

Kidd Creek Mines Ltd. Annual Report 1984



Corporate Profile

Kidd Creek Mines Ltd. is a fully integrated Canadian base and precious metals mining, smelting and refining company with an interest in the potash industry.

The company owns and operates one of the world's most modern and efficient mining and metallurgical complexes in Timmins, Ontario. It produces copper, zinc, and silver from the world-class Kidd Creek ore body and gold from its nearby open pit gold mine at Owl Creek. The company is also developing a gold deposit at nearby Hoyle Pond. In 1984, development work on Hoyle Pond exposed a main gold bearing quartz vein for 380 metres. Kidd Creek plans to decide in 1985 when to put the property into production.

Kidd Creek also owns a 40% joint venture interest in the Allan Potash Mine in Saskatchewan and a 35% net profits royalty interest in the Nanisivik lead-zinc mine on Baffin Island.

The company's mining complex consists of two modern, efficient underground mines in Timmins. Two types of ore are mined: copper-zinc and zinc-silver. The mines have a combined annual capacity of 4.4 million tonnes of ore.

Kidd Creek's technologically advanced metallurgical complex, 27 kilometres away, is linked to the mine site by a company operated railroad.

The company's highly-automated and computer-controlled concentrator went on stream in 1966, processing all the ore from the company's base metal mines to produce zinc, copper and silver-lead concentrates.

An electrolytic zinc plant, which went into operation in 1972, processes approximately 60% of Kidd Creek's zinc concentrates to produce zinc and cadmium.

The Kidd Creek metallurgical site also includes one of the world's most technologically advanced copper smelters and refineries, which features a continuous smelting process and a highly automated refining operation.

The size and richness of the Kidd Creek ore body, the company's modern, efficient mining and metallurgical complexes, its highly skilled and dedicated workforce, and its ongoing exploration program are the foundations upon which Kidd Creek Mines will grow and prosper in the future.

Contents

The President's Message	2
Operations	4
Marketing	8
Exploration	10
Human Resources	12
Financial Statements	15
Directors, Officers and Offices	24

Corporate Highlights

- ☐ Earnings of \$16.9 million after two successive years of losses.
- ☐ Strong cash flow of \$96.4 million from operations available for capital expenditures and repayment of debt.
- ☐ Professional management team in place; continued emphasis on reducing costs and improving productivity with a focus on growth.
- ☐ Balanced exploration program continued with a focus on discovering new reserves of base and precious metals primarily in the Timmins area.
- ☐ Production increased and unit operating costs down significantly in the smelter and refinery due to the efforts of all Kidd Creek employees.
- ☐ Expansion plans announced to increase the capacity of the zinc plant, copper smelter and refinery to lower unit production costs.
- ☐ Hoyle Pond gold development produced encouraging results.
- ☐ Marketing strategy re-oriented to increase copper and zinc sales in the United States.
- ☐ Final stage of the company's re-organization completed. Kidd Creek Mines Ltd. officially became a Canadian corporation.

The President's Message

The past year was one of recovery for Kidd Creek Mines Ltd. The company has emerged from the recession more productive, more efficient and with earnings of \$16.9 million.

That is a significant turnaround after two years of losses and a major accomplishment for a new company. Kidd Creek Mines Ltd. came into being in the midst of the worst economic downturn since World War II. In the company's first three years, management and employees dedicated themselves to cutting costs and improving productivity. While these efforts have not yet produced an acceptable level of return on investment, they have succeeded in building the solid framework necessary for the company's future growth and prosperity.

In 1984, the company made repayments on debt of \$102 million. In the past two years, the company has made repayments on debt of more than \$260 million. Operating cash flow in 1984 amounted to \$96.4 million. The company is confident these positive trends will continue through 1985.

Kidd Creek recognizes the continued recovery will not be easy, but the company has substantial fundamental strengths — a world-class copper-zinc-silver ore body, a growing involvement in gold, a highly-skilled and committed workforce and a technologically advanced mining and metallurgical complex in Timmins.

The company will build on those strengths in the future since it is clear that in the years

ahead Kidd Creek's success will depend to a large degree on how well the company can compete on metal markets with countries such as Chile, Zambia, Peru, Australia and South Africa.

The company's responses to the economic shocks of the past few years have not only made Kidd Creek more efficient, they have also convinced the Board of Directors and senior management that the company's long-term stability and profitability lie in greater diversification. Gold production is now a major area of diversification and a key element of the company's corporate strategy and exploration activities.

In 1984, the company pursued this strategy through a renewed emphasis on its Owl Creek open pit gold mine and on the Hoyle Pond gold development.

Results from Hoyle Pond, adjacent to the company's metallurgical site, were encouraging. Hoyle Pond is a high-grade, vein-type gold deposit with excellent potential. A sample of ore taken from Hoyle Pond graded 19 grams of gold per tonne.

These and other successes are very much a measure of the strength and dedication of Kidd Creek's most vital corporate resource — its people. Thanks to their efforts, the company has cut costs and improved output. Today, the company is producing more copper and zinc at a lower average cost per pound than in 1982.

These contributions have not gone unnoticed. On the recom-

mendation of management the Board of Directors approved a profitability bonus for Kidd Creek employees in 1984 in recognition of the simple fact that without its people and their efforts, there would be no earnings for Kidd Creek.

Despite 1984's positive results, Kidd Creek's return on its shareholder's investment was a disappointing 2.70%.

This year, Kidd Creek will continue efforts to improve its performance, focusing on all aspects of its cost base. The goal is to strengthen the company's competitive and financial position by maximizing productivity, expanding production capacity, increasing the effectiveness of critical management functions, developing new and existing precious and base metal resources and searching out diversification opportunities.

The company faces a world in which prices for its major products are too low.

