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KIDD CREEK MINES LTD.  
ANNUAL REPORT 1983





## CONTENTS

President's Message	2
Our Resources	4
Our People	8
Our Products	12
Our Future	16
Financial Commentary	18
Statistical Review	18
Combined Statement of Operations	19
Combined Balance Sheet	20
Combined Statement of Changes in Financial Position	21
Notes to Combined Financial Statements	22
Directors, Officers, and Offices	24

### Cover Photo

*Kidd Creek's concern for the environment led to a decision to raise a buffalo herd on our property. They are visible proof that our metallurgical complex has not intruded upon the surrounding countryside, and are a symbol of our strong sense of responsibility for the community in which we operate.*

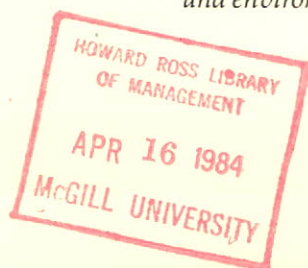


Kidd Creek Mines is a company with the people, technology and resources to build a bright future. The challenge facing both management and employees is to utilize these strengths to make Kidd Creek Mines a profitable, expanding mining company of international stature and repute, through the development, production, and marketing of selected mineral products. At the same time as we employ our experience, ingenuity, and technology to maximize the value of our existing resources, we intend to expand and diversify through vigorous exploration and development programs.

Our continuing efforts to improve productivity and to strengthen our competitive and financial position, along with our strong sense of stewardship towards the natural resources we mine and the environment in which we work and live, allows us to look ahead to the future with confidence.



*The Kidd Creek Mines' metallurgical complex is an efficient, modern production facility which meets our high standards of health, safety, and environmental control.*





## The President's Message

In today's fiercely competitive and volatile economic environment, success is earned by those companies that are able to make the most intelligent and creative use of the resources available to them. That includes human, financial, technological, physical, informational and natural resources. Managing resources effectively is the key to success in the short-term, and to sustained growth and profitability over the long term.

At Kidd Creek Mines, 1983 marked a major step forward in the growth and development of our organization. This was a year of progress in terms of the measures that matter most to our future: productivity improvement, technological innovation, exploration and development, more efficient utilization of resources and financial performance.

One of the most powerful propellants in our thrust forward has been the growing recognition among our employees of the need to gain a competitive edge in world markets. As a Canadian-owned mining company, we at Kidd Creek Mines are continually searching for new ways to strengthen our position as a reliable, low-cost metals producer. The future, it is clear, will belong to those resource companies that are able to maintain vigorous exploration and development programs while, at the same time, using their experience, ingenuity and technology to maximize the value of their existing resources.

In 1983, we were successful in reducing operating costs by more than \$10 million through a comprehensive program of cost-cutting initiatives and productivity improvements. These substantial savings were achieved, in large part, due to the combined efforts

and co-operation of our entire workforce. The critical factor, I believe, was the willingness and ability demonstrated by our employees, at every level, to apply their experience and know-how to the job at hand.

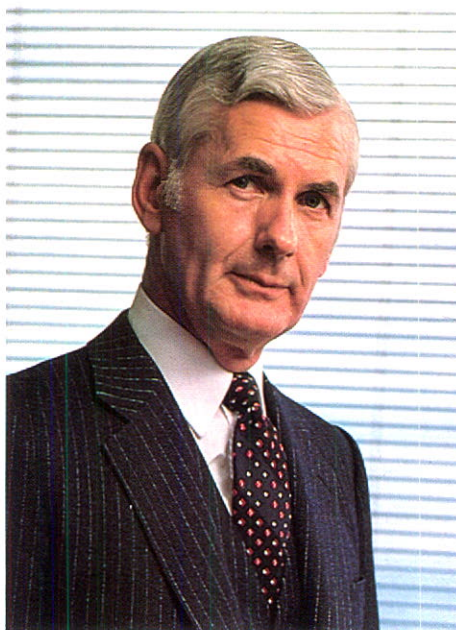
While these productivity improvements and cost-cutting measures made a significant contribution to the company's improved performance in 1983, we expect even greater benefits to result from this ongoing program in the future. Among the many initiatives and improvements introduced at Kidd Creek during the year were the installation of a counter-current leach in the zinc plant, improved reagent usage, recycling and cheaper sourcing of materials, reduced equipment damage, energy conservation measures, more efficient inventory control, upgraded equipment and increased maintenance efficiency.

At Kidd Creek Mines, we are fortunate in having the fundamental strengths that provide a secure foundation for the company's long-term growth and development. First, we have a well-trained workforce on the

job at all times, whose health and safety record has consistently been one of the finest in the industry. Secondly, Kidd Creek's massive copper-zinc-silver sulphide deposit is a world-class ore body, both in terms of its size and ore grades. Thirdly, our mining and metallurgical complex in Timmins is an efficient, modern facility, which makes optimal use of advanced technology to maintain consistently high standards of production and environmental control.

