
Mining properties	400.2	391.1	402.7
Total assets	2,087.4	2,260.4	1,976.3
Return on average total assets	4.6%	6.3%	4.1%
Redeemable preference shares	–	–	–
Long term debt	389.3	426.5	279.2
Advances from Ontario Hydro	–	246.6	257.1
Net capital expenditures	77.5	107.7	76.1
Common shareholders' equity	1,141.6	984.0	902.4
Return on average common shareholders' equity	9.5%	14.0%	9.7%

OTHER DATA

	1996	1995	1994
Common shares outstanding (millions)	56.0	52.1	52.0
Number of employees	2,537	2,765	2,810
Price range of common shares			
high	$ 32.25	$ 29.625	$ 27.125
low	$ 23.375	$ 22.625	$ 21.00

1993	1992	1991	1990	1989	1988	1987	1986
$ 846.5	$ 795.0	$ 813.9	$ 953.2	$ 1,250.5	$ 1,534.5	$ 1,156.6	$ 992.0
650.6	587.3	603.0	686.2	974.2	1,137.2	890.5	784.7
147.7	139.9	139.1	134.5	145.2	153.6	129.1	114.1
(35.8)	(8.6)	(12.1)	(45.2)	(34.6)	(20.4)	(21.2)	(17.9)
29.1	27.6	28.6	27.0	23.4	29.1	28.4	29.4
8.2	11.9	18.5	14.9	11.1	7.4	3.7	5.1
799.8	758.1	777.1	817.4	1,119.3	1,306.9	1,030.5	915.4
46.7	36.9	36.8	135.8	131.2	227.6	126.1	76.6
14.6	16.5	7.2	41.1	46.8	95.9	28.1	14.3
32.1	20.4	29.6	94.7	84.4	131.7	98.0	62.3
1.3	1.3	0.7	0.9	3.4	29.1	13.5	11.4
30.8	19.1	28.9	93.8	81.0	102.6	84.5	50.9
3.1	20.3	(4.4)	(6.5)	(33.4)	12.1	8.6	39.0
33.9	39.4	24.5	87.3	47.6	114.7	93.1	89.9
–	–	–	–	25.5	19.7		(19.7)
$ 33.9	$ 39.4	$ 24.5	$ 87.3	$ 73.1	$ 134.4	$ 93.1	$ 70.2
–	–	–	–	–	–	–	–
116.0	126.5	127.0	115.1	79.6	160.0	155.4	172.1
1.8	1.9	1.5	4.5	5.9	6.5	7.0	8.2
1.3	1.3	1.3	1.3	1.0	1.8	2.8	6.2
713	1,071	1,020	1,069	758	608	671	861
522	464	470	447	455	647	663	693
–	–	9.8	8.6	7.7	6.8	–	–
–	–	–	–	129	246	241	217
$ 0.73	$ 0.85	$ 0.51	$ 1.93	$ 1.58	$ 3.02	$ 2.12	$ 1.58
0.60	0.70	7.05	1.05	0.95	0.70	0.65	0.65
14.88	14.45	13.84	20.24	19.36	18.92	16.74	15.43
337.6	360.9	400.1	716.9	620.2	671.9	695.3	710.1
206.0	214.1	211.9	208.2	183.3	242.8	256.4	209.5
166.9	166.8	173.5	186.5	209.6	128.9	143.0	152.2
1,695.0	1,711.2	1,590.6	1,980.6	2,084.9	2,094.3	2,082.1	2,034.1
1.9%	2.3%	1.3%	4.2%	3.3%	6.5%	4.4%	3.3%
26.2	26.4	26.6	26.7	34.4	35.1	36.1	16.0
229.0	94.2	17.3	24.1	31.0	40.0	57.7	106.7
268.5	275.8	284.4	295.0	299.7	307.5	312.6	321.9
226.4	143.4	21.3	21.9	48.3	79.1	48.9	11.6
630.6	632.2	605.2	885.2	846.6	827.4	713.6	658.3
5.0%	6.0%	3.0%	9.8%	8.2%	17.1%	13.2%	10.3%
43.7	43.7	43.7	43.7	43.7	43.7	42.6	42.6
2,575	2,996	3,178	3,471	4,902	7,926	7,981	8,068
$ 22.75	$ 18.50	$ 22.875	$ 22.875	$ 27.00	$ 25.00	$ 25.50	$ 28.00
$ 17.00	$ 15.125	$ 14.25	$ 16.00	$ 22.25	$ 18.25	$ 15.50	$ 19.00