In the face of tough market conditions, Kidd Creek must continue to look to its costs for any significant improvement in its earnings. In 1984, the company conducted a thorough organizational review of its corporate and exploration offices which resulted in changes in the organization as well as cost reductions. A similar review is underway at our operations in Timmins.

The company also announced a \$60 million, five-year phased expansion and upgrading of its Timmins copper smelter and refinery to increase their capacities to 90,000 tonnes per year

from a design capacity of 59,000 tonnes. The increased capacity will allow Kidd Creek to process more of its own copper concentrates.

The company also plans to spend an additional \$6 million to upgrade the cell house in the zinc plant to increase production to 127,000 tonnes per year from 120,000 tonnes.

Early in 1985, Kidd Creek negotiated a U.S. \$550 million combined credit facility to pay off its debt to its parent company, Canada Development Corporation, and to consolidate existing bank debt. U.S. \$50 million of the facility is a committed operating line of credit which will be used to cover seasonal and cyclical working capital needs.

Kidd Creek has come a long way in its first three years, reaching profitability in the face of one of the toughest economic climates in decades.

Unfortunately, much of its efforts have been negated by government-imposed and regulated costs. The company now finds there is a limit to the gains it can make alone.

Government-imposed costs are now one of the mining industry's largest single cost burdens, accounting for 27 to 36 per cent of the industry's annual operating expenditures. These costs are continuing to rise. For example, in 1985, Ontario Hydro rate increases will be more than double the rate of inflation and add about \$3.5 million to Kidd Creek's operating costs. Workers' Compensation will cost the company 16% more — despite the fact the



Donald C. Lowe, President and Chief Executive Officer

company has the best safety record in the mining industry — and the federal government has increased Unemployment Insurance rates 10.5%.

If Kidd Creek's efforts are not to be wasted — if the mining industry as a whole is to continue to provide secure and well-paying jobs for Canadians — government must recognize that it has a part to play in holding the line on costs.

It is time governments brought these increases under control.

In 1984, a director and a number of officers of the company, including Brian W. MacKenzie, of our Board of Directors, Don-

ald F. Grenville, Vice President, Employee Relations, David G. Baskin, Vice President, Traffic and George Podolsky, Vice President, Research and Development, retired.

We would like to extend our thanks and appreciation for the efforts of all our employees in helping build one of Canada's finest business organizations.

Donald C. Lowe
President and Chief Executive
Officer

**Improvements at Kidd
Creek's Mine and
Metallurgical Sites become
the driving force behind
the company's dramatic
turnaround.**

Productivity and cost reduction were the watchwords in all of Kidd Creek's operations in 1984 as the company continued its effort to turn the losses of previous years into a profit.

Kidd Creek recognized that any mining company which failed to take the steps necessary to make itself a lean, highly cost-efficient operation would, in the long run, find itself unable to compete successfully in the tough markets of the future. In 1984, Kidd Creek responded to this changed economic environment by redoubling its efforts to continue as one of the world's leading low-cost producers by improving productivity and throughputs while reducing costs.

Those efforts represented a continuation of a goal we set ourselves in mid-1981, when world economies slumped into recession. We have come a long way in pursuit of that goal.

Since 1982, Kidd Creek's workforce has been reduced by 10% while increasing production levels. In effect, the company is now producing more and employing a smaller workforce than it did more than two years ago.

Kidd Creek responded to low prices by carefully analyzing all of its operations and implementing measures to improve efficiency, heighten productivity and reduce costs.

Improvements at Kidd Creek's mine site and metallurgical site became the driving force behind

the company's dramatic turnaround.

At the mine site, the company concentrated on grade control, energy conservation, equipment modification and backfill cost reduction. In 1984, substantial gains were made in productivity by improving the grades of copper and zinc in the ore mined through improved dilution control. Additional ore and waste passes were developed to further reduce the amount of waste rock handled. These innovations repaid themselves 20-fold during the year.

The company also embarked on an aggressive program to conserve energy and reduce costs. Energy conservation projects now underway have the potential to save more than half a million dollars a year when fully implemented.

To cut costs, Kidd Creek is employing state-of-the-art techniques and equipment. In Mine No. 2, for example, the company introduced the use of a computer to monitor peak power loads to cut energy costs. Plans are also being imple-



Zinc ingots roll off Kidd Creek's casting line.

mented to recover heat from the mine water and increase the heat recovery from the mine's compressors to significantly cut annual heating costs. In future Kidd Creek plans to increase its use of technology in similar applications as it refines efforts to become increasingly cost efficient.

Underground, modified drilling equipment increased the output per machine while reducing manpower. Further mechanizing the mini-bore rotary drill — one of Kidd Creek's main production drills — cut the manpower requirements and improved output by more than 50%.

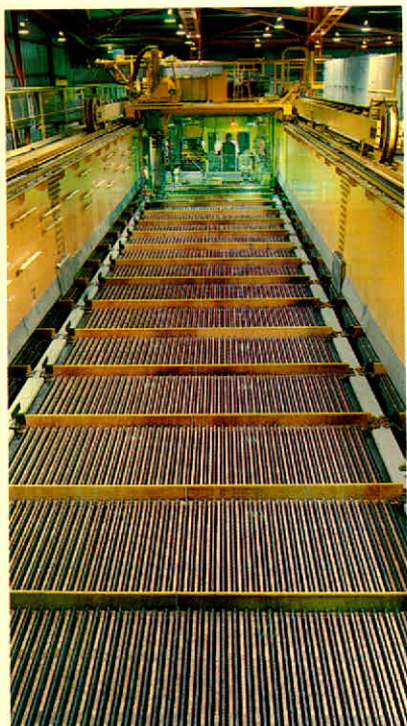
In backfilling operations, using fly ash as a replacement for Portland cement should save more than \$1 million a year, while the increased use of automation will help reduce manpower requirements and unit production costs.

