

Annual Report

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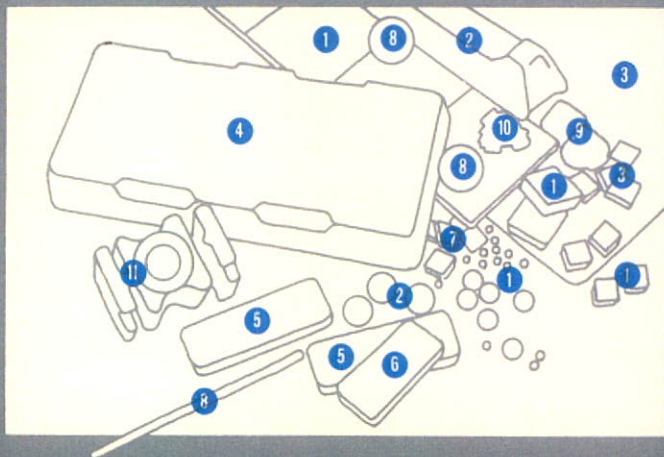


FALCONBRIDGE LIMITED





A view of the Blanket Gold Mine near Gwanda, Zimbabwe. In the foreground is the highly regarded Blanket Security.



Falconbridge products displayed on the cover

- |                |                       |
|----------------|-----------------------|
| 1. Nickel      | 7. Cobalt             |
| 2. Ferronickel | 8. Cadmium            |
| 3. Copper      | 9. Silica             |
| 4. Zinc        | 10. Nepheline Syenite |
| 5. Silver      | 11. Steel Casting     |
| 6. Gold        |                       |

Annual Meeting of Shareholders  
Tuesday, April 21, 1987  
10 a.m.  
Commerce Hall  
Concourse Level  
Commerce Court West  
Toronto, Ontario

*La version française du rapport annuel sera  
fournie sur demande.*

Falconbridge Limited's 1986 Report on Form 10-K is filed with the United States Securities and Exchange Commission and is included in the Corporation's 1986 Annual Information Form filed with provincial and territorial regulatory authorities in Canada. The Annual Information Form will be made available upon written request to the Secretary of the Corporation.

Throughout the Annual Report, references to the Corporation mean the parent company Falconbridge Limited, while references to Falconbridge include the Corporation, its consolidated subsidiaries and significantly influenced companies.

In this Annual Report all dollar amounts are in Canadian currency unless otherwise noted.

A tonne is 2,204.6 pounds.



	1986	1985	1984
Revenues .....	<b>\$1,145,480,000</b>	\$890,247,000	\$733,312,000
Earnings (loss) for the year before extraordinary items ..	<b>(15,518,000)</b>	38,543,000	28,694,000
— per share .....	<b>(0.27)</b>	0.95	0.80
Earnings (loss) for the year .....	<b>70,269,000</b>	38,543,000	80,186,000
— per share .....	<b>1.21</b>	0.95	2.23
Working capital .....	<b>559,217,000</b>	534,105,000	414,661,000
Long-term debt .....	<b>1,203,445,000</b>	283,970,000	283,842,000



#### FALCONBRIDGE LIMITED IS AN INTERNATIONAL RESOURCE CORPORATION

which has been engaged directly and through its subsidiary and associated companies in the exploration, development, mining, processing and marketing of metals and minerals since 1928. Its products include nickel, ferronickel, copper, zinc, cobalt, cadmium, other base metals, silver, gold, platinum group metals, various metal concentrates, industrial minerals, specialty steel castings and sulphuric acid. Falconbridge's base and precious metal production has been enhanced by the acquisition of Kidd Creek in 1986.

The Falconbridge Group of companies, in addition to operations in Canada, Norway, the Dominican Republic and Zimbabwe, includes research laboratories in Canada and Norway, marketing and sales offices on three continents serving Canadian and international markets and exploration offices in Canada and abroad.

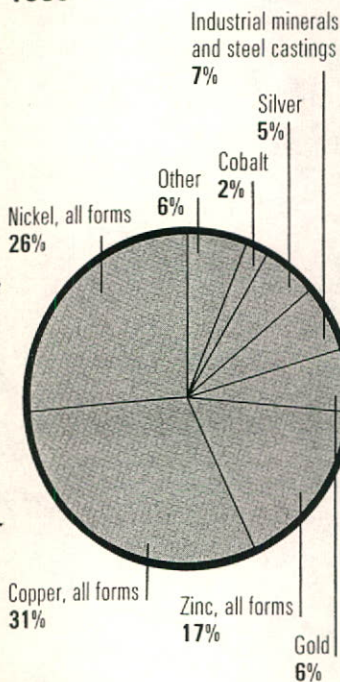
The Corporation is committed to long-term growth through its search for new orebodies, improved methods of mining and metals recovery, the development of new markets and products and the acquisition of compatible assets.

It is also dedicated to meeting its social responsibilities by remaining an economically viable employer, by providing a healthy and safe workplace and by protecting the environment.

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1986



For Falconbridge Limited 1986 was a year of transition and consolidation in which a number of significant corporate strategies and developments were completed under generally adverse market conditions.

The Corporation changed from being predominantly reliant upon nickel for its revenues into a more diversified producer of metal and mineral products. This change has strengthened Falconbridge's strategic position and broadened its opportunities to take advantage of growth in different sectors of the economy. With the cyclical nature of the mining industry, this broader range of products provides better balance against price fluctuations of any specific metal.

Falconbridge's traditional products of nickel and copper tend to do well during periods of heavy capital investment. Zinc, a major product of Kidd Creek, is more closely tied to consumer spending because of its heavy use in domestic appliances, residential construction and automobiles. The current economic recovery has been largely fuelled by consumer spending.

Going hand in hand with product diversification is the development, in recent years, of a more widespread market base. Sales and marketing offices in Toronto, Pittsburgh, Brussels and Tokyo give Falconbridge direct representation in the world's major metal consuming areas. The Corporation is also well represented in other significant market areas through a network of agents and distributors. Falconbridge strives to differentiate its high-quality products by providing its customers with reliable service and outstanding technical support.

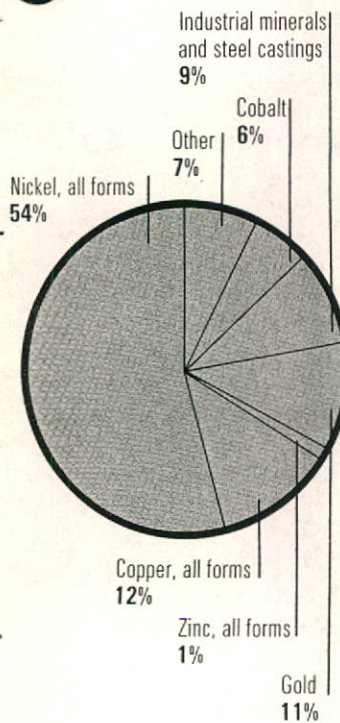
Following the acquisition of Kidd Creek in 1986, which virtually doubled the asset value of the Corporation, a major amalgamation of resources began. The tasks of pulling together a new corporate office, unifying marketing efforts, co-ordinating exploration programs and combining research, development and technological skills were carried out during the year.

To assist in financing the Kidd Creek purchase and to strengthen its financial position, the Corporation issued common shares and sold several assets. In February, it sold 6.6 million common shares for \$137 million and in December sold 1.5 million common shares with share purchase tax credits for total proceeds of \$34.1 million. In February 1987, the Corporation received \$65 million from the exercise of share purchase warrants for the issue of approximately five million common shares.

In January 1986, Falconbridge sold its 56.7 per cent equity interest in Kiena Gold Mines Limited for \$86.6 million. In August, Falconbridge sold its 19.2 per cent equity interest in Giant Yellowknife Mines Limited and its 36.7 per cent equity interest in Akaitcho Yellowknife Gold Mines Limited for \$16.9 million and its 49.6 per cent equity interest in Corporation Falconbridge Copper (CFC) for \$120 million. The sale of Falconbridge's 49 per cent equity interest in Western Platinum Limited of South Africa for U.S. \$75 million was completed in February 1987.

The acquisition of Kidd Creek has meant higher revenues from copper, zinc, gold and silver which have already more than compensated for revenues foregone through the Corporation's divestments.

Falconbridge is now concentrating its efforts and activities on four core business units: Integrated Nickel Operations, which is the Western World's second largest producer of nickel; Kidd Creek, a fully integrated copper-zinc and precious metals producer; Falconbridge Dominicana, C. por A., a major ferronickel producer; and Indusmin Division, which is a market leader in the production of industrial minerals and a producer of specialty steel castings.



These charts reflect the changes in the impact of various Falconbridge products on its results.



Three of these core groups are base metal producers while Indusmin mines and processes the industrial minerals, silica, nepheline syenite and feldspar, used in the glass, ceramics, paint and plastics industries, and manufactures steel castings used in a variety of industries.

Indusmin Division, by the nature of its operations, provides Falconbridge with a window on the markets for advanced industrial materials such as new ceramics and composites. Indusmin is pursuing the possibility of new business opportunities in these fields as part of its plan to seek new markets in areas which are extensions of its current activities.

Turning to the financial results for 1986, for the first half of the year Falconbridge Limited had a consolidated loss of \$27.2 million, before extraordinary items. For the second half of the year, however, the Corporation had earnings of \$11.7 million, before extraordinary items.

The net result was a consolidated loss of \$15.5 million, or 27 cents per share, before extraordinary items. This compares with earnings of \$38.5 million, or 95 cents per share, for 1985.

When extraordinary items relating to the sale of investments are included, Falconbridge had consolidated earnings of \$70.3 million, or \$1.21 per share in 1986. There were no extraordinary items in 1985.

Revenues for 1986 increased to \$1.1 billion from \$890 million the year earlier, largely as a result of the inclusion of Kidd Creek.

Consolidated exploration expenditures in 1986 were \$27.1 million, compared with \$34.4 million in 1985. Several exploration programs are underway to expand ore reserves at operations and find new orebodies close to existing metallurgical facilities.

During 1986, net capital expenditures were \$71 million at Sudbury Operations, \$35 million by Kidd Creek at Timmins and \$40 million at the Refinery in Kristiansand, Norway. These expenditures are designed to increase productivity, to expand product scope and quality and to improve safety while strengthening the foundation for growth in the future.

While Falconbridge's consolidated long-term debt increased following the acquisition of Kidd Creek, the Board considers the debt of \$1.2 billion to be manageable. Partially offsetting the debt was cash on hand of \$282 million at the end of 1986. Falconbridge has a debt-to-equity ratio of 50:50, or 43:57 when that cash on hand is applied against the debt.

Through 1986, Falconbridge took a number of actions to streamline its operations, avoid duplication of duties and combat poor metals markets.

At the Corporate Office in Toronto the combined staff of Falconbridge and Kidd Creek was reduced from 230 to 157. There were also significant staff reductions in both Sudbury and Timmins during 1986. Plans were announced for production shutdowns at Sudbury from December 24, 1986 through January 4, 1987 and for the months of July and August 1987. At the same time, Falconbridge Nikkelverk announced a scheduled shutdown of refinery operations for one month during the summer of 1987.

Labour disputes caused some production stoppages at various Falconbridge operations during 1986. A nationwide lockout in Norway shut down the Refinery for about a week in April while a strike at Sudbury by Office, Clerical and Technical employees lasted five days and a month-long strike at Falconbridge Dominicana during April led to a disruption of ferronickel production.



In October 1986, Canada Development Corporation (CDC) sold 10,473,567 common shares of Falconbridge Limited, which CDC received as part of the consideration for the sale of Kidd Creek. The sale is part of CDC's commitment to reduce its ownership position in Falconbridge Limited over a period of time. Currently, CDC remains a significant investor in the Corporation through its holding of \$271 million of 8.5 per cent convertible debentures.

During 1986, a number of changes took place in corporate management. John F. Gillies, formerly Vice-President Controller and Chief Financial Officer, was appointed Vice-President Marketing and Sales, replacing L. George Bonar. Oyvind Hushovd, formerly Controller at Falconbridge Nikkelverk Aktieselskap, was appointed Controller and Chief Financial Officer of Falconbridge Limited. Lionel C. Kilburn, Vice-President Exploration, Development and Precious Metals Operations, retired and Michael J. Knuckey, formerly Vice-President Exploration of CFC, was appointed Vice-President Exploration of Falconbridge Limited. Brian A. Ferguson, formerly President and Chief Operating Officer of CFC, was named Director of Mining of Falconbridge Limited.

Effective December 31, 1986, Brian M. King, Senior Vice-President of CDC resigned from the Board of Directors. On February 2, 1987, Bernard F. Isautier, President and Chief Operating Officer of CDC, was appointed by the Board to fill the vacancy.

The Board regretfully notes the death in January 1987 of Valentine N. Stock, Chairman and Chief Executive Officer, Canada Packers Inc., a member of the Board since 1985, and recognizes his contributions to the Corporation. On February 20, 1987, Allen T. Lambert, Q.C. was appointed by the Board to fill this vacancy.

The Board appreciates the efforts of all employees. The past year was extremely difficult for the base metals industry and Falconbridge completed a number of adjustments to deal with the changing business environment. Through the hard work and dedication of its workforce, Falconbridge believes it is on a good footing for the future.

On behalf of the Board of Directors,



William James  
*Chairman of the Board,  
President and Chief Executive Officer*

Toronto, February 20, 1987



## NICKEL

Nickel prices deteriorated during 1986 as the year progressed. The London Metal Exchange (LME) price peaked on January 6, 1986, at U.S. \$1.98 per pound and hit a low of U.S. \$1.58 per pound on December 29, 1986. For 1986 as a whole, the LME cash price for nickel averaged U.S. \$1.76 per pound, compared with U.S. \$2.26 per pound in 1985. This price slide took place largely because of an oversupply of nickel which was exacerbated by a near doubling in net exports from Socialist countries to about 67,000 tonnes from 37,000 tonnes in 1985. In 1986, the People's Republic of China emerged as a nickel exporter.

This increase in supply overrode the strong business activity in most nickel consuming industries. Supported by a reduction in the use of scrap by most stainless steel producers and the high level of stainless steel output, Western World nickel consumption during 1986 was approximately 560,000 tonnes, roughly the same level as in 1985.

Nickel production in the Western World during 1986 decreased to 508,000 tonnes from 521,000 tonnes the previous year. This decline came about as a result of labour disputes at a number of nickel producers, production problems and the shutdown of some operations due to low prices.

LME nickel inventories increased to 7,400 tonnes at the end of 1986 from 6,400 tonnes at the end of 1985. Nickel stocks held by Western World producers at the end of 1986 were marginally higher at 113,000 tonnes than at the previous year end.

## COPPER

Western World copper markets suffered from the low level of investments by capital intensive industries. For example, about 60 per cent of copper goes into the generation and transmission of electricity and with few new additions in generating capacity and with the substitution of other materials over recent years, copper prices have been adversely affected.

For 1986 as a whole, the LME Higher Grade copper cash price averaged U.S. \$0.62 per pound, compared with U.S. \$0.65 in 1985.

Western World refined copper consumption in 1986 was about 7.4 million tonnes, approximately the same as the previous year. In 1986, refined copper production in the Western World was about 7.4 million tonnes, an increase of 1 per cent over 1985 levels. Trade with Socialist countries resulted in additional shipments of 36,000 tonnes in 1986.

Total refined copper inventories at year end remained at about one million tonnes, or a nine-week supply which is regarded as an adequate level under current market conditions.

## ZINC

Zinc was a relatively good performer among base metals during 1986 with consumer spending at a healthy level. The connection between zinc consumption and consumer spending is strong because substantial quantities of zinc are used in household construction, automobile production and domestic electrical appliances and equipment.

The strength of consumer spending in 1986 helped push Western World zinc consumption up 4 per cent from 1985 to 4.9 million tonnes. The Western World zinc supply situation changed markedly over the course of 1986. There was a surplus of zinc when the year began, however, major labour disruptions turned the surplus into a deficit as the year progressed causing supply problems, particularly in North America. In 1986, zinc production decreased 3 per cent from the 1985 output level to 4.8 million tonnes. As a result, inventories fell and 1986 year end combined producer and LME zinc stocks were about 50,000 tonnes less than at the end of 1985.

For 1986 as a whole, the average zinc price in North America was U.S. \$0.38 per pound, and on the LME it was U.S. \$0.34 per pound, compared with U.S. \$0.40 per pound in North America and U.S. \$0.36 on the LME in 1985. The European producer price for zinc averaged U.S. \$795 per tonne in 1986, compared with U.S. \$837 per tonne the previous year.



## COBALT

Western World cobalt consumption increased in 1986 to about 19,000 tonnes from 16,100 tonnes in 1985. However, cobalt production in 1986 increased to 26,000 tonnes, up 17 per cent from 1985.

By the end of December 1986, cobalt stocks held by producers had increased by approximately 2,900 tonnes to 19,000 tonnes or roughly one year of consumption.

Cobalt prices deteriorated drastically during 1986 as African producers tried to increase their market share. Dealer prices fell from the U.S. \$11 per pound range at the beginning of the year to a low of less than U.S. \$4 per pound in August. In late October, the major African producers announced a new producer list price of U.S. \$7 per pound and free market levels recovered accordingly. The average dealer cobalt price for 1986 was U.S. \$7.20 per pound, compared with U.S. \$11.40 per pound in 1985.

## PRECIOUS METALS

Political tensions in South Africa and the purchase of more than seven million ounces of gold by Japan to produce a commemorative coin contributed to generally improved precious metals markets in 1986.

Gold, which traded in a range from U.S. \$326 per ounce to U.S. \$443 per ounce during 1986, had an average price of U.S. \$368 per ounce, up from U.S. \$317 per ounce in 1985.

Platinum traded over a broad price range in 1986 from U.S. \$341 per ounce to U.S. \$678 per ounce. The average price was U.S. \$466 per ounce, compared with U.S. \$293 per ounce in 1985.

In continuing to display more characteristics of an industrial than of a precious metal, silver traded in a narrow range from U.S. \$4.87 per ounce to U.S. \$6.20 per ounce. During 1986, excess supply continued to hang over the market and the average price for silver was U.S. \$5.47 per ounce, down from U.S. \$6.14 per ounce in 1985.

### Average Metal Prices Received by the Falconbridge Group

Metal	Pricing Unit	1986	1985	1984
Refined nickel . . . . .	pound	<b>U.S. \$1.96</b>	U.S. \$2.31	U.S. \$2.35
Ferronickel . . . . .	pound	<b>1.85</b>	2.25	2.27
Copper . . . . .	pound	<b>0.63</b>	0.65	0.61
Zinc . . . . .	pound	<b>0.34</b>	—	—
Zinc concentrate . . . . .	tonne	<b>221</b>	—	—
Cobalt . . . . .	pound	<b>7.26</b>	11.42	10.02
Gold . . . . .	ounce	<b>358</b>	317	359
Silver . . . . .	ounce	<b>5.46</b>	6.14	7.71
Platinum . . . . .	ounce	<b>438</b>	283	344
Exchange rate (U.S. \$1 = Cdn. \$)* . . . . .		<b>1.39</b>	1.37	1.30

\*Based on the average of the exchange rates on the last day of each month during the year.



## INTEGRATED NICKEL OPERATIONS

The various operations of the Integrated Nickel Operations (INO) are interdependent. Included in the INO are Sudbury Operations, the Refinery in Kristiansand, Norway, the custom feed business and the Marketing and Sales Group.