Eleven Year Review – Relevant Factors

- The Elliot Lake uranium operations, of which the last operating mine, Stanleigh, ceased operations effective June 30, 1996, are shown as discontinued operations. The Quirke and Panel uranium mines at Elliot Lake were closed in 1990.
- The Company sold its 60.9% interest in Atlas Steels Limited of Australia in 1995.
- The Cerro Colorado Mine commenced commercial production in June 1994. Proceeds from the production of 8.6 million pounds of cathode copper prior to that date were credited to the original capital cost of the project.
- The potash operations, which were acquired in 1986, were sold in October 1995 and are shown as discontinued operations.
- Copper and molybdenum production figures are not comparable because of the 1988 reorganization of Lornex Mining Corporation Ltd. and the 1991 conversion of a small royalty interest in the Highland Valley Copper partnership.
- The tin operations were closed down in 1992 and are shown as discontinued operations.
- A special dividend of $6.25 per common share was paid in 1991.
- The Corporation adopted the CICA accounting policy for site restoration and related obligations prospectively from 1990.
- Steel manufacturing operations were sold in 1989.

Quarterly Financial Data

(in millions of Canadian dollars except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1996					
Revenue	**$ 479.9**	**$ 475.4**	**$ 445.7**	**$ 434.5**	**$ 1,835.5**
Earnings from continuing operations	**21.4**	**19.3**	**14.0**	**11.5**	**66.2**
Net earnings	**23.0**	**20.7**	**14.0**	**42.7**	**100.4**
Net earnings per common share from continuing operations	**0.40**	**0.35**	**0.25**	**0.20**	**1.20**
Net earnings per common share	**0.43**	**0.37**	**0.25**	**0.77**	**1.82**
1995					
Revenue	$ 366.4	$ 565.8	$ 565.1	$ 485.0	$ 1,982.3
Earnings from continuing operations	34.4	33.2	26.6	31.2	125.4
Net earnings	36.1	34.6	27.4	34.3	132.4
Net earnings per common share from continuing operations	0.66	0.64	0.51	0.60	2.41
Net earnings per common share	0.70	0.66	0.53	0.66	2.55

Corporate Governance

In 1994, the TSE Report on Corporate Governance recommended that the Toronto Stock Exchange adopt as a listing requirement that each listed company incorporated in Canada be required to disclose information relating to its system of corporate governance with reference to the guidelines set out in the TSE Report. Rio Algom supports these initiatives and is committed to maintaining a leadership role in the area of corporate governance.

Rio Algom's directors and management have responded to the need to establish forward-looking governance policies and to constantly evaluate and modify them to ensure their effectiveness. Rio Algom's disclosure is set out in the Management Information Circular relating to the Company's April 25, 1997 Annual Meeting of Shareholders. This disclosure statement has been prepared by the Corporate Governance Committee of the Board and has been approved by the Board of Directors.

Shareholder Information

STOCK EXCHANGE LISTINGS

Common Shares (symbol ROM)
Toronto, Montreal, American
Instalment Receipts – Debentures (symbol ROMi)
Toronto, Montreal

REGISTRARS AND TRANSFER AGENTS

The Montreal Trust Company of Canada
Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver

The Bank of Nova Scotia Trust Company of New York
New York, N.Y.