The challenge facing both management and employees is to build on these strengths to make Kidd Creek Mines a leading, Canadian resource company. In the year ahead, we will continue to strengthen our competitive and financial position by increasing productivity, upgrading management information systems and through more development of our precious and base metals resources. In the longer term, our goal is to achieve significant expansion through the development of exploration prospects, new mineral discoveries and a greater diversification of our activities.

Exploration is the lifeblood of a mining company and the embryo of its future. During the past year Kidd Creek Mines continued its strong exploration and development thrust by undertaking approximately sixty projects across Canada. Highlights of our exploration efforts in 1983 include the partial delineation of a zinc-silver-lead deposit on the Chance property in northern Ontario, discovery of high-grade gold mineralization in northern British Columbia and discovery of tungsten mineralization in the Atlantic region. Work has also been started on the construction of a ramp on the Hoyle Pond gold prospect, adjacent to our



*Donald C. Lowe, President and Chief Executive Officer of Kidd Creek Mines (above). Blister copper being poured from the holding furnace (right).*





metallurgical site near Timmins.

Our efforts to fulfill both our immediate and long-term objectives have benefitted from the support and guidance given by our parent company, the Canada Development Corporation. I am pleased also, at this time, to welcome Mr. Richard Mollison as Chairman of the Board of Directors of Kidd Creek Mines. As someone who contributed so much to the growth and development of Texasgulf Canada Ltd., he has vast knowledge and experience which will undoubtedly be a great asset to our company in the future. We would like also to extend our thanks and appreciation to Mr. Ray Clarke, our retiring chairman, for his long and valued service to the company.

Kidd Creek Mines has over many years established a safety record unmatched in the Canadian mining industry. This achievement is the result of many factors: skill, training and dedication; modern equipment and proper maintenance practices; and, perhaps most important of all, the mutual respect that exists between management and employees as a result of many years of working together. That kind of co-operation was critical to the progress made by our company during the past year. In 1984 and the years ahead, our ability to work together to meet new challenges will be decisive in determining the shape of our future.

Donald C. Lowe  
*President and Chief Executive Officer*



**A**t Kidd Creek Mines we have the fundamental strength in resources required to ensure the future growth and development of our company.

Kidd Creek has a wealth of resources in its people, its mineral assets and its technology.

We have a well-trained, reliable workforce with a multitude of skills. Kidd Creek's massive copper-zinc-silver sulphide deposit ranks as one of the finest orebodies of its kind in the world. Our mining and metallurgical facilities are modern and efficient, and use advanced technology to maintain consistently high standards of production. As stewards of our resources, we have put into practice a philosophy that insists on our maintaining the highest health, safety and environmental standards.

In 1983, our continuing efforts to find new ways of using our resources more productively met with considerable success. By making more efficient and innovative use of the skills of our workforce and technology, Kidd Creek Mines maintained production levels while reducing the costs of production by more than \$10 million.



*Ore from the Owl Creek open pit gold mine being loaded onto a truck for processing (left). An aerial view of the mine site, which produced 4.2 million tonnes of ore in 1983 (right).*







In 1964, our exploration people discovered a massive base metals sulphide deposit beneath the muskeg overlying deposits of clay and gravel on the Canadian Shield. This enormous copper-zinc-silver deposit was then heralded as and has since proven to be one of the finest orebodies of its kind in the world.

At the Kidd Creek mine site near Timmins, two different types of ore are mined: copper-zinc and zinc-silver-lead. The mining complex consists of two underground mines.

The No. 1 mine is 930 metres deep and the No. 2 mine is 1,550 metres deep.

In 1983 the company processed 4.2 million tonnes of ore compared to 4.3 million tonnes the previous year. Mining productivity improved considerably during the year. We did a better job of containing dilution and as a result mined much better grades of ore. Proven and probable reserves at December 31, 1983 totalled 74 million tonnes containing 3.1% copper, 4.9% zinc and 67 grams of silver per tonne.

Kidd Creek's highly automated concentrator produces zinc, copper and silver-lead concentrates. Largely computer operated, this plant processes all ore from the company's base metal mines in Timmins. During the year we improved the grade of copper concentrate, and greatly improved silver and zinc recovery in copper-lead-zinc-silver ore.

In 1983 the concentrator produced 389,000 tonnes of zinc concentrate, 388,000 tonnes of copper concentrate and 22,000 tonnes of silver-lead concentrate. Total silver recoverable from all concentrates and metallurgical residues was 197,000 kilograms.

An electrolytic zinc plant, commissioned in 1972, processes Kidd Creek concentrates to produce zinc and cadmium. A new pressure leach circuit was installed during the year to increase overall capacity by 18,000 tonnes per year. The zinc plant consumed 211,000 tonnes of zinc concentrates, producing 107,000 tonnes of refined zinc.