At Kidd Creek's metallurgical site, the company plans to build on one of its great corporate strengths — its highly-efficient and modern plants. There, Kidd Creek is concentrating on increasing throughput and improving recoveries.

In the copper smelter and refinery, copper cathode production has been increased to 68,000 tonnes per year from the design capacity of 59,000 tonnes per year. The \$60 million expansion program announced in mid-1984, will increase the capacity of both the smelter and refinery to 90,000 tonnes per year by 1988.

In the concentrator, a \$250,000 computerized copper reagent optimization system paid for itself in 35 days and will generate \$3 million a year in additional revenue.

In the smelter, the company increased throughput by 18% and by renegotiating its tolling agreement produced substantial savings — in excess of \$8 million — on tolling costs.



Kidd Creek's state-of-the-art copper refinery produced 68,000 tonnes of metal in 1984.

In the refinery, the slime deleading system was improved at a one-time cost of \$700,000 to increase annual revenue by almost \$1 million.

The company's efforts are not going to stop there. In the future, Kidd Creek will be introducing new methods, trying new procedures and continuing its record of innovation.

Our major products

Zinc is used in galvanizing steel to protect it from corrosion, as an alloy with copper to make brass, in batteries and as a white pigment in paints. Zinc is also used in die-cast products such as home appliance parts, hardware and car door handles and trim.

Copper was known to prehistoric man and probably was the first metal man used, since it is one of the few metals found in almost pure form in nature. Today, it is

still one of the most used metals in the world. Copper has a high conductivity, making it ideal for use in electrical wires and cables; it has a high resistance to corrosion and has been used for coins throughout history; it is an excellent conductor of heat, making it ideal for use in the manufacture of cooking utensils, and it can be combined with zinc to produce brass and with tin to produce bronze. Copper is also used in the production of rayon, in pigments and in the production of insecticides and fungicides.

Production

Kidd Creek remained a major force in the Canadian metals industry in 1984, generating almost one-fifth of all the copper and zinc metal produced in Canada.

The company's mines and processing facilities continued to operate

at full capacity in 1984. Mineral production was up significantly for the year thanks to the company's successful efforts to improve grades by improving dilution control and reducing the amount of waste rock handled.

Proven and probable reserves at December 31, 1984 totalled 67.6 million tonnes containing 3.2% copper, 4.9% zinc and 67 grams of silver per tonne.

In 1984, the zinc plant produced 122,000 tonnes of zinc metal compared with 107,000 tonnes in 1983.

During the past year, the smelter produced 65,000 tonnes of blister copper, compared with 44,000 tonnes in 1983, while the refinery produced 68,000 tonnes of copper compared with 53,000 tonnes the year before. Kidd Creek also toll refined 37,000 tonnes of copper with an outside company — the same amount as in 1983.

Silver production for 1984 stood at 271,000 kilograms compared with 197,000 kilograms in 1983.

The Owl Creek open pit gold mine produced 267,000 tonnes of ore containing 773,000 grams (24,800 oz.) of gold. At December 31, 1984, proven and probable reserves were estimated at 725,000 tonnes with an average grade of 4.1 grams per tonne, enough for at least four more years of production at present and anticipated production rates.

Kidd Creek owns a 40% interest in the Allan Potash Mine located 50 kilometres east of Saskatoon, Saskatchewan. The mine produces various grades of muriate of potash, a major component of commercial fertilizers. In 1984, 2,650,000 tonnes of ore were mined from the Allan Potash operation to produce 970,000 tonnes of muriate of potash. Kidd Creek's share of production was 397,000 tonnes, compared with 385,000 tonnes in 1983.



Kidd Creek's smelter expansion will boost copper production to 90,000 tonnes a year by 1988.

Environment

Acid rain has become a problem of international proportions. Throughout North America, hundreds of lakes and rivers are dead or dying as a result of man-made emissions of sulphur dioxide and oxides of nitrogen.

This year in Southern Ontario, more than 11 oz. of sulphuric acid will rain on every acre of land, scarring the forests, killing the fish and destroying the aquatic life. And the damage doesn't stop there.

According to a House of Commons sub-committee on Acid Rain, cutting the emissions of one source of sulphur dioxide by half would reduce health costs by an estimated \$500 million a year. The same report suggested that Ontario may be losing \$230 million a year in tourism because of acid rain.

And according to environmental experts, almost half the total sulphur dioxide emissions in Canada come from non-ferrous smelters.

It was against this background that Kidd Creek decided to construct a smelter incorporating the latest in metallurgical and environmental technology near the Timmins mine.

A double absorption acid plant at the company's copper smelter captures 99.6% of the sulphur gases released during the smelting process.

The company's zinc plant, which went on stream in 1972, has produced well over a million tonnes of zinc metal and captured a similar amount of sulphur dioxide. The key to the environmentally sound operation is a zinc plant acid plant, which was designed to capture 98% of the sulphur dioxide released during the production process.

Together, these plants make the company's operations environmen-



Kidd Creek's sulphuric acid plants protect the environment, capturing more than 98% of sulphur dioxide released during production.

tally clean. That's an achievement equalled by only a few sulphide mineral processing operations in the world. The captured sulphur gases are converted into sulphuric acid. In 1984, the company produced 414,000 tonnes of sulphuric acid worth \$5.4 million, compared with 336,000 tonnes worth \$3.1 million in 1983. All the company's acid production is sold to an outside chemical company.

But most importantly, these plants reinforce the company's conclusion that acid rain free operations are not a novelty, but a sound investment.

The years ahead will bring an increasing concern for the environment. Kidd Creek's state-of-the-art clean-air plants are facilities to which the company can point with pride.



Marketing

**Strategy re-oriented to
increase copper and zinc
sales to North American
markets.**

Low prices made 1984 a tough year for Kidd Creek.