SHAREHOLDER INQUIRIES

Inquiries with respect to dividend payments, lost dividend cheques, changes of address or registration, lost share certificates and tax forms should be directed to the Stock Transfer Department of Montreal Trust at any of the cities noted, or to the following:

The Bank of Nova Scotia Trust
Company of New York
One Liberty Plaza
New York, NY 10006
Telephone: (212) 225-5427
Fax: (212) 225-5436

Stock Transfer Department
Montreal Trust
151 Front Street West
Toronto, Ontario M5J 2N1
Telephone: (416) 981-9500
Fax: (416) 981-9800

INVESTOR RELATIONS

For information about Rio Algom and copies of the annual and quarterly reports and other corporate publications, contact:

Corporate Affairs
Rio Algom Limited
Suite 2600, 120 Adelaide Street West
Toronto, Ontario M5H 1W5
Telephone: (416) 367-4000
Fax: (416) 365-6870

DIVIDENDS

In recent years, Rio Algom has paid common share dividends on a semi-annual basis. The payments of such dividends in future years must necessarily be determined by the Board of Directors of the Company in light of future earnings, financial requirements and other relevant factors. The Company's ability to pay future dividends may, in certain circumstances, also be affected by covenants contained in the Company's syndicated line of credit agreements. At current and projected operating and economic levels, these are not expected to prevent the payment of normal cash dividends.

Operating Locations

MINING

COPPER

Pedro Campino B.
President
Compania Minera Cerro Colorado Limitada
Las Urbinas 55, 11th Floor
Providencia
Santiago, Chile
Telephone: (56) (2) 233-2781
Fax: (56) (2) 231-0262

David L. Johnston
President
Highland Valley Copper
P.O. Box 1500
Logan Lake, British Columbia
Canada V0K 1W0
Telephone: (604) 575-2445
Fax: (604) 575-3290

Peter E. Flund
Chairman and President
Minera Alumbrera Limited
Adolfo Davila 750
Loft 206
1107 Buenos Aires
Argentina
Telephone: (54) (1) 342-0744
Fax: (54) (1) 345-6250

URANIUM

Robert P. Luke
President
Rio Algom Mining Corp.
Quivira Mining Company
Suite 325
6305 Waterford Boulevard
Oklahoma City, OK 73118-1115
U.S.A.
Telephone: (405) 848-1190
Fax: (405) 848-1208

EXPLORATION

C. Kelly O'Connor
President
Rio Algom Exploration Inc.
Suite 2400
120 Adelaide Street West
Toronto, Ontario
Canada M5H 1W5
Telephone: (416) 365-6855
Fax: (416) 365-6840

Ollie Bonham
Exploration Manager, North America
Rio Algom Exploration Inc.
409 Granville St., Suite 9000
Vancouver, B.C.
Canada V6C 1T2
Telephone: (604) 688-564
Fax: (604) 669-0447

John A. McClintock
Exploration Manager, South America
Compania Minera Riochilex S.A.
Jose Antonio Soffia 2747
Suite 404, Providencia
Santiago, Chile
Telephone: (56) (2) 254-1887
Fax: (56) (2) 254-2466

Michael Thicke
Exploration Manager, Argentina
Rio Algom Exploration Inc.
Granaderos 1155
Mendoza 5500
Argentina
Telephone: (54) (61) 297-549
Fax: (54) (61) 257-252

Brian Brodsky
Alex Ascencios
Rio Algom, Sucursal del Peru
Av. Los Conquistadores 948
Oficina 5A, San Isidro
Lima, Peru
Telephone: (51) (1) 441-9408
Fax: (51) (1) 442-4855

METALS DISTRIBUTION

NORTH AMERICAN METALS DISTRIBUTION GROUP

Norman E. Smith
Chairman
North American Metals Distribution Group

Harrison P. Jones
Executive Vice-President
(Northern Division)
Vincent Metal Goods