(000s of dollars)	1986	1985	1984
Revenues .....	400,826	531,497	393,478
Operating contribution .....	15,826	62,795	79,994

## SUDBURY OPERATIONS

### Operating Review

Throughout 1986 the East, Lockerby, Onaping, Fraser and Strathcona Mines and the Falconbridge Open Pit were in commercial production. Also, in operation throughout the year were the Falconbridge and Strathcona Mills and the Smelter.

Approximately 2.8 million tonnes of ore were delivered to treatment plants from operating mines; compared with 2.9 million tonnes in 1985. Nickel production at the Smelter, located in Falconbridge, Ontario, declined to 31,100 tonnes in 1986 from 31,400 tonnes the previous year. Copper production, including metal in concentrate, was 33,000 tonnes in 1986, compared with 26,800 tonnes in 1985, while cobalt production was 1,050 tonnes, compared with 990 tonnes.

### Capital Program

In 1986, mine development and preproduction expenditures increased to \$48.2 million, from \$44 million the previous year. Net expenditures on property, plant and equipment were \$22.3 million, compared with \$22.8 million in 1985. During this period of severely depressed nickel prices, the Corporation continued to make substantial expenditures on developing ore reserves, reducing operating costs and improving productivity and safety. Some of these major projects include the deepening of the Strathcona No. 1 shaft, the further development of the Craig orebody and the ongoing development of the Lockerby, Fraser and Onaping Mines.

### Labour Relations

A new collective agreement reached with Local 6855 of the United Steelworkers of America, representing the Office, Clerical and Technical employees, is in effect until March 1, 1989. The agreement was achieved following a five-day strike in May. The collective agreement with Production and Maintenance workers represented by Local 598 of the Mine, Mill and Smelter Workers' Union is in effect until August 21, 1988.

### Personnel

In October, the Corporation announced a reduction of approximately 275 jobs and production shutdowns from December 24, 1986 to January 4, 1987 and for the months of July and August 1987. A Special Early Retirement Incentive was offered to eligible employees in the Production and Maintenance group and the Office, Clerical and Technical group in an effort to lessen the impact of the manpower reduction. A total of 187 employees accepted the early retirement incentive package and there was a layoff of 88 employees.

At year end, the number of employees was 2,273, compared with 2,602 at the end of 1985.

### Occupational Health and Safety

Despite the ongoing emphasis on safety, total medical aid frequency in 1986 increased to 16 per 200,000 man hours from the record low of 12 the previous year.

Production of metals (tonnes)	1986	1985	1984
Nickel .....	31,100	31,400	32,200
Copper .....	33,000	26,800	32,100
Cobalt .....	1,050	990	810

Capital Expenditures (000s of dollars)	1986	1985	1984
Property, plant and equipment, net .....	22,329	22,790	11,235
Development and pre-production .....	48,228	43,976	30,413



The new injury management strategies introduced in 1984 cut the compensable accident frequency by more than half in 1985 compared with 1984. However, the compensable accident frequency increased to 4.7 per 200,000 man hours in 1986 from 4.5 the year earlier. Steps are being taken to reverse this rise in accident frequency.

### Ore Reserves

At year end, proven and probable ore reserves were estimated at 52.2 million tonnes, with an average grade of 1.5 per cent nickel and 1.14 per cent copper. This compares with proven and probable ore reserves of 57.7 million tonnes with an average grade of 1.52 per cent nickel and 1.13 per cent copper at the end of 1985. At current operating rates, reserves are equivalent to about 19 years production.

During 1986, the production of electrolytic nickel at the Refinery reached 38,200 tonnes, compared with 37,500 tonnes in 1985.

Copper output decreased to 30,500 tonnes from 31,100 tonnes while cobalt production for 1986 was 1,580 tonnes, compared with 1,640 tonnes the previous year. The Refinery also produced gold, silver and platinum group metals.

During April 1986, production was halted for a week at the Refinery due to a nationwide lockout declared by the Employers Association of Norway, of which the wholly owned subsidiary Falconbridge Nikkelverk is a member.

Due to continued low prices and world oversupply of nickel, a production shutdown of Refinery operations for one month during the summer of 1987 is planned.

The expansion program designed to accommodate matte delivered under the agreement with BCL Limited is scheduled to be completed during the third quarter of 1987. The agreement, which extends to the turn of the century, provides for the annual treatment by the Refinery of about 42,000 tonnes of BCL matte containing 36 per cent nickel and 41 per cent copper and the purchase of accountable metals derived from that matte. The expansion program includes the construction of a sulphuric acid plant, which will produce a marketable product, to replace the liquid sulphur dioxide plant now in use.

Kidd Creek was acquired by Falconbridge Limited in 1986 for \$615 million.

With its operations in Timmins, Kidd Creek is a fully integrated mining and processing enterprise producing copper, zinc, silver, cadmium, gold and sulphuric acid. Kidd Creek's metallurgical facilities are connected to the minesite, 30 kilometres away, by a company-operated railroad. Gold is produced from two properties, Owl Creek and Hoyle Pond, near the metallurgical complex.

### Operating Review

From the Kidd Creek orebody 4.5 million tonnes of ore, the same as in 1985, were delivered to the metallurgical facilities.

Copper metal production, including tolled material, during 1986 was 102,100 tonnes, compared with 116,000 tonnes the previous year. There were 2,691 tonnes of copper in concentrate produced for sale in 1986, compared with 3,801 tonnes in 1985.

Zinc metal production increased to 133,505 tonnes in 1986 from 127,740 tonnes in 1985. There were 76,479 tonnes of zinc concentrate produced for sale in 1986, compared with 165,285 tonnes the previous year.

## FALCONBRIDGE NIKKELVERK AKTIESELSKAP

Production of Metals (tonnes)*			
	1986	1985	1984
Nickel . . . . .	38,200	37,500	35,500
Copper . . . . .	30,500	31,100	30,300
Gold . . . . .	1,580	1,640	1,190

\*Includes custom refined metals.

## KIDD CREEK

(000s of dollars)	1986
Revenues . . . . .	483,058
Operating contribution . . . . .	71,226
Capital expenditures	
— Property, plant and equipment, net . . . . .	30,827
— Development . . . . .	4,493



During 1986, silver production was 6.3 million ounces, compared with 9.4 million ounces the previous year.

The combined production of gold from Hoyle Pond and Owl Creek increased 48 per cent to 62,800 ounces from 42,400 ounces in 1985.

### *Capital Program*

Net capital expenditures decreased in 1986 to \$35.3 million, compared with \$53.7 million in 1985. These expenditures are lower because of work already accomplished on particular stages of the copper smelter and refinery and zinc plant expansion programs started in 1984. These include the second phase in the copper smelter and refinery expansion to 90,000 tonnes of copper per year from 59,000 tonnes per year, which was completed, and the near completion of the zinc plant capacity expansion to 136,000 tonnes per year, from 105,000 tonnes in 1982.

### *Personnel*

In May 1986, a rationalization of the workforce resulted in a reduction of employment levels by approximately 269. Also, the practice of hiring temporary and contract workers has been curtailed.

At the end of 1986, there were 2,453 employees in Timmins, compared with 2,700 at the end of 1985.

### *Occupational Health and Safety*

Kidd Creek has an enviable safety record. In April 1986, it was presented the National Ryan Award for 1985, in recognition of the best safety record among metalliferous mines in the country. That is the ninth time in the past 11 years Kidd Creek has been awarded that trophy.

The loss time injury frequency for 1986, which was below the average of the Ontario mining industry, was 2.0 per 200,000 man hours, compared with 0.9 per 200,000 man hours in 1985. Ongoing efforts are being taken to improve Kidd Creek's safety record.

### *Ore Reserves*

At December 31, 1986, proven and probable ore reserves at Kidd Creek were estimated to be 57.9 million tonnes, with an average grade of 3.21 per cent copper, 5.15 per cent zinc, 0.16 per cent lead and 66 grams of silver per tonne. This compared with reserves of 61.4 million tonnes with an average grade of 3.18 per cent copper, 5.16 per cent zinc, 0.18 per cent lead and 69 grams of silver per tonne at the end of 1985. Reserves are equivalent to 20 years of production at currently planned operating rates.

Deep diamond drilling has increased ore reserves between the 4000 and 5000 levels and there are indications the mineralization continues to the 7000 level.

At the Owl Creek Mine, proven and probable ore reserves at December 31, 1986 were estimated at 609,000 tonnes with a grade of 4.5 grams of gold per tonne. This compared with 651,000 tonnes with an average grade of 4.1 grams of gold per tonne at the beginning of the year. Current reserves are sufficient to sustain production of the open pit operation for four years.

At the Hoyle Pond Mine, proven and probable reserves at December 31, 1986, were estimated to be 473,000 tonnes with an average grade of 22.3 grams of gold per tonne. This compared with reserves of 200,000 tonnes with a grade of 15 grams of gold per tonne at the beginning of the year. Reserves represent more than four years of operation at current production rates.

Production of Metals	
(tonnes)	1986
Copper metal .....	102,100
Copper in concentrate produced for sale .....	2,691
Zinc metal .....	133,505
Zinc concentrates produced for sale .....	76,479
Silver* (000 ounces) .....	6,300
Gold (000 ounces) .....	63

\*Including silver in silver/lead concentrates and in other products.



## MARKETING AND SALES

<b>Consolidated metal sales (tonnes)</b>	<b>1986</b>	<b>1985</b>	<b>1984</b>
Refined nickel in all forms .	<b>41,321</b>	54,600	39,421
Ferronickel . .	<b>23,522</b>	23,673	23,737
*Zinc metal . .	<b>137,359</b>	9,007	10,753
Zinc concentrate	<b>75,087</b>	—	—
Refined copper . . .	<b>155,429</b>	32,766	36,740
Copper in concentrate	<b>12,933</b>	20,352	20,947
Cobalt . . . . .	<b>1,737</b>	1,729	1,244
Gold (000s ounces) . .	<b>144</b>	184	142
**Silver (000s ounces) . .	<b>6,271</b>	482	685

\*Includes zinc in concentrate sold by CFC.

\*\*Excludes Kidd Creek's silver in silver/lead concentrates and other products.

Following the Corporation's acquisition of Kidd Creek, an amalgamation was carried out of the marketing and sales staff of both organizations. This resulted in the closure of the Kidd Creek office in London, England and the reduction of some staff to avoid duplication of duties.

This group is responsible for the marketing and sales of all Falconbridge products. The variety of metals and minerals offered to customers has been greatly expanded through the inclusion of Kidd Creek. The products sold during 1986 include electrolytic nickel, ferronickel, electrolytic copper, copper concentrates, refined zinc, zinc alloys, zinc concentrates, cobalt, gold, silver, platinum group metals, cadmium, lead concentrates and sulphuric acid.

The Marketing and Sales department is also responsible for the acquisition of material for custom and toll treatment and acts as sales agent for toll and custom refined metals.

Falconbridge sales of nickel products in 1986, including nickel contained in ferronickel, were 64,843 tonnes, compared with 78,273 tonnes in 1985. Deliveries of refined copper increased to 155,429 tonnes from 32,766 tonnes in 1985, predominantly because of the capacity gained through the Kidd Creek acquisition. Zinc sales from Kidd Creek were 135,021 tonnes of metal and 75,087 tonnes of concentrate. Cobalt sales were 1,737 tonnes in 1986, compared with 1,729 tonnes in 1985.

Among precious metals, gold sales in 1986 were 144,000 ounces, compared with 184,000 ounces in 1985 while silver sales increased to 6,271,000 ounces from 482,000 ounces, primarily because of the acquisition of Kidd Creek.



## EXPLORATION

During 1986, consolidated exploration expenditures were \$27.1 million, compared with \$34.4 million the previous year.

Following the acquisition of Kidd Creek, the exploration departments of Falconbridge and Kidd Creek were reorganized resulting in an overall reduction of the combined staffs.

Exploration offices are maintained from coast to coast across Canada in Vancouver, Winnipeg, Sudbury, Timmins, Quebec City and Windsor, Nova Scotia. Outside Canada, Falconbridge carries out limited exploration programs from offices in the Dominican Republic, Botswana and Zimbabwe. In 1986, Falconbridge ended its exploration activities in South Africa.

A main goal of Falconbridge's exploration strategy is to find new reserves close to the metallurgical facilities at core operations in Sudbury and Timmins and in the Dominican Republic. There are also exploration programs, at an appropriate scale, to provide opportunities for product and geographic diversification, primarily in Canada.

In Ontario, surface and underground exploration for nickel, copper and platinum group metals continues in the Lockerby, Lindsley, Onaping and Fraser areas of the Sudbury Basin.

In the Timmins area, underground diamond drilling to explore for extensions of Kidd Creek's copper-zinc orebody to depth was encouraging. Also, surface exploration within 30 kilometres of the Kidd Creek minesite located a number of target areas with potential for the discovery of base metal deposits.

Exploration in the Hoyle-Matheson Gold Belt east of Timmins found gold mineralization on a property near Kidd Creek's Owl Creek Mine. A junior exploration company will earn a 35 per cent interest in the property by incurring expenditures of \$1.4 million.

Elsewhere in Ontario, ongoing regional exploration programs located a number of properties with gold potential in the Oba area of northeastern Ontario and the Atikokan area of northwestern Ontario. Evaluation programs ranging from geophysical and geochemical surveys to diamond drilling will continue in 1987.

In Manitoba, properties are being re-examined for potential platinum mineralization.

In British Columbia, properties on Vancouver Island are being explored for polymetallic massive sulphide deposits. Several targets were located during the year and a major diamond drilling program is planned for 1987.

In Quebec, the main emphasis was placed on surface and underground exploration, carried out on a joint-venture basis, of the Callahan and adjoining properties in the Val d'Or area. The extensive underground program of drifting, sampling and diamond drilling failed to establish continuity of values between ore-grade intersections indicated by surface drill holes in the Callahan No. 4 zone. The underground workings of this exploration project were allowed to flood and surface facilities were put on a care-and-maintenance basis. However, surface exploration will continue in 1987.

New Quebec Raglan Mines Limited, 73.8 per cent owned by the Corporation, indirectly holds mining claims covering 200 square kilometres in the Ungava region of northern Quebec. There was no exploration activity carried out on these claims during 1986. Further development of the property continues to depend on improved prices and markets for nickel as well as the provision of the necessary infrastructure at an acceptable cost.



Also, in the Ungava region, Falconbridge obtained an exploration permit covering 333 square kilometres. Geochemical and geophysical surveys were conducted to locate and investigate platinum mineralization in that area. A junior exploration company has the right to acquire a 40 per cent interest in the exploration permit by incurring expenditures of \$1.75 million on the property.

In Botswana, exploration for diamonds continued through a joint venture funded by DeBeers Consolidated Mines Limited. In northern Botswana, a small-scale underground program was initiated to evaluate gold mineralization through a joint venture.

In Zimbabwe, modest exploration programs were continued near Falconbridge's two operating gold mines, Blanket and Golden Kopje, and at the Three Cheers prospect.

## **COST-MANAGEMENT PROGRAM**

Falconbridge has been progressively implementing a comprehensive cost-management strategy for a number of years as part of an overall effort to improve its competitive position. While providing immediate cost savings, this strategy is designed to build the base for Falconbridge to remain a low-cost and reliable producer of metals and minerals.

This strategy has three thrusts: All employees are encouraged to be innovative and generate cost-saving and revenue generating projects; innovative mining, metallurgical and information technologies are being adopted to improve productivity; and major capital investments are being made for the future.

The short-term results of these efforts are positive. Productivity has improved by more than 50 per cent in some operations during the last four years as Falconbridge employees have responded favourably to this participatory cost-management approach and substantial cost savings have been generated throughout Falconbridge's operations.

## **RESEARCH AND DEVELOPMENT**

In 1986, net research and process development expenditures increased to \$5 million from \$4.6 million in 1985.

Falconbridge has separate departments of metallurgical technology and mining technology with multi-disciplined capabilities encompassing all phases from research and development to engineering and construction.

Metallurgical research and development activities were primarily directed towards improving existing processes, studying methods for reducing sulphur dioxide emissions and developing methods to derive additional income from treatment of greater quantities of secondary materials.

At the Strathcona Mill studies continued into methods of improving the separation of pentlandite, which has a higher nickel content, from pyrrhotite with the dual objectives of reducing the quantity of sulphur being fed to the Smelter and increasing the profitability of the operations.

Development of a converter slag cleaning process was completed and commercial operation began early in 1986 with the result that cobalt recoveries in the Smelter at Sudbury have been significantly improved. This process was invented by Falconbridge research engineers with the goal of reducing sulphur dioxide emissions without losing additional metals during the converting stage. The slag cleaning technology was then further utilized to significantly reduce the iron content of the nickel-copper matte without major losses of cobalt, resulting in reduced operating costs at the Refinery in Norway.



At the Refinery, the autoclave process for reducing the nickel content of the feed to the copper refining section was placed in commercial production after several years of development. The process will reduce operating costs and simplify operations. Production of two new nickel plating grade products -- Microcrowns and D Microcrowns -- was commenced during the year.

The activities of the mining technology group were expanded during the year. Major initiatives have been undertaken in the research and application of new mining technology with the objective of realizing substantial productivity improvements in cut and fill stoping and mine development.

The Onaping Mine is being used as a test facility for this purpose. Key activities include the introduction of new equipment for scaling and installing various forms of ground support, increased mechanization of ore drilling, loading and haulage operations and more effective organization of mining activities.

Improved mine design and ground control measures are being implemented in all mines using advanced computer models that are being continually enhanced and updated. Methods of automation of many of the mine service functions are under study. The effectiveness and productivity of personnel are being improved by the introduction of mine-wide computerized communication systems.

Falconbridge is participating with provincial and federal government agencies in studies into rockburst phenomena and the development of improved backfill technology required for the mining of deeper ore bodies.

The Corporation also conducts longer range mine research projects through its membership in HDRK Mining Research Limited. These projects include hydraulic hoisting, continuous rock breaking and slot cutting, loose detection and mechanized scaling.

Falconbridge is an active participant in the initiatives for a more active and co-ordinated mining industry research effort through the recently formed National Technology Board of the Mining Association of Canada and the Ontario Mining Research Directorate.



## ENVIRONMENTAL CONTROL

The Corporation continued its research efforts on the reduction of sulphur dioxide emissions from its Smelter in the Sudbury area. The quantity of sulphur dioxide emitted in 1986 was well within the allowable limit.

An Order-in-Council issued by the government of Ontario requires the Corporation to reduce emissions of sulphur dioxide from the present allowable level of 154,395 tonnes per year to 100,000 tonnes per year, effective January 1, 1994, and to investigate methods of further reductions. Semi-annual reports describing the progress of research are required and the first two of these have been issued.

The Corporation's objective is to meet this new limit without reducing production and without becoming involved in major expenditures to revise a Smelter which was commissioned in 1978 to meet government emission standards at that time. A total of 28 options were evaluated before arriving at three projects for further investigation. All or part of the technology derived from these projects will be required to meet the lower emission regulations without reducing production. Each of these projects is being funded up to a maximum of 40 per cent of its cost through grants from the federal government's Department of Regional Industrial Expansion (DRIE).

The first project, which has been successfully completed, is the converter slag cleaning process. Successful completion of this project was essential to permit increased roasting and subsequent fixation of sulphur dioxide as sulphuric acid without experiencing increased metal losses.

The second project involves improving pyrrhotite rejection while minimizing the nickel losses which are usually associated with this operation.

The third project centres on determining methods for increasing the degree of roast which will allow more sulphur dioxide to be directed to the acid plant and recovered as sulphuric acid. At the present time, elimination of up to 60 per cent of the sulphur in the concentrate fed to the Smelter can be accomplished without any significant metallurgical or operating problems. Difficulties have been encountered, however, at higher degrees of roast and the objective of the test work is to solve these problems.

