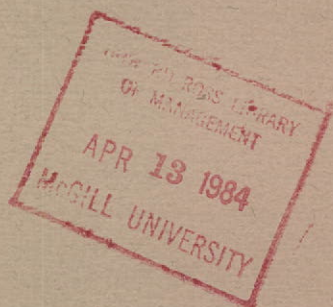


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Hudson Bay  
Mining and  
Smelting Co.,  
Limited

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Annual Report  
1983









## Highlights

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Reorganization of Inspiration Resources and HBMS completed

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Canadian public financing completed

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1983 revenues increased 21% over 1982 levels

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Loss before extraordinary item improved 86%

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Copper prices at low levels, zinc prices continued to improve

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## Company Profile

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HBMS is a Canadian natural resource company. The Corporation mines and processes metals (primarily copper, zinc, gold and silver) at Flin Flon and Snow Lake in northern Manitoba, mines and processes sodium sulphate in Saskatchewan, operates a zinc oxide and a diecastings plant in Ontario, has a 37½% interest in a tantalum mine in southeastern Manitoba, which is presently closed, and has working interests in producing oil and gas properties and undeveloped leases primarily located in Alberta.

The Corporation's Common Shares are owned 100% by Inspiration Resources Corporation of New York. The Corporation's Special Exchangeable Non-voting Shares (Special Shares), which are listed on the Toronto Stock Exchange, do not carry general voting rights in HBMS; however, they are exchangeable for Inspiration Resources Common Shares on a one-for-one basis until July 6, 1993, when they will be automatically exchanged, and have a vote equivalent to one Inspiration Resources Common Share. At year end, there was a total of 10,048,484 Special Shares of HBMS issued to 5,201 shareholders.



## Report to Shareholders

Your company has completed a year of tremendous change and challenge. During the past year, the organization structure of the HBMS group of companies was altered, with Inspiration Resources being created as the parent company to a diversified group of North American natural resource companies, which includes HBMS; a successful Canadian public financing was completed but weak metal prices seriously taxed, and continue to tax, our financial resources.

Throughout these changes and challenges, HBMS reported a net loss of \$4.8 million for 1983 on revenues of \$307.7 million compared with a net loss, before extraordinary item, of \$33.4 million on revenues of \$255.2 million in 1982. The extraordinary gain of \$55.5 million on the sale of the Island Falls power plant was included in the 1982 final net earnings of \$22.2 million.

The improved financial results in 1983 compared to 1982 were the result of continued efforts to minimize costs, improve productivity, increased sales volumes of principal products assisted by a stronger financial base resulting from the 1983 public financing. However, the Company is dependent for its economic well-being on the selling prices of its products and these prices depend, to a large extent, upon the general economic environment. Copper, which showed signs of improvement earlier in 1983, backed off in the third quarter and remained weak for the balance of the year. Zinc showed improvement throughout the entire year and has continued this improvement in the first months of 1984.

The reorganization was approved by the HBMS common shareholders at the annual and special meeting of shareholders on June 8, 1983, and then completed on July 6, 1983. The reorganization pooled the joint interests of HBMS and Minorco into Inspiration Resources Corporation, a U.S. public company, with HBMS as a Canadian wholly-owned subsidiary.

On August 9, 1983, HBMS completed a Canadian public offering of 5,500,000 units at \$16.75 per unit for net proceeds of \$85.6 million. Each unit consisted of one HBMS special share and one-half share purchase warrant. Proceeds from the offering helped to reduce long-term debt which at year end was \$61.4 million.

Metal production increased to 147 million pounds of refined copper and 163 million pounds of slab zinc in 1983 at the Flin Flon/Snow Lake operations compared to 121 million pounds of copper and 123

million pounds of zinc in 1982 when production was shut down for two months, while levels of copper and zinc inventory remained relatively stable. These operations, while recording a net loss of \$3.6 million in 1983, produced a positive cash flow of \$5.4 million during the year compared to a cash deficit of \$48.9 million in 1982. Development of the Rod Mine continued in 1983 with production scheduled for March 1984.

The market for sodium sulphate remained steady throughout 1983 resulting in positive earnings and cashflow from Francana Minerals. Zinc oxide sales strengthened in 1983 but prices remained below an acceptable level. Earnings and cash flow from Zochem division were positive for the year, although less than anticipated due to price levels. The automotive market experienced dramatic sales increases during the year resulting in increased demand for zinc diecastings and a small net earnings position for this division.

HBMS purchased all of the shares of the wholly-owned Canadian subsidiary of Trend Exploration Limited for \$12.0 million effective September 1, 1983. The assets consisted of working interests in producing oil and gas properties and undeveloped leases primarily located in Alberta and an interest in an undeveloped coal property in British Columbia. The new division generated a positive cash flow and recorded a small net earnings position in the last 4 months of 1983.

The Tanco mining and milling operation remained suspended with no sales of tantalum pentoxide throughout 1983 as the world tantalum oxide market did not improve.

The site abandonment programme for Whitehorse Copper Mines, proceeded as scheduled through 1983, after operations ceased in late 1982. A significant portion of the assets has been sold.

The size of the Board of Directors was reduced from twelve to eight members, effective October 31, 1983. Edward M. Carson, H. Purdy Crawford, E. Peter Gush, Robert H. Jones, J. Roger B. Phillimore and Gavin W. H. Rely, resigned from the Board. Messrs. Carson, Crawford, Jones and Phillimore retained their association with the Company as members of the Board of Inspiration Resources. New member appointments were Douglas H. Houston, Richard R. Davis, Adrian M. Doull and J. Blair Howkins. Mr. Houston is Senior Vice-President — Administration of the Company. Messrs. Davis, Doull and Howkins are Directors and Officers of Inspiration Resources. Allen T.

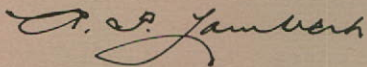


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Lambert, Chairman of the Board, Alan Sweatman, J. David Taylor and C. Keith Taylor continued as Directors.

On November 15, 1983, the Board of Directors declared a stock dividend of 2% on the special shares payable on December 21, 1983 to special shareholders of record on December 1, 1983. This dividend was equivalent to the stock dividend declared on November 10, 1983 by our parent company, Inspiration Resources, on its outstanding common shares. The stock dividend was paid in special shares valued at \$13.875, which was the closing price of the special shares on The Toronto Stock Exchange on November 10, 1983. Payment was made in cash in lieu of fractional special shares.

HBMS is continuing to explore and develop new mining properties and existing mines and to upgrade and expand production facilities. However, profitability for the Company depends upon maintaining tight control on production costs and the realization of higher selling prices for its products on the world metal markets.



A. T. Lambert  
Chairman of the Board



C. K. Taylor  
President and Chief  
Executive Officer

March 9, 1984



# Management's Discussion of the Financial Statements

## Liquidity and Capital Resources

HBMS showed improved financial results in 1983 compared to 1982. Cost restraint programs, which commenced during 1982, continued into 1983 and although market conditions remained depressed, improvements occurred in sales volumes and sales prices. The Company's financial base was also strengthened during 1983 as the result of the mid-year public financing (Note 9 in the consolidated financial statements). Operations provided a positive contribution of \$18.8 million to working capital during 1983 and overall, working capital increased \$61.1 million to \$101.5 million at December 31, 1983. The significant portion of the dramatic rise in working capital was the cash and short-term deposits of approximately \$65.4 million, representing the balance not required to retire debt, of the \$85.6 million net proceeds from the public financing. Non-cash operating working capital did not change significantly during 1983, increasing only by \$2.0 million. Accounts receivable at December 31, 1983 had decreased 2% from the previous year's levels, although sales revenues during 1983 had increased, an indication that cash collection efforts were successful.