Michael Reichenbacher
Executive Vice-President
(Southern Division)
Vincent Metal Goods

North American Metals Distribution Group
Vincent Metal Goods
435 85th Avenue NW
Minneapolis, Minnesota 55433
U.S.A.
Telephone: (612) 717-9000
Fax: (612) 717-7168

William I. Pollock
President
Atlas Alloys Inc.
161 The West Mall
Etobicoke, Ontario
Canada M9C 4V8
Telephone: (416) 622-5100
Fax: (416) 621-5654

Ernesto Ortega Gomez
General Manager
Aceromex-Atlas S.A. DE C.V.
Calle E. Zapata N° 21
Col. San Jeronimo
Tepetlacalco, Tlalnepantla, 54090
Estado de Mexico
Telephone: (52) (5) 561-90-80
Fax: (52) (5) 397-58-55

Directors and Executive Officers

DIRECTORS

GORDON C. GRAY 1,3,4
Chairman of the Board
Rio Algom Limited
Toronto

JAMES L. BLACK 1,2,3
Corporate Director
Niagara-on-the-Lake, Ontario

WILLIAM E. BRADFORD 2,3,5
Corporate Director
Dublin, Ireland

DEREK H. BURNEY 3,4,6
Chairman
Bell Canada International Inc.,
Montreal

ARDEN R. HAYNES 1,3,4,6
Corporate Director
Toronto

DAVID S. R. LEIGHTON 1,2,5,6
Professor Emeritus
University of Western Ontario
London, Ontario

COLIN A. MACAULAY 1,5,6
Retired
Toronto

WILLIAM A. MACDONALD 2,4,5,6
President
W.A. Macdonald Associates Inc.
Toronto

ROSS J. TURNER 4,5
Chairman
Genstar Investment Corporation
San Francisco, California
U.S.A.

MICHAEL H. WILSON 4,6
President
Michael Wilson International
Toronto

EXECUTIVE OFFICERS

GORDON C. GRAY
Chief Executive Officer

DONALD A. CUMMING
Executive Vice-President,
Mining Operations

JOHN A. H. BUSH
Vice-President,
General Counsel and Secretary

COREY B. COPELAND
Vice-President,
Corporate Affairs

THOMAS A. FOARD
Vice-President,
Human Resources

C. KELLY O'CONNOR
Vice-President,
Exploration

MICHAEL S. PARRETT
Vice-President and
Chief Financial Officer

ULLE E. G. RATH
Vice-President,
Corporate Development

MAXINE A. WIBER
Vice-President,
Environment

DONALD A. CUMMING

JOHN A. H. BUSH

COREY B. COPELAND

THOMAS A. FOARD

C. KELLY O'CONNOR

MICHAEL S. PARRETT

ULLE E. G. RATH

MAXINE A. WIBER

1. Executive Committee
2. Audit Committee
3. Management Resources & Compensation Committee
4. Corporate Governance Committee
5. Pension & Investment Committee
6. Environmental, Health & Safety Committee

For further information concerning the directors, their membership on the various Board committees, corporate governance and other matters, please refer to the Notice of Annual Meeting and accompanying Management Information Circular which are mailed to shareholders with this Annual Report.

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Rio Algom Limited will be held on Wednesday, April 23, 1997, at 10:30 a.m. (Toronto time) in Ballrooms 1 and 2, Toronto Hilton Hotel, 145 Richmond Street West, Toronto, Ontario, Canada.

Production: *Walter J. Mishko & Co. Inc.*
Design: *Tana Pain Rowlands Design*
Principal Photography: *Peter Christopher*
Executive Photography: *Doug Forster & Jim Allen*
Typesetting: *Caterpillar Graphics Inc.*
Printed in Canada on recycled papers using vegetable based inks.

RIO ALGOM LIMITED

Suite 2600, 120 Adelaide Street West
Toronto, Ontario M5H 1W5
Telephone: (416) 367-4000
Fax: (416) 365-6870