The three projects are forecast to cost a maximum of \$15.2 million of which a maximum of \$6.2 million can be recovered through DRIE grants. It is the Corporation's intention to successfully complete these projects without expenditure of the maximum estimated amounts.

The Corporation was also required to comply with an Amended Control Order by studying and implementing a functional comprehensive supplementary emission control system for ground level concentrations of sulphur dioxide. The final report was submitted in October 1986 and the Corporation believes it is complying with the requirements of the Order.

Improvements in water quality objectives are being obtained throughout various treatment installations in the Sudbury area. Although current effluents are within the government guidelines 95 per cent of the time, new proposed regulations may require the upgrading of some older facilities.

At Kidd Creek's modern and environmentally sound metallurgical complex in Timmins, the copper smelter captures 99.6 per cent of sulphur gases and at the zinc plant 98 per cent of sulphur dioxide released during production is captured.



## INDUSMIN DIVISION

<i>(000s of dollars)</i>	1986	1985	1984
Revenues . .	<b>67,038</b>	60,780	65,788
Earnings . . .	<b>6,805</b>	3,171	6,350

Indusmin produces industrial minerals and manufactures steel castings. Silica and nepheline syenite are produced from five open-pit mines and plants in Ontario and Quebec, while a wholly owned subsidiary in the United States at Spruce Pine, North Carolina, processes feldspar, mica and silica. Indusmin's Fahramet operation manufactures a broad range of specialty steel castings at its facilities in Orillia, Ontario.

Revenues for 1986 increased to \$67 million from \$61 million in 1985. Earnings for 1986 were \$6.8 million, compared with \$3.2 million the previous year. This was the result of stronger sales from Fahramet, growth in feldspar sales, the first full year of operations for the Blue Mountain nepheline syenite operation, acquired in June 1985, and the unification of Fahramet's operating facilities.

Capital expenditures increased to \$4.2 million from \$3.5 million in 1985. The installation of a new crushing circuit at the St. Canut silica processing plant in Quebec and the addition of a fourth fine-grinding unit at Spruce Pine were the main items. Both projects are scheduled to be completed in the first half of 1987.

At the end of 1986, Indusmin had 625 employees in Canada and 48 employees in the United States.

## FALCONBRIDGE DOMINICANA, C. POR A.

Stock issued: 3,000,000 shares  
Falconbridge Limited's ownership:  
2,031,950 shares, or 67.7% at December 31, 1986

Falconbridge Dominicana produces ferronickel at its fully integrated mining and processing complex in the Dominican Republic.

In 1986, the company had a net loss of U.S. \$2.2 million, compared with a net loss of U.S. \$10.5 million in 1985.

The scheduled maintenance shutdown during January and the strike by hourly paid workers in April contributed to losses during the first four months of 1986. During the last eight months of the year, however, positive results were achieved largely because of a significantly lower price for crude oil, which is a major component of the company's operating costs, and increasingly efficient operations.

The sales price per pound of nickel contained in ferronickel averaged U.S. \$1.81, compared with U.S. \$2.19 in 1985 and U.S. \$2.28 in 1984.

Shipments of nickel contained in ferronickel in 1986 totalled 21,989 tonnes, compared with 25,802 tonnes the previous year.

Total debt at December 31, 1986, was U.S. \$216.2 million, including subordinated advances and accrued interest from the project sponsors of U.S. \$179.5 million and U.S. \$7.7 million of long-term debt which matures in 1987 and is shown as a current liability. In December 1986, a repayment of U.S. \$5.1 million in principal and interest was made to the project sponsors.

At the end of the year, the company had 1,307 employees, compared with 1,219 at the end of 1985. All employees are citizens of the Dominican Republic except for 12 foreign nationals.

Ore reserves at the end of 1986 were 27 million tonnes with a grade of 1.91 per cent nickel, which compares with 27.9 million tonnes with a grade of 1.92 per cent nickel at the end of 1985. At current operating rates, reserves are equivalent to about 15 years production.

<i>(000s of U.S. dollars)</i>	1986	1985	1984
Revenues .	<b>87,844</b>	124,755	121,787
Loss . . . .	<b>2,202</b>	10,476	8,649
Working capital . .	<b>43,645</b>	34,805	32,431
Long-term debt* . .	<b>216,195</b>	212,765	206,563

<i>(tonnes)</i>			
Ferronickel shipments (Nickel content) .	<b>21,989</b>	25,802	24,219

\*Including amounts maturing within one year (1986 - U.S. \$7,733,000).



## UNITED KENO HILL MINES LIMITED

Stock issued: 3,115,042 common shares  
Falconbridge Limited's ownership:  
1,195,990 common shares, or 38.4% at December 31, 1986

United Keno Hill Mines Limited produces silver and lead concentrate. It operates several mines and a milling facility at Elsa in the Keno-Galena Hill area of the central Yukon.

The company incurred a loss of \$1.9 million in 1986, compared with a loss of \$5.7 million in 1985. Exploration expenditures totalled \$5 million in 1986, with most of those funds raised from the issue of flow-through shares and \$2.9 million net of the premium attributable to the tax benefits was charged against earnings.

Falconbridge Limited did not subscribe to any of the flow-through units issued by United Keno Hill to assist in the financing of exploration programs. As a result, the Corporation's ownership level will be reduced to 36.7 per cent when all the shares attached to the flow-through units are issued.

During 1986, United Keno Hill earned \$1.1 million before write-offs and investment income. This compares favourably with a loss of \$2.6 million in 1985 and is largely due to higher silver production and operating cost improvements.

Gross revenues increased to \$14.4 million in 1986 from \$11.4 million the previous year. This improvement was accomplished in spite of a decline in the market price of silver, which averaged U.S. \$5.47 per ounce in 1986, compared with U.S. \$6.14 per ounce in 1985.

A total of 73,600 tonnes of ore was processed in 1986, resulting in the production of 1,764,000 ounces of silver and 1,451 tonnes of lead. In 1985, 1,273,000 ounces of silver and 980 tonnes of lead were produced from 67,700 tonnes of ore. The average operating cost per ton of ore milled in 1986 was reduced to \$139 from \$159 in 1985. The cost per ounce of silver produced, excluding write-offs and investment income, was improved to U.S. \$4.90 in 1986 from U.S. \$7.61 the previous year.

At year end, the company's cash and temporary investments were \$6.1 million and working capital was \$11 million.

At December 31, 1986, ore reserves in the Elsa area were 173,000 tonnes with a grade of 953 grams of silver per tonne and 4.3 per cent lead, compared with 166,000 tonnes with a grade of 854 grams of silver per tonne and 3.2 per cent lead at the end of 1985.

The company's exploration program resulted in the intersection of significant high-grade silver mineralization in all three of the new exploration adits collared in 1984. Further drilling, drifting and raising will be carried out in 1987 at the Silver King, Lucky Queen and Bellekeno mines to delineate these high-grade zones and determine the ore reserves. An exploration ramp will be driven from the Bellekeno 625 level adit to test high-grade veins intersected by drilling 60 metres below the adit elevation.

(000s of dollars)	1986	1985	1984
Revenues ..	<b>14,391</b>	11,360	13,566
Loss* .....	<b>1,868</b>	5,720	6,793
Working capital ..	<b>10,966</b>	10,800	13,819
<b>Production</b>			
Silver (000 ounces) ..	<b>1,764</b>	1,273	1,233
Lead (tonnes)	<b>1,451</b>	975	1,058

\*Accounted for by Falconbridge Limited on the basis.



**FALCONBRIDGE  
INVESTMENTS (ZIMBABWE)  
(PRIVATE) LIMITED**

<i>(000s of dollars)</i>	<b>1986</b>	1985	1984
Revenues ..	<b>13,029</b>	10,857	11,594
Earnings* ..	<b>2,063</b>	1,473	3,095
Dividends paid* ...	<b>744</b>	1,036	1,372
Working capital (deficiency)	<b>598</b>	(929)	(1,107)
<hr/>			
<i>Production (000 ounces)</i>			
Gold .....	<b>26</b>	25	25

*\*Accounted for by Falconbridge Limited on a cost basis.*

Falconbridge Limited's indirect ownership:  
9,208 common shares, or 100% at December 31, 1986

This company produces gold from two underground mining operations in Zimbabwe. The Blanket Mine is near Gwanda in the southwestern part of the country and the Golden Kopje Mine is north of Harare.

Revenues increased to \$13 million in 1986 from \$10.9 million in 1985, largely because of a higher gold price. Earnings were \$2.1 million in 1986, compared with earnings of \$1.5 million the previous year.

Total production from both mines for 1986 increased to 25,800 ounces of gold from 24,700 ounces in 1985.

At the Blanket Mine, 17,200 ounces of gold were produced from the processing of 160,000 tonnes of ore, while Golden Kopje produced 8,600 ounces of bullion from the processing of 79,000 tonnes of ore. Record quantities of ore were milled in 1986 and studies are underway to consider expansion of production at both mines.

Proven and probable ore reserves at the Blanket Mine are 500,000 tonnes with a grade of 5.14 grams gold per tonne, while the ore reserves at Golden Kopje are 48,000 tonnes with a grade of 5.83 grams gold per tonne. Underground exploration programs have been in place at both properties.

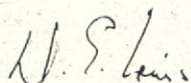


The Board of Directors which, among other things, is responsible for the consolidated financial statements of the Corporation, delegates to management the responsibility for the preparation of the statements. Responsibility for their review is that of the Audit Committee. Each year the shareholders appoint independent auditors to examine and report directly to them on the financial statements.

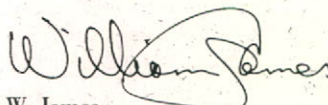
In preparing the financial statements great care is taken to use the appropriate generally accepted accounting principles and estimates considered necessary by management to present fairly and consistently the consolidated financial position and the results of operations. The significant accounting policies followed by Falconbridge are summarized on pages 18 to 20.

The accounting systems employed by Falconbridge include appropriate controls, checks and balances to provide reasonable assurance that Falconbridge's assets are safeguarded from loss or unauthorized use as well as facilitating the preparation of comprehensive, timely and accurate financial information. The internal auditors, who are employed by the Corporation as part of management, play an integral part in the effective operation of the systems of internal accounting control. There are limits inherent in all systems based on the recognition that the cost of such systems should not exceed the benefits to be derived. Falconbridge believes its systems provide the appropriate balance in this respect.

The Corporation's Audit Committee is appointed by the Board of Directors annually and is comprised of four non-management directors. The Committee meets with management and with the independent auditors (who have free access to the Audit Committee) to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.



D. E. Lewis, Q.C.  
Chairman of the Audit Committee



W. James  
Chairman of the Board,  
President and Chief Executive Officer



O. Hushovd  
Controller and  
Chief Financial Officer



The consolidated financial statements of Falconbridge Limited have been prepared in accordance with accounting principles generally accepted in Canada, consistently applied. All amounts are expressed in Canadian dollars unless otherwise noted. In these statements, references to the Corporation mean only Falconbridge Limited, the parent company, and references to Falconbridge include the Corporation, its consolidated subsidiaries and significantly influenced companies. The principal accounting policies followed by Falconbridge are summarized hereunder to facilitate review of the consolidated financial statements.

**A. Basis of consolidation and accounting standards**

Investments in subsidiary companies and significantly influenced companies are accounted for as follows:

- (i) Falconbridge generally consolidates the financial statements of subsidiary companies and accounts on an equity basis for those companies over which it is able to exercise significant influence. Companies incorporated in foreign countries in which there are significant restrictions on the transfer of funds are accounted for on the cost basis;
- (ii) Differences between the interest in the book value of the net assets of consolidated subsidiaries and the carrying value of the investments are allocated to the subsidiary's accounts based on their fair values at the date of acquisition. For consolidated operating subsidiaries, the differences are depreciated, depleted or amortized in accordance with the Corporation's accounting policy for the related asset; and
- (iii) For consolidation purposes foreign subsidiaries' foreign currency financial statements are restated to accord with the Corporation's accounting policies.

**B. Translation of foreign currencies**

Foreign currency transactions and balances and the financial statements of integrated foreign operations are translated into Canadian dollars using the temporal method. Under this method monetary items are translated at the rate of exchange at the balance sheet date while non-monetary items are translated at historic exchange rates and revenue and expense items are translated at the weighted average of exchange rates prevailing during the year except for depreciation and amortization which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year, except when the gain or loss relates to a monetary item with a fixed or ascertainable original life extending beyond the end of the following fiscal year in which case the gain or loss is deferred and amortized to income on a straight-line basis over the period the related monetary item is outstanding.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect on the balance sheet date while revenue and expense items (including depreciation and amortization) are translated at the weighted average of exchange rates prevailing during the year. Exchange gains and losses from the translation of such financial statements are deferred and disclosed as a separate component of shareholders' equity.

**C. Revenue recognition**

Revenues from the sale of refined metals, concentrates, ferronickel, industrial minerals and metal castings are recorded in the accounts when the rights and obligations of ownership pass to the buyer.

**D. Valuation of inventories**

Inventories are valued as follows:

- (i) Metals inventories are valued at the lower of cost and net realizable value determined on a "first-in, first-out" basis, except for inventories of Kidd Creek which are valued at average cost. Cost includes direct labour and material costs as well as administrative expenses at the operating properties, but excludes development and preproduction expenditures, depreciation and depletion; and
- (ii) Supplies inventories are valued at the lower of average cost of acquisition and replacement.

**E. Property, plant and equipment**

Property, plant and equipment and related expenditures are accounted for as follows:

- (i) Property, plant and equipment and related capitalized development and preproduction expenditures are generally recorded at cost and include, where appropriate, the fair value



adjustments referred to in policy A(ii), page 18. Investment tax credits relating to plant and equipment expenditures are recorded as reductions of the cost of the related assets;

- (ii) The Corporation depreciates plant and equipment on a straight-line basis over the lesser of their useful service lives or the lives of the producing mines to which they relate, limited to a maximum of 25 years. Generally the subsidiary companies calculate depreciation on a straight-line basis at rates varying from 5% to 25%. At Kidd Creek, mine properties and facilities are depleted and depreciated over the estimated lives of the mines based on the unit of production basis, reduction and refining facilities are depreciated over 25 years using the straight line basis;
- (iii) Idle plant and equipment resulting from temporary curtailments of operations continue to be depreciated on a straight-line basis. Care and maintenance costs during standby periods are expensed as incurred;
- (iv) Idle plant and equipment resulting from the termination of operations are carried at the lower of depreciated cost and estimated salvage value. Upon sale or abandonment, the cost of fixed assets and the related accumulated depreciation are removed from the accounts and any gains or losses thereon are taken into earnings;
- (v) Depletion of resource properties is provided over the lesser of the estimated lives of the resources recoverable from the properties and 25 years;
- (vi) Development and preproduction expenditures are capitalized until the commencement of commercial production. These, together with certain subsequent development expenditures, which are also capitalized, are amortized over periods not longer than the lives of the producing mines and properties, limited to a maximum of 25 years; and
- (vii) Repairs and maintenance expenditures are charged to operations or, if related to non-producing properties, to development and preproduction; major betterments and replacements are capitalized.

#### **F. Exploration**

Exploration costs incurred to the date of establishing that a property has reserves which have the potential of being economically recoverable are charged against earnings; further costs are generally capitalized and then amortized as appropriate under policy E above.

#### **G. Research and process development**

Research and process development costs are charged against earnings as incurred.

#### **H. Retirement plans**

The costs of retirement plans are charged against earnings in the year required fundings are payable and include amounts for current service and amortization of past service costs. Past service costs are generally being amortized and funded over periods of up to 15 years.

New pension accounting recommendations, issued by the Canadian Institute of Chartered Accountants, will be implemented in 1987.

#### **I. Income and mining taxes**

Falconbridge follows the deferral method of applying the tax allocation basis of accounting for income and mining taxes. Under this method timing differences between the period when income or expenses are reported for tax purposes and the period when they are recorded in the accounts result in deferred taxes.

Where appropriate, income and withholding taxes are provided on the portion of any interest in consolidated foreign subsidiaries' undistributed net income since acquisition which it is reasonable to assume will be transferred in a taxable distribution.

#### **J. Flow-through shares**

Issues of flow-through units provide subscribers the right to earn common shares of the Corporation for subscribers' funds, including interest earned on these funds, expended on Canadian Exploration Expenses, as defined in the Income Tax Act of Canada. The portion of the subscription price and interest earned on the subscribers' funds relating to the shares is included as capital in shareholders'



equity at the market value at the date of issue. The balance of the subscription price is the value attributed to the tax benefits transferred to the subscribers and is included in the provision for income and mining taxes. Underwriting, legal and associated fees are charged to retained earnings.

**K. Stock option plan**

The cost to the Corporation of shares optioned under the plan is allocated over the period the holder becomes entitled to exercise the options from the date options are granted and is measured as the amount by which the quoted market value of the Corporation's shares exceeds the option price specified under the plan adjusted to reflect current market values throughout the period that options remain outstanding.

Accrued stock option plan expenses are included in accounts payable and accrued charges in the statement of consolidated financial position until the options are exercised or cancelled.

**L. Interest costs**

Interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt are capitalized. Interest costs incurred after the commencement of commercial production are expensed, as are interest costs not identified with specific projects.

**M. Earnings (loss) per common share**

Earnings (loss) per common share are computed using the weighted average number of shares outstanding during the year. The common stock equivalents under employee share ownership plans, convertible debentures and warrants are included in the calculation of fully diluted earnings per share, provided they do not increase earnings per share or decrease a loss per share.