Capital expenditures had been heavy in prior years (1982 - \$52.2 million; 1981 - \$85.0 million) as work was done to upgrade the surface plants at Flin Flon and Snow Lake. Expenditures in the last half of 1982 were curtailed and initial plans for 1983 indicated lower levels of capital expenditures. The initial plans for 1983 were followed with the exception of the purchase for \$12.0 million of all the shares of the wholly-owned Canadian subsidiary of Trend Exploration Limited, (Note 14(d) to consolidated financial statements). Total capital expenditures for 1983 were \$26.7 million which included further development of the Rod Mine for \$1.8 million.

HBMS reduced its long-term debt from \$90.2 million at the 1982 year-end to \$61.4 million at December 31, 1983 mainly as a result of the application against the revolving credit facilities of a portion of the funds received from the public financing. Unused long-term facilities of \$44.2 million were in place at December 31, 1983. HBMS also had available \$15.0 million of unused short-term lines of credit at December 31, 1983.

The Tantalum Mining Corporation mining and milling operation remained suspended with no sales of tantalum pentoxide throughout 1983. High levels of tantalum inventories resulting from

extremely weak markets had forced the suspension of operations at December 31, 1982, for an indefinite period.

## Dividends

A 2% stock dividend on the special shares was paid December 21, 1983. The dividend was equivalent to the stock dividend declared on November 10, 1983 by HBMS' parent company, Inspiration Resources, on its outstanding common shares. As a result of the stock dividend there were 195,093 special shares issued at a stated price of \$13.875 per share for a total value of \$2.7 million and \$27 thousand in cash paid in lieu of fractional shares.

The Board of Directors regularly reviews HBMS' financial position, its operating results and considers future developments and opportunities. In light of these factors, the Board establishes dividend declarations in cash or shares or passes on quarterly dividends. In general, dividends payable to nonresidents of Canada are subject to withholding taxes at tax treaty rates, where applicable.

## Impact of Inflation and Changing Prices

HBMS' financial statements reflect historical costs and hence dollars of varying purchasing power. While in the shorter term, metal prices are more sensitive to supply and demand factors than to inflation, in the last few years, unit costs of production have included steadily rising labour and energy costs. In addition, current replacement costs of productive mineral properties and metallurgical plants is much higher than the historical cost of existing facilities and ore bodies in the metals business are unique and not replaceable at will. Past costs however, are considered to be sunk and investment decisions are made on the basis of expected future cash flows.

Operating results recalculated on a current cost and constant dollar basis, compare unfavourably to historic results (refer to HBMS 1983 Form 10-K). The difference, however, has narrowed for 1983 as the rate of inflation abated.

## 1983 Compared with 1982

Consolidated net sales increased by 20% due to increased sales volumes and increased sales prices of principal products. Copper, which showed signs of large price improvements earlier in 1983 compared to 1982 price levels, backed off in the third quarter and remained weak for the balance



of the year. The HBMS average published price for copper was 92.4 cents per pound in 1983 compared to 88.8 cents per pound in 1982. Zinc showed improvement throughout the entire year, although the HBMS average published price for zinc only increased from 48.4 cents per pound in 1982 to 49.4 cents per pound in 1983. The price improvement for zinc has continued into the first months of 1984 so that inventories, which had been allowed to increase during 1983 in anticipation of higher prices during the second half of the year are now being allowed to decrease gradually in response to the improving market conditions.

Interest and other income increased in 1983 compared to 1982 due to interest income on the advance to Inspiration Resources (Note 10 to the consolidated financial statements) and positive earnings, including gains on the disposal of assets, from the Whitehorse Copper joint venture compared to losses in 1982. The economic reserves at Whitehorse Copper were exhausted by December 31, 1982 and the mine terminated production on that date.

The 1982 results included write-downs of copper and zinc inventories to net realizable values which resulted in the high cost of sales. Productivity improvement and cost reduction programs over the past two years have succeeded in reducing costs, so that, combined with 1983 average sales prices which were up slightly over 1982 levels, no write down for copper and a lower write-down for zinc to net realizable values was required in 1983.

Depreciation, depletion and amortization in 1983 increased 42% over the comparable 1982 period due to higher 1983 production levels and higher 1983 depreciation, depletion and amortization rates as the significant capital expenditures of prior years were added to asset costs. Exploration work was cut back in the last half of 1982 and continued at the reduced level throughout 1983.

The effective income tax recovery rate in 1983 is almost double the rate for 1982. Primarily this is a result of deduction from taxable income the expenses of the share issue while these same expenses for accounting purposes have been deducted from the proceeds of the share issue. Note 11 to the consolidated financial statements describes more fully the components of the rate and discloses as well losses available for application against taxable income of future years.

The 1982 results included the share of losses of Francana Oil & Gas Ltd, an associated company

until May 1982. HBMS' share of Tantalum Mining Corporation's losses in 1983 were \$67 thousand compared to share of earnings of \$0.3 million in 1982. As noted earlier, Tantalum Mining Corporation's operations remained suspended throughout 1983.

There were no extraordinary items in 1983 while in 1982 HBMS recorded an extraordinary gain of \$55.5 million on the sale of the Island Falls Power Plant.

### **1982 Compared with 1981**

HBMS' net sales decreased by 14% as the result of falling metal prices and reduced sales volumes. Weak copper prices during 1981 and 1982 reflected soft business conditions in the principal copper consuming sectors, notably the building, automotive and appliance industries.

Interest income decreased 14% from 1981 to \$7.0 million; \$5.4 million of this related to the Island Falls Power Plant proceeds. HBMS' earnings from the Whitehorse Copper joint venture changed from earnings of \$6.7 million in 1981 to a loss of \$2.3 million in 1982. As noted earlier, the Whitehorse Copper mine terminated production on December 31, 1982.

Production cutbacks and cost cutting measures during 1982 successfully decreased consolidated cost of sales by 7% and productivity improvement programs contained unit costs. Personnel levels were reduced during 1982 while maintaining production capacity rates. Exploration work continued throughout Canada in the first half of 1982 and was cut back in the last half of the year.

HBMS' share of Tantalum Mining Corporation's earnings in 1982 was \$0.3 million compared to \$2.9 million in 1981, while its share of Francana's losses were \$1.6 million in 1982 compared to \$1.0 million in 1981.

HBMS recorded an extraordinary gain in 1982 of \$55.5 million on the sale of the Island Falls Power Plant. An interim payment on this sale was received in 1981 but as total compensation for the plant had not been determined, a net amount of \$33.6 million was shown as deferred income in the 1981 consolidated statement of financial position. The final payment was received in November 1982, at which time the 1981 deferred income and the 1982 receipt were recognized as an extraordinary item.



## Consolidated Statement of Earnings

For the years ended December 31, 1983, 1982 and 1981

	1983	1982	1981
	<i>(in thousands \$ Cdn)</i>		
<b>Revenues:</b>			
Net sales	\$300,648	\$249,992	\$291,688
Interest and other income (Note 10)	7,034	5,248	20,999
	<u>307,682</u>	<u>255,240</u>	<u>312,687</u>
<b>Costs and Expenses:</b>			
Cost of sales	267,523	254,628	274,150
Depreciation, depletion and amortization	34,408	24,279	27,587
Exploration expenses	2,932	6,005	3,865
General administrative expenses	10,485	10,867	9,748
Interest	9,308	8,236	4,698
	<u>324,656</u>	<u>304,015</u>	<u>320,048</u>
Loss before the undernoted items	(16,974)	(48,775)	(7,361)
Benefit of income taxes, mining taxes and royalties (Note 11)	12,260	16,701	2,341
<b>Loss from Operations</b>	<u>(4,714)</u>	<u>(32,074)</u>	<u>(5,020)</u>
Share of earnings (losses) of associated companies (Note 5(b))	(67)	(1,280)	1,922
<b>Loss before Extraordinary Item</b>	<u>(4,781)</u>	<u>(33,354)</u>	<u>(3,098)</u>
<b>Extraordinary Item:</b>			
Gain on sale of power plant (Note 12)	—	55,508	—
<b>Net Earnings (Loss) for the Year</b>	<u>\$ (4,781)</u>	<u>\$ 22,154</u>	<u>\$ (3,098)</u>

See accompanying notes to the consolidated financial statements.