Although inventories of copper on the London and New York metal exchanges dropped 50% throughout the year and world demand hit a record 7.5 million tonnes, the price of copper — in real terms — remained at its lowest level since the market bottomed out during the depths of the Great Depression. After a strong performance in the first half of the year, zinc prices weakened through the summer only to rebound in September as demand began to outpace supply and inventories began to fall. Gold hit a 2½ year low, 50% below its average price in 1980, while silver finished the year 70% below its 1980 average.

The factors behind 1984's low prices included a strong U.S. dollar, low inflation, high real interest rates and a glut in world-wide production capacity.

In this economic climate, Kidd Creek concentrated on optimizing its netbacks — the amount the company receives for its products after deducting marketing costs. A primary goal was to reduce distribution costs while seeking new market opportunities.

Product exchanges with other producers were an effective tool in achieving this goal.

Zinc metal and zinc concentrates continued to be the company's main revenue producers. Zinc accounted for 27% of the dollar value of 1984 sales, while zinc concentrates accounted for 13%, copper for 38%, silver for 13%, gold for 5% and potash for 4%.

Zinc metal sales for the year totalled 122,000 tonnes, compared with 130,000 tonnes in 1983, while zinc concentrate sales were 206,000 tonnes, compared with 219,000 tonnes in 1983.

Copper metal sales were up in 1984 at 113,000 tonnes compared with 81,000 tonnes in 1983. The supply-demand fundamentals for copper are continuing to improve and there is some room for optimism in 1985. The company sold 30,000 tonnes of copper concentrate in 1984.

Low inflation, a strong U.S. dollar and high real interest rates kept precious metal prices low throughout the year. Silver bullion sales from the company's production were up at 213,000 kilograms compared with 175,000 kilograms in 1983. Gold sales from the company's production were also up at 990,000 grams compared with 900,000 grams in 1983.

Sales of Kidd Creek's share of potash from the Allan Mine amounted to 352,000 tonnes in 1984, down from the 1983 level of 435,000 tonnes.

Market Development

Kidd Creek has an active market development staff which has taken an aggressive role in developing new markets for the company's products, particularly in promoting a family of zinc aluminum casting alloys and the zinc thermal spraying process for protecting steel structures from corrosion.

A significant factor in the future will be the shift by North American automobile manufacturers into electrogalvanizing — a process for coating zinc on steel to make it less susceptible to corrosion, better to paint, easier to form and easier to weld. Starting in 1987, U.S. auto makers will be using significantly more electrogalvanized steel



Kidd Creek products go to work around the world.

in their cars — a trend that will open up a new market for Kidd Creek's zinc. Estimates are that the American auto industry will be using 1.6 million tonnes of electrogalvanized steel by 1988 and manufacturers will need from 30,000 to 50,000 tonnes of zinc annually to make that steel.



**Kidd Creek continues
commitment to the future
with a balanced
exploration program.**

Exploration is the lifeblood of every successful mining company. At Kidd Creek it is our commitment to the future, a recognition that the efforts we make today will determine the prosperity we will enjoy tomorrow.

In 1984, Kidd Creek continued that commitment, even though its programs were modest in keeping with its emphasis on cost restraint.

The company's geologists, geophysicists and geochemists focused their efforts on finding new base metal deposits to add to reserves of the original Kidd Creek ore body and keep the company's metallurgical plants working at full capacity over the long term. Exploration teams also continued their active search for gold deposits in the Timmins area as part of the company's efforts to diversify its mineral base.

In its hunt for new ore bodies, Kidd Creek faces formidable challenges. Because of its deep overburden, the Timmins area is difficult to explore. Cost containment and efficiency demand that the company limit its efforts to only the most favourable areas. To do that, the company has developed techniques that are on the leading edge of mineral exploration technology to ensure that it gets the highest possible return for its valuable exploration dollars.

Kidd Creek spent \$9.5 million on exploration in 1984, as its 49-person Exploration Division undertook 52 projects across Canada searching for deposits of zinc-copper-silver, tin, tungsten and gold.

The company's exploration efforts continued to be centred on Ontario where it spent almost 60% of its exploration budget. An additional 20% was spent in British Columbia, where the company has concentrated on the search for precious metals. The balance of the budget was devoted to projects in the Atlantic Provinces, Quebec and the Northwest Territories.

In 1984, Kidd Creek's primary targets were gold and zinc-copper-silver deposits. The company spent half of its budget on the search for gold and 40% on exploration for base metals, mainly in the Timmins area. The remaining 10% was spent following up encouraging results on tin and tungsten prospects in the Atlantic Provinces.

The company's exploration programs are administered from Exploration head office in Toronto and from three district offices in Vancouver, Timmins and Windsor, Nova Scotia.

In 1985, Kidd Creek plans to focus on base metal and gold projects in the Timmins area, in northwest Ontario, in British Columbia and in the western United States. In addition, the company will continue its exploration for tin-tungsten properties in Atlantic Canada. Exploration expenditures for 1985 will remain near 1984 levels.

Hoyle Pond

The Hoyle Pond gold deposit adjacent to the company's Metallurgical Site, was one of the company's most encouraging developments during the year.

In 1984, the company completed Phase 1 of an underground exploration and development program designed to establish the continuity and grade of the main gold bearing vein and to recover a bulk sample for metallurgical testing.

The company removed a sample of ore from the main gold bearing



A sample of ore from Kidd Creek's Hoyle Pond gold deposit returned an over-all grade of 19 grams of gold per tonne. A decision will be made in 1985 when to put Hoyle Pond into production.

zone about 120 metres below the surface. The sample returned an over-all grade of 19 grams of gold per tonne.

A photograph of three construction workers. The central figure is a man with a mustache and glasses, wearing a tan hard hat and a green work shirt with an orange safety vest. He is looking directly at the camera. To his left, the back of another worker's head and shoulder are visible, also wearing a hard hat and safety vest. To the right, another worker with glasses and a mustache is partially visible, looking slightly off-camera. The background is a solid green color.