## STATEMENT 1

	Year ended December 31,		
	1986 (000s)	1985 (000s)	1984 (000s)
<b>Revenues</b>	<b>\$1,145,480</b>	<b>\$890,247</b>	<b>\$733,312</b>
<b>Operating expenses:</b>			
Costs of metal and other product sales	826,267	681,078	520,787
Selling, general and administrative	76,046	50,615	50,018
Development and preproduction	34,651	29,905	23,668
Depreciation and depletion	104,965	38,940	33,359
Other charges (note 13, page 34)	8,016	8,871	8,439
	<b>1,049,945</b>	<b>809,409</b>	<b>636,271</b>
<b>Operating profit</b>	<b>95,535</b>	<b>80,838</b>	<b>97,041</b>
Interest and other income, net (note 4, page 27)	43,599	47,380	53,094
	<b>139,134</b>	<b>128,218</b>	<b>150,135</b>
Interest and debt expenses (note 8, page 30)	127,773	40,039	57,016
Exchange loss on early retirement of long-term debt	2,354	824	14,810
Exploration	27,114	34,423	23,928
Research and process development	4,974	4,606	3,240
	<b>162,215</b>	<b>79,892</b>	<b>98,994</b>
	<b>(23,081)</b>	<b>48,326</b>	<b>51,141</b>
Income (loss) from investment in associated and other companies (note 17, page 37)	3,895	879	(664)
<b>Earnings (loss) before taxes and other items</b>	<b>(19,186)</b>	<b>49,205</b>	<b>50,477</b>
Income and mining taxes (note 5, page 27):			
Current	7,084	4,661	1,817
Deferred	(11,469)	6,981	20,344
	<b>(4,385)</b>	<b>11,642</b>	<b>22,161</b>
<b>Earnings (loss) before minority interest and extraordinary items</b>	<b>(14,801)</b>	<b>37,563</b>	<b>28,316</b>
Minority shareholders' interest in earnings (losses) of subsidiary companies	717	(980)	(378)
<b>Earnings (loss) before extraordinary items</b>	<b>(15,518)</b>	<b>38,543</b>	<b>28,694</b>
Extraordinary items (note 2, page 26)	85,787		51,492
<b>Earnings for the year</b>	<b>\$ 70,269</b>	<b>\$ 38,543</b>	<b>\$ 80,186</b>
Earnings (loss) per common share (note 12, page 34):			
Before extraordinary items	\$ (0.27)	\$ 0.95	\$ 0.80
Extraordinary items	1.48		1.43
<b>For the year</b>	<b>\$ 1.21</b>	<b>\$ 0.95</b>	<b>\$ 2.23</b>

(See notes to consolidated financial statements)



## STATEMENT 2

## ASSETS

December 31,

1986	1985
(000s)	(000s)

**Current:**Cash and temporary investments, at cost which approximates market value  
(note 8 B(1)(c), page 32)

\$ 281,898 \$ 310,602

Accounts and metals settlements receivable (note 10(c), page 34)

184,513 169,270

Inventories of metals (note 6, page 29)

186,520 134,857

Inventories of supplies

72,547 45,874

---

725,478 660,603
**Property, plant and equipment** (notes 1(b) and 7, pages 26 and 29):

## Producing assets —

Plant and equipment, at cost

1,778,908 831,997

Land and properties, at cost

230,122 19,066

---

2,009,030 851,063

Less accumulated depreciation and depletion

551,111 516,634

---

1,457,919 334,429
Development and preproduction expenditures, at cost  
less amounts written off

347,398 235,336

---

1,805,317 569,765

## Non-producing assets —

Properties and projects, at cost less amounts written off

64,134 71,592

---

1,869,451 641,357
**Other:**

Investment in associated and other companies (note 17, page 37)

72,692 32,793

Deferred expenses and other assets

19,885 6,226

Deferred exchange loss, net of amortization

1,168 10,399

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93,745 49,418

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**\$2,688,674 \$1,351,378**


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(See notes to consolidated financial statements)




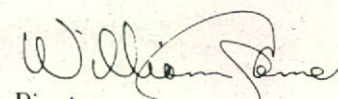
LIABILITIES AND SHAREHOLDERS' EQUITY

December 31,

	1986 (000s)	1985 (000s)
<b>Current:</b>		
Accounts payable and accrued charges	\$ 110,501	\$ 77,938
Salaries and wages payable	22,480	23,886
Income and other taxes payable	18,771	10,400
Long-term debt maturing within one year	14,509	14,274
	166,261	126,498
<b>Long-term debt</b> (notes 8 and 14, pages 30 and 35):		
Falconbridge Limited and its wholly owned subsidiaries	1,064,061	141,858
Falconbridge Dominicana, C. por A.	139,384	142,112
	1,203,445	283,970
<b>Deferred income and mining taxes</b> (note 5, page 27)	128,441	107,610
<b>Minority interest</b> (note 15, page 35)	(33,448)	47,115
<b>Commitments and contingencies</b> (note 10, page 34)		
<b>Shareholders' equity</b> (Statement 3, page 24):		
Capital (authorized — unlimited common and preference shares) —		
Issued (60,894,478 Common shares; 1985 — 41,894,275)	692,853	318,512
To be issued (18,195 Common shares; 1985 — 156,830)	383	2,541
Retained earnings	505,585	437,734
Cumulative translation adjustment	25,154	30,144
	1,223,975	788,931
Less shares held by a subsidiary company, at its cost		(2,746)
	1,223,975	786,185
	<b>\$2,688,674</b>	<b>\$1,351,378</b>

On behalf of the Board:

  
Director

  
Director



## STATEMENT 3

	Year ended December 31,					
	1986		1985		1984	
	Shares	Amount (000s)	Shares	Amount (000s)	Shares	Amount (000s)
<b>Common shares issued (note 9, page 32)</b>						
Balance at beginning of year	41,894,275	\$ 318,512	36,334,650	\$217,700	35,140,150	\$199,618
Public sale in February 1986, at \$20.75 per share	6,600,000	136,950				
Issued in March 1986, at \$19.50 per share, as partial consideration for the acquisition of Kidd Creek	10,473,568	204,235				
Private sale in December 1986, at \$16.61 per share	1,540,750	25,596				
Warrants exercised	800	10				
Issued pursuant to employee share ownership plans	101,090	2,108	55,125	1,036	44,500	671
Issued pursuant to flow-through unit offerings	283,995	5,214	504,500	6,776		
Public sale in March 1985, at \$18.60 per share			5,000,000	93,000		
Public sale in January 1984, at \$14.30 per share					1,150,000	16,445
Contributed surplus		228				966
Balance at end of year	60,894,478	692,853	41,894,275	318,512	36,334,650	217,700
<b>Common shares to be issued (note 9, page 32)</b>						
Balance at beginning of year	156,830	2,541	375,000	4,678		
Shares to be issued pursuant to flow-through unit offerings	145,360	3,056	286,330	4,639	375,000	4,
Shares issued	(283,995)	(5,214)	(504,500)	(6,776)		
Balance at end of year	18,195	383	156,830	2,541	375,000	4,678
<b>Retained earnings (notes 8 and 9, pages 30 and 32)</b>						
Balance at beginning of year		437,734		401,918		322,794
Earnings for the year		70,269		38,543		80,186
		508,003		440,461		402,980
Common share issue expenses, net of taxes		(2,418)		(2,727)		(1,062)
Balance at end of year		505,585		437,734		401,918
<b>Cumulative translation adjustment</b>						
Balance at beginning of year		30,144		14,444		13,052
Translation adjustments		(4,990)		15,700		1,392
Balance at end of year		25,154		30,144		14,444
<b>Common shares held by subsidiary companies</b>						
Balance at beginning of year	(143,620)	(2,746)	(143,620)	(2,746)	(227,415)	(3,179)
Shares disposed	143,620	2,746			83,795	433
Balance at end of year			(143,620)	(2,746)	(143,620)	(2,746)
<b>Total shareholders' equity</b>		<b>\$1,223,975</b>		<b>\$786,185</b>		<b>\$635,994</b>

(See notes to consolidated financial statements)



## STATEMENT 4

	Year ended December 31,		
	1986 (000s)	1985 (000s)	1984 (000s)
<b>Cash provided by (used in) operating activities:</b>			
Earnings (loss) for the year before extraordinary items	\$ (15,518)	\$ 38,543	\$ 28,694
Charges (credits) not affecting cash in the current period —			
Depreciation and depletion	104,965	38,940	33,359
Deferred income and mining taxes	(11,469)	6,981	20,344
Development and preproduction written-off	34,651	29,905	23,668
Interest in (earnings) losses of companies accounted for on the equity basis, net	112	171	2,927
Gain on disposal of fixed assets, net	(3,851)	(4,642)	(1,091)
Minority shareholders' interest in earnings (losses) of subsidiary companies	(579)	(980)	(378)
Currency translation adjustments, gains and losses	(84)	14,555	29,332
Net change in non-cash working capital balances related to operations <sup>o</sup>	1,638	5,603	(32,226)
Other items	6,341	(2,264)	(1,558)
Cash provided by operating activities	116,206	126,812	103,071
<b>Cash provided by (used in) financing activities:</b>			
Issue of units and common shares for cash, net	167,662	99,833	25,478
Net reduction in long-term debt (excluding Kidd Creek acquisition transaction)	(154,288)	(12,923)	(235,785)
Proceeds from subsidiary companies' share and rights offerings		11,394	4,546
Cash provided by (used in) financing activities	13,374	98,304	(205,761)
<b>Cash provided by (used in) investing activities:</b>			
Property, plant and equipment expenditures, net	(106,658)	(43,476)	(52,683)
Development and preproduction expenditures	(52,929)	(56,236)	(50,077)
Acquisition of Kidd Creek (note 1(b), page 26)	(99,956)		
Proceeds from the sale of subsidiary and associated companies (note 2, page 26)	154,492		
Proceeds on disposal of fixed assets	7,168	4,033	5,624
Increase in investment in subsidiary and associated companies	(45,721)	(7,867)	(13,428)
Increase in other assets	(14,680)		(460)
Proceeds on sale of Superior shares and Mobil debentures			119,235
Cash provided by (used in) investing activities	(158,284)	(103,546)	8,211
<b>Increase (decrease) in cash during the year</b>	<b>(28,704)</b>	<b>121,570</b>	<b>(94,479)</b>
Cash and temporary investments, beginning of year	310,602	189,032	283,511
<b>Cash and temporary investments, end of year</b>	<b>\$ 281,898</b>	<b>\$ 310,602</b>	<b>\$ 189,032</b>

<sup>o</sup> Non-cash working capital balances consist of receivables, inventories, accounts payable, salaries and wages payable and income and other taxes payable.

(See notes to consolidated financial statements)



# 1. Accounting policies and changes in long-term investments

## (a) Accounting policies

The principal accounting policies followed by Falconbridge are described on pages 18 to 20.

## (b) Changes in long-term investments

- (i) The December 31, 1986 financial and operating data contained herein include the accounts and results of operations accounted for by the purchase method, as at and for the year then ended, of the wholly owned Kidd Creek group of companies which were acquired in 1986.

Acquisition cost:		(000s)
Paid to Canada Development Corporation (CDC) —		
Cash		\$ 140,000 <sup>°</sup>
10,473,568 Common shares of the Corporation		204,235
8.5% Convertible debentures of the Corporation, due 2006		270,765
		615,000
Other costs		4,440 <sup>°</sup>
Total acquisition cost		619,440
Net assets acquired:		
Assets (including cash of \$44,484,000 <sup>°</sup> )		1,262,468
Liabilities assumed —		
Accounts payable and accrued liabilities	\$ 76,810	
Long-term debt (including \$58,347,000 maturing within one year)	801,526	878,336
Net assets acquired		384,132
Excess of the acquisition cost over the book value of the net assets acquired		\$ 235,308 <sup>°</sup>

<sup>°</sup> Allocated primarily to property, plant and equipment and amortized over the estimated useful lives of the assets.

<sup>°°</sup> Net cash outlay to acquire Kidd Creek — \$99,956,000.

- (ii) The 1986 consolidated results exclude the accounts of Kiena Gold Mines Limited (Kiena) which was sold in 1986. The operating results of Corporation Falconbridge Copper (CFC) are consolidated while those of Giant Yellowknife Mines Limited (Giant) and Akaitcho Yellowknife Gold Mines Limited (Akaitcho) are reflected on an equity basis, in these consolidated statements, up to the date the Corporation sold its shareholdings in these companies (see note 2 below).

# 2. Extraordinary items

Extraordinary items in 1986 of \$85,787,000 (net of taxes of \$42,460,000) reflect the sales of the Corporation's 56.7% interest in Kiena (\$41,961,000, net) in January; 19.2% interest in Giant and 36.7% interest in Akaitcho (\$7,839,000, net) and 49.6% interest in CFC (\$35,987,000, net) in August.

The \$51,492,000 of extraordinary items in 1984 reflects a \$10,000,000 benefit resulting from the recognition of previously unrecorded tax debits and a \$41,492,000 gain on the sale of the common shares of The Superior Oil Company (net of a \$13,830,000 provision for income taxes).

# 3. Retirement plans

The Corporation and certain of its subsidiaries maintain retirement plans providing retirement, death and termination benefits for substantially all salaried and hourly-rated employees. Total pension expense for the year was \$6,361,000 (1985 — \$3,850,000; 1984 — \$3,355,000), net of actuarial gains of \$9,800,000 (1985 — \$8,640,000; 1984 — \$8,401,000) arising from investment gains. The current year's expense includes past service costs of \$5,254,000 (1985 — \$4,313,000; 1984 — \$3,605,000). Based on the most recent actuarial valuations, the unfunded past service costs for all pension plans in effect at December 31, 1986, are estimated to amount to approximately \$27,000,000 (1985 — \$32,000,000; 1984 — \$21,000,000) including \$21,700,000 (1985 — \$26,500,000; 1984 — \$17,700,000) which is computed to have vested. The present intention is to provide for the unfunded past service costs over periods of up to 15 years. A disagreement between the Corporation and the union representing the Corporation's Sudbury operations production and maintenance workers on funding the Sudbury Revised General Pension Plan has yet to be resolved.



4. **Interest and other income, net**

Interest and other income, net, includes net foreign exchange losses of \$3,854,000 (1985 — \$2,841,000 gain; 1984 — \$5,078,000 gain).

5. **Income and mining taxes**

(a) Consolidated income and mining tax expense (credit) consists of the following:

	1986 (000s)	1985 (000s)	1984 (000s)
Canadian taxes —			
Current	\$ 6,100	\$ 3,884	\$ 1,239
Deferred	(11,905)	6,837	19,996
	(5,805)	10,721	21,235
Foreign taxes —			
Current	984	777	578
Deferred	436	144	348
	1,420	921	926
<b>Total taxes</b>	<b>\$ (4,385)</b>	<b>\$11,642</b>	<b>\$22,161</b>

(b) The provision for consolidated deferred tax expense (credit) results from timing differences between the period when income or expenses are reported for tax purposes and the period when they are recorded in the accounts. The sources and tax effects of these differences are as follows:

	1986 (000s)	1985 (000s)	1984 (000s)
Depreciation claimed for tax purposes in excess of (lower than) depreciation expensed in the accounts	\$ (2,897)	\$ 328	\$ 1,393
Exploration, preproduction and mine development costs claimed for tax purposes in excess of (lower than) amounts expensed in the accounts, net	(45,912)	(8,804)	17,617
Losses carried forward	33,147	15,804	3,994
Other	4,193	(347)	(2,660)
	<b>\$(11,469)</b>	<b>\$ 6,981</b>	<b>\$20,344</b>

At December 31, 1986, deferred income and mining taxes on the statement of consolidated financial position amount to \$128,441,000 (1985 — \$107,610,000). This amount will be reflected as a component of current taxes payable in subsequent years as timing differences are reversed.



- (c) The difference between the amount of the reported consolidated provision for income and mining taxes and the amount computed by multiplying the earnings (loss) before taxes by the Corporation's applicable tax rates is reconciled as follows:

	1986				1985				1984			
	Federal and provincial income taxes (000s)	Provincial mining taxes (000s)	Foreign taxes (000s)	Total (000s)	Federal and provincial income taxes (000s)	Provincial mining taxes (000s)	Foreign taxes (000s)	Total (000s)	Federal and provincial income taxes (000s)	Provincial mining taxes (000s)	Foreign taxes (000s)	Total (000s)
Earnings (loss) before taxes	\$(54,673)	\$(54,673)	\$ 35,487	\$(19,186)	\$ 35,479	\$ 35,479	\$ 13,726	\$ 49,205	\$ 39,844	\$ 39,844	\$ 10,633	\$ 50,477
Corporation's tax rates	53%	12.6%	53%		51%	20.8%	51%		51%	20.5%	51%	
Earnings (loss) before taxes multiplied by the Corporation's tax rates	\$(28,977)	\$(6,889)	\$ 18,795	\$(17,071)	\$ 18,094	\$ 7,380	\$ 7,000	\$ 32,474	\$ 20,320	\$ 8,181	\$ 5,423	\$ 33,924
Taxes reported in accounts	(13,063)	7,258	1,420	(4,385)	6,465	4,256	921	11,642	14,918	6,317	926	22,161
Difference to be reconciled	\$ 15,914	\$ 14,147	\$(17,375)	\$ 12,686	\$(11,629)	\$ (3,124)	\$ (6,079)	\$(20,832)	\$ (5,402)	\$ (1,864)	\$ (4,497)	\$(11,763)
Reconciliation, tax effect of —												
(1) Non-claimable expenses	\$ 31,461	\$ 33,349	\$ 482	\$ 65,292	\$ 2,078	\$ 10,304	\$ 500	\$ 12,882	\$ 6,968	\$ 16,255	\$ (543)	\$ 22,680
(2) Resource, depletion, processing and inventory allowances	(14,752)	(15,192)	(248)	(30,192)	(14,805)	(7,629)	(31)	(22,465)	(12,889)	(8,553)		(21,442)
(3) Adjustments because of differences in tax rates	171	(1,805)	31	(1,603)	(1,641)	(1,105)	1,941	(805)	(1,268)	(609)	2,132	255
(4) Unrecorded tax debit			809	809			3,423	3,423			3,684	3,684
(5) Non-taxable income	(966)	(2,205)	(18,449)	(21,620)	2,739	(4,694)	(11,912)	(13,867)	1,787	(8,957)	(9,770)	(16,940)
	\$ 15,914	\$ 14,147	\$(17,375)	\$ 12,686	\$(11,629)	\$ (3,124)	\$ (6,079)	\$(20,832)	\$ (5,402)	\$ (1,864)	\$ (4,497)	\$(11,763)

- (d) Falconbridge Dominicana, C. por A. (Falcondo), a subsidiary company, has received an income tax assessment from the government of the Dominican Republic for the 1972 and 1973 fiscal years approximating RD\$4,800,000 (approximately Cdn. \$2,100,000). Falcondo has appealed the assessment to the Superior Administrative Court and subsequently asked the Supreme Court of the Dominican Republic to rule on a procedural dispute over the admissibility of the said appeal. The Supreme Court handed down a ruling on August 28, 1985 declaring the appeal to be inadmissible without prior payment of the amount in dispute. Management cannot reasonably predict the final outcome and consequently no provision has been made in the accompanying financial statements for the amount of any assessment.
- (e) At December 31, 1986, Falcondo has losses, aggregating RD\$440,223,000, which can be carried forward to reduce its taxable income in future years. The loss carry forwards expire in 1987 — RD\$47,047,000; 1988 — RD\$24,262,000; 1989 — RD\$555,000; 1990 — RD\$348,382,000; and 1991 — RD\$19,977,000. A comparison of the loss carry forward which expires in 1990 with the loss carry forward in prior years shows the effect of remeasuring in local currency the Falcondo loans in U.S. dollars after the adoption of the exchange rate authorized by the Dominican Republic Monetary Board on January 23, 1985. Falcondo's legal and financial advisors in the Dominican Republic believe that this effect represents a tax loss in local currency, according to the Dominican income tax law. In addition, depreciation and amortization charges of approximately RD\$173,300,000 which have been recorded in the accounts, but not claimed for tax purposes, are available to reduce taxable incomes of future years.
- (f) At December 31, 1986, United Keno Hill Mines Limited (United Keno) (38.4% owned by the Corporation and accounted for on the equity basis) has non-capital losses, approximating \$3,200,000, which can be carried forward to reduce its taxable income in future years. The non-capital loss carry forwards expire in 1987 — \$2,400,000; and 1991 — \$800,000. The company also has net capital losses incurred in prior years of approximately \$800,000. As a result of the current and prior year losses, cumulative expenditures of approximately \$14,900,000 which have been recorded in the accounts, but not claimed for tax purposes, are available to reduce taxable incomes of future years. Included in this amount is approximately \$7,900,000 of cumulative Canadian exploration expenses which must be claimed before claiming any non-capital losses.
- (g) At December 31, 1986, the Corporation has losses for income tax purposes, aggregating \$11,400,000 which can be carried forward to reduce taxable income in future years. The loss carry forwards expire in 1993. The benefits of these tax losses carried forward have been recorded in the accounts. The Corporation also has capital losses of \$6,500,000 which can be carried forward to reduce future capital gains.