Kidd Creek operates one of the most technologically advanced cop-

per smelting and refining facilities in North America. The continuous smelting process and highly automated refining operation are ultra-modern, efficient, safe and environmentally sound. At the refinery, good success was achieved in getting the automated equipment to operate at design rate or better and cathode quality improved. In 1983 the smelter consumed 168,000 tonnes of copper concentrate, enabling the refinery to produce 53,000 tonnes of refined copper.

Kidd Creek Mines has two gold developments near the Timmins metallurgical site. The Owl Creek open pit gold mine is located four kilometres west of the metallurgical site. In 1983 242,000 tonnes of ore were milled, containing 780,000 grams of recoverable gold. At the Hoyle Pond gold prospect, located approximately 1,800 metres west of the metallurgical site, work commenced on the construction of an underground ramp. This will allow access to the gold-bearing zones so that the company can determine if it is feasible to put the property into production.

Kidd Creek Potash Company owns a 40% interest in the Allan Potash mine, located fifty kilometres east of Saskatoon, Saskatchewan. By agreement, Kidd Creek increased its share of the Allan mine production in 1983 to 1.1 million tonnes.

Kidd Creek controls a 35% net profits royalty in the Nanisivik lead-zinc mine located on Baffin Island. The royalty due to Kidd Creek will become effective after Nanisivik Mines Ltd. has recovered its exploration and development costs.





*Denis Sasseville operates a two boom scorpion jumbo drill in the Number One Mine, as the stope is prepared for mining (below). Ore samples from the Kidd Creek Mines. Proven and probable reserves at the end of 1983 totalled 74 million tonnes containing 3.1% copper, 4.9% zinc and 67 grams of silver per tonne (bottom left).*





This was a year of progress. The high degree of skill, ingenuity and commitment shown by our employees enabled Kidd Creek Mines to make new and significant strides forward in a very competitive environment.

We improved productivity and financial performance, strengthened our information and management capabilities, reduced inventories substantially and made innovative use of technology. Through these and other achievements, we were able to advance both our immediate and long-term goals.

The progress the company made in 1983 is a result of the combined efforts of more than twenty-eight hundred people involved in mining, processing, refining, marketing and managing our resources, as well as in finding and developing new resources.

Here are some of the ways in which our people applied their skills and know-how to devise solutions both big and small for every phase of the company's activities.



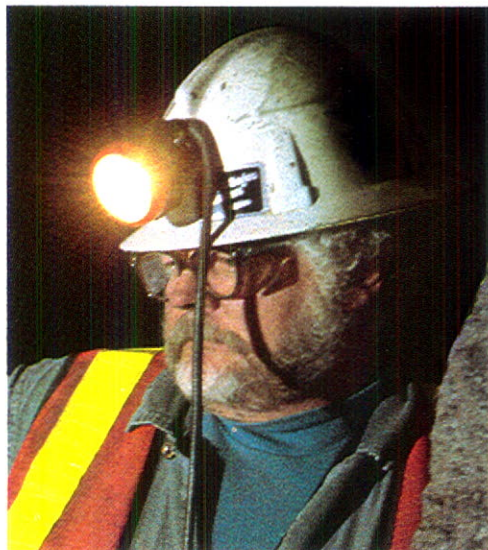
*Don MacLean working in the underground maintenance shop in the Number One Mine (left). Marcel L'Heureux and Norm Fillion inspecting flotation in the concentrator (right).*







*Brian Lang, Zinc Plant (right), Willy Belanger, Number One Mine (below), and George Vickers, Analytical Lab.*





**K**ey production and planning decisions resulted in much better grades of ore being mined. As a result of widespread efforts throughout our mining workforce, a broad range of productivity improvements and cost-saving ideas were implemented.

We upgraded the mine air heating system to recover more heat energy. We reduced material costs by salvaging, recycling and finding cheaper sources of materials.

We reduced backfill costs by replacing cement with ground slag. We reduced underground maintenance costs by replacing bulldozers with modified scooptrams. We installed an underground waste handling system to reduce backfill requirements.

Our operators and maintenance people worked more closely together to reduce equipment damage. Other maintenance improvements resulted from the establishment of a value analysis program and through efforts to extend the life of components.

Kidd Creek's research and development people include metallurgists, chemists, research geologists and rock mechanics specialists. In 1983 the R&D group worked on optimization of our processing facilities. The installation of a counter-current leach circuit in the zinc plant has resulted in increased zinc metal recoveries and improved

returns from upgraded lead-silver residue. The development of a computerized reagent monitoring system for the concentrator has led to substantial savings in reagent costs.

In the copper smelter, we introduced many modifications during the year to improve reliability of the continuous furnace line and environmental control. In the copper refinery, we improved cathode quality and modified heating systems to achieve significant gas savings.

The aggressive efforts of our purchasing department enabled us to reduce warehouse inventories by \$5 million and obtain better prices through bidding on supplies.