## Consolidated Statement of Retained Earnings

For the years ended December 31, 1983, 1982 and 1981

	1983	1982	1981
	<i>(in thousands \$ Cdn)</i>		
<b>Retained Earnings at Beginning of the Year</b>	\$145,696	\$130,614	\$159,383
<b>Adjustment for Interest Capitalization (Note 3)</b>	9,627	3,405	829
<b>Retained Earnings as Restated</b>	<u>155,323</u>	<u>134,019</u>	<u>160,212</u>
<b>Reorganization Adjustments (Note 2)</b>	1,185	(850)	(23,095)
<b>Net Earnings (Loss) for the Year</b>	(4,781)	22,154	(3,098)
<b>Dividends</b>	(2,932)	—	—
<b>Retained Earnings at End of the Year</b>	<u>\$148,795</u>	<u>\$155,323</u>	<u>\$134,019</u>

See accompanying notes to the consolidated financial statements.



# Consolidated Statement of Changes in Financial Position

For the years ended December 31, 1983, 1982 and 1981

	1983	1982	1981
	<i>(in thousands \$ Cdn)</i>		
<b>Working Capital Provided:</b>			
Operations:			
Loss from operations	\$ (4,714)	\$ (32,074)	\$ (5,020)
Depreciation, depletion and amortization	34,408	24,279	27,587
Deferred taxes	(10,943)	(19,601)	2,494
Dividends from an associated company	—	2,400	1,875
Other	—	(337)	(24)
	<u>18,751</u>	<u>(25,333)</u>	<u>26,912</u>
Proceeds from long-term debt	—	30,000	—
Proceeds from share issue (Note 9(a))	85,639	—	—
Reorganization of petroleum interests (Note 5 (a))	—	20,029	—
Sale of power plant (Note 12)	—	21,896	34,724
	<u>104,390</u>	<u>46,592</u>	<u>61,636</u>
<b>Working Capital Applied:</b>			
Reorganization adjustments (Note 2)	(1,185)	850	23,095
Dividends (Note 9 (d))	27	—	—
Investment in associated companies (Note 5 (c))	405	2,744	(645)
Other investments (Note 5)	(10,643)	(1,520)	4,653
Property, plant and equipment	26,746	52,180	84,985
Reduction of long-term debt	28,788	4,002	3,405
Increase in other assets	(833)	805	3,572
	<u>43,305</u>	<u>59,061</u>	<u>119,065</u>
<b>Increase (Decrease) in Working Capital</b>	<u>61,085</u>	<u>(12,469)</u>	<u>(57,429)</u>
<b>Working Capital at Beginning of the Year</b>	<u>40,454</u>	<u>52,923</u>	<u>110,352</u>
<b>Working Capital at End of the Year</b>	<u>\$101,539</u>	<u>\$ 40,454</u>	<u>\$ 52,923</u>
<b>Changes in Working Capital:</b>			
Increase (decrease) in current assets:			
Cash and short-term deposits	\$ 59,109	\$ (4,617)	\$ (68,615)
Accounts receivable	(640)	20,505	(5,467)
Due from parent on reorganization (Note 2)	(8,833)	—	—
Inventories	835	(27,981)	15,175
Income taxes recoverable	(1,306)	(867)	2,173
	<u>49,165</u>	<u>(12,960)</u>	<u>(56,734)</u>
(Increase) decrease in current liabilities:			
Short-term borrowings	—	10,355	(9,657)
Accounts payable and accrued liabilities	(10)	631	1,486
Income and other taxes payable	(117)	—	6,028
Due to affiliated company	8,606	(8,606)	—
Current portion of long-term debt	3,441	(1,889)	1,448
	<u>11,920</u>	<u>491</u>	<u>(695)</u>
<b>Increase (Decrease) in Working Capital</b>	<u>\$ 61,085</u>	<u>\$ (12,469)</u>	<u>\$ (57,429)</u>

See accompanying notes to the consolidated financial statements.




# Consolidated Statement of Financial Position

As at December 31, 1983 and 1982

	1983	1982
	<i>(in thousands \$ Cdn)</i>	
<b>Current Assets:</b>		
Cash and short-term deposits	\$ 65,352	\$ 6,243
Accounts receivable	40,863	41,503
Due from parent on reorganization (Note 2)	—	8,833
Inventories — work in process	50,546	51,676
— finished goods	4,784	2,819
Income taxes recoverable	—	1,306
<b>Total current assets</b>	<b>161,545</b>	<b>112,380</b>
Deduct:		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	58,896	58,886
Income and other taxes payable	117	—
Due to affiliated company (Note 5 (a))	—	8,606
Current portion of long-term debt	993	4,434
<b>Total current liabilities</b>	<b>60,006</b>	<b>71,926</b>
<b>Working Capital</b>	<b>101,539</b>	<b>40,454</b>
Add:		
Investments (Note 5)	11,156	21,461
Property, plant and equipment (Note 6)	252,263	259,925
Other assets	14,142	14,975
<b>Capital Employed</b>	<b>379,100</b>	<b>336,815</b>
Deduct:		
Commitments and contingencies (Note 7)		
Long-term debt (Note 8)	61,441	90,229
Deferred taxes	46,957	57,900
	<b>108,398</b>	<b>148,129</b>
<b>Shareholders' Investment</b>	<b>\$270,702</b>	<b>\$188,686</b>
<b>Investment Represented By:</b>		
Share capital (Note 9 (a))	\$121,907	\$ 33,363
Retained earnings	148,795	155,323
<b>Total Shareholders' Investment</b>	<b>\$270,702</b>	<b>\$188,686</b>

Approved by the Board of Directors

Director:  A.T. Lambert

Director:  C.K. Taylor

See accompanying notes to the consolidated financial statements.



# Notes to the Consolidated Financial Statements

December 31, 1983, 1982 and 1981

## 1. Summary of Significant Accounting Policies

### Generally accepted accounting principles:

The financial statements are prepared in conformity with accounting principles generally accepted in Canada and are presented in Canadian dollars.

### Principles of consolidation:

The financial statements include the accounts of Hudson Bay Mining and Smelting Co., Limited (HBMS) and all companies more than 50%-owned with the exception of Francana Oil & Gas Ltd. (Francana) which has been accounted for using the equity method as the result of the May 1982 arrangement (Note 5(a)). HBMS follows the equity method of accounting for its interest in associated companies in which it owns from 20% to 50% of the common shares and exercises a significant influence.

### Inventories:

Inventories consist substantially of metals and metal products. Metals and all other saleable products are valued at the lower of cost or estimated net realizable value; metal by-products are valued at estimated net realizable value. Cost is determined on the first-in, first-out basis.

### Property, plant and equipment:

**Mineral properties** — Exploration costs with respect to mines operating, or in the development stage, are capitalized as mineral properties and amortized by the unit-of-production method based on estimated recoverable reserves; all other mineral exploration costs are written off to expense as incurred.

Expenditures for projects deemed commercially productive are capitalized with a corresponding credit to earnings at the time this determination is made.

**Mine development expenditures** — Expenditures on major mine development are capitalized and amortized by the unit-of-production method for each mine based on related estimated recoverable reserves.

**Plant and equipment** — Expenditures for plant and equipment additions, major replacements and improvements are capitalized; the cost of maintenance and repairs is charged to operating expense as incurred. Depreciation of mineral plant and equipment is charged to operations by the unit-of-production method based on estimated recoverable reserves. Depreciation of other plant and equipment is charged to operations, generally on a straight-line basis over their estimated useful lives.

As explained in Note 3, the cost of property, plant and equipment includes applicable capitalized interest.

### Income and mining taxes:

HBMS follows the tax allocation method of providing

for income and mining taxes. Deferred taxes represent primarily tax reductions for expenditures on mine development, exploration, depreciation and interest capitalized during the construction of certain assets, deducted in the determination of taxable income but not yet charged to earnings. Investment tax credits are recorded when utilized.