Human Resources

Major Human Resources initiatives are taken to strengthen Kidd Creek's competitive position for the future

People are Kidd Creek's most valuable resource.

Kidd Creek has the world-class ore reserves, state-of-the-art plants and equipment, but it also has one other factor that makes it one of the premier mining companies in the world: its 2,971 employees.

It was their ingenuity, dedication and hard work that led to the discovery and development of the Kidd Creek ore body. It was our people who built our company out of the ore body near Timmins. It was our people who made the company grow and prosper through the good years and the lean years.

And it's Kidd Creek's highly skilled and trained people who will keep the company in the forefront of the minerals industry in the years to come.

In mid-1981, when the world slumped into the worst recession since the 1930s, the company asked its employees to join with management in a common goal of driving down costs and increasing productivity. Thanks to the efforts of all Kidd Creek's employees, the company has cut costs and significantly increased the output per employee. In 1984, they continued working towards that goal with significant success. Today, the company is producing more copper and zinc at a lower average cost per pound than in 1982.

Kidd Creek people have a commitment to excellence in all they do and the company has a commitment to them. They have enjoyed a good working environment, excellent benefits and steady

employment from the day the Timmins ore body was first discovered in 1964.

To make sure those successes continue into the future, Kidd Creek management undertook an extensive survey of employees' attitudes in late 1983. In confidential questionnaires, employees gave management a full breakdown of their views of the company. In 1984, the company launched a major initiative to act on the survey — putting the results to work by building on the strengths and making significant progress in addressing the weaknesses.

To address employees' concerns, departmental teams were organized involving 100 employees at all levels, to investigate problems and recommend solutions.

The company embarked on a program to improve the quality and content of our employee publications to foster better corporate communication and understanding of issues facing the company, while at the same time better serving employees' interests and needs.

Kidd Creek employees have a long and distinguished safety record that is the envy of the rest of Canada's mining industry. In 1984, Kidd Creek employees continued their outstanding efforts. On December 19, the entire Timmins operation completed more than 1 million manhours without a lost-time injury. It was the third time in Kidd Creek's history that our employees have worked more than a million manhours without a lost-time injury. That performance helped the company improve its already outstanding safety record by 20% in 1984. Over the past few years, Kidd Creek has reduced the number of days lost due to injuries by 50% to the point where the company has the best safety record in the Canadian mining industry. In 1984, Kidd Creek won the prestigious Ryan Award for safety for



Kidd Creek emphasizes training and development while heightening job content and career planning.

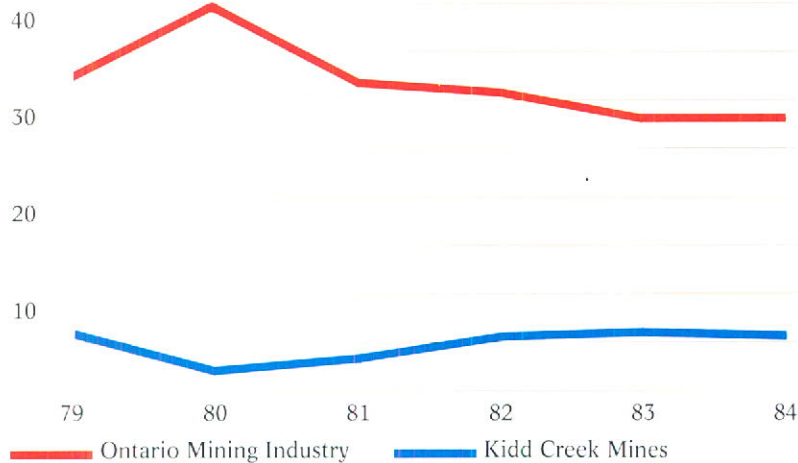
the eighth time in the past 10 years. In one of the most noteworthy accomplishments, an underground haulage crew reached a safety landmark in working 500,000 hours without a lost-time injury — a feat that took them 12 years to accomplish.

Those are outstanding achievements that Kidd Creek recognizes in a material way through presentations to members of crews that reach safety milestones.

Unfortunately, the outstanding safety record the company's employees have worked so hard to achieve is not reflected in the costs imposed on Kidd Creek by Ontario Workers' Compensation Board. In 1985, Kidd Creek will face a 16% increase in its Workers' Compensation costs despite the company's excellent safety record. The net effect of unwarranted increases such as this is to negate

Safety Record

Lost Time Injuries
per Million Man-hours



much of the effort employees have put forth to cut costs and increase



Olga Matwijenko directs a group of 40 technicians whose efforts saved the company more than \$250,000 in 1984.

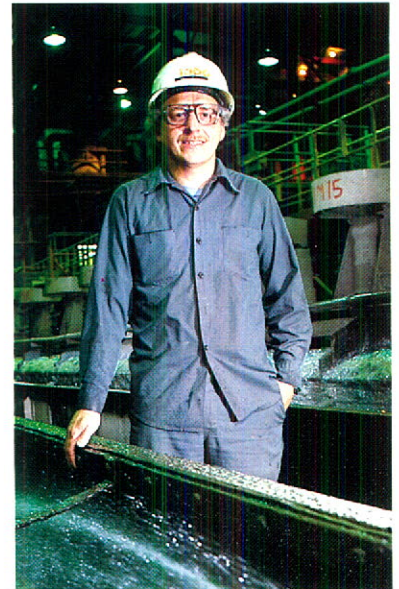
their productivity while making sure that safety never suffers.

Kidd Creek invests in its people resources, placing continued emphasis on making sure its people work with the most modern equipment and technology in safe surroundings, on maintaining its competitiveness in pay and benefits, on continuing its emphasis on training and development, and on heightening job content and career planning.

At Kidd Creek, these are major elements in strengthening the company's competitive position.