The job of mining, processing and refining our resources requires the right management tools. In 1983 a team of information specialists

began the task of developing and

implementing comprehensive information and cost management systems tailored to meet the special needs of our company. These sophisticated information tools will help us to achieve more effective management and control, and more efficient production, and assist us as well in technical and scientific applications, business planning and financial reporting.

Kidd Creek Mines has over many years established a safety record unmatched in the Canadian mining industry. This collective achievement was perhaps best exemplified in 1983 when an underground production crew reached a safety milestone by working 500,000 hours without a lost-time accident. It took the crew slightly more than *twelve* years to compile that record.

The high safety, health and environmental standards maintained by our company over many years are a result of co-operation between management and employees. Our crews hold regular "work smart" meetings to discuss and report on working conditions, maintenance

problems or equipment modifications that may be needed. Kidd Creek also conducts many training courses and seminars.

During the year we introduced a seminar dealing with loss control management, which involves methods of controlling losses in the event of an accident.



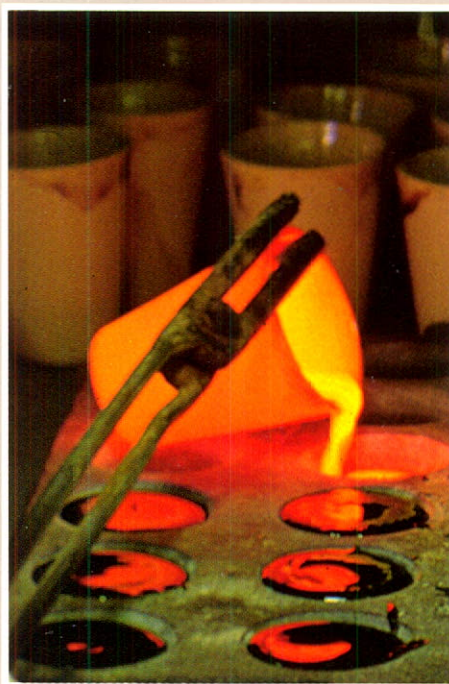
*Two geophysical technicians, Richard Daigle and Bruce Pigeon, equipped with horizontal loop E-M prospecting equipment used in geophysical surveying.*



Kidd Creek Mines is a reliable and efficient worldwide supplier of metals and metal concentrates, together with other metallurgical by-products and minerals. The principal products that we mine, process, refine and market are zinc, copper, silver, gold and potash. The diversity of our products gives us versatility, and as a consequence, greater strength and stability through the cyclical swings of commodity prices in international markets.

Due to the size of the Kidd Creek orebody, customers can be assured of a long-term, steady supply of high-quality products. At our mining and metallurgical facilities in Timmins, we are using our technological resources and engineering capabilities to develop new methods of enhancing the quality of the products we supply.

In 1983, an aggressive marketing effort enabled Kidd Creek Mines to reduce product inventories and obtain better prices through commodity bidding. A more selective sales strategy and intensified sales effort helped the company to increase the sales of all its products during the year.



*A heat assay in the analytical lab at the metallurgical site is performed to analyze concentrates for mineral content (left). Kidd Creek Mines' principal products are zinc, copper, silver and gold, and are used in the production of zinc for galvanizing and alloying, copper wire, copper strip, copper and brass tubing, silver grains, and silver and gold bars.*









**K**idd Creek produces and ships zinc metal around the world. Zinc is used in the galvanizing of steel for corrosion protection. Zinc-coated products include parts of auto bodies, garbage cans and nails. Zinc is also used in the production of die cast articles such as car door handles, appliance parts and hardware.

Zinc was a strong performer in 1983, as both prices and demand increased substantially, due to the recovery in the automotive and con-

struction industries. Zinc metal sales were 130,000 tonnes, an increase of 39% from the previous year. Zinc concentrate sales totalled 219,000 tonnes.

Kidd Creek sold 81,000 tonnes of copper compared to 73,000 tonnes in 1982. This increase was achieved despite weak demand. Our extensive copper reserves and state-of-the-art smelter and refinery place us in a strong competitive position over the long term.

The company sold 175,000 kilograms of silver as bullion or contained in refinery slimes. Silver contained in silver-lead concentrates

and other products represented an additional 38,000 kilograms of silver sales. Through hedging activities, we were able to obtain silver prices above market levels.

Kidd Creek produced 780,000 grams of gold for sale from its Owl Creek open pit gold mine. Further diversification by the company into precious metals should result in increased gold sales over the next several years.





Kidd Creek's potash is sold around the world, with sales to India and China representing our largest off-shore markets. Potash fertilizer adds potassium to the soil, improving both the quantity and quality of crops. In industry, potash is required for manufacturing fine glassware, television tubes and optical glass.