**6. Inventories of metals**

Consolidated inventories of metals consist of the following:

	1986		1985	
	Metals in process (000s)	Finished metals (000s)	Metals in process (000s)	Finished metals (000s)
Derived from:				
Corporation's Sudbury ore	\$ 43,329	\$ 49,487	\$ 37,351	\$ 52,794
Kidd Creek	55,050	15,735		
Other subsidiaries		13,704	41	25,817
Other sources	5,162	4,053	3,936	14,918
	<b>\$103,541</b>	<b>\$ 82,979</b>	<b>\$ 41,328</b>	<b>\$ 93,529</b>
Total inventories of metals	<b>\$186,520</b>		<b>\$134,857</b>	

**7. Property, plant and equipment**

(a) The following table details consolidated property, plant and equipment on a functional basis:

	1986			1985		
	Cost (000s)	Accumulated depreciation and depletion (000s)	Net book value (000s)	Cost (000s)	Accumulated depreciation and depletion (000s)	Net book value (000s)
<b>Property, plant and equipment:</b>						
Producing assets —						
<b>Plant and equipment:</b>						
Mines, mining plants and ancillary mining assets	\$ 814,586	\$328,606	\$ 485,980	\$541,574	\$334,171	\$207,403
Smelters	434,544	58,830	375,714	112,809	43,540	69,269
Refineries	473,484	113,534	359,950	129,401	95,110	34,291
Other	56,294	30,610	25,684	48,213	30,341	17,872
	<b>1,778,908</b>	<b>531,580</b>	<b>1,247,328</b>	<b>831,997</b>	<b>503,162</b>	<b>328,835</b>
<b>Land and properties</b>	<b>230,122</b>	<b>19,531</b>	<b>210,591</b>	<b>19,066</b>	<b>13,472</b>	<b>5,594</b>
	<b>\$2,009,030</b>	<b>\$551,111</b>	<b>1,457,919</b>	<b>\$851,063</b>	<b>\$516,634</b>	<b>334,429</b>
Non-producing assets			12,370			15,541
			<b>1,470,289</b>			<b>349,970</b>
<b>Development and preproduction expenditures:</b>						
Producing assets			347,398			235,336
Non-producing assets			51,764			56,051
			<b>399,162</b>			<b>291,387</b>
			<b>\$1,869,451</b>			<b>\$641,357</b>

(b) Falcondo is still dependent on the continued support of its sponsors. While it is difficult for management to determine when market conditions will improve sufficiently to maintain the profits and positive cash flow achieved in the second half of 1986, it is their opinion that the net carrying value of its property, plant, equipment, preproduction and other deferred charges will be recovered eventually. The carrying value of Falconbridge's investment in Falcondo at December 31, 1986 was \$60,664,000. (See note 8(B)(1)(a), page 32.)



(c) Non-producing assets consist of the following:

	1986 (000s)	1985 (000s)
<b>Company and project</b>		
Falconbridge Limited —		
Various projects (i)	\$16,553	\$ 9,746
New Quebec Raglan Mines Limited —		
Subsidiary's Cape Smith-Wakeham Bay properties (ii)	43,060	43,008
Other subsidiary companies' projects	4,521	18,838
	<b>\$64,134</b>	<b>\$71,592</b>

(i) Consists primarily of costs associated with the development of the Craig orebody.

(ii) Exploration, development and other expenditures relating to New Quebec Raglan Mines Limited (New Quebec Raglan) (a 73.8% owned subsidiary) and its wholly owned subsidiary company, Société Minière Raglan du Québec Ltée, incurred in the development of the latter company's Cape Smith-Wakeham Bay properties. These costs have been capitalized with the intention that they will be amortized by charges against income from future mining operations. Profits commensurate with the risks of operating in such a remote northern location must be indicated before development to production.

### 8. Long-term debt

A. Details of long-term debt are as follows:

#### (1) Falconbridge Limited and its wholly owned subsidiaries

	1986 (000s)	1985 (000s)
7.75% Sinking fund debentures maturing February 1991 (a) and (c)	\$ 32,657	\$ 33,000
8.85% Sinking fund debentures maturing May 1996 (1986 — U.S. \$4,806,000; 1985 — U.S. \$13,783,000) (b) and (c)	6,647	19,273
Bank loans —		
Due December 31, 1991 (1986 — U.S. \$125,000,000; 1985 — U.S. \$24,000,000) (d)	172,875	33,559
Due December 31, 1989 (U.S. \$40,000,000) (e)	55,320	55,932
Due December 31, 1989 (U.S. \$45,000,000) (f)	62,235	
Due in installments from September 7, 1987 to March 7, 1996 (U.S. \$275,000,000) (g)	380,325	
Currency translation adjustment resulting from a U.S. dollar purchase obligation (h)	2,965	
Silver contract due 1993 (U.S. \$60,800,000) (i)	84,086	
8.5% Convertible debentures due 2006 (see note 9 (d), page 33)	270,765	
	<b>1,067,875</b>	<b>141,858</b>
Less long-term debt maturing within one year	<b>3,814</b>	
	<b>\$1,064,061</b>	<b>\$141,858</b>

(a) The Corporation has fulfilled its requirements to make sinking fund payments sufficient to retire \$1,250,000 principal amount of the 7.75% debentures in each year to and including 1990.

(b) The Corporation is required to make sinking fund payments sufficient to retire U.S. \$3,000,000 principal amount of the 8.85% debentures in each year to and including 1995. Sinking fund requirements have been satisfied until 1995.

(c) During 1986, the Corporation recorded (netted with interest and debt expenses) a gain of \$803,000 (1985 — \$1,614,000; 1984 — \$2,708,000) on the redemption of debentures at discounts.

(d) This bank loan reflects borrowings under the Corporation's line of credit, of Canadian \$180 million or the U.S. equivalent, due December 31, 1991. Interest is based on the London Interbank Offered Rate (LIBOR) plus ½ of 1% and was payable at 6.56% as at December 31, 1986 (1985 — 8.69%) and averaged 7.11% (1985 — 9.21%) during the year.



- (e) This committed line of credit of U.S. \$40,000,000 is available until December 31, 1989. Interest was paid at 15.88% until December 31, 1986 at which time the interest rate was changed to LIBOR plus  $\frac{1}{2}$  of 1% (8.19%).
- (f) This variable rate revolving term loan, due December 31, 1989, bears interest at 6.56% at December 31, 1986 and averaged 7.35% during the year.
- (g) This syndicated variable rate term loan, with various borrowing options, bears interest at LIBOR plus  $\frac{1}{2}$  of 1% (7.75% on \$175 million and 6.56% on \$100 million at December 31, 1986) and averaged 7.80% during the year. Minimum annual repayments are required which will result in yearly reductions of the remaining outstanding principal amount of U.S. \$275 million as follows:

1987 — U.S. \$ 2,750,000	1991 — U.S. \$24,750,000	1994 — U.S. \$44,000,000
1988 — 13,750,000	1992 — 28,875,000	1995 — 52,250,000
1989 — 22,000,000	1993 — 35,750,000	1996 — 27,500,000
1990 — 23,375,000		

- (h) In the first quarter of 1986, the Corporation entered into a cross currency interest rate swap arrangement under which it was obligated to purchase, at specific dates, over a five-year period, an aggregate of U.S. \$300,472,000 for Cdn. \$420,000,000 and was obligated to pay interest on Cdn. \$420,000,000 at 10.39%. In return, the Corporation was to receive LIBOR interest, as determined semi-annually, (which averaged 6.93% during the year) on U.S. \$300,472,000. This swap arrangement was reduced to U.S. \$200,315,000 and Cdn. \$280,000,000 in December 1986 and was fully terminated by the Corporation early in 1987. The related costs will be amortized over the term of the bank loans.
- (i) Under the terms of a contract whereby CDC advanced Kidd Creek U.S. \$60,800,000, due in 1993, it obtained an option to acquire silver up to the amount of the advance during the period to March 31, 1989 at prices which vary from U.S. \$13.91 to U.S. \$14.80 per troy ounce; or to require Kidd Creek to pay the cash equivalent of the market value of the silver on the date the option is exercised. The delivery of silver or the payment of cash can be made over a six-month period from the date of exercise. The advances bear interest at the rate of 7.625% to March 31, 1989 and thereafter to maturity at the rate of 11.125%.

(2) Falconbridge Dominicana, C. por A. (Falcondo) (see note 8B(1) (a), page 32).

	1986 (000s)	1985 (000s)
(a) Due to Loma Corporation (Loma)*		
8.73% Series C secured sinking fund notes, due in semi-annual payments of U.S. \$5,080,000 to and including 1986		\$ 14,193
8.50% Series D guaranteed sinking fund notes, due in semi-annual payments of U.S. \$3,400,000 from 1987 to and including 1991 (U.S. \$34,000,000)	\$ 47,022	47,542
*Payment can be demanded under certain specified circumstances, the most significant being if Loma is required to meet payments due on its notes which were issued in the same principal amounts and at the same interest rates as the above notes.		
(b) Subordinated advances by a minority shareholder — Interest rates vary from 11.5% to 21% (weighted average 13.9%; 1985 — 14.1%), due not later than December 15, 1991 (U.S. \$45,519,000; 1985 — U.S. \$46,653,000)	62,953	65,235
Accrued interest thereon (U.S. \$26,297,000; 1985 — U.S. \$20,655,000)	36,368	28,882
(c) Other		
Interest rates vary from 7% to 10.5%, due over various terms	3,736	534
	150,079	156,386
Less long-term debt maturing within one year	10,695	14,274
Total	\$139,384	\$142,112



(3) **Maturity and sinking fund requirements**

Maturity and sinking fund requirements (stated at 1986 year-end rates of exchange) for the next five years are as follows:

1987 —	\$ 14,509,000	1990 —	\$ 41,737,000
1988 —	28,434,000	1991 —	348,488,000
1989 —	157,397,000		

B. **Guarantees, covenants and restrictions:**

(1) The Corporation has guaranteed portions of the long-term debt and other obligations of Falcondo, the details of which are as follows:

- (a) Loans to Falcondo amounting to \$47,022,000 are secured by a first mortgage on the assets of the project, which have a net carrying value of \$167,521,000 at December 31, 1986. The Corporation has agreed to buy all ferronickel of commercial value produced by Falcondo and is also obligated to provide 60% of the funds required by Falcondo to enable it to meet its operating costs and debt service obligations in the event receipts from the sale of ferronickel produced by Falcondo and other receipts are insufficient for that purpose. The Corporation has been required since July 1980, in accordance with the terms of the financing agreements, to provide funds in U.S. dollars (translated at 1986 year-end rates of exchange) totalling \$94,430,000, representing 60% of the total amount required by Falcondo to meet its cash requirements. In 1986 Falcondo repaid advances of \$2,347,000 whereas the Corporation provided \$1,825,000 in 1985. The funds so provided to Falcondo are evidenced by notes, which are subordinated to all other debt instruments and can only be repaid under certain circumstances, and bear interest at rates related to the U.S. prime rate which is in effect on the date the notes are issued.
- (b) The Corporation has made a direct guarantee for repayment of 60% of the Loma Series D guaranteed sinking fund notes. The loan from Loma Corporation is covered by specific risk insurance issued by the Overseas Private Investment Corporation.
- (c) In accordance with the terms of the loan agreement, at year end, funds of \$9,295,000 (1985 — \$6,116,000) (included with cash and temporary investments) were on deposit with the Trustee for use in paying current debt service and operating expenses of Falcondo.

(2) During the period that the Falcondo loan is outstanding, there are certain restrictions placed on the amount and nature of borrowing that the Corporation may undertake. Covenants given by the Corporation in this respect are substantially the same (other than (a) and (d) below) as those given by the Corporation under its 8.85% debentures which include limitations as to:

- (a) The amount of dividends which may be paid by the Corporation (there were no restrictions in 1986 or 1985);
- (b) The incurring of additional debt. Under the covenants the Corporation is currently prohibited from borrowing until the ratio of its consolidated indebtedness, as defined, to certain of its consolidated net tangible assets comes within prescribed limits;
- (c) Guarantees which it may give on certain indebtedness of its subsidiary and other companies; and
- (d) The 8.85% debenture covenants provide that the proceeds from the permitted sale of assets which are owned by the Corporation shall be held in cash or short term securities, applied to the redemption of debentures, other funded debt or bank indebtedness, or invested in mineral properties or processing or manufacturing plant or facilities or in securities of a corporation engaged in businesses similar to that of the Corporation.

9. **Capital**

(a) **Flow-through shares**

The corporation has issued/will issue common shares under flow-through agreements for gross proceeds of \$7,000,000 (1985 — \$10,178,000; 1984 — \$8,025,000) to finance exploration programs in Canada. In 1986, 283,995 shares (1985 — 504,500 shares) were issued and 18,195 shares will be issued in 1987.

(b) **Employees' share ownership plans**

(i) **Employee stock option plan**

Subsequent to the establishment of the Corporation's stock option plan the Corporation reserved 2,500,000 common shares for the purpose of granting options to purchase shares of



the Corporation to certain employees of the Corporation, its subsidiaries or associated companies. The price for which the shares may be optioned shall not be less than the closing bid price for the common shares on the trading day immediately preceding the granting of the option less a discount of 10%. This discount does not apply to the options granted on August 1986.

Options are exercisable, over a period of 10 years from the date granted, and are earned at the rate of 25% of the shares optioned times the number of periods of 12 months which have elapsed since the date the option was granted less the aggregate number of options already exercised or surrendered. The optionee may also be given the right, at the time of exercise, to surrender the options in return for receipt of cash or shares or a combination thereof, equal to the excess of the fair market value of the shares over the option price thereof.

The following table summarizes the activity in the stock option plan:

Options granted — Date	Nov. 1981	Aug. 1983	Aug. 1986
— Number originally granted	610,000	507,500	197,500
— Price	\$11.43	\$13.77	\$17.75
Options outstanding at December 31, 1985	302,500	460,625	
Activity during 1986 —			
Granted			197,500
Exercised	41,000	17,625	
Surrendered for cash	22,000	3,500	
Terminated		12,500	
Options outstanding at December 31, 1986	239,500	427,000	197,500

(ii) Sudbury employees' incentive plan

In 1984, 50,000 common shares of the Corporation were conditionally allotted and reserved for issue under an incentive plan for its Sudbury employees. In 1986, 2,350 shares were issued under this plan.

(iii) Kidd Creek service awards plan

In 1986, 275,000 common shares of the Corporation were conditionally allotted and reserved for issue under a share ownership plan to provide service awards to employees of Kidd Creek. Awards under this plan are made solely on the basis of continuous full time service with Kidd Creek or its predecessors. In 1986, 40,115 shares were issued under this plan.

In 1986, the accrued liability in the Corporation's accounts for the employee share ownership plans was reduced by \$2,022,000 (compared to prior years plan costs, 1985 — \$4,138,000; 1984 — \$1,452,000).

(c) Warrants outstanding

At December 31, 1986, there were 999,840 common share purchase warrants outstanding. Each warrant entitles the holder to purchase five common shares for \$65.50 on or before February 5, 1987. Warrants to purchase 800 shares have been exercised to December 31, 1986.

Warrants to purchase 4,978,385 shares were exercised in 1987, for proceeds to the Corporation of \$65.2 million, and warrants to purchase 20,815 shares expired.

(d) Convertible debentures

The debentures, issued to CDC as part of the consideration for the purchase of Kidd Creek, are convertible into common shares of the Corporation at a conversion price of \$21.95 per share (12,335,535 shares are issuable).

(e) Share purchase tax credit

In December 1986, the Corporation sold 1,540,750 common shares, at a price of approximately \$22.13 per share, from which the purchaser will receive a share purchase tax credit of approximately \$5.52 per share, which relates to Investment Tax Credits (ITC) earned by Falconbridge. The \$34,096,000 total proceeds from this issue was ascribed to the stated capital of the Corporation, which differs from the value ascribed to the common shares in these financial statements by the \$8,500,000 share purchase tax credit. This difference has been reflected in these financial statements as an ITC.

(f) Contributed surplus

Contributed surplus is classified as part of the ascribed value of common shares for purposes of financial statement presentation.

(g) Stock split

At the Annual Meeting of Shareholders held on April 17, 1985, the shareholders of the Corporation approved that the common shares be divided on a five-for-one basis.



#### 10. Commitments and contingencies

- (a) At December 31, 1986, there are commitments outstanding of approximately \$22,000,000 in connection with capital expenditure programs.
- (b) The following are under continuing study and discussion with Government officials:
- (i) The Corporation has received an exemption by the Ontario Government, until December 31, 1989, from a requirement to refine in Canada ores mined from certain properties of the Corporation in Ontario, such exemption being limited to the quantity of nickel-copper matte capable of producing not more than 100,000,000 pounds of refined nickel per year;
  - (ii) Kidd Creek has received an exemption by the Ontario Government, until December 31, 1988, from a requirement to refine in Canada concentrate produced at certain properties of Kidd Creek in Ontario, such exemption being limited to 150,000 tonnes of zinc concentrate or zinc calcine and 180,000 tonnes of copper concentrate; and
  - (iii) The Corporation has been advised by the Ontario Ministry of the Environment that an Order-in-Council has been issued requiring the Corporation to further reduce sulphur dioxide emissions at its Sudbury smelter from the present allowable 154,395 tonnes per year (423 tonnes per day) to 100,000 tonnes per year (274 tonnes per day) effective January 1, 1994. The Corporation will also be required to conduct such research as is necessary to establish the best available technology to achieve even lower economically and technically feasible emission levels. Reports on the progress of such studies are to be issued every six months with the final report required by December 31, 1988. The Corporation believes that it can modify its smelter operation to comply with the regulation to reduce emission by 1994.
- (c) During 1986, accounts receivable of U.S. \$67,575,000 were either sold without recourse or discounted with recourse. Discounting costs, which were charged to interest expense, amounted to \$982,000 in 1986 (1985 — \$1,929,000; 1984 — \$3,151,000). As a result of these transactions, at December 31, 1986, the Corporation has a contingent liability of U.S. \$12,675,000.
- (d) See notes 3, 5(d), 7(b), 7(c) and 8B pages 26, 28, 29, 30 and 32, respectively, which detail other commitments and contingencies.

#### 11. Transactions with related companies

Falconbridge is a member of a group of related companies. The Corporation's holdings in this group are described in note 17, page 37. McIntyre Mines Limited (McIntyre) is the owner beneficially and of record of 9,242,070 (15.2%) of the outstanding common shares of the Corporation. Dome Mines Limited (Dome) is the owner beneficially and of record of 52.9% of McIntyre and 4,863,500 (8.0%) of the outstanding common shares of the Corporation. Accordingly Dome may be considered to exercise control or direction over approximately 23% of the outstanding common shares of the Corporation.

In 1986, the Corporation sold its entire holdings of 3,331,203 common shares, representing 56.7% of the outstanding shares of Kiena Gold Mines Limited to Campbell Red Lake Mines Limited, a subsidiary of Dome (see note 2, page 26).

#### 12. Earnings (loss) per common share

Earnings (loss) per common share are based on the weighted average number of 58,131,168 common shares outstanding during the year (1985 — 40,718,750; 1984 — 36,030,650), excluding shares held by subsidiary companies. Comparative earnings per share and share amounts have been adjusted to reflect the 1985 five-for-one share split (see note 9(g), page 33).

Inclusion in the earnings (loss) per share computation of shares subject to issue under employee share ownership plans, convertible debentures and warrants (see note 9, page 32) results in fully diluted earnings (loss) per share before and after extraordinary items of \$(0.27) and \$1.12 respectively, for 1986 (1985 — \$0.91 and \$0.91; 1984 — \$0.78 and \$2.00).