Taxes otherwise payable on the sale of the potash division assets in 1977 have been included in deferred taxes. These taxes otherwise payable can be eliminated by allocation of eligible Canadian expenditures on natural resources exploration and development. The expenditures so allocated are not available for deduction from taxable income.

### Foreign currency translation:

Foreign currencies have been translated into Canadian dollars as follows: revenue, costs and expenses of foreign subsidiaries at the average rates of exchange for the period; noncurrent assets (including depreciation, depletion and amortization thereof) and noncurrent liabilities at rates in effect at dates of transactions; current assets and current liabilities at rates in effect at the end of the year. Gains and losses on currency translation are included in the consolidated statement of earnings.

## 2. Reorganization

Effective July 6, 1983, Inspiration Resources Corporation (Inspiration Resources), HBMS and Minerals and Resources Corporation Limited (Minorco) completed a reorganization which pooled the joint interest of HBMS and Minorco in the Inspiration Resources Group with HBMS' other interests into Inspiration Resources, a U.S. public company, with HBMS as a Canadian subsidiary. Prior to July 6, 1983, HBMS' major (44%) shareholder was Minorco Canada Limited (Mincan) which was indirectly owned 100% by Minorco.

The principal impact of the reorganization was to remove from the HBMS consolidated financial statements its 50% interest in the Inspiration Resources Group, to revise its capital structure to reflect the conversion and exchange of HBMS' common shares into HBMS special shares and Inspiration Resources common shares, respectively and to reflect the sale of 550,419 Inspiration Resources common shares held by HBMS to Inspiration Resources for \$US13.00 per share, aggregating \$Cdn8,833,000. As the reorganization represents a significant restructuring of the assets and future operations of HBMS and companies under common control, financial statements of prior periods have been restated as though the reorganized structure of the companies existed since inception. The following illustrates the impact of the reorganization on previously published figures:



(i) **Continuity of Total Investment in Associated Companies on Reorganization:**

	December 31	
	1982	1981
	(in thousands)	
As previously reported	\$140,874	\$186,682
Deduct Inspiration Resources Group	135,309	160,152
As restated (Note 5(a))	<u>\$ 5,565</u>	<u>\$ 26,530</u>

(ii) **Continuity of Share of Earnings (Losses) of Associated Companies on Reorganization:**

	December 31	
	1982	1981
	(in thousands)	
As previously reported	\$ (25,901)	\$ (3,157)
Deduct Inspiration Resources Group	(24,621)	(5,079)
As restated (Note 5(b))	<u>\$ (1,280)</u>	<u>\$ 1,922</u>

(iii) **Continuity of Retained Earnings on Reorganization:**

Retained earnings as previously reported December 31, 1982	\$232,329
Elimination of investment in the Inspiration Resources Group	<u>86,633</u>
As restated January 1, 1983 before adjustment for interest capitalization	<u>\$145,696</u>

(iv) **Continuity of Share Capital on Reorganization:**

	Common Shares	Special Shares
Share capital as previously reported December 31, 1982	10,231,044	—
Exchanged for HBMS special shares	(3,957,628)	4,353,391
Exchanged for Inspiration Resources common shares	(5,568,478)	—
Dissenting shareholders	(115)	—
As restated January 1, 1983 (Note 9(a))	<u>704,823</u>	<u>4,353,391</u>

During the period covered by the consolidated financial statements, HBMS had a number of cash transactions with Inspiration Resources. These primarily included changes to HBMS' investment position in Inspiration Resources and its subsidiaries and dividends received from Terra Chemicals

International, Inc. (Terra). These net cash transactions have been charged to retained earnings as reorganization adjustments in the period in which they occurred. HBMS cash dividends on its previously outstanding common shares are also included in the reorganization adjustments and charged to retained earnings. The following table summarizes these payments and (receipts):

	1983	1982	1981
	(in thousands)		
Investment transactions	\$(1,185)	\$ (222)	\$13,588
Terra dividends	—	—	(1,100)
HBMS dividends	—	1,072	10,607
	<u>\$(1,185)</u>	<u>\$ 850</u>	<u>\$23,095</u>

**3. Change in Accounting Principle**

Effective January 1, 1983, HBMS adopted the policy of capitalizing interest costs incurred during the construction of certain assets as part of the historical cost of such assets in accordance with U.S. Financial Accounting Standards Board (FASB) Statement No. 34. Previously, such interest costs were charged to earnings as incurred. This change was made retroactively and reduced previously reported losses in the years ended December 31, 1982, and 1981 by \$6,222,000 and \$2,576,000, respectively. This change resulted in cumulative increases in retained earnings of \$9,627,000 and \$3,405,000 at December 31, 1982 and 1981 respectively.

**4. Short-Term Lines of Credit and Borrowings**

The maximum amounts of short-term borrowings outstanding during 1983, 1982 and 1981 were nil, \$10,000,000 and \$23,000,000 respectively, and the approximate average amounts outstanding during each year were nil, \$1,178,000 and \$2,281,000 respectively, with weighted average annual interest rates of nil, 12.2% and 18.8%. The averages were calculated on a daily basis.

HBMS and its subsidiaries have unused short-term lines of credit with banks at December 31, 1983 aggregating approximately \$15,000,000; (Dec. 31, 1982 — \$40,000,000) with interest generally at money market rates on an as-quoted basis.



## 5. Investments (including advances)

	1983	1982
	(in thousands)	
Associated companies (Notes (a), (b), (c), below)	\$ 5,903	\$ 5,565
Whitehorse Copper joint venture	433	7,428
Other — at cost (after provision for decline in value Dec. 31, 1983 — \$7,657,000; Dec. 31, 1982 — \$7,781,000):		
Quoted (market value Dec. 31, 1983 — \$3,340,000; Dec. 31, 1982 — \$1,744,000)	4,017	1,061
Unquoted	803	7,407
	<u>\$11,156</u>	<u>\$21,461</u>

### (a) Total investment in associated companies:

	% of common share ownership		(in thousands)	
	1983	1982	1983	1982
Tantalum Mining Corporation of Canada Limited (Tanco)	37.5%	37.5%	\$4,526	\$4,593
Ambay Services Limited (Ambay)	—	50.0%	—	104
Equity in net assets			4,526	4,697
Advances			884	375
Unamortized excess cost of investments over equity in net assets			493	493
			<u>\$5,903</u>	<u>\$5,565</u>

Francana ceased to be a subsidiary of HBMS effective May 1982 as a result of an arrangement involving HBMS, Francana, Trend International Limited (Trend), Mincan and Sceptre Resources Limited, an unrelated third party. The carrying value of HBMS' investment in Francana at December 31, 1979 was adjusted to remove that portion of the investment attributable to Trend, leaving a residual carrying value of HBMS' investment in Francana, without Trend, such that the investment was eliminated by the net cash received (\$20,029,000) by HBMS as part of transactions related to the above-mentioned arrangement without recognition of a gain or loss by HBMS. The \$8,606,000 note payable to Mincan, relating to the arrangement, was repaid in January 1983. Trend, which up until May 1982 was a subsidiary of Francana, has been treated as part of Inspiration Resources since December 31, 1979. HBMS accounted for its investment in Francana, excluding Trend, up to the May 1982 arrangement using the equity method.

### (b) Share of earnings (losses) of associated companies:

	1983	1982	1981
	(in thousands)		
Francana	\$ —	\$ (1,624)	\$ (997)
Tanco	(67)	344	2,919
	<u>\$ (67)</u>	<u>\$ (1,280)</u>	<u>\$ 1,922</u>

### (c) Changes in investment positions of associated companies:

	1983	1982	1981
	(in thousands)		
Ambay	\$ (104)	\$ —	\$ —
Francana	—	(20,029)	(120)
Tanco	509	2,744	(525)
	<u>\$ 405</u>	<u>\$ (17,285)</u>	<u>\$ (645)</u>

The unamortized excess cost of investments in associated companies over equity in net assets is being written off against HBMS' share of earnings, generally over periods not exceeding 20 years. HBMS makes provision, in amounts which it considers prudent, for declines in value of investments.