*A view of the copper refinery floor, which is only a part of Kidd Creek's vast \$300-million copper smelting and refinery complex (above). Copper cathodes ready for shipping to customers (left).*

Potash prices and demand showed improvement in the final quarter of 1983, as sales for the year totalled 435,000 tonnes, an increase of 128,000 tonnes from the previous year.

Kidd Creek has taken an active part in market development for its products, particularly in the promotion of zinc applications and support for customer industries in that metal.



## Our Future

The future belongs to those companies with an abundance of resources and the ability to make those resources grow.

Kidd Creek Mines has an abundance of resources. It has people who are well-trained, highly motivated and possess the multitude of skills needed to mine a world-class orebody. It takes experience and know-how to make the best use of the technological resources available at Kidd Creek's modern and sophisticated mining and metallurgical complex. Our people have that know-how.

Generating growth in resources over the long term begins, however, with exploration and the search for new mineral resources. Kidd Creek Mines has skilled geologists, geophysicists, geochemists and mineralogists engaged in the search for new mineral deposits to replenish depleting reserves, and to expand and diversify the company's reserve base.

In 1983 our exploration division undertook approximately sixty projects across the country, searching for copper-zinc-silver, precious metals and tin-tungsten deposits.

Our efforts to replace base metal reserves through exploration activities in northeastern Ontario led to the partial delineation of a zinc-silver-lead deposit on the Chance property.

Another key thrust of our exploration and development program is the search for precious metals in four areas of the country: Ontario, British Columbia, the Northwest Territories and Quebec. The discovery of high-grade gold mineralization on a property in the Toadog-gone area of northern British Columbia in 1983 will be followed by extensive trenching and diamond drilling next year. Further drilling

on the Lac Rouleau gold prospect in Quebec will also be carried out in 1984.

The Hoyle Pond gold prospect is situated near our metallurgical site and the Owl Creek open pit gold mine. Surface diamond drilling since 1980 has indicated the presence of several zones containing gold mineralization on the property. Construction of an underground ramp commenced in August and it is anticipated that the main gold-bearing zones will be reached by the third quarter of 1984.

The discovery this year of tungsten mineralization in the Atlantic region will be followed by more work to further determine the significance of the discovery.

Through these and other exploration activities, Kidd Creek Mines is looking ahead to building a bright future.

*Bob Stewart, geologist, examining a core sample (left). An exploration drill adjacent to the mine site. Through exploration activities and the development of new mineral resources, Kidd Creek Mines is building new bridges to a bright future (right).*









## Financial Commentary

Kidd Creek entered 1983, its second full year of operation, in one of the most difficult metal markets experienced in many years. Economic conditions have improved strongly over the year but due to the lag in recovery of business capital spending, the mining industry has not yet enjoyed the positive benefits of recovery to the same extent as others whose business is tied more directly to consumer markets. Although the last twelve months have not unfolded quite as we anticipated, 1983 has, on balance, been a very successful year for Kidd Creek.

Management set a number of objectives for the company in 1983, the most important being to improve our overall financial position by maximizing cash flow and reducing debt. Our results exceeded expectations and Kidd Creek achieved a substantial improvement in its financial position.

Sales increased 47 percent to \$476.9 million. Cost of sales rose 29 percent to \$346 million largely due to increased production, but effective cost management resulted in an improvement of gross margin from 17 percent to 27 percent. The principle factor underlying cost of sales is production costs. Operating costs were under budget and less than in 1982 while production increased. Although interest expense charged against earnings increased by \$11.2 million, total interest expense was reduced dramatically by \$44.0 million, as \$55.2 million of interest was capitalized in 1982. Overall, pre-tax income was \$18.9 million compared to a loss of \$59.1 million the previous year, a turnaround of \$78 million. The after-tax loss of \$1.2 million was \$36 million less than in 1982.

Cash flow from operations also improved dramatically to \$136.2 million, from a cash requirement of \$25.7 million in 1982. Coupled with a sharp reduction in capital expenditures following completion of the company's expansion program, this resulted in a similar improvement in the working capital position. Working capital increased by \$119.8 million compared to a decrease of \$93.3 million the previous year. This allowed the company to reduce its long term debt burden by \$74.6 million. In addition, \$74.8 million in fixed rate advances was received from Canada Development Corporation, this being the proceeds of a subordinated debenture issue backed by Kidd Creek's silver production.

### Outlook for 1984

Kidd Creek expects to return to profitability in 1984, however, the company's earnings remain highly sensitive to movements in metal prices and interest rates. Current price projections for copper remain inherently unsatisfactory, but a strong zinc market is anticipated in the coming year.

Management will continue to focus on increasing productivity and maximization of cash flow to lay the foundations for further growth. Production from the zinc plant will be maintained at 120,000 tonnes per year. Programs to improve metal recoveries, smelter production, and productivity in other areas will be continued and reinforced. An aggressive marketing strategy will be implemented to control inventories and increase sales in North American markets, thereby reducing freight and warehousing costs in order to improve net returns on sales.