#### 13. Other charges

Other charges of \$8,016,000 in 1986 included ongoing costs during the temporary shutdown at the Corporation's Sudbury operations, the Norwegian refinery and Falcondo's operations because of labour disputes and planned maintenance; and costs associated with a reduction in the workforce at the Corporation's Sudbury operations.



Other charges of \$8,871,000 in 1985 included the costs associated with a reduction in the workforce at the Corporation's Sudbury operations and the temporary shutdown at the ferronickel production operations of Falcondo.

Other charges of \$8,439,000 in 1984 include the write-off of development and preproduction expenditures on the closure of the Corporation's Falconbridge mine, start-up costs at the Corporation's Onaping mine and the ongoing shutdown costs at the Wesfrob Mining Division.

#### 14. Compensating balances and borrowing arrangements

None of the companies within the Falconbridge group of companies is required to maintain a compensating balance under any borrowing arrangement. Falcondo is required, under loan agreements, to keep funds on deposit with the Trustee for paying current debt service and other expenses (see note 8 B(1)(c), page 32).

In addition to the lines of credit detailed in notes 8 A(1)(d) and (e), pages 30 and 31, the Corporation has operating lines of credit aggregating \$115,000,000 which may be drawn in either Canadian or U.S. dollars at the bank's prime or base lending rate and a U.S. \$30,000,000 operating line of credit under which the Corporation may sell U.S. dollar accounts receivable at rates prevailing at the time of sale. There is no commitment fee on the operating lines, which may be withdrawn at the bank's discretion.

Use of these lines of credit is restricted under guarantees and covenants, (see note 8 B(2), page 32).

#### 15. Minority interest

Minority interest includes a \$41,631,000 debit (1985 — \$43,015,000) representing guaranteed obligations of a minority shareholder of Falcondo to provide 40% of the net operating funds required by Falcondo, including debt service. (See note 8A(2)(b), page 31, in respect of funds advanced by the minority shareholder to satisfy these obligations).

#### 16. Reconciliation of earnings (loss) determined in accordance with generally accepted accounting principles (GAAP) in Canada to amounts determined under accounting principles which are generally accepted in the United States (U.S. GAAP):

	1986 (000s)	1985 (000s)	1984 (000s)
Earnings (loss) for the year before extraordinary items, under Canadian GAAP	\$(15,518)	\$38,543	\$28,694
Adjustments to agree with U.S. GAAP:			
1. Adjustments relating to foreign currency translation, net of taxes (i)	6,923	(773)	7,511
2. Adjustments relating to capitalization of interest less amortization of capitalized interest, net of taxes (ii)	25	(23)	(16)
3. Gains on sale of investments, net of taxes (iii)	85,787		41,492
4. Gain on redemption of debentures, net of taxes	(602)	(1,210)	(2,031)
Earnings before extraordinary items in accordance with U.S. GAAP (iv):	76,615	36,537	75,650
Extraordinary items —			
Deferred income tax adjustment			10,000
Gain on redemption of debentures, net of taxes	602	1,210	2,031
Earnings for the year in accordance with U.S. GAAP	\$ 77,217	\$37,747	\$87,681
Earnings per common share in accordance with U.S. GAAP (iv):			
Primary — Before extraordinary items	\$ 1.27	\$ 0.86	\$ 2.08
Extraordinary items	0.01	0.03	0.33
For the year	\$ 1.28	\$ 0.89	\$ 2.41
Fully diluted — For the year	\$ 1.22	\$ 0.89	\$ 2.36

(i) Under Canadian GAAP Falconbridge defers gains and losses on translation of monetary items where the foreign currency denominated item has a fixed or ascertainable original life which extends beyond one year. Such gains or losses are amortized over the remainder of the life of the item. Under U.S. GAAP exchange gains and losses as a result of translation are included in income for the current period.



- (ii) Consistent with the Canadian mining industry's practice of capitalizing all costs incurred during the preproduction stage of a project, Falconbridge capitalizes interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt. Interest costs incurred after the commencement of commercial production are expensed. U.S. GAAP requires the capitalization of interest costs as part of the historical cost of acquiring certain assets whether or not the assets are specifically financed by debt. Capitalized interest costs are amortized on the same basis as the related assets.
- (iii) U.S. GAAP requires that these items be included in earnings before extraordinary items. See note 2, page 26 for details.
- (iv) Under U.S. GAAP the treasury stock method has been used to compute the earnings per share. The primary earnings per share under U.S. GAAP are based on 60,142,687 shares outstanding (1985 - 42,534,870 shares; 1984 - 36,438,555 shares), which exclude shares held by subsidiary companies. The fully diluted earnings per share are based on 72,478,222 shares outstanding (1985 - 42,534,870 shares; 1984 - 37,090,535 shares), excluding shares held by subsidiary companies.

Under U.S. GAAP the Corporation's retained earnings at December 31, 1986 would be \$537,745,000 (1985 - \$462,946,000; 1984 - \$427,926,000).

The following unaudited pro forma data gives effect to the purchase of Kidd Creek and related financing transactions (see note 1(b)(i), page 26). The data is prepared assuming that the transaction, accounted for as a purchase and the related financing transactions, occurred at the beginning of 1985.

Revenue  
Earnings for the period in accordance with U.S. GAAP  
Primary and fully diluted earnings per common share in  
accordance with U.S. GAAP (based on 59,608,438 shares  
outstanding)

Pro Forma data for the year  
ended December 31, 1985

(unaudited)  
\$1,418,723,000  
46,991,000

0.79



## 17. Investment in associated and other companies

	December 31, 1986		Market value (a)		Carrying value		Contribution to		
	Shares of common stock	Beneficial interest %	As at December 31,		As at December 31,		earnings (loss) for the year		
			1986 (000s)	1985 (000s)	1986 (000s)	1985 (000s)	1986 (000s)	1985 (000s)	1984 (000s)
Accounted for on an equity basis:									
Akaiicho Yellowknife Gold Mines Limited (b)				\$ 923		\$ 140	\$ (94)	\$ (57)	
Giant Yellowknife Mines Limited (b)				17,313		6,186	258	1,157	\$ 362
United Keno Hill Mines Limited	1,195,990	38.4	\$11,218	9,723	\$ 4,057	4,399	(750)	(1,564)	(3,289)
Other companies			699	478	3,672	1,014	680	293	
Total on an equity basis			11,917	28,437	7,729	11,739	94	(171)	(2,927)
Accounted for on a cost basis:									
McIntyre Mines Limited	175,825	4.8	6,593	6,989	10,175	10,175			
Consolidated Thompson- Lundmark Gold Mines Limited (c)	600,000	12.0	360	300	377	377			
Other companies			807	714			21	29	471
			<u>\$19,677</u>	<u>\$36,440</u>	<u>18,281</u>	<u>22,291</u>	<u>115</u>	<u>(142)</u>	<u>(2,456)</u>
Investments with no quoted market value:									
Western Platinum Limited (d)	5,929,000	49.0			53,907	10,010	3,073		725
Falconbridge Investments (Zimbabwe) (Private) Limited	9,208	100.0					707	1,021	1,067
Other companies					504	492			
					<u>\$72,692</u>	<u>\$32,793</u>	<u>\$ 3,895</u>	<u>\$ 879</u>	<u>\$ (664)</u>

(a) The market values shown are based on Canadian stock exchange closing bid prices at year end. Because of the number of shares involved the amounts that could be realized if these securities were to be sold may be more or less than their indicated quoted market value.

(b) Investments sold, see note 2, page 26.

(c) Formerly Thompson-Lundmark Gold Mines Limited.

(d) Investment increased in 1986 with the acquisition of 2,903,999 shares for \$43,897,000. See also note 19(b), page 39.



### 18. Segmented sales and asset data

Falconbridge operates in one industry segment — mining, processing and marketing mineral products.

(a) Consolidated sales revenues by geographical area were as follows:

	1986		1985		1984	
	Amount (000s)	%	Amount (000s)	%	Amount (000s)	%
Europe	\$ 425,281	37	\$291,452	33	\$243,640	34
U.S.A.	375,939	33	256,657	29	205,221	28
Others	79,454	7	99,061	11	91,198	12
*Total foreign	880,674	77	647,170	73	540,059	74
Canada	264,806	23	243,077	27	193,253	26
*World total	\$1,145,480	100	\$890,247	100	\$733,312	100

\*Includes sales by Canadian operations to foreign customers of

\$ 591,245

\$259,748

\$364,118

(b) Producing assets by geographic location are as follows:

	1986		1985	
	Property, plant and equipment (000s)	Development and preproduction expenditures (000s)	Property, plant and equipment (000s)	Development and preproduction expenditures (000s)
Canada	\$1,334,678	\$313,992	\$233,894	\$200,262
Dominican Republic	60,111	33,406	66,157	35,074
Norway	63,130		34,378	
	\$1,457,919	\$347,398	\$334,429	\$235,336



(c) The following table shows consolidated sales revenues by product category:

	1986		1985		1984	
	Amount (000s)	%	Amount (000s)	%	Amount (000s)	%
<b>Integrated Nickel Operations:</b>						
Nickel	\$ 246,363	22	\$373,888	42	\$252,380	34
Copper	80,073	7	63,324	7	62,536	9
Cobalt	38,668	3	57,433	7	32,968	5
Gold	3,779		2,004		4,797	1
Silver	642		740		2,633	
Platinum	10,094	1	5,008	1	8,932	1
Palladium	3,683		2,522		4,661	1
Other revenues	17,524	2	26,578	3	24,571	3
	<b>400,826</b>	<b>35</b>	<b>531,497</b>	<b>60</b>	<b>393,478</b>	<b>54</b>
<b>Kidd Creek:</b>						
Copper	221,378	19				
Zinc	141,254	12				
Zinc concentrate	19,807	2				
Gold	36,863	3				
Silver	46,142	4				
Other revenues	17,614	2				
	<b>483,058</b>	<b>42</b>				
<b>Other operations:</b>						
Ferronickel	133,928	11	160,375	18	153,477	21
Copper	19,747	2	40,326	5	36,127	5
Zinc	2,754		11,044	1	14,647	2
Gold	31,928	3	79,074	9	62,006	8
Silver	1,116		3,330		3,885	1
Industrial minerals	46,225	4	39,545	4	43,042	6
Steel castings	19,122	2	14,487	2	16,317	2
Other revenues	6,776	1	10,569	1	10,333	1
	<b>261,596</b>	<b>23</b>	<b>358,750</b>	<b>40</b>	<b>339,834</b>	<b>46</b>
<b>Consolidated total</b>	<b>\$1,145,480</b>	<b>100</b>	<b>\$890,247</b>	<b>100</b>	<b>\$733,312</b>	<b>100</b>

\* Includes sales of purchased concentrates and metals of \$142,128,000, \$207,112,000 and \$67,858,000 in 1986, 1985 and 1984 respectively.

(d) See pages 41 to 43, for additional, unaudited, segmented information.

#### 19. Subsequent events

- (a) On February 2, 1987 Falconbridge announced that it had entered into an agreement with NIM and Company, Limited Partnership — 1987 (NIM) for the provision to Falconbridge of flow-through exploration funding. Under the agreement, which is subject to regulatory approval, the Corporation will issue common shares to NIM in return for \$13.2 million to finance Canadian exploration expenditures on Falconbridge's properties in 1987.
- (b) On February 9, 1987 Falconbridge announced that it had sold its entire holdings of 5,929,000 common shares, representing 49% of the outstanding shares, of Western Platinum Limited (Western Platinum) for U.S. \$75 million. Cash proceeds of U.S. \$65 million have been received and a further U.S. \$10 million will be received on October 1, 1987. A net after-tax profit of approximately \$43.6 million will be reflected in the consolidated financial statements for 1987.





A MEMBER OF ARTHUR YOUNG INTERNATIONAL

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To the Shareholders of Falconbridge Limited:

We have examined the statement of consolidated financial position of Falconbridge Limited as at December 31, 1986 and 1985 and the consolidated statements of operations, shareholders' equity and changes in consolidated financial position for each of the years in the three-year period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Falconbridge Limited as at December 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1986 in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Toronto, Canada  
February 9, 1987.

*Clarkson Gordon*  
Chartered Accountants

**Comment on Differences in Canadian-United States Reporting Standards for Auditors**

In the United States, reporting standards for auditors require the expression of an opinion qualified as being subject to the outcome of significant uncertainties affecting the financial statements such as the uncertainty relating to Falconbridge Dominicana, C. por A., referred to in note 7(b), page 29, of the notes to consolidated financial statements. The opinion in our above report is expressed in accordance with Canadian standards and is not qualified with respect to, and provides no reference to, this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Toronto, Canada  
February 9, 1987.

*Clarkson Gordon*  
Chartered Accountants



(unaudited)

The segmented information contained on pages 42 and 43, and the following notes, present a more detailed review of the various group operations. It should be read in conjunction with the preceding consolidated financial statements and notes.

# 1. Principal Operations

## (a) Integrated Nickel Operations

Included under the caption "Integrated Nickel Operations" (INO) are the accounts of the Corporation and all its wholly owned subsidiaries engaged in the integrated operations of mining, milling, smelting, refining and marketing of metals mainly derived from Sudbury ores. The companies comprising the INO are interdependent and production activities are carried on in Canada (mainly mining and reduction of ore to matte in Sudbury) and in Norway (producing refined metals from matte). The Marketing Division is structured to serve worldwide markets and contracts the processing of material containing various metals, on a fee basis (refined metals produced from these sources are either marketed on an agency basis or returned to the owner of the material). The Marketing Division also purchases and resells finished products.

## (b) Kidd Creek

In 1986, the Corporation acquired the wholly owned Kidd Creek group of companies. Kidd Creek is a fully integrated mining enterprise which has its products sold on a worldwide basis by the Falconbridge Marketing Division. It owns and operates mining and metallurgical facilities in Timmins.

## (c) Corporate

It is not practicable to allocate the Corporation's net corporate expenditures among its principal operations or to segregate certain of the INO, Kidd Creek and Corporation's financial items.

# 2. Consolidated adjustments

Adjustments have been made on consolidation as follows:

## (a) Falconbridge Dominicana, C. por A.

The ferronickel produced by Falcondo is purchased and marketed by the Corporation. The earnings of Falcondo include profits on all ferronickel sold to the Corporation whereas consolidated earnings exclude the profits relating to inventories of ferronickel held by the Corporation at December 31, for subsequent resale to customers.

## (b) Other adjustments have been made to eliminate inter-company transactions.

# 3. Segmented sales and asset data

See note 18, page 38, for certain audited segmented sales and asset data.

Additional unaudited segmented information is included in the Summary of 1986 and 1985 consolidated results by quarters, pages 44 and 45 and in the Ten-Year Review, pages 46 and 47.

# 4. Falconbridge Dominicana, C. por A.

During 1986 the Corporation acquired an additional 19,670 shares of Falcondo to increase its equity interest to 67.7%.

# 5. Indusmin Division

The 1986 and 1985 results include the nepheline syenite operations of IMC Industry Group (Canada) Ltd. which was acquired in June 1985.

In 1984 the Corporation acquired all of the common shares of Indusmin Limited. On May 31, 1985 Indusmin Limited became a division of the Corporation.

# 6. Others

Includes data pertaining to subsidiary companies up to the date the Corporation sold its investment in these subsidiaries — CFC, sold in August 1986; and, Kiena, sold in January 1986.

Property, plant and equipment, net, includes the costs relating to certain projects, the largest of which is New Quebec Raglan, upon which further work has been suspended, see note 7(c)(ii), page 30.



# SEGMENTED INFORMATION

(unaudited - 000s omitted)

December 31,

1986

## Principal operations (note 1)

	Integrated Nickel Operations	Kidd Creek	Corporate	Total	Falconbridge Dominicana, C. por A.	Indusmin Division	Others	Consolidation adjustments	Consolidated total
% ownership	(100%)	(100%)			(67.7%) (notes 2 and 4)	(100%) (note 5)	(note 6)	(note 2)	
Earnings Revenues	\$400,826	\$ 483,058	\$ 3,797	\$ 887,681	\$121,830	\$67,038	\$60,145	\$ 8,786	\$1,145,480

## Earnings

Operating expenses:									
Costs of metal and other product sales	324,862	314,147		639,009	86,635	46,755	45,441	8,427	826,267
Selling, general and administrative	11,556	25,859	25,427	62,842	8,369	6,243	2,156	(3,564)	76,046
Development and preproduction	21,291	7,841		29,132	2,230	234	3,239	(184)	34,651
Depreciation and depletion	23,329	63,985		87,314	10,074	2,761	4,719	97	104,965
Other charges	3,962			3,962	3,821		233		8,016
Operating profit (loss)	385,000	411,832	25,427	822,259	111,129	55,993	55,788	4,776	1,049,945
Interest (net) and debt expenses	15,826	71,226	(21,630)	65,422	10,701	11,045	4,357	4,010	95,535

Exchange loss on early retirement of long-term debt			74,012	74,012	14,326	(1,451)	(4,436)	1,723	84,174
Exploration			2,354	2,354					2,354
Research and process development			19,339	19,339	140	18	3,781	3,836	27,114
			4,553	4,553		421			4,974
			100,258	100,258	14,466	(1,012)	(655)	5,559	118,616

Earnings (loss) before investment income and taxes									
Investment income (loss)			(121,888)	(34,836)	(3,765)	12,057	5,012	(1,549)	(23,081)
Earnings (loss) before taxes			3,895	3,895					3,895
Income and mining taxes (credit)			(117,993)	(30,941)	(3,765)	12,057	5,012	(1,549)	(19,186)
				(8,072)		5,252	2,272	(3,837)	(4,385)
Earnings (loss) for the year before other items				\$ (22,869)	\$ (3,765)	\$ 6,805	\$ 2,740	\$ 2,288	\$ (14,801)

Minority shareholders' interest in earnings (loss)					\$ (579)		\$ 1,296		\$ 717
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Falconbridge's interest in above earnings (loss) after consolidation adjustments and before extraordinary items (note 2)					\$ (22,869)	\$ (1,027)	\$ 6,749	\$ 1,629	\$ (15,518)
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## Financial Data:

Working capital				\$ 484,749	\$ 60,362	\$17,899	\$ 356	\$ (4,149)	\$ 559,217
Property, plant and equipment									
Producing assets, at net book value	\$425,782	\$1,260,069	\$ 1,988	\$1,687,839	\$ 94,514	\$23,270	\$ 487	\$ (793)	\$1,805,317
Non-producing assets, at cost less amounts written off	\$ 16,553			\$ 16,553		\$ 657	\$41,262	\$ 5,662	\$ 64,134
Long-term debt				\$1,064,061	\$288,302			\$ (148,918)	\$1,203,445

## Additions to property, plant and equipment and preproduction

	\$111,162	\$ 35,320	\$ 1,102	\$ 147,584	\$ 6,923	\$ 4,198	\$ 882		\$ 159,587
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## Principal location of assets

	Ontario, Bermuda and Norway	Ontario			Dominican Republic	Ontario, Quebec and U.S.A.			Ontario, Bermuda and Norway
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## Principal products

	Nickel, copper and cobalt	Zinc, copper, silver and gold			Ferronickel	Industrial minerals and metal castings			Nickel, copper and cobalt
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## Major markets for principal products

	The Americas, Europe and Asia	The Americas, Europe and Asia			The Americas, Europe and Asia	Canada and U.S.A.			The Americas, Europe and Asia
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## Principal operations (note 1)

	Integrated Nickel Operations	Corporate	Total	Falconbridge Dominicana, C. por A.
% ownership	(100%)			(67.7%) (note 2)
Earnings Revenues	\$531,497	\$ 4,632	\$536,129	\$170,000