## 6. Property, Plant and Equipment

	1983	1982
	(in thousands)	
Mineral property, plant and equipment	\$316,917	\$324,190
Less accumulated depreciation and depletion	143,784	130,124
	<u>173,133</u>	<u>194,066</u>
Unamortized mine development expenditures	66,198	52,286
Materials and supplies — at cost	12,932	13,573
	<u>\$252,263</u>	<u>\$259,925</u>

Included in mineral property, plant and equipment since September 30, 1983 are the assets of Plateau Oil Canada Inc., an acquisition fully described in Note 14(d).

## 7. Commitments and Contingencies

(a) Prior to the reorganization HBMS and Minorco had each provided written assurances to the group of banks funding the Inspiration Consolidated Copper Company (Inspiration Copper) revolving credit agreement for \$US150,000,000. As a result of the reorganization the related loan agreements have been amended to delete reference to HBMS.



- (b) During 1978, HBMS received a reassessment notice from the Department of National Revenue disallowing the deduction of a nonrefundable contribution for construction to Manitoba Hydro made in 1973, which was, in the opinion of HBMS, a proper deduction. On the advice of its counsel, HBMS filed a Notice of Objection to the reassessment. The Department formally confirmed the reassessment on January 10, 1983 and HBMS has filed an appeal to the Federal Court of Canada. Income taxes, penalties and interest paid with respect to the reassessment, aggregating \$2,100,000, have not been charged to earnings pending settlement of the reassessment. Should the reassessment be upheld, the tax and related costs would be charged to retained earnings as a prior period adjustment.
- (c) HBMS sold its potash division assets in 1977 and the resulting gain on disposition was deferred for tax purposes. HBMS has the option of eliminating the tax on the deferred gain by allocating Canadian exploration and development expenses incurred for a ten-year period ending 1987. At the end of that period, any remaining gain would be added to 1977 taxable income with interest applied to tax thereon for the full ten-year period. At December 31, 1983 eligible expenditures of \$25,000,000, (after a proposed allocation for 1983 of approximately \$5,000,000), would be required to eliminate payment of the related tax obligation of approximately \$12,500,000.

## 8. Long-Term Debt

	1983	1982
	(in thousands)	
9% unsecured debentures due 1991 (note (a) below)	\$ 18,320	\$ 19,881
10½% unsecured debentures due 1995 (1983 — \$US37,474,000; 1982 — \$US43,214,000) (Note (b) below)	38,047	43,875
Revolving credit facilities (Note (c) below)	5,810	30,000
Mortgage loans	75	222
	<b>62,252</b>	<b>93,978</b>
Included in current liabilities	811	3,749
	<b>\$ 61,441</b>	<b>\$ 90,229</b>

- (a) Under the trust indenture covering the 9% unsecured debentures, sinking fund payments sufficient to retire \$800,000 of principal amount are required each year until 1990. Debentures amounting to \$6,680,000 (principal amount) have

been purchased by HBMS and cancelled. Therefore, no sinking fund payments have been required to date and \$1,080,000 is available for application against the 1984 and future years' sinking fund requirements.

- (b) Under the trust indenture covering the 10½% unsecured debentures, sinking fund payments sufficient to retire \$US3,330,000 of principal amount are required each year until 1994. Debentures amounting to \$US12,526,000 have been purchased by HBMS and cancelled. Therefore, no sinking fund payments have been required to date and \$US2,536,000 is available for application against the 1984 sinking fund requirements.
- (c) The \$50,000,000 revolving credit facility is a three-year revolving loan converting to a four-year term loan with semi-annual repayments after October 22, 1984. Interest rates are on a floating basis and are available through a number of options including Eurodollars, Bankers Acceptances and U.S. dollars. Currently, interest is charged at Canadian bank prime with this increasing to Canadian bank prime plus one-quarter of 1% in 1985 and prime plus three-eighths of 1% in 1987. There is an annual standby fee of one-quarter of 1% on unutilized amounts.

As a condition of the reorganization (Note 2), Inspiration Resources has guaranteed the payment obligations of HBMS under the 9% and 10½% unsecured debentures' trust indentures.

Interest and related expenses on long-term debt were: 1983 — \$10,459,000; 1982 — \$7,712,000 and 1981 — \$4,268,000. Interest capitalized was: 1983 — \$1,206,000; 1982 — \$8,895,000; 1981 — \$3,563,000.

Sinking fund and principal payments, based on December 31, 1983 borrowings and outstanding after allowing for prepayments, required over the next 5 years are as follows:

	Canadian funds	U.S. funds
	(in thousands)	
1984	5	794
1985	1,978	3,330
1986	2,258	3,330
1987	2,258	3,330
1988	2,258	3,330



## 9. Share Capital, Dividends and Earnings per Share

- (a) As a result of the reorganization (Note 2), the previously outstanding 10,231,044 HBMS common shares were reduced by the conversion and exchange of 9,526,221 common shares into HBMS special shares and Inspiration Resources common shares, respectively. The resultant reorganized share capital is as follows:

	Issued and outstanding at December 31			
	1983		1982	
	Shares	\$000s Cdn	Shares	\$000s Cdn
Special shares (non-voting) — without par value (Note (ii) below):				
Authorized: unlimited				
Balance at beginning of year	4,353,391	\$ 28,319	4,353,391	\$ 28,319
Issued for cash (Note (i) below)	5,500,000	85,639	—	—
Issued as stock dividend (Note 9 (d))	195,093	2,707	—	—
Balance at end of year	10,048,484	\$116,665	4,353,391	\$ 28,319
Common shares (voting) — without par value (Note (iii) below):				
Authorized: unlimited				
Balance at beginning of year	704,823	\$ 5,044	704,823	\$ 5,044
Issued as stock dividend (Note 9 (d))	28,193	198	—	—
Balance at end of year	733,016	\$ 5,242	704,823	\$ 5,044
<b>TOTAL</b>		<b>\$121,907</b>		<b>\$ 33,363</b>

- (i) On July 20, 1983, the Board of Directors of HBMS authorized an issue of 5,500,000 units in Canada at \$16.75 per unit for net proceeds of \$85,639,000. The transaction was completed on August 9, 1983. Each unit consists of one HBMS special share and one-half share purchase warrant which became separable on October 1, 1983. Each whole warrant will entitle the holder to purchase one HBMS special share at \$20.50 during the period commencing on October 1, 1983 (and ending on August 9, 1986). The Board of Directors of Inspiration Resources reserved for issuance additional Inspiration Resources trust shares and Inspiration Resources common shares. The additional trust shares are available for issue when the warrants are exercised; the additional common shares are available for future exchange of HBMS special shares.

- (ii) The special shares do not carry general voting rights in HBMS; however, they are exchangeable for Inspiration Resources common shares on a 1 for 1 basis, subject to adjustment in certain events, commencing on July 6, 1983 and continuing until the last business day prior to the automatic exchange date of July 6, 1993 unless such date is extended by HBMS. On

such automatic exchange date, the special shares will be automatically exchanged for Inspiration Resources common shares at the then applicable share exchange rate. Each special share has a vote equivalent to one Inspiration Resources common share.

Dividends equivalent to any dividends declared and paid on Inspiration Resources common shares are payable on the special shares at the same time as they are paid on the Inspiration Resources common shares. Inspiration Resources agrees that, upon a voluntary liquidation of HBMS supported by Inspiration Resources, HBMS will satisfy the liquidation value to which the holders of special shares are entitled.

- (iii) The common shares are owned 100% by Inspiration Resources.