## Statistical Review

Production quantities given below are presented to illustrate the recent history of production at Kidd Creek Mines operations. All quantities are in metric tons unless otherwise noted.

	1983	1982	1981	1980	1979
<b>Kidd Creek</b>					
Ore milled	4,154,000	4,321,000	4,076,000	3,900,000	3,681,000
Zinc Concentrates produced for sale	178,000	161,000	119,000	135,000	102,000
Zinc Concentrates consumed internally	211,000	210,000	223,000	217,000	208,000
Zinc	107,000	106,000	109,000	102,000	107,000
Copper—Kidd Creek	53,000	25,000	6,000		
—Tolled	37,000	42,000	55,000	62,000	62,000
Cadmium	400	500	500	500	500
Silver-Lead Concentrate	22,000	26,000	16,000	28,000	12,000
Tin Concentrate		100	200	300	200
Silver (Kilograms)	197,000	167,000	145,000	220,000	177,000
Sulphuric Acid	336,000	323,000	193,000	184,000	184,000
<b>Owl Creek</b>					
Ore milled	242,000	248,000			
Gold (grams)	780,000	778,000			
<b>Allan Potash Mine (Kidd Creek portion)</b>					
Ore milled	1,081,000	939,000	1,357,000	1,094,000	1,193,000
Muriate of Potash	385,000	317,000	487,000	399,000	433,000
<b>Total Employees</b>	<b>2,987</b>	<b>3,243</b>	<b>2,977</b>	<b>2,575</b>	<b>2,265</b>



## Combined Statement of Operations

Year ended December 31, 1983  
with comparative figures for 1982  
(thousands of dollars)

	1983	1982
<b>Revenue</b>	<b>\$ 476,900</b>	<b>\$ 324,300</b>
<b>Operating expenses:</b>		
Cost of sales	346,100	268,600
Corporate administration	15,400	20,700
Exploration	8,200	17,000
Interest (net of interest capitalized of \$55,200 in 1982)	88,300	77,100
	<b>458,000</b>	<b>383,400</b>
<b>Income (loss) before taxes</b>	<b>18,900</b>	<b>(59,100)</b>
Income and mining taxes (recovery) (note 6)	20,100	(21,800)
<b>Net loss</b>	<b>\$ (1,200)</b>	<b>\$ (37,300)</b>

See accompanying notes.



# Combined Balance Sheet

December 31, 1983  
with comparative figures for 1982  
(thousands of dollars)

<b>Assets</b>	<b>1983</b>	<b>1982</b>
<b>Current assets:</b>		
Trade accounts receivable	\$ 63,200	\$ 59,100
Other receivables	—	19,000
Inventory of products	110,800	110,900
Inventory of supplies	31,500	38,500
	205,500	227,500
<b>Property, plant and equipment:</b>		
Property	302,700	296,800
Plant and equipment	927,500	916,400
	1,230,200	1,213,200
Less accumulated depreciation and depletion	93,100	41,900
	1,137,100	1,171,300
<b>Other assets</b>	5,100	28,500
	<b>\$1,347,700</b>	<b>\$1,427,300</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Bank indebtedness	\$ —	\$ 16,300
Accounts payable and accrued liabilities	70,100	44,800
Current advances from shareholder	8,600	160,100
Current maturities of long-term debt	2,400	1,700
	81,100	222,900
<b>Advances under long-term silver contract (note 3)</b>	74,800	—
<b>Long-term debt (note 4)</b>	299,500	374,100
<b>Deferred taxes (note 6)</b>	63,200	—
<b>Shareholder's advances and investment (note 5):</b>		
Long-term advances	401,000	401,000
Investment	428,100	429,300
	829,100	830,300
	<b>\$1,347,700</b>	<b>\$1,427,300</b>

See accompanying notes.



## Combined Statement of Changes in Financial Position

Year ended December 31, 1983  
with comparative figures for 1982  
(thousands of dollars)

	1983	1982
<b>Source of funds:</b>		
Net loss	\$ (1,200)	\$ (37,300)
Add (deduct) items not requiring an outlay of funds:		
Depreciation and depletion	51,200	34,600
Deferred taxes	86,200	(23,000)
Funds provided by (used in) operations	136,200	(25,700)
Advances under long-term silver contract	74,800	—
Long-term borrowings	—	29,200
Reduction in other assets	400	15,700
Increase in shareholder's investment	—	2,700
	211,400	21,900
<b>Use of funds:</b>		
Additions to property, plant and equipment	17,000	107,000
Repayment of long-term debt	74,600	8,200
	91,600	115,200
Increase (decrease) in working capital	119,800	(93,300)
<b>Working capital, beginning of year</b>	4,600	97,900
<b>Working capital, end of year</b>	<b>\$ 124,400</b>	<b>\$ 4,600</b>

See accompanying notes.