Operating expenses:				
Costs of metal and other product sales	411,048		411,048	133,000
Selling, general and administrative	12,565	21,562	34,127	8,000
Development and preproduction	19,065		19,065	2,000
Depreciation and depletion	18,673		18,673	8,000
Other charges	7,351		7,351	1,000
Operating profit (loss)	468,702	21,562	490,264	153,000
Interest (net) and debt expenses	62,795	(16,930)	45,865	17,000
Exchange loss on early retirement of long-term debt		(27,502)	(27,502)	30,000
Exploration		824	824	
Research and process development		15,896	15,896	
		4,379	4,379	
		(6,403)	(6,403)	30,000

Earnings (loss) before investment income and taxes				
Investment income (loss)			(10,527)	52,268
Earnings (loss) before taxes			881	881
Income and mining taxes (credit)			(9,646)	53,000
				13,894
Earnings (loss) for the year before other items			\$ 39,255	\$ (13,000)

Minority shareholders' interest in earnings (loss)				\$ (3,000)
Falconbridge's interest in above earnings (loss) after consolidation adjustments and before extraordinary items (note 2)			\$ 39,255	\$ (7,000)

Working capital			\$375,912	\$48,000
Property, plant and equipment				
Producing assets, at net book value	\$360,728	\$ 1,665	\$362,393	\$103,000
Non-producing assets, at cost less amounts written off	\$ 9,746		\$ 9,746	
Long-term debt			\$141,858	\$283,000

## Financial Data:

Working capital			\$ 484,749	\$ 60,362
Property, plant and equipment				
Producing assets, at net book value	\$425,782	\$1,260,069	\$ 1,988	\$1,687,839
Non-producing assets, at cost less amounts written off	\$ 16,553			\$ 16,553
Long-term debt			\$1,064,061	\$288,302

## Additions to property, plant and equipment and preproduction

	\$111,162	\$ 35,320	\$ 1,102	\$ 147,584
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## Principal location of assets

	Ontario, Bermuda and Norway	Ontario		
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## Principal products

	Nickel, copper and cobalt	Zinc, copper, silver and gold		
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## Major markets for principal products

	The Americas, Europe and Asia	The Americas, Europe and Asia		
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(See notes to segmented information)



## FALCONBRIDGE LIMITED

1985					
Total	Falconbridge Dominicana, C. por A.	Indusmin Division	Others	Consolidation adjustments	Consolidated total
(67.1%) (note 2)	(100%) (note 5)	(note 6)	(note 2)		
6,129	\$170,294	\$60,780	\$136,895	\$ (13,851)	\$890,247
1,048	133,123	44,359	105,916	(13,368)	681,078
4,127	8,689	7,315	3,000	(2,516)	50,615
9,065	2,029	32	9,082	(303)	29,905
8,673	8,393	2,924	8,430	520	38,940
7,351	1,048		176	296	8,871
0,264	153,282	54,630	126,604	(15,371)	809,409
5,865	17,012	6,150	10,291	1,520	80,838
7,502	30,527	274	(6,979)	(3,661)	(7,341)
824					824
5,896	108	172	11,351	6,896	34,423
4,379		227			4,606
5,403	30,635	673	4,372	3,235	32,512
2,268	(13,623)	5,477	5,919	(1,715)	48,326
881				(2)	879
3,149	(23)	5,477	5,919	(1,717)	49,205
3,894		2,306	1,767	(6,325)	11,642
9,255	(13,623)	\$ 3,171	\$ 4,152	\$ 4,608	\$ 37,563
	\$ (3,655)	\$ 2,675			\$ (980)
9,255	\$ (7,148)	\$ 3,086	\$ 3,350		\$ 38,543
5,912	48,668	\$26,467	\$ 84,597	\$ (1,539)	\$534,105
2,393	103,185	\$22,482	\$ 81,690	\$ 15	\$569,765
2,746		\$ 657	\$ 55,527	\$ 5,662	\$ 71,592
858	283,235			\$(141,123)	\$283,970
6,071	2,656	\$ 3,485	\$ 17,500		\$ 99,712
	Dominican Republic	Ontario, Quebec and U.S.A.			
	Ferronickel	Industrial minerals and metal castings			
	Asia,	Canada and U.S.A.			
	Europe				
	and Asia				

1984							
Principal operations (note 1)							
Integrated Nickel Operations	Corporate	Total	Falconbridge Dominicana, C. por A.	Indusmin Limited	Others	Consolidation adjustments	Consolidated total
(100%)			(67.1%) (note 2)	(100%) (note 5)	(note 6)	(note 2)	
\$393,478	\$ 4,429	\$397,907	\$157,703	\$65,788	\$120,267	\$ (8,353)	\$733,312
258,714		258,714	123,674	46,830	95,171	(3,602)	520,787
13,756	16,897	30,653	14,789	7,004	3,367	(5,795)	50,018
17,254		17,254	1,924	31	4,862	(403)	23,668
16,789	213	17,002	8,836	2,677	4,739	105	33,359
6,971	5	6,976			1,463		8,439
313,484	17,115	330,599	149,223	56,542	109,602	(9,695)	636,271
79,994	(12,686)	67,308	8,480	9,246	10,665	1,342	97,041
	(8,420)	(8,420)	17,846	(1,861)	(7,760)	4,117	3,922
	14,810	14,810					14,810
	12,905	12,905	94	132	10,797		23,928
	2,952	2,952		288			3,240
	22,247	22,247	17,940	(1,441)	3,037	4,117	45,900
	(34,933)	45,061	(9,460)	10,687	7,628	(2,775)	51,141
	(664)	(664)					(664)
	(35,597)	44,397	(9,460)	10,687	7,628	(2,775)	50,477
		15,427		4,337	2,499	(102)	22,161
		\$ 28,970	\$ (9,460)	\$ 6,350	\$ 5,129	\$ (2,673)	\$28,316
			\$ (3,923)	\$ 1,230	\$ 2,315		\$ (378)
		\$ 28,970	\$ (7,241)	\$ 4,102	\$ 2,863		\$ 28,694
		\$283,178	\$ 42,864	\$21,010	\$ 71,201	\$ (3,592)	\$414,661
	\$ 1,511	\$329,479	\$105,022	\$17,836	\$ 54,152	\$ (1,313)	\$505,176
	\$ 5,148	\$ 5,148		\$ 638	\$ 88,852	\$ 5,743	\$100,381
		\$143,694	\$258,993	\$17,000	\$ 868	\$(136,713)	\$283,842
	\$ 717	\$ 45,278	\$ 2,322	\$ 2,773	\$ 52,387		\$102,760
			Dominican Republic	Ontario, Quebec and U.S.A.			
			Ferronickel	Industrial minerals and metal castings			
			The Americas, Europe and Asia	Canada and U.S.A.			



# SUMMARY OF 1986 AND 1985 CONSOLIDATED RESULTS BY QUARTERS

(unaudited — 000s omitted except per share data and tonnes)

	1986				(note 1)
	Three month period ended				
	March 31	June 30	Sept. 30	Dec. 31	Year
<b>Metal sales:</b>					
Integrated Nickel Operations (note 5) —					
Nickel (tonnes)	11,256	11,396	8,237	10,432	41,321
Copper (tonnes)	8,412	9,573	10,213	13,395	41,593
Kidd Creek —					
Zinc — Metal (tonnes)	36,367	34,486	34,653	29,515	135,021
— Concentrate (tonnes)	5,098	5,120	41,847	23,022	75,087
Copper (tonnes)	26,533	31,865	30,024	25,414	113,836
Silver (ounces)	1,391	936	2,124	1,576	6,027
Gold (ounces)	13	13	15	29	70
Falconbridge Limited —					
Ferronickel (tonnes)	5,211	3,658	7,202	7,451	23,522
<b>Earnings (loss):</b>					
Revenues	\$292,412	\$289,707	\$278,915	\$284,446	\$1,145,480
Interest, investment and other income, net	18,919	6,960	9,734	11,881	47,494
	311,331	296,667	288,649	296,327	1,192,974
Costs other than the undermentioned	243,579	236,052	212,480	210,202	902,313
Depreciation, depletion, development and preproduction	37,169	34,763	32,771	34,913	139,616
Exploration, research and process development	11,227	10,481	6,978	3,402	32,088
Interest and debt expenses	36,845	29,615	29,821	31,492	127,773
Exchange loss on early retirement of long-term debt	800	377	471	706	2,354
Other charges	3,563	1,911	239	2,303	8,016
Income and mining taxes	(3,128)	(4,000)	(1,797)	4,540	(4,385)
Minority interest in earnings (losses) of subsidiaries, net	(1,580)	(2,469)	2,092	2,674	717
	328,475	306,730	283,055	290,232	1,208,492
Earnings (loss) for the period before extraordinary items	(17,144)	(10,063)	5,594	6,095	(15,518)
Extraordinary items (note 3)	41,961		43,826		85,787
Earnings (loss) for the period	\$ 24,817	\$ (10,063)	\$ 49,420	\$ 6,095	\$ 70,269
<b>Earnings (loss) per share (note 4):</b>					
Before extraordinary items	\$ (0.29)	\$ (0.17)	\$ 0.09	\$ 0.10	\$ (0.27)
Extraordinary items	0.72		0.76		1.48
For the period	\$ 0.43	\$ (0.17)	\$ 0.85	\$ 0.10	\$ 1.21
<b>Earnings (loss) contributions:</b>					
Principal operations:					
Operating profit —					
Integrated Nickel Operations	\$ 10,813	\$ 8,821	\$ (2,308)	\$ (1,500)	\$ 15,826
Kidd Creek	5,548	9,319	26,197	30,162	71,226
Total	16,361	18,140	23,889	28,662	87,052
Corporate and other expenditures, net	(34,723)	(29,767)	(27,833)	(29,565)	(121,888)
Income and mining taxes	3,615	5,031	2,744	(3,318)	8,072
Contribution from principal operations	(14,747)	(6,596)	(1,200)	(4,221)	(26,764)
Corporation Falconbridge Copper	373	484	144		1,001
Falconbridge Dominicana, C. por A.	(5,059)	(5,731)	4,111	5,652	(1,027)
Giant Yellowknife Mines Limited	52	(12)	218		258
Indusmin Division	1,451	1,855	1,497	1,946	6,749
Kiena Gold Mines Limited					
United Keno Hill Mines Limited	(277)	(241)	(126)	(106)	(750)
Other	1,063	178	950	2,824	5,015
Earnings (loss) for the period before extraordinary items	\$ (17,144)	\$ (10,063)	\$ 5,594	\$ 6,095	\$ (15,518)
<b>Market price and dividend information about the Corporation's shares</b>					
Sales prices for common shares —					
High	\$26.00	\$24.88	\$21.13	\$19.00	
Low	19.38	20.00	17.13	16.13	
Dividends paid	Nil	Nil	Nil	Nil	



Three month period ended				1985
March 31	June 30	Sept. 30	Dec. 31	(note 2) Year
13,115	14,333	11,185	15,967	54,600
8,029	7,494	8,752	8,491	32,766
6,056	6,288	5,554	5,775	23,673
\$216,299	\$245,063	\$205,943	\$222,942	\$890,247
10,625	12,505	13,265	11,864	48,259
226,924	257,568	219,208	234,806	938,506
171,999	202,798	173,409	183,487	731,693
15,940	17,625	17,572	17,708	68,845
8,439	9,012	8,470	13,108	39,029
10,857	9,049	9,612	10,521	40,039
753	2	12	57	824
7,139	4,626	6,583	2,288	8,871
(431)	(584)	(803)	680	11,642
214,696	242,528	215,533	227,206	899,963
12,228	15,040	3,675	7,600	38,543
\$ 12,228	\$ 15,040	\$ 3,675	\$ 7,600	\$ 38,543
\$ 0.30	\$ 0.37	\$ 0.09	\$ 0.19	\$ 0.95
\$ 0.30	\$ 0.37	\$ 0.09	\$ 0.19	\$ 0.95

\$ 26,446	\$ 20,364	\$ 1,342	\$ 14,643	\$ 62,795
26,446	20,364	1,342	14,643	62,795
(4,416)	(959)	(1,396)	(3,756)	(10,527)
(8,081)	(4,524)	2,273	(3,562)	(13,894)
13,949	14,881	2,219	7,325	38,374
(269)	(250)	931	607	1,019
(1,192)	(1,873)	(726)	(3,357)	(7,148)
163	281	334	379	1,157
(279)	1,186	921	1,258	3,086
589	800	194	559	2,142
(745)	86	(378)	(527)	(1,564)
12	(71)	180	1,356	1,477
12,228	15,040	3,675	7,600	38,543

## Notes:

1. See note 1(b), page 26, which details changes in long-term investments impacting on the comparability of the 1986 and 1985 data presented herein. While zinc and gold prices increased to generally reasonable levels during the second half of 1986, depressed nickel, copper and cobalt prices, which deteriorated as the year progressed, had a significant negative impact on the consolidated results. Interest expenses were considerably higher in 1986 as a result of the debt incurred/assumed on the acquisition of Kidd Creek. Sales of refined nickel were considerably lower during 1986, compared with 1985, primarily due to a reduction in the sale of traded material.
2. The major factor relating to the decline in the operating profit of the INO, compared with 1984, was the writedown in the valuation of the purchased product inventory. However, the effect of the writedown was reduced due to slightly higher realized prices in Canadian dollars for nickel, copper and cobalt along with higher sales volumes. The major reasons for the decline in corporate and other expenditures, net, relates to the large reduction in interest expense due to the repayment of a portion of the long-term debt in 1984, increased interest income due to higher cash balances net of large exchange losses on the early repayment of long-term debt in 1984.
3. See note 2, page 26, of the notes to the consolidated financial statements.
4. Based on the weighted average number of shares outstanding during the year.
5. Includes metals refined and sold as agent and metals purchased for resale.

\$20.00	\$21.13	\$21.50	\$21.00
16.00	18.25	17.50	15.50
Nil	Nil	Nil	Nil



# TEN-YEAR REVIEW

(unaudited)

		1986	1985	
<b>Revenues and Earnings (Loss)</b> (\$000s except per share data)	Revenues	1,145,480	890,247	732
	Earnings (loss) before extraordinary items	(15,518)	38,543	28
	Per common share (note 1)	(0.27)	0.95	
	Extraordinary items	85,787		51
	Per common share (note 1)	1.48		
<b>Earnings (Loss) Contributions —</b> after consolidation adjustments, before extraordinary items (\$000s)	Principal Operations:			
	Operating profit —			
	Integrated Nickel Operations	15,826	62,795	79
	Kidd Creek (note 9)	71,226		
	Total	87,052	62,795	79
	Corporate expenditures, net (note 3)	(121,888)	(10,527)	(34)
	Income and mining taxes	8,072	(13,894)	(15)
	Contribution from principal operations	(26,764)	38,374	29
	Corporation Falconbridge Copper (note 8)	1,001	1,019	
	Falconbridge Dominicana, C. por A.	(1,027)	(7,148)	(7)
	Giant Yellowknife Mines Limited (note 8)	258	1,157	
	Indusmin Division	6,749	3,086	4
	Kiena Gold Mines Limited (note 8)		2,142	2
	Oamites Mining Company (Proprietary) Limited (note 2)			
	United Keno Hill Mines Limited	(750)	(1,564)	(3)
	Wesfrob Mining Division		(155)	
	Others	5,015	1,632	3
	Earnings (loss) before extraordinary items	(15,518)	38,543	28
<b>Financial Position (\$000s)</b>	Total assets	2,688,674	1,351,378	1,165
	Working capital —			
	Integrated Nickel Operations, Kidd Creek and Corporate (note 4)	484,749	375,999	283
	Falconbridge Dominicana, C. por A.	60,362	48,668	42
	Corporation Falconbridge Copper (note 8)		79,403	68
	Consolidated total	559,217	534,105	414
	Property, plant and equipment, net —			
	Producing	1,805,317	569,765	505
	Non-producing	64,134	71,592	100
	Long-term debt	1,203,445	283,970	283
<b>Shareholders' Data</b>	Deferred exchange loss	1,168	10,399	1
	Shareholders' equity (000s)	\$1,223,975	786,185	635
	Amount per common share (note 1)	\$ 20.10	18.76	1
	Dividends paid per common share (note 1)	\$		
	Number of common shares issued			
	at end of year (notes 1 and 5) (000s)	60,894	41,894	36
	Number of registered common shareholders	5,140	4,579	4
	Toronto Stock Exchange quotes, High (note 1)	\$ 26.00	21.50	1
	(TSE) Low (note 1)	\$ 16.13	15.50	1
	Close (note 1)	\$ 16.88	20.50	1
<b>Exploration, Research and Process Development (\$000s)</b>	Volume of shares traded on TSE (000s) (note 1)	35,725	15,210	9
	Volume of warrants traded on TSE (000s)	2,525	1,634	1
	Preference shares (000s)	\$		
	Dividends paid per preference share	\$		
<b>Capital Expenditures (\$000s)</b>	Exploration	27,114	34,423	23
	Research and process development	4,974	4,606	3
	Expenditures on property, plant, equipment, development and preproduction —			
<b>Metal Sales</b>	Integrated Nickel Operations	111,162	75,656	44
	Corporation Falconbridge Copper (note 8)		9,831	31
	Kidd Creek (note 9)	35,320		
	Consolidated total	159,587	99,712	102
	Integrated Nickel Operations —			
	Nickel (tonnes) (note 6)	41,321	54,600	39
	Copper (tonnes) (note 6)	41,593	32,766	36
	Falconbridge Limited —			
	Nickel in ferronickel (tonnes) (note 7)	23,522	23,673	23
	Corporation Falconbridge Copper (note 8) —			
<b>Ore Reserves (000s)</b>	Copper (tonnes)	10,264	20,352	20
	Zinc (tonnes)	2,338	9,007	10
	Kidd Creek (note 9) —			
	Zinc — Metal (tonnes)	135,021		
	— Concentrate (tonnes)	75,087		
	Copper — Metal (tonnes)	113,836		
	Silver (000s ounces)	6,027		
	Falconbridge Limited (tonnes)	52,200	57,700	63
	Falconbridge Dominicana, C. por A. (tonnes)	27,000	27,900	37
	Kidd Creek (tonnes) (note 9)	57,900		

- Notes:
1. Per share amounts and the number of shares outstanding and traded have been adjusted to reflect the division of the common shares on a five-for-one basis in 1985.
  2. Investment sold in 1982.
  3. Before investment income (loss).
  4. See note 1(c), page 41, of the notes to segmented information.
  5. Includes shares held by consolidated subsidiaries during the years 1977 to 1985, inclusive.
  6. Includes metals refined and sold as agent and metals purchased for resale.
  7. Ferronickel sales to customers, see note 2(a), page 41, of the notes to segmented information.
  8. Investments sold in 1986, see note 2, page 26, of the notes to consolidated financial statements.
  9. Kidd Creek was acquired in 1986, see note 1(b)(i), page 26, of the notes to consolidated financial statements.