- (b) Under HBMS' 1981 Share Option Plan, 250,000 HBMS common shares were available for granting of options to key employees of HBMS, its subsidiaries and its other affiliates. Options expiring in 1987 for 39,000 shares at \$18.50 per share and expiring in 1988 for 5,000 shares at \$20.78 per share have been granted under the plan to March 31, 1983. No options have been exercised. Subsequent



- to March 31, 1983 options for 2,000 shares were cancelled due to the employment termination of a certain key employee. Effective with the reorganization, options to purchase 2,000 HBMS common shares were converted into options to purchase 2,200 HBMS special shares and options to purchase 40,000 HBMS common shares were exchanged for options to purchase 46,000 Inspiration Resources common shares, with the share option prices adjusted accordingly.
- (c) Subsequent to the reorganization, options to purchase 2,200 HBMS special shares and 13,800 Inspiration Resources common shares were cancelled due to the employment termination of certain key employees. Future options, if any, are to be granted with respect to HBMS special shares only.
- As a result of the 2% stock dividend paid by Inspiration Resources on December 21, 1983, the HBMS Board of Directors increased by 2% the number of Inspiration Resources common shares presently outstanding pursuant to each option outstanding and thereby reduced the purchase price of each outstanding option, so that the aggregate purchase price of the Inspiration Resources common shares subject to option will remain the same as prior to the stock dividend.
- (d) HBMS declared a stock dividend of 2% on the special shares, paid December 21, 1983 to shareholders of record on December 1, 1983. The special shares were valued at the closing price of the special shares on the Toronto Stock Exchange on November 10, 1983. There were 195,093 special shares issued at a stated price of \$13.875 for a total value of \$2,707,000. A cash payment of \$27,000 was made in lieu of fractional shares. The value assigned to stock dividends, after a cash payment in lieu of fractional shares, was attributed to share capital of HBMS.
- The number of shares issued as a result of the stock dividend on common shares was 28,193 and the fixed value for the said shares was \$198,000.
- (e) Inspiration Resources common shares began trading on the New York Stock Exchange on July 6, 1983 following the reorganization. As the outstanding special shares of HBMS, which have not been exchanged for common shares of Inspiration Resources, have the same rights as the common shares of Inspiration Resources (Note 9(a)(ii)) they are included in determining per share data of HBMS' parent. For this reason the information below, taken from Inspiration Resources' 1983 annual report, is included here.

	By quarter			
	March 31	June 30	Sept. 30	Dec. 31
	(in thousands \$ US except per share data)			
<b>1983</b>				
Net revenue	\$144,311	\$293,080	\$189,529	\$153,054
Loss before taxes (i)	(19,475)	(11,909)	(21,216)	(31,019)
Net loss (i)	(16,248)	(12,122)	(23,387)	(30,900)
Loss per share (i)(ii)	\$ (1.00)	\$ (0.74)	\$ (1.01)	\$ (1.02)
<b>1982</b>				
Net revenue	\$171,527	\$290,362	\$167,283	\$150,570
Loss before taxes and extraordinary item	(36,243)	(11,164)	(19,591)	(14,692)
Net income (loss)	(34,406)	(13,169)	(22,881)	43,093
Earnings (loss) per share				
Before extraordinary item	\$ (2.11)	\$ (0.81)	\$ (1.41)	\$ (0.12)
After extraordinary item	(2.11)	(0.81)	(1.41)	2.65

- (i) Includes approximately \$US7,160,000 (\$US0.24 per share) of non-recurring charges in the fourth quarter.
- (ii) Quarterly loss per share amounts do not equal the full year amount for 1983 as a result of increased shares outstanding following the August 1983 issuance of Inspiration Resources common, class A and HBMS special shares.

	1983	1982	1981	1980	1979
Earnings (loss) per share \$US					
Before extraordinary item	\$ (3.82)	\$ (4.45)	\$ (0.80)	\$ 3.21	\$ 2.05
After extraordinary item	(3.82)	(1.68)	(0.80)	3.30	2.24



## 10. Interest and Other Income

	1983	1982	1981
	(in thousands)		
Interest income	\$ 3,738	\$ 6,971	\$ 8,126
Interest income from parent company (Note below)	1,716	—	—
Share of earnings (loss) of Whitehorse Copper joint venture	941	(2,299)	6,657
Gain on forward copper sales	—	—	3,206
Miscellaneous	639	576	3,010
	<u>\$ 7,034</u>	<u>\$ 5,248</u>	<u>\$ 20,999</u>

HBMS advanced \$US30,000,000 to Inspiration Resources on January 17, 1983 which bore interest at LIBOR plus three-quarters of 1%. The advance was funded by drawings under HBMS' revolving credit facilities. As a result of the reorganization the advance and the funding were repaid effective June 30, 1983.

## 11. Income Taxes, Mining Taxes and Royalties

	1983	1982	1981
	(in thousands)		
Income taxes:			
Current	\$ (1,317)	\$ 2,900	\$ (4,918)
Deferred	(9,790)	(20,884)	2,702
	<u>(11,107)</u>	<u>(17,984)</u>	<u>(2,216)</u>
Canadian mining taxes and royalties:			
Current	—	—	83
Deferred	(1,153)	1,283	(208)
	<u>\$(12,260)</u>	<u>\$(16,701)</u>	<u>\$(2,341)</u>

Income taxes have been calculated using the following effective income tax rates. The reconciliation of the combined Canadian Federal and Provincial statutory income tax rates and the effective income tax rate is as follows:

	1983	1982	1981
Combined statutory income tax (recovery) rate	(52.4)%	(52.2)%	(48.1)%
Inventory allowance	(6.0)	(2.4)	(10.5)
Nontaxable income	—	0.5	(0.2)
Nondeductible mining taxes	—	1.1	(0.6)
Historical deferred tax credit rates	14.3	17.1	26.1
Expenses of issuing shares	(21.5)	—	—
Eligible capital expenditures	3.7	—	—
Adjustment to prior years' provision	(8.3)	—	—
Other	—	—	2.7
Effective income tax (recovery) rate	<u>(70.2)%</u>	<u>(35.9)%</u>	<u>(30.6)%</u>

HBMS has a non-capital loss available for application against taxable income of future years of approximately \$43,000,000 which expires in 1987. HBMS has a net capital loss carry forward of approximately \$36,000,000. In addition, HBMS has investment tax credits of approximately \$15,128,000 available for application against future Canadian Federal income taxes payable. The unused investment tax credits expire as follows: 1984 — \$1,892,000; 1985 — \$1,754,000; 1986 — \$7,804,000; 1987 — \$3,282,000; 1988 — \$151,000; 1990 — \$245,000.

Deferred income taxes represent tax reductions applicable to the timing differences between amounts claimed in the year for income tax purposes and amounts charged to earnings. The sources of these differences and the tax effect of each were as follows:

	1983	1982	1981
	(in thousands)		
Depreciation and amortization	\$ (9,025)	\$ (9,118)	\$ 2,125
Capitalized mine development	2,425	4,639	829
Exploration expenditures	(1,589)	(3,493)	(694)
Current year's loss	(1,296)	(16,889)	—
Assessment adjustment	—	1,391	—
Interest capitalization	(305)	2,586	955
Other	—	—	(513)
	<u>\$ (9,790)</u>	<u>\$(20,884)</u>	<u>\$ 2,702</u>

## 12. Gain on Sale of Power Plant

The power plant at Island Falls, Saskatchewan and certain ancillary assets were transferred, under provincial statutes to Saskatchewan Power Corporation on April 1, 1981. HBMS received an interim payment, net of tax provision and related expenses, of \$34,724,000 in 1981 and a final payment, net of tax provision and related expenses, of \$21,896,000 in November 1982. Due to the uncertainty of the amount of the consideration, recognition of the gain was deferred until 1982. These payments resulted in an extraordinary gain of \$55,508,000 after related costs and tax provision of \$4,994,000.

## 13. Retirement Plans

HBMS and its subsidiaries maintain non-contributory retirement plans which cover all salaried and hourly paid employees.

Valuation of the pension plans as at December 31, 1983, 1982, and 1981 revealed surpluses of approximately \$17,200,000, \$6,400,000 and \$7,900,000 respectively. The actuarial bases for valuation were reviewed and modified, upon the recommendations of HBMS' actuaries, to reflect current economic factors. The resultant surpluses of plan assets over liabilities were applied against pension funding requirements for 1983 and 1982, and were used to upgrade certain benefits calculated to cost \$9,700,000 in 1981.