# Notes to Combined Financial Statements

December 31, 1983

## 1. Basis of Presentation:

In 1982, Canada Development Corporation acquired all of the issued shares of Kidd Creek Mines Ltd. and certain other related companies. The significant operations acquired included the mining and oil and gas operations of Kidd Creek Mines Ltd., a Delaware corporation, and the potash operations of Kidd Creek Potash Company, a California corporation. For purposes of these combined financial statements, Kidd Creek Mines is defined as the entity which includes only the mining and potash operations acquired.

The cost of the acquisition to Canada Development Corporation has been recorded in these combined financial statements. The excess of the cost over the book values of the assets less the liabilities as at the date of acquisition was assigned to assets and liabilities based on their fair values.

Under the terms of the purchase agreement certain reassessments in respect of prior years U.S. and Canadian taxes and interest will be shared by Canada Development Corporation to the extent of 42.5%. A number of tax matters have not been resolved and to the extent that additional amounts of tax are paid or recovered the purchase price consideration will be adjusted.

## 2. Significant Accounting Policies:

The accounting policies of the companies combined in these financial statements are in accordance with accounting principles generally accepted in Canada and are as follows:

### (a) Inventories:

Product inventories which include mined ore, concentrates, metals and potash are recorded at the lower of average cost and net realizable value.

Supplies inventories are stated at average cost.

### (b) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Development expenditures necessary to prepare an ore-body for production are capitalized prior to initial production.

Preproduction costs, including related interest, and operating losses during the construction and start-up phases of major facilities are capitalized until the facilities are capable of sustained operations at commercial production levels.

Mine properties and facilities are depleted and depreciated over the estimated lives of the mines based on the unit-of-production method. Manufacturing facilities are depreciated over 25 years using the straight-line method.

### (c) Exploration:

All expenditures on unproven properties are expensed.

### (d) Foreign currency translation:

Current assets and current liabilities that are receivable or payable in foreign currencies are translated into Canadian dollars at rates in effect as at the year end. Long-term liabilities are translated at rates in effect when the liabilities were initially incurred. Revenues

and expenses are translated at rates in effect on the dates of the transactions. Foreign exchange gains or losses resulting from such translation practices are included in the combined statement of operations.

## 3. Advances Under Long-Term Silver Contract:

Under the terms of a contract whereby Canada Development Corporation has advanced U.S. \$60,800,000 due 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 Mines to pay the cash equivalent of the market value of the silver on the date the option is exercised. The advances bear interest at the rate of 7% to March 31, 1989 and thereafter to maturity at the rate of 11%. The Canadian dollar equivalent of the advances at the year-end rate of exchange is \$75,700,000 resulting in an unrealized foreign exchange loss of \$900,000 as at December 31, 1983. Interest charges for the year amounted to \$4,500,000.

## 4. Long-Term Debt:

Long-term debt consists of the following:

	1983	1982
	(in thousands)	
Bank loans	\$ 167,400	\$ 353,800
Advances from shareholder	114,200	—
10% debentures	17,000	17,000
Other	3,300	5,000
	301,900	375,800
Less current maturities	2,400	1,700
	\$ 299,500	\$ 374,100

Kidd Creek Mines has a credit facility with Canadian chartered banks in the amount of U.S. \$400,000,000. The loans bear interest based on rates quoted for L.I.B.O.R. loans, prime Canadian or U.S. dollar loans or bankers' acceptances. The loans outstanding as at January 1, 1987 will be repayable in increasing instalments over a seven-year period from that date. Cash flow as defined by the terms of the credit facility agreement is required, prior to 1987, to be applied to the bank loans. Amounts so applied can be redrawn to the maximum of the credit facility prior to 1987.

Advances from shareholder, Canada Development Corporation, generally bear interest based on rates quoted for prime Canadian and U.S. dollar loans and L.I.B.O.R. loans. There are no definite terms of repayment. Repayments during 1984, if any, will be funded by draw-downs on the long-term bank credit facility.

The 10% debentures require sinking fund payments of \$700,000 in 1984, \$1,300,000 in 1985 and \$15,000,000 in 1986.

Bank loans and certain advances from shareholder are payable in U.S. dollars. The Canadian dollar equivalent at



# Notes to Combined Financial Statements, continued

December 31, 1983

the year-end rate of exchange is \$288,100,000 resulting in an unrealized foreign exchange loss of \$12,400,000 as at December 31, 1983.

Interest charges on long-term debt for the year amounted to \$40,700,000 (\$53,100,000 in 1982), including \$12,100,000 with respect to advances from shareholder.

## 5. Shareholder's Advances and Investment:

Long-term advances from Canada Development Corporation consist of U.S. dollar notes payable at interest based on rates quoted for L.I.B.O.R. loans. The notes are repayable in semi-annual payments of U.S. \$33,800,000 from 1987 through 1991. The Canadian dollar equivalent of the debt at the year-end rate of exchange is \$420,600,000 resulting in an unrealized foreign exchange loss of \$19,600,000 as at December 31, 1983. Interest charges for the year amounted to \$43,100,000 (\$69,700,000 in 1982).