As part of a major effort to more accurately assess, recognize and remunerate employees, the company has introduced a comprehensive employee performance evaluation system. This system ensures that all employees take part in identifying their key areas of responsibility and that they know what is expected of them as they carry out those responsibilities.

Kidd Creek believes employees should share in the fruits of their



Chief Reagent Operator Leo Derganc's efforts significantly improved operations in Kidd Creek's concentrator.

labour. With the return to profitability in 1984, the Board of Directors — on the recommendation of senior management — made a bonus payment to all employees under the company's productivity bonus plan.

The company's interest in its people does not stop when they leave work. Kidd Creek strongly supports health and recreation facilities so employees and their families can enjoy a high quality of life and the whole community can benefit.

Helping employees build a better company, a better community and a better life is Kidd Creek's commitment to the future.

Financial Statements

A dramatic return to
profitability after two
successive years of
losses

Contents

Financial Commentary	16
Statistical Review	17
Combined Statement of Operations	18
Combined Balance Sheet	19
Combined Statement of Cash Flow	20
Notes to Combined Financial Statements	21
Auditors' Report	23

Kidd Creek entered its third full year of operations with a clearly defined goal — to restore the company to profitability and strengthen its financial position by increasing productivity and holding the line on costs.

In large measure, the company's 1984 performance is a reflection of the success it has achieved in the pursuit of that program. Earnings for 1984 were \$16.9 million, a dramatic turnaround from a \$1.2 million loss in 1983.

Kidd Creek managed that improvement while continuing its commitment to increasing its cash flow and reducing its corporate debt.

For the second consecutive year, a persistent management effort resulted in major cash flow improvements. Operating cash flow, the cash available for capital expenditures and debt repayment, was \$96.4 million in 1984, 40% higher than in 1983 when cash flow from operations, after deducting one time tax recoveries of \$74.5 million, was \$68.7 million.

Debt repayments of \$102.2 million were made in 1984 compared to repayments of \$157.6 million in 1983. Capital expenditures of \$32.5 million, which were almost double those of 1983, included expenditures on a four-year, \$66 million program to expand and upgrade the company's copper smelter-refinery and zinc plant in Timmins.

Pre-tax earnings in 1984 were \$41.1 million — \$22.2 million more than in 1983 because of increased copper sales, higher selling prices for zinc products, and lower unit production costs. These favourable factors were partially offset by lower silver and copper prices, lower by-product revenues and increased costs for labour, materials and electricity.

Taxes in 1984 represented 59% of earnings before taxation compared with 106% in 1983. The decrease was primarily due to corporate restructuring and investment tax credits arising from the expansion program in 1984.

Revenues rose 12% in 1984 to \$543.1 million compared with \$483.9 million in 1983. The \$59.2 million increase results in part from an additional \$57 million in revenues from a 32,000-tonne increase in copper sales; \$45 million from higher selling prices of zinc products; and \$13 million from copper concentrate sales minus the \$41 million impact of lower silver prices and the \$20 million impact of lower copper prices.

The cost of sales in 1984, was \$380.8 million, \$34.7 million higher than 1983's total of \$346.1 million. The 10% increase resulted from higher sales volumes and increased costs for labour, fringe benefits, materials and supplies and electricity.

In 1984, Kidd Creek spent \$9.5 million on exploration in Canada — 16% more than in 1983 — reflecting the company's commitment to the future.

Interest expenses of \$95.2 million were marginally lower than in 1983. The impact of the lower level of borrowing during 1984 was offset by less favourable U.S. currency exchange rates and higher interest rates.

Outlook for 1985:

Kidd Creek will consolidate its gains in 1985, building on the financial foundations established in 1984. In 1984, Kidd Creek's continued commitment to maximizing productivity and cutting costs resulted in lower unit costs. In 1985, the company will continue its emphasis on improving productivity and lowering costs to maximize profit margins. Emphasis will also be given to maximizing cash flow, reducing debt and marketing costs and pursuing capital expenditure projects with quick paybacks.

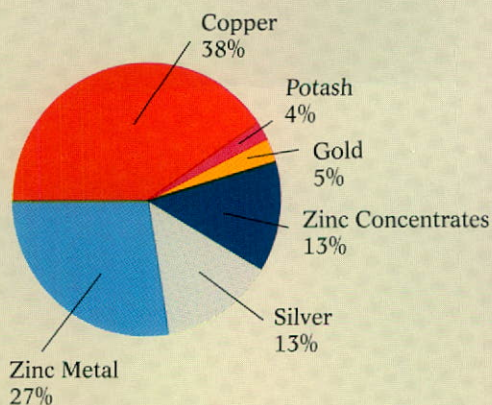
Kidd Creek is confident it will be able to continue reducing its debt through improved earnings and cash flow in 1985.

Statistical Review

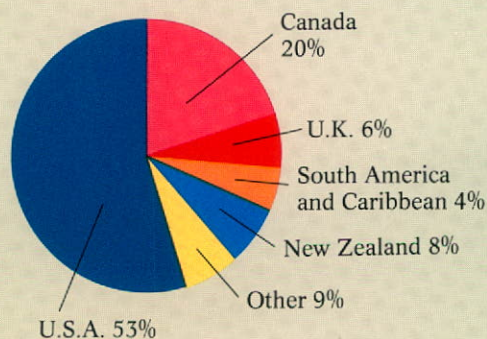
Production quantities given below are presented to illustrate the recent history of production at Kidd Creek Mines' operations. All quantities are in metric tons unless otherwise noted.