	1984	1983	1982	1981	1980	1979	1978	1977
5								
7	733,312	615,387	483,126	712,952	757,815	789,418	508,211	381,684
3	28,694	(31,409)	(81,279)	1,443	74,980	105,163	14,878	(18,629)
5	0.80	(0.93)	(3.26)	0.06	2.75	3.99	0.41	(0.82)
	492	14,816		(5,122)	37,700	6,131		20,238
	1.43	0.44		(0.21)	1.51	0.25		0.82
5	79,994	914	(27,412)	90,821	135,342	110,709	34,802	(9,664)
5	79,994	914	(27,412)	90,821	135,342	110,709	34,802	(9,664)
7	(34,933)	(20,972)	(53,658)	(53,529)	(27,719)	(22,942)	(26,140)	(37,226)
4	(15,380)	8,238	45,474	(11,835)	(50,981)	(30,347)	902	19,723
4	29,681	(11,820)	(35,596)	25,457	56,642	57,420	9,564	(27,167)
9	499	28	(1,012)	266	15,152	23,277	7,498	2,913
8	(7,241)	(27,071)	(44,071)	(21,316)	(5,378)	3,496	(7,670)	2,399
7	362	806	135	161	1,150	1,492	613	368
6	4,102	3,533	882	2,037	2,398	2,714	2,027	1,251
2	2,454	4,036	2,647	6				
			(434)	(593)	909	1,360	405	(336)
4	(3,289)	721	(2,615)	(1,488)	3,718	10,035	1,825	1,168
5	(924)	(1,909)	(214)	(1,089)	1,503	4,597	551	(2,211)
2	3,050	267	(1,001)	(1,998)	(1,114)	772	65	2,986
3	28,694	(31,409)	(81,279)	1,443	74,980	105,163	14,878	(18,629)
3	1,165,550	1,262,579	1,165,235	1,335,255	1,231,341	1,129,110	939,976	934,037
9	283,441	309,118	248,936	375,132	237,688	264,798	200,597	204,202
3	42,864	34,411	25,237	35,226	52,144	56,030	44,578	42,785
3	68,302	91,014	101,133	103,703	106,983	85,194	45,525	32,696
5	414,661	472,168	407,035	540,053	418,400	424,845	306,006	290,743
5	505,176	389,587	415,231	437,591	408,949	380,960	387,539	313,455
0	100,381	167,532	144,340	128,525	115,632	105,747	89,092	150,380
0	283,842	486,135	502,262	490,295	315,311	315,094	328,570	306,580
0	1,893	9,299	12,598	7,223	8,743	9,577	12,537	6,615
5	635,994	532,285	445,040	523,271	534,954	519,199	429,402	414,472
5	17.58	15.24	17.84	20.95	21.42	20.79	17.22	16.67
				0.30	0.70	0.60		0.10
4	3,335	35,140	25,124	25,124	25,124	25,124	25,122	25,050
4	4,314	4,762	5,169	5,542	5,908	7,362	8,351	9,150
9	17.60	17.60	14.75	23.20	32.20	18.35	7.25	7.95
9	11.15	9.48	6.50	11.40	15.80	6.40	3.33	3.30
9	15.90	14.20	9.70	14.80	20.50	18.30	6.50	4.15
9	9.695	15,440	6,640	6,180	14,100	10,750	7,115	3,020
	1,012	1,913						
					2,158	75,000	75,000	75,000
					1,970	1,577		0.564
	23,928	18,965	28,806	37,964	28,284	14,297	7,662	9,726
	3,240	3,394	5,769	11,105	6,636	3,960	3,086	3,844
	44,561	26,938	34,401	70,927	64,946	37,008	30,429	63,762
	31,861	11,054	5,368	8,119	9,306	10,489	8,543	7,720
	102,760	46,449	46,122	104,817	90,995	58,352	42,964	81,701
	39,421	38,743	26,181	29,769	27,112	40,665	33,967	15,825
	36,740	25,710	23,352	26,949	26,015	20,291	14,550	20,389
	23,737	20,438	8,313	19,857	15,679	21,604	19,721	19,683
	20,947	25,086	23,878	25,548	31,376	37,897	39,715	41,898
	10,753	3,142	1,151	3,443	23,126	41,599	38,709	40,385
	63,000	66,800	70,100	71,800	71,300	68,700	71,500	73,200
	37,500	39,600	41,700	57,900	59,900	62,300	62,100	63,500



### Analysis of Financial Condition

For Falconbridge 1986 was a year of transition and consolidation in which a number of significant corporate strategies and developments were successfully completed under generally adverse market conditions.

On the basis of a strong balance sheet, effective cost reductions and acceptance in equity and debt markets, the Corporation, through the acquisition of Kidd Creek, doubled its assets, further diversified its product range and strengthened its strategic position to take advantage of different sectors of the world economy.

### Liquidity and Capital Resources

Cash and temporary investments of \$281,898,000 have decreased to 39% of current assets at the end of 1986, down from \$310,602,000 or 47% of current assets at the end of 1985.

As consideration for the acquisition of Kidd Creek, the Corporation paid to CDC, in 1986, \$140 million in cash, issued 10,473,568 common shares (valued at \$204,235,000, \$19.50 per share) and \$270,765,000 unsecured 8.5% Convertible debentures of the Corporation. In addition to the \$116,206,000 cash provided by operating activities the Corporation received gross proceeds of \$167,662,000 from the sale of common shares; cash proceeds of \$154,492,000 from the sale of subsidiary and associated companies; and U.S. \$421,000,000 from various banking facilities. The bank loans were largely used to repay the bank indebtedness of Kidd Creek which carried a higher rate of interest and was more restrictive. The foregoing inflows were offset by the application of \$154,288,000 to reduce long-term debt (excluding the Kidd Creek acquisition transaction); net capital expenditures of \$159,587,000; and a \$43,897,000 expenditure to increase the Corporation's investment in Western Platinum to 49%.

Expenditures for the INO in 1987 for capital, preproduction and development are expected to be approximately \$62,000,000 at the Sudbury operations and \$31,000,000 at the Norwegian refinery; and, \$34,000,000 at Kidd Creek all of which the Corporation intends to finance from internal sources.

Long-term debt of \$1,218 million, including the debt acquired with and as a result of the Kidd Creek acquisition, results in a debt to equity ratio of 50:50, or 43:57 after applying the cash on hand to debt.

Since July 1980, the Corporation and the other sponsor have been required by the provisions of financing agreements to meet the cash deficiencies of Falcondo. The Corporation is required to provide 60% of the shortfall in operating and debt service requirements. Repayments are made in this proportion when excess cash is generated from operations. To the end of 1986, the total cash provided to Falcondo (translated at 1986 year end rates of exchange) has amounted to \$157,383,000. During 1986, Falcondo repaid \$3,912,000 whereas in 1985 and 1984 the sponsors provided \$3,041,000 and \$5,873,000, respectively. It is anticipated that Falcondo will make a further repayment in 1987, reflecting cost-management measures combined with productivity improvements.

At December 31, 1986, working capital amounted to \$559,217,000, \$25,112,000 higher than a year earlier. The overall increase in working capital is primarily due to the inclusion of Kidd Creek in 1986. The ratio of current assets to current liabilities of 4.4:1 at December 31, 1986, compares with 5.2:1 at the end of 1985.

Warrants entitling the holder to purchase five common shares for \$65.50 on or before February 5, 1987 were exercised in 1987, resulting in proceeds to the Corporation of \$65.2 million. Also in 1987

Falconbridge sold its entire shareholdings of Western Platinum for U.S. \$75 million; and, entered into an agreement under which the Corporation will issue common shares in return for \$13.2 million to finance exploration expenditures (see note 19, page 39).

At December 31, 1986 the Corporation had available long-term lines of credit and operating lines of credit as shown in note 14 on page 35.

Restrictions contained in the indenture with respect to the Corporation's 8.85% sinking fund debentures and an agreement entered into by the Corporation in connection with the financing of Falcondo currently prohibit the Corporation from borrowing until the ratio of its consolidated indebtedness, as defined, to certain of its consolidated net tangible assets comes within prescribed limits. Management does not believe that this limitation on the Corporation's borrowing capacity will adversely affect its operations. However, if necessary the Corporation may pursue a number of alternatives, including accelerated repayment of its outstanding 8.85% sinking fund debentures and Falcondo related indebtedness, the sale of assets, or the sale of common or preference shares. Any sale of voting shares during the period ended March 1, 1988 will require prior approval of CDC, Dome and McIntyre.



### Analysis of Results of Operations

The details of the 1986, 1985 and 1984 contributions to consolidated earnings (loss) are shown in the Ten-Year Review, pages 46 and 47.

The accounts and operating results of Kidd Creek have been included from January 1, 1986, while those of Kiena have been excluded. The operating results of CFC are consolidated, while those of Giant and Akaitcho are reflected on an equity basis, in the consolidated statement of operations, up to the date the Corporation sold its shareholdings in these companies.

The 1986 operating profit of the INO was \$15,826,000, compared with \$62,795,000 in 1985. Lower metal prices, particularly nickel and cobalt, had an adverse effect on the INO's results. Sales of refined nickel were considerably lower during 1986 compared with the year earlier period, primarily due to a reduction in the sale of traded material. The sale of custom refined copper, under the BCL Limited contract, was the main reason for higher INO copper sales.

The 1985 operating profit of the INO was \$62,795,000, compared with \$79,994,000 in 1984. Revenues and cost of sales both increased significantly due to the higher sales volumes of purchased products. Realized metal prices in Canadian dollars for nickel, copper and cobalt increased over 1984. The major reason for the decline in operating profit relates to the writedown in the valuation of the purchased product inventory, being the difference between the cost of the product and its net realizable value.

Kidd Creek was acquired in 1986. Metal prices were generally depressed throughout the year but during the second half the zinc and gold prices increased, as did zinc concentrate, silver and gold sales volumes. Operating profit for 1986 was \$71,226,000.

Corporate costs, net, before investment income, of \$121,888,000 in 1986 were significantly higher than the \$10,527,000 in 1985, mainly because of the interest expense resulting from the debt incurred or assumed on the acquisition of Kidd Creek.

Corporate costs, net, before investment income, in 1985 were \$10,527,000, compared with \$34,933,000 in 1984. The significant decline in these costs relates to the large reduction in interest expense due to the repayment of the long-term debt in 1984 (using the proceeds from the sale of the shares of Superior) and increased interest income due to higher cash balances, net of large exchange losses on the early repayment of the long-term debt in 1984.

The \$1,001,000 interest in the 1986 earnings of CFC reflect the seven months operations prior to the Corporation selling its investment therein.

The interest in the 1985 earnings of CFC was \$1,019,000, compared with an earnings contribution of \$499,000 in 1984. The 1985 contribution was favourably affected by the Corporation's share (\$960,000) of CFC's favourable tax reassessment. Revenues from operations increased over 1984 due to the commencement of commercial production of the Lac Shortt Division. However, the increased operating profit was adversely affected by increased write-offs of development and preproduction, depreciation charges and increased exploration expenditures under the flow-through share program.

The Corporation's share of Falcondo's loss for 1986 was \$1,027,000, compared with a loss of \$7,148,000 for 1985. The lower loss contribution is due to a reduced unit production cost (reflecting lower cost oil and increased operating efficiencies), partially offset by the impact of a declining selling price for ferronickel. The benefit of lower oil prices was somewhat reduced during the fourth quarter after world oil costs increased slightly. The ferronickel sales volume was marginally lower than in 1986 although 2½ months production was lost because of a maintenance shutdown and strike. The company and the union reached an agreement on May 7 to end the strike which began on April 1.

The Corporation's share of Falcondo's losses was \$7,148,000 in 1985, compared with \$7,241,000 in 1984. Sales volumes declined slightly in 1985 but the realized average price per pound of ferronickel in Canadian dollars increased slightly. The 1985 results were adversely affected by shutdown costs incurred during a temporary curtailment of operations for maintenance purposes.

The \$258,000 interest in the 1986 earnings of Giant reflect the seven months operations prior to the Corporation selling its investment therein.

The interest in the 1985 earnings of Giant was \$1,157,000, compared with \$362,000 in 1984. Increased bullion production during the year offset a decline in gold prices.



The interest in the 1986 earnings of the Indusmin Division was \$6,749,000, compared with \$3,086,000 in 1985. The higher earnings mainly reflected increased operating efficiencies and a \$813,000 net gain from the sale of a distribution yard.

The interest in the 1985 earnings of the Indusmin Division was \$3,086,000, compared with \$4,102,000 in 1984. The reduction in the operating earnings relates to lower sales volumes.

The Corporation sold its investment in Kiena at the beginning of 1986. The interest in the 1985 earnings of Kiena was \$2,142,000, compared with \$2,454,000 in 1984. The decline in earnings is due primarily to the decline in the selling price realized for gold.

The Corporation's share of United Keno's 1986 loss was \$750,000, compared with a loss of \$1,564,000 in 1985. The lower loss reflected increased production and operating efficiencies, partially offset by the impact of a lower silver price.

The Corporation's share of the losses of United Keno was \$1,564,000 in 1985, compared with a \$3,289,000 loss in 1984. The 1985 share of the loss includes a gain of \$960,000 relating to the Corporation's share of damages plus accrued interest in an action for breach of contract against a customer. The 1985 results were adversely affected by the decline in the realized silver price.

In response to continuing low prices and world oversupply of nickel a number of measures were announced in October 1986. These include production shutdowns at the INO's Sudbury Operations from December 24, 1986 through January 4, 1987 and for the months of July and August 1987 and a permanent reduction in manpower of approximately 275 employees. A shutdown of the Norwegian refinery has been scheduled for at least one month in the summer of 1987.

During these times of generally low base metal prices Falconbridge has earned modest profits in the third and fourth quarters following two quarters of losses.

The Corporation maintains its commitment to strive, through cost reduction and cash conservation measures, to be profitable at current prices and to enhance its position as a reliable producer of metals.

See pages 41 to 43 for certain segmented data. Further discussions and analysis of results of operations of the Corporation and its subsidiary and associated companies are also contained throughout the annual report.

### **The Impact of Inflation**

Since 1976 Falconbridge has reported in some detail the impact of inflation on its financial position and operating results, latterly in accordance with the Canadian Institute of Chartered Accountants (CICA) recommendations. In the United States, the Financial Accounting Standard Board (FASB) recently released the results of a detailed review of the results of the disclosures regarding inflation and changing prices that have been required in recent years. FASB found that the information was not widely used and that it did not achieve the cost benefit relationship anticipated. Falconbridge is in agreement with the FASB findings and consequently has discontinued providing detailed information regarding the effect of inflation. However, a brief discussion on the impact of inflation and changing prices on net sales revenues and on income from continuing operations is provided below.

Because metal prices are set in international markets, they do not necessarily reflect the effect of inflation on Falconbridge's various cost components. Falconbridge cannot offset the effects of inflation by increasing prices as costs rise. In the years 1984 to 1986, inclusive, prices realized for some metals declined in both nominal and real terms. Increases in unit operating and other costs have generally been lower than average inflation rates due to strict cost control measures.

Recognizing that inflation affects all business activity, appropriate allowances are made in Falconbridge's planning and financial forecasting.



## BOARD OF DIRECTORS

## OFFICERS AND CORPORATE MANAGEMENT

## CORPORATE DIRECTORY

\* **William James**  
Chairman of the Board,  
President and  
Chief Executive Officer

**H. T. Berry**  
Consulting Metallurgist

\*†‡ **Marsh A. Cooper**  
President, M. A. Cooper  
Consultants Inc.

**Pierre Côté**  
Chairman of the Board,  
Canada Development  
Corporation

\*†‡ **Fraser M. Fell, Q.C.**  
Chairman and Chief Executive  
Officer, Dome Mines Limited

\*‡ **H. Anthony Hampson**  
Deputy Chairman and Chief  
Executive Officer, Canada  
Development Corporation

\*‡ **R. E. Harrison**  
Corporate Director

**Arnard F. Isautier**  
President and Chief Operating  
Officer, Canada Development  
Corporation

**W. F. James**  
Consulting Geologist

**A. T. Lambert, Q.C.**  
Corporate Director

† **D. E. Lewis, Q.C.**  
Barrister and Solicitor

° **J. Howard Macdonald**  
Chairman and Chief Executive  
Officer, Dome Petroleum  
Limited

**G. P. Mitchell**  
Consulting Geologist

**Victor A. Rice**  
Chairman and Chief Executive  
Officer, Varsity Corporation

**Eivind Wigstol**  
Managing Director, Falconbridge  
Nikkelverk Aktieselskap

\*Member of the Executive Committee

†Member of the Audit Committee

‡Member of the Nominating Committee

°Member of the Human Resource  
Committee

**William James**  
Chairman of the Board, President  
and Chief Executive Officer

**J. M. Donovan**  
Vice-President, Treasurer

**J. F. Gillies**  
Vice-President Marketing and Sales

**M. J. Knuckey**  
Vice-President Exploration

**F. G. T. Pickard**  
Vice-President Metallurgy and  
Engineering

**Michael P. Amsden**  
Vice-President, General Manager  
Kidd Creek Operations

**G. B. Reed**  
Vice-President, General Manager  
Sudbury Operations

**Michael C. Hughes**  
Vice-President Marketing and Sales  
Kidd Creek

**Øyvind Hushovd**  
Controller and Chief Financial Officer

**J. T. H. Clelland**  
General Manager,  
Ferro-nickel Operations

**Brian A. Ferguson**  
Director of Mining

**E. A. Seth**  
General Counsel and Secretary

**G. D. Gordon**  
Assistant General Counsel

**T. J. Desanti**  
Assistant Vice-President  
Commodity Marketing

**D. C. Hambley**  
Director Employee Relations

**Peter McBride**  
Director Public Affairs

**D. R. Bevan**  
Director Taxation

**G. T. Ballantyne**  
Assistant Controller Corporate

**S. W. E. Poat**  
Controller, Kidd Creek Division

**J. G. Wilson**  
Controller, Nickel Division

**K. B. Morley**  
Assistant Treasurer

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General Manager

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General Manager

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G. Lous, Chairman of the Board  
E. Wigstol, Managing Director  
E. O. Stensholt, Technical Director

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J. C. Cowan, Chairman  
C. M. Woodruff, President and  
Chief Executive Officer  
S. B. Goss, Vice-President,  
Corporate Affairs  
G. G. Jacox, Vice-President,  
Fahramet Division  
E. M. Yates, General Manager  
Engineering

### Marketing and Sales Subsidiaries

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Rapifax: (02) 660-6482  
K. W. Troemel, President

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Telex: 290-3479  
Rapifax: (809) 292-5441  
J. A. Vermeulen, President

**Falconbridge (Japan) Ltd.**  
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H. Amano, President

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Telex: 866-507  
Rapifax: (412) 787-0288  
R. W. Bain, President

### Subsidiary and Associated Companies

**Falconbridge Dominicana,  
C. por A.**  
J. T. H. Clelland, President and  
General Manager  
R. J. McAllister, Manager  
Operations

**United Keno Hill Mines Limited**  
J. C. Cowan, President and  
Chief Executive Officer  
T. Riordon, Mine Manager

**Falconbridge Investments  
(Zimbabwe)  
(Private) Limited**  
A. Ryan, Managing Director  
P. E. Griffiths, General Manager

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Suite 310  
Sainte-Foy, Quebec G1W 2L4

P.O. Box 398  
Windsor, Nova Scotia B0N 2T0

**Auditors**  
Clarkson Gordon

**Transfer Agents and Registrars**  
The Canada Trust Company,  
Toronto, Montreal,  
Vancouver and Calgary

Registrar and Transfer Company,  
New York, N.Y. and  
Cranford, N.J., U.S.A.

**Stock Exchanges**  
The shares of Falconbridge Limited  
are listed on the Toronto, Montreal  
and Vancouver stock exchanges.  
The shares are also traded  
Over-the-Counter in the  
United States.





FALCONBRIDGE



FALCONBRIDGE  
LIMITED  
P.O. Box 40  
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