Shareholder's investment represents the book value of Canada Development Corporation's investment in Kidd Creek Mines, as at December 31, 1983.

	1983	1982
	(in thousands)	
Balance, beginning of the year	\$ 429,300	\$ 463,900
Contributions	—	2,700
Net loss for the year	(1,200)	(37,300)
Balance, end of the year	\$ 428,100	\$ 429,300

## 6. Income and Mining Taxes:

As at December 31, 1983 the book value of the net assets exceeds by approximately \$700,000,000 amounts which are available as deductions in computing income for tax purposes in the future. This is primarily attributable to the unamortized difference between the cost of the acquisition assigned to the net assets and the aggregate tax values of these net assets as at the effective date of the acquisition by

Canada Development Corporation. The principal cause of the unusual relationship between income and mining taxes (recovery) and income (loss) before taxes on the combined statement of operations is the partial non-deductibility for tax purposes of the current year's depreciation and depletion.

Provisions for (recovery of) income and mining taxes on the combined statement of operations consist of the following:

	1983	1982
	(in thousands)	
Income taxes:		
Current	\$ (74,500)	\$ —
Deferred	81,600	(26,300)
	7,100	(26,300)
Mining taxes:		
Current	8,400	1,200
Deferred	4,600	3,300
	13,000	4,500
	\$ 20,100	\$(21,800)

The income tax recovery of the 1982 loss, net of deferred tax credits was included in other assets.

The current income tax recovery in 1983 arises from the refiling of income tax returns for the years 1980 and 1981.

## 7. Pension Plan:

All employees are covered by a defined benefit pension plan. The policy is to fund pension costs as incurred. As at the date of the last actuarial determination, June 30, 1983, the current value of plan net assets exceeded accumulated plan benefits.

## Auditor's Report



To the Shareholder of Kidd Creek Mines Ltd.

We have examined the combined balance sheet of Kidd Creek Mines (as defined in note 1) as at December 31, 1983 and the combined statements of operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these combined financial statements present fairly the financial position of Kidd Creek Mines as at December 31, 1983 and the results of its operations and the

changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co.*

Peat Marwick  
Chartered Accountants  
Toronto, Canada, February 15, 1984



## Directors, Officers and Offices

### Board of Directors

Richard D. Mollison  
*Chairman of the Board*  
*Kidd Creek Mines Ltd.*

Donald C. Lowe  
*President and*  
*Chief Executive Officer*  
*Kidd Creek Mines Ltd.*

Donald G. Campbell  
*Chairman and*  
*Chief executive Officer*  
*Maclean Hunter Limited*

P. Ray Clarke  
*Former Chairman of the*  
*Board and*  
*Chief Executive Officer*  
*Kidd Creek Mines Ltd.*

Pierre Côté  
*Chairman of the Board*  
*Celanese Canada Inc.*

H. Anthony Hampson  
*President and*  
*Chief Executive Officer*  
*Canada Development*  
*Corporation*

Brian M. King  
*Senior Vice-President*  
*Canada Development*  
*Corporation*

Brian W. MacKenzie  
*Interim Executive Director*  
*Centre for Resource Studies*  
*Queen's University*

John G. Sheppard  
*Vice-Chairman*  
*Dofasco Inc.*

### Officers

Richard D. Mollison  
*Chairman of the Board*

Donald C. Lowe  
*President and*  
*Chief Executive Officer*

Michael P. Amsden  
*Senior Vice-President*  
*Operations*

William E. P. Fearn  
*Senior Vice-President*  
*Finance and Administration*

Bruce W. Gilbert  
*Senior Vice-President*  
*Marketing*

David G. Baskin  
*Vice-President*  
*Traffic*

J. Eric Belford  
*Vice-President*  
*Mining*

David E. Burt  
*Assistant Secretary*

Doron J. Cohen  
*Director Information*  
*Services*

Donald F. Grenville  
*Vice-President*  
*Employee Relations*

John B. Heslop  
*Vice-President*  
*Project Development Division*

Michael C. Hughes  
*Vice-President*  
*Sales*

D. Malcolm King  
*Comptroller*

Peter L. Money  
*Vice-President*  
*Exploration*

John M. Newell  
*Vice-President*  
*Corporate Planning*

George Podolsky  
*Vice-President*  
*Research and Development*

L. Donald Sanderson  
*Vice-President*  
*Metallurgy*

Reginald A. Willoughby  
*Vice-President*  
*General Counsel and Secretary*

Kenneth C. Wong  
*Assistant Treasurer*

Gerald N. Wood  
*Treasurer*

### Kidd Creek Europe Ltd.

Alan S. Tipler  
*President*

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