	1984	1983	1982	1981	1980
Kidd Creek					
Ore milled	4,513,000	4,154,000	4,321,000	4,076,000	3,900,000
Zinc Concentrates produced for sale	211,000	178,000	161,000	119,000	135,000
Zinc	122,000	107,000	106,000	109,000	102,000
Copper Concentrates produced for sale	30,000	—	—	—	—
Copper — Kidd Creek	68,000	53,000	25,000	6,000	—
— Tolled	37,000	37,000	42,000	55,000	62,000
Cadmium	600	400	500	500	500
Silver-Lead Concentrates	26,000	22,000	26,000	16,000	28,000
Silver (kilograms)	271,000	197,000	167,000	145,000	220,000
Sulphuric Acid	414,000	336,000	323,000	193,000	184,000
Owl Creek					
Ore milled	267,000	242,000	248,000	—	—
Gold (grams)	773,000	778,000	780,000	—	—
Allan Potash Mine (Kidd Creek portion)					
Ore milled	1,087,000	1,081,000	939,000	1,357,000	1,094,000
Muriate of Potash	397,000	385,000	317,000	487,000	399,000
Total Employees	2,971	2,987	3,243	2,977	2,575

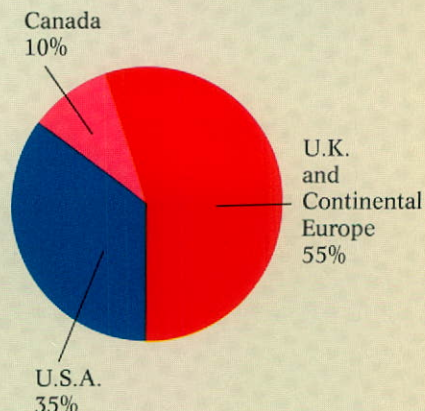
1984 Sales
by Dollar Value



Zinc:
1984 Sales
by Geographical Area



Copper:
1984 Sales
by Geographical Area



Combined Statement of Operations

Year ended December 31, 1984
with comparative figures for 1983
(thousands of dollars)

	1984	1983
Revenue	\$543,100	\$483,900
Operating expenses:		
Cost of sales	380,800	346,100
Corporate administration	16,500	15,400
Exploration	9,500	8,200
Interest	95,200	95,300
	502,000	465,000
Income before taxes	41,100	18,900
Income and mining taxes (note 6)	24,200	20,100
Earnings (loss)	\$ 16,900	\$ (1,200)

See accompanying notes.

Combined Balance Sheet

December 31, 1984
with comparative figures for 1983
(thousands of dollars)

Assets	1984	1983
Current assets:		
Accounts receivable	\$ 58,200	\$ 68,300
Inventory of products	97,800	110,800
Inventory of supplies	31,200	31,500
	<u>187,200</u>	<u>210,600</u>
Property, plant and equipment (note 1):		
Property	327,400	302,700
Plant and equipment	954,700	927,500
	<u>1,282,100</u>	<u>1,230,200</u>
Less accumulated depreciation and depletion	147,800	93,100
	<u>1,134,300</u>	<u>1,137,100</u>
Investment (note 1)	<u>157,000</u>	<u>157,000</u>
	\$1,478,500	\$1,504,700
Liabilities	1984	1983
Current liabilities:		
Accounts payable and accrued liabilities	\$ 93,600	\$ 78,700
Current maturities of long-term debt	1,600	2,400
	<u>95,200</u>	<u>81,100</u>
Advances under long-term silver contract (note 3)	<u>74,800</u>	<u>74,800</u>
Long-term debt (note 4)	<u>204,600</u>	<u>299,500</u>
Deferred taxes (note 6)	<u>81,500</u>	<u>63,200</u>
Shareholder's advances and investment (note 5):		
Long-term advances	401,000	401,000
Investment	621,400	585,100
	<u>1,022,400</u>	<u>986,100</u>
	\$1,478,500	\$1,504,700

See accompanying notes.

Combined Statement of Cash Flow

Year ended December 31, 1984
with comparative figures for 1983
(thousands of dollars)

	1984	1983
Operations:		
Earnings (loss)	\$ 16,900	\$ (1,200)
Add non-cash items:		
Depreciation and depletion	54,700	51,200
Deferred taxes	18,300	86,200
Foreign exchange	6,500	7,000
	<u>96,400</u>	<u>143,200</u>
Changes in working capital:		
Inventory	13,300	7,100
Accounts receivable	10,100	15,300
Accounts payable and accrued liabilities	14,900	25,300
Current bank indebtedness	—	(16,300)
	<u>134,700</u>	<u>174,600</u>
Investment in property, plant and equipment	<u>(32,500)</u>	<u>(17,000)</u>
Cash flow available for debt repayments	<u>\$102,200</u>	<u>\$157,600</u>
Financing:		
Repayment of long-term debt	\$102,200	\$232,400
Advances under long-term silver contract	—	(74,800)
Debt repayments	<u>\$102,200</u>	<u>\$157,600</u>

See accompanying notes.

Notes to Combined Financial Statements

December 31, 1984

1. Basis of Presentation:

Kidd Creek Mines is defined as the entity which includes the mining and potash operations of certain subsidiaries of Canada Development Corporation. The most significant of such subsidiaries is Kidd Creek Mines Ltd. During the year its jurisdiction of incorporation was changed from the United States to Canada.

The cost of acquisition of these subsidiaries to Canada Development Corporation has been recorded in these combined financial statements. The excess of the cost over the book value of assets less liabilities at the date of acquisition was assigned to the assets and liabilities based on their fair values. Such cost may be adjusted upon the resolution of a number of tax and other matters relating to periods prior to the acquisition.

In prior years, Kidd Creek Mines, a defined entity, excluded the sulphur and oil and gas assets and operations of Kidd Creek Mines Ltd. from its combined financial statements. During 1984 these assets were exchanged for shares of Canterra Energy Limited, a subsidiary of Canada Development Corporation. This investment now is accounted for in the combined balance sheet of the defined entity in the amount of \$157,000,000 and has been recorded retroactively in shareholder's investment. In addition, the cost of acquisition to Canada Development Corporation has been adjusted as a result of the resolution of certain matters during the year. As a result the book value of property and shareholder's investment in the combined balance sheet has increased by \$19,400,000.