HBMS applied to the Department of Insurance for approval to have a portion of the 1982 surplus refunded. Approval for the amount requested was granted in late 1983, and in consequence, the Trustees of the fund repaid HBMS \$2,387,000 in January 1984.

The surpluses in the plans of \$17,200,000, together with accrued pension costs of \$5,700,000 included in accounts payable and accrued liabilities of HBMS, constituted a total surplus of approximately \$22,900,000 at December 31, 1983. Beginning with 1983, this combined surplus is being amortized and reflected as a reduction of pension costs, equally, over a ten year period.

After the amortization of the surplus in 1983, total cost of the plans approximated \$242,000 in 1983; \$2,250,000 in 1982; \$3,000,000 in 1981 including past-service costs of nil in 1983 and 1982 and \$268,000 in 1981.

#### 14. Related Party Information

(refer to Note 2)

- (a) HBMS provides administrative and marketing services in Toronto to certain Inspiration Resources group companies. HBMS also provides administrative services in Toronto to certain Mincan group companies, some of which are joint venture partners with HBMS in certain exploration projects. The applicable costs are shared on a time or activity basis amongst the parties involved without any profit element. Total transactions with Inspiration Resources group for these types of services amounted to \$985,000 during 1983. Accounts receivable included \$2,851,000 at December 31, 1983 due from Inspiration Resources which arose as a result of these services and the reorganization.
- (b) During 1983, HBMS and Mincan equally owned a company, Ambay Services Limited (Ambay), that handled the surplus funds, cash requirements and money market activities of certain related companies, at relevant market rates. As at December 20, 1983, HBMS sold its 50% interest in Ambay to Mincan. The amount which HBMS had on deposit with Ambay fluctuated during the year with the maximum amount being \$10,460,000; 1982 — \$17,337,000; 1981 — \$92,076,000 and the amount at December 31, 1983 was \$113,000; December 31, 1982 — \$5,001,000. HBMS earned interest of

\$235,000 on these deposits in 1983; \$958,000 in 1982; \$7,312,000 in 1981.

From time to time, HBMS and certain subsidiaries have borrowed funds on a demand basis from Ambay. The maximum amount owing at any one time since January 1, 1983 has been \$10,223,000 and the amount owing at December 31, 1983 was nil. The borrowings were made on normal commercial terms at rates comparable with the rates that would have been payable had the borrowings been made from a non-associated lender.

Ambay advances to the Mincan Group fluctuated during the year with the maximum amount being \$8,235,000; 1982 — \$12,173,000; 1981 — \$23,412,000; and the amount at December 31, 1983 was \$219,000; December 31, 1982 — \$700,000.

- (c) HBMS has a two-thirds interest in, and is manager of, a joint venture to operate the Whitehorse Copper mine; Mincan has the remaining one-third interest. HBMS buys all of the concentrate produced by the joint venture at market prices for the metal contained and charges the joint venture for refining and marketing the metal.
- HBMS purchased 14,885 tons of concentrate for \$13,427,000 net of refining and marketing charges in 1983; 19,390 tons for \$16,468,000 in 1982; 26,230 tons for \$32,172,000 in 1981; and received \$1,200,000 as a depreciation charge in 1981 and 1982, and nil in 1983. HBMS' share of earnings (loss) of the joint venture was \$941,000 in 1983; \$(2,299,000) in 1982; \$6,657,000 in 1981. The Whitehorse Copper mine was permanently shutdown effective December 31, 1982. The purchase of concentrate by HBMS was completed during 1983 and the concentrate inventory is now depleted.
- (d) HBMS purchased all of the shares of Plateau Oil Canada Inc. a wholly-owned Canadian subsidiary of Trend Exploration Limited (TEL), a subsidiary of Inspiration Resources, for \$12,000,000 effective September 1, 1983. The assets consisted of working interests in producing oil and gas properties and undeveloped leases primarily located in Alberta, and an interest in an undeveloped coal property in British Columbia. From September 30, 1983 the company has been operated as a division of HBMS with its assets included in property, plant and equipment (Note 6).
- HBMS and TEL have entered into an agreement for TEL to provide certain technical services related to HBMS' oil and gas properties. Charges for services will be at cost as actually incurred by TEL.



## 15. Difference Between Canadian and United States Generally Accepted Accounting Principles

As indicated in Note 1, the financial statements are prepared in accordance with accounting principles generally accepted in Canada. The main difference between Canadian and United States generally accepted accounting principles (U.S. GAAP) which affects the earnings of HBMS is in the translation of foreign currency transactions. Accounting principles in the U.S. require the recognition of unrealized exchange gains and losses on conversion of foreign currency long-term debt because of the use in the U.S. of end-of-period rates of exchange.

A reconciliation of net earnings (loss) as reported with net earnings (loss) determined in accordance with generally accepted accounting principles in the United States is set forth below. The nil adjustment in 1983 resulted from two offsetting amounts of \$550,000, each relating to foreign currency translation of long-term debt.

	1983	1982	1981
	(in thousands)		
Net earnings (loss) as reported	\$ (4,781)	\$22,154	\$ (3,098)
Foreign currency, net of tax provisions	—	(4,047)	4,170
Net earnings (loss) in accordance with generally accepted accounting principles in the U.S.	\$ (4,781)	\$18,107	\$ 1,072

If the tax assessment discussed in Note 7(b) is upheld, the tax and related costs would be charged to current income taxes under U.S. GAAP.

## 16. Geographic Areas

Financial data by geographic areas for the years ended December 31, 1983, 1982 and 1981, are provided below:

	1983	1982	1981
<b>Results of operations for the year:</b>	(in thousands)		
<b>Revenue:</b>			
Canadian operations:			
Canada	\$ 79,121	\$ 69,891	\$109,249
Export — United States	168,923	114,052	146,883
Export — Europe	52,604	66,049	35,556
Net sales	300,648	249,992	291,688
Interest income:			
United States	3,994	—	—
Canada	1,460	6,971	8,126
Other income	1,580	(1,723)	12,873
<b>Total Revenue</b>	<b>\$307,682</b>	<b>\$255,240</b>	<b>\$312,687</b>
<b>Operating Profit (Loss)</b>			
Canada	\$ 2,351	\$ (33,348)	\$ 3,097
General corporate expenses	(10,017)	(7,191)	(5,760)
Interest expense	(9,308)	(8,236)	(4,698)
Income taxes and royalties	12,260	16,701	2,341
<b>Earnings (Loss) from Operations</b>	<b>\$ (4,714)</b>	<b>\$ (32,074)</b>	<b>\$ (5,020)</b>
<b>Financial Position at December 31:</b>			
Current assets	\$161,545	\$112,380	\$125,340
Current liabilities	60,006	71,926	72,417
Working capital	101,539	40,454	52,923
Other assets	277,561	296,361	290,140
Capital employed	379,100	336,815	343,063
Long-term debt	61,441	90,229	64,231
Other liabilities	46,957	57,900	111,450
Net equity	\$270,702	\$188,686	\$167,382
<b>Identifiable Assets:</b>			
United States	\$ 21,044	\$ 36,756	\$ 23,062
Canada	418,062	371,985	392,418
Total identifiable assets	\$439,106	\$408,741	\$415,480
Depreciation, depletion and amortization	\$ 34,408	\$ 24,279	\$ 27,587
Capital expenditures	\$ 26,746	\$ 52,180	\$ 84,985



## Selected Financial Data

	1983	1982	1981	1980	1979
	<i>(in thousands except per share data)</i>				
<b>Financial Position:</b>					
Working capital	\$101,539	\$ 40,454	\$ 52,923	\$110,352	\$ 63,673
Total assets	439,106	408,741	415,480	408,301	338,425
Capital employed	379,100	336,815	343,063	336,579	238,961
Long-term debt	61,441	90,229	64,231	67,636	71,031
Shareholders' investment	270,702	188,686	167,382	193,575	145,368
<b>Earnings:</b>					
Revenues:					
Net sales	\$300,648	\$249,992	\$291,688	\$308,658	\$271,520
Other income	7,034	5,248	20,999	23,528	7,654
Cost and expenses	324,656	304,015	320,048	297,570	253,596
Taxes and royalties	(12,260)	(16,701)	(2,341)	9,197	9,323
Equity earnings (loss)	(67)	(1,280)	1,922	13,445	4,811
Earnings (loss) before extraordinary items	(4,781)	(33,354)	(3,098)	38,864	21,066
Extraordinary items	—	55,508	—	21,195	1,657
Net earnings (loss)	(4,781)	22,154	(3,098)	60,059	22,723
<b>Other:</b>					
Stock dividends declared per share:*					
— special shares	\$ .2747	\$ —	\$ —	\$ —	\$ —
— common shares	.2809	—	—	—	—
Capital expenditures	26,746	52,180	84,985	37,825	37,545
Investment expenditures	(10,238)	1,224	4,008	3,970	25,958

\* Equivalent value per share; see Note 9 (d) to the consolidated financial statements.