Certain 1983 figures have been reclassified to conform with the 1984 presentation.

2. Significant Accounting Policies:

The significant accounting policies of the companies combined in these financial statements, which are in accordance with accounting principles generally accepted in Canada, 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) Investment:

The investment represents an interest of approximately 20% of the common shares of Canterra Energy Limited and is accounted for at cost. These shares are pledged as security for certain borrowings of Canada Development Corporation. The remaining interest is held by Canada Development Corporation.

(e) Foreign currency translation:

The accounting policy relating to foreign currency translation has been changed retroactively to conform with recent recommendations of the Canadian Institute of Chartered Accountants. The change in policy has no effect on earnings or losses in the current or prior years.

Current assets and current liabilities that are receivable or payable in foreign currencies are translated at year-end exchange rates. The accounting policy recognizes that non-current U.S. dollar denominated liabilities are hedged effectively as repayment of such liabilities will be made from future U.S. dollar revenues (revenue hedge). Advances under long-term silver contract, long-term debt and long-term shareholder's advances payable in U.S. dollars are translated at year-end exchange rates. Charges or credits relating to the U.S. dollar revenue hedge and arising from exchange rate fluctuations between the date the obligation was incurred and the year-end dates are offset against the related liability. Such charges or credits are recorded and included in interest expense in the combined statement of operations in the years that the related liabilities are paid down.

Advances under long-term silver contract consist of the following:

	1984		1983	
	(in thousands)			
	U.S.	Canada	U.S.	Canada
Advances	\$60,800	\$80,400	\$60,800	\$75,700
Less revenue hedge		5,600		900
	\$74,800			\$74,800

Under the terms of a contract whereby the shareholder 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, at December 31, 1984, vary from U.S. \$13.91 to U.S. \$14.80 per troy ounce or to require Kidd Creek Mines Ltd. 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 $\frac{5}{8}$ % to March 31, 1989 and thereafter to maturity at the rate of 11 $\frac{1}{8}$ %. Interest expense for the year amounted to \$6,100,000 (1983 — \$4,500,000).

Long-term debt consists of the following:

	1984		1983	
	(in thousands)			
	\$U.S.	\$Canada	\$U.S.	\$Canada
Bank loans	\$77,600	\$102,500	\$140,900	\$175,300
Loans from shareholder	82,900	109,600	95,300	118,700
10% debenture due 1986		15,000		17,000
Other		1,600		3,300
		228,700		314,300
Less current maturities		1,600		2,400
		227,100		311,900
Less revenue hedge		22,500		12,400
		\$204,600		\$299,500

Bank loans and loans from the shareholder are payable primarily in U.S. dollars. The U.S. dollar equivalent of the debt at the year-end exchange rates is disclosed above.

Kidd Creek Mines Ltd. 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 LIBOR 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.

Loans from the shareholder generally bear interest based on rates quoted for prime Canadian and U.S. dollar loans and LIBOR loans. There are no definite terms of repayment. Repayment during 1985, if any, will be funded by draw-downs on the long-term bank credit facility.

Interest expense on long-term debt for the year amounted to \$32,900,000 (1983 — \$40,700,000), including \$13,200,000 (1983 — \$12,100,000) with respect to loans from shareholder. Foreign exchange charges amounted to \$6,500,000 (1983 — \$7,000,000) and are included in interest expense on the combined statement of operations.

(a) Long-term advances:

Long-term advances consist of:

	1984		1983	
	<i>(in thousands)</i>			
	U.S.	Canada	U.S.	Canada
Advances	\$338,000	\$446,700	\$338,000	\$420,600
Less revenue hedge		45,700		19,600
		\$401,000		\$401,000

Long-term advances from the shareholder consist of U.S. dollar notes payable at interest based on rates quoted for LIBOR loans. The notes are repayable in semi-annual payments of U.S. \$33,800,000 from 1987 through 1991. Interest expense for the year amounted to \$49,700,000 (1983 — \$43,100,000).

Auditors' Report

(b) Investment:

Shareholder's investment consists of:

	1984	1983
	<i>(in thousands)</i>	
Shareholder's investment, beginning of year as originally stated	\$428,100	\$429,300
Adjustment to record investment (note 1)	157,000	157,000
Shareholder's investment, beginning of year as restated	585,100	586,300
Adjustment to property (note 1)	19,400	—
Earnings (loss) for the year	16,900	(1,200)
Shareholder's investment, end of year	\$621,400	\$585,100

6. Income and Mining Taxes:

As at December 31, 1984 the book value of the net assets exceeds by approximately \$686,000,000 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.

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

	1984	1983
	<i>(in thousands)</i>	
Income taxes:		
Current	\$ (4,800)	\$ (74,500)
Deferred	13,300	81,600
	8,500	7,100
Mining taxes:		
Current	10,700	8,400
Deferred	5,000	4,600
	15,700	13,000
	\$24,200	\$ 20,100

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, 1984, the plan was fully funded.

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, 1984 and the combined statements of operations and cash flow 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, 1984 and the results of its operations and the cash flow 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, Mitchell & Co.
Chartered Accountants
Toronto, Canada
February 15, 1985

Board of Directors

Officers

Offices

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*

Robert W. Korthals
*President
Toronto-Dominion Bank*

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

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

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

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
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Marketing*

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Mining*

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Human Resources*

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Assistant Secretary

Doron J. Cohen
*Director
Information Systems*

John B. Heslop
*Vice-President
Project Development*

Michael C. Hughes
*Vice-President
Sales*

D. Malcolm King
Comptroller

Peter L. Money
*Vice-President
Exploration Planning*

John M. Newell
*Vice-President
Exploration and
Mineral Development*

L. Donald Sanderson
*Vice-President
Metallurgy*

Ronald M. Sweetin
*Vice-President
Corporate Planning*

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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