Stock dividends declared prior to the reorganization are reflected in the financial statements of Inspiration Resources Corporation.

## Auditors' Report

To the Shareholders of Hudson Bay Mining  
and Smelting Co., Limited:

We have examined the consolidated statement of financial position of Hudson Bay Mining and Smelting Co., Limited as at December 31, 1983 and the related consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The consolidated financial statements for the years ended December 31, 1982 and 1981 were examined by other independent accountants whose report thereon dated July 6, 1983 was unqualified.

In our opinion, the 1983 consolidated financial statements present fairly the financial position of the Company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles consistently applied.

*Price Waterhouse*  
Chartered Accountants

Toronto, Canada  
February 17, 1984



## Selected Quarterly Consolidated Financial Data

(unaudited)

	Quarters ended			
	March 31	June 30	Sept. 30	Dec. 31
<i>(in thousands)</i>				
<b>1983</b>				
Net sales	\$ 70,067	\$ 80,061	\$ 76,448	\$ 74,072
Loss before taxes, royalties and other items	(5,995)	(4,245)	(5,271)	(1,463)
Net earnings (loss)	(3,475)	(857)	(3,920)	3,471
<b>1982</b>				
Net sales	\$ 65,291	\$ 60,561	\$ 51,185	\$ 72,955
Loss before taxes, royalties and other items	(17,504)	(12,471)	(13,944)	(4,856)
Loss before extraordinary item	(10,391)	(10,567)	(9,939)	(2,457)
Net earnings (loss)	(10,391)	(10,567)	(9,939)	53,051
<b>1981</b>				
Net sales	\$ 84,084	\$ 74,467	\$ 69,712	\$ 63,425
Earnings (loss) before taxes, royalties and other items	2,304	5,891	(5,926)	(9,630)
Net earnings (loss)	3,878	6,695	(7,305)	(6,366)

## Cash Dividends Declared and Market Price Ranges *(By Quarters)*

(unaudited)

	Cash Dividends Declared (Cdn)	Market range			
		Toronto Stock Exchange (Principal market, \$ Cdn)		New York Stock Exchange (\$US)	
		High	Low	High	Low
<b>1983</b>					
4th	—	16¼	12⅝	—	—
3rd	—	18⅝	15⅞	—	—
2nd	—	22¼	14½	18½	11¾
1st	—	23¼	16¼	19¼	13½
<b>1982</b>					
4th	—	18¼	13½	14⅞	10⅞
3rd	—	16¾	12¾	13⅝	10¼
2nd	—	18¾	13⅝	15¼	10⅝
1st	10¢(iii)	25	17⅝	20⅞	13¾

The above table summarizes the market price ranges, for the period indicated, of HBMS common shares on the Toronto Stock Exchange and the New York Stock Exchange (Note (i) below), and of the special shares on the Toronto Stock Exchange (Note (ii) below).

- i) On July 6, 1983, all outstanding common shares of HBMS were acquired by Inspiration Resources and were delisted from the Toronto, Montreal and the New York Stock Exchanges.
- ii) On July 6, 1983, the Special Shares commenced trading on the Toronto Stock Exchange.
- iii) See Note 2 to the consolidated financial statements for the treatment of cash dividends paid on HBMS' previously outstanding common shares prior to the reorganization.



## Directors

**R.R. Davis,**  
New York, New York  
Senior Vice-President  
and General Counsel  
Inspiration Resources Corporation

**A.M. Doull,**  
New York, New York  
Senior Vice-President,  
Administration  
Inspiration Resources Corporation

**D.H. Houston,**  
Mississauga, Ontario  
Senior Vice-President —  
Administration  
HBMS

†**J.B. Howkins,**  
Pottersville, New Jersey  
Senior Vice-President, Operations  
Inspiration Resources Corporation

†**A.T. Lambert,**  
Toronto, Ontario  
Chairman of the Board  
HBMS

††**A. Sweatman, Q.C.,**  
Winnipeg, Manitoba  
Partner, Thompson, Dorfman,  
Sweatman  
Barristers and Solicitors

††**C.K. Taylor, Q.C.,**  
Brampton, Ontario  
President and Chief Executive  
Officer  
HBMS

+**J.D. Taylor, Q.C.,**  
Toronto, Ontario  
Company Director

\*Member of Executive Committee

+Member of Audit Committee

†Member of Compensation  
Committee

## Officers

**A.T. Lambert**  
Chairman of the Board

**C.K. Taylor, Q.C.**  
President and Chief Executive  
Officer

**W.K. Callander**  
Senior Vice-President — Operations

**S.R. Horne**  
Senior Vice-President —  
Investments

**D.H. Houston**  
Senior Vice-President —  
Administration

**G.D. Faught**  
Chief Financial Officer,  
Vice-President — Finance  
and Treasurer

**P.L. Martin**  
Vice-President — Exploration

**L.R. Nilsen**  
Vice-President and General  
Manager — Flin Flon/Snow Lake  
Operations

**S.A. Kozel**  
Secretary



## Transfer Agent and Registrar

*(Special Shares and Warrants)*

Montreal Trust Company —  
Montreal, Toronto, Winnipeg  
Regina, Calgary, Vancouver

## Auditors

Price Waterhouse, Toronto

## Form 10-K

Further information concerning HBMS is contained in the Form 10-K annual report of HBMS for the fiscal year ended December 31, 1983 filed with the U.S. Securities and Exchange Commission. A copy of HBMS' form 10-K may be obtained from HBMS by any shareholder, upon request, without charge.

## Head Office

P.O. Box 28, Toronto-Dominion  
Centre  
Toronto, Ontario M5K 1B8  
Cable address: Hudbay, Toronto  
Telephone: (416) 362-2192  
Telex: 065-24472

## Principal Offices

### **Flin Flon/Snow Lake Division**

P.O. Box 1500, Flin Flon, Manitoba  
R8A 1N9

### **Francana Minerals Division**

670 Bank of Canada Building  
Regina, Saskatchewan S4P 0M8

### **Hudson Bay Diecastings Division**

230 Orenda Road, Brampton,  
Ontario L6T 1E9

### **Oil and Gas Division**

P.O. Box 28, Toronto-Dominion  
Centre  
Toronto, Ontario M5K 1B8

### **Zochem Division**

1 Tilbury Court, P.O. Box 1120  
Brampton, Ontario L6V 2L8

### **Hudson Bay Exploration and Development Company Limited**

*(100% owned)*

P.O. Box 28, Toronto-Dominion  
Centre,

Toronto, Ontario M5K 1B8

P.O. Box 1500, Flin Flon, Manitoba  
R8A 1N9

Suite 600, 890 West Pender Street,  
Vancouver, B.C. V6C 1K4

100 - 10 Burns Road, Whitehorse,  
Yukon Y1A 4Y9

### **Tantalum Mining Corporation of Canada Limited**

*(37½% owned)*  
Box 2000, Bernic Lake  
Manitoba R0E 0G0



