Kerr Addison Mines Limited

1986 Annual Report

50 YEARS OF PROGRESS

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KERR ADDISON MINES LIMITED

P.O. Box 91, Commerce Court West
Toronto, Ontario
M5L 1C7

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE is hereby given that the Annual and a Special Meeting of Shareholders of Kerr Addison Mines Limited will be held in Commerce Hall, Concourse Level, Commerce Court West, Toronto, Ontario on

FRIDAY, MAY 1, 1987

at 11:30 a.m. (Toronto Time) for the following purposes:

1. to receive the Annual Report, including financial statements and Auditors' Report for the fiscal year ended December 31, 1986;
2. to elect Directors;
3. to appoint auditors and authorize the Directors to fix the remuneration of the auditors;
4. to consider and, if thought fit, approve the Special Resolution which, as described in the accompanying Information Circular, authorizes the amendment of the Articles of the Corporation to change its maximum authorized number of Common Shares to an unlimited number, and to create a class of Preference Shares issuable in series; and
5. to transact such other business as may properly come before the meeting or any adjournment thereof.

A copy of each of the said reports and financial statements and an Information Circular containing the full text of the above-mentioned Special Resolution accompany this notice.

If the Special Resolution is passed at the meeting, a shareholder who gives written notice of his objection to the resolution at or before the meeting, and votes against the resolution, is entitled, as set out in the Information Circular, to have the fair value of his shares paid to him.

DATED at Toronto, Ontario, this 3rd day of April, 1987.

By Order of the Board,

JOHN B. SAGE,
Secretary.

Shareholders are entitled to vote at the meeting either in person or by proxy. If it is not your intention to be present at the meeting, please exercise your right to vote by promptly signing, dating and returning the attached form of proxy in the envelope provided for that purpose.

KERR ADDISON MINES LIMITED

Suite 3970, Commerce Court West
Toronto, Ontario
M5L 1C7

INFORMATION CIRCULAR
for
ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
to be held on May 1, 1987

This Information Circular accompanies the Notice of the Annual and Special Meeting of Shareholders of Kerr Addison Mines Limited (hereinafter referred to as "the Corporation") to be held on May 1, 1987, and is furnished in connection with the solicitation of proxies by management of the Corporation for use at said meeting. The solicitation will be primarily by mail, but proxies may also be solicited by regular employees of the Corporation. The cost of solicitation by management will be borne by the Corporation.

The persons named in the accompanying form of proxy are Officers of the Corporation. **If, however, a shareholder desires to appoint some other person (who need not be a shareholder) to represent him at the meeting other than those designated in the form of proxy, he may do so by inserting such other person's name in the blank space provided in the form of proxy or by completing another form of proxy.**

A shareholder who has given a proxy may revoke it pursuant to the provisions of Section 110(4) of the Ontario Business Corporations Act, 1982 (the "OBCA") at any time prior to its use either, (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Corporation, (b) by signing personally or by attorney a written notice of revocation and delivering it to the Secretary of the Corporation prior to the date of the meeting or to the Chairman of the meeting prior to its commencement, or (c) in any other manner permitted by law.

On any ballot at the meeting, the persons named in the accompanying form of proxy will vote the shares in respect of which they are appointed nominees in accordance with the instructions of the appointors, and will vote such shares in accordance with any choices that may be specified regarding matters identified in the Notice of Meeting. The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The authorized capital of the Corporation consists of 25,000,000 Common Shares without par value, of which there are 17,322,652 shares outstanding at the date of this Information Circular, and shareholders of record at the time of the meeting will be entitled to one vote for each share held at the meeting and at any adjournment thereof.

Management of the Corporation understands that the only persons who own beneficially or exercise control or direction over shares carrying more than 10% of the voting rights attached to all of the outstanding shares of the Corporation are Noranda Inc. ("Noranda"), Brunswick Mining and Smelting Corporation Limited ("Brunswick") and Brenda Mines Limited ("Brenda"). Noranda owns, directly and indirectly through subsidiaries, 8,555,207 Common Shares, or 49.4% of the outstanding shares of the Corporation. Brunswick is a subsidiary of Noranda and its holdings of shares in the Corporation (2,890,390 Common Shares, or 16.7% of the outstanding shares of the Corporation) are included in the figures given above for shares of the Corporation owned by Noranda. Brenda, which is an associate of Noranda but not a subsidiary, owns 2,890,390 Common Shares, or 16.7% of the outstanding shares of the Corporation.

AMENDMENT TO ARTICLES

At the Meeting, the shareholders will be asked to vote upon a Special Resolution to amend the Articles of Incorporation of the Corporation to change the maximum number of Common Shares that the Corporation is authorized to issue to an unlimited number, and to create a class of Preference Shares without limit as to number and issuable in series.

The changes in authorized capital being proposed are intended to increase the Corporation's flexibility in financing its operations and those of companies associated with it through the issue of additional Common Shares and/or Preference Shares and to facilitate possible acquisitions as favourable opportunities arise. The Board of Directors is not presently contemplating the issuance of any Common Shares and/or Preference Shares, other than those Common Shares reserved for issuance under the employees' stock option and stock purchase plans and under an agreement as "flow-through" shares. If this amendment is approved at the meeting, shareholder approval will generally not be required for any future issuances of Common Shares or Preference Shares.

The Preference Shares would be, as a class, entitled to preference over the Common Shares with respect to priority in the payment of dividends and on a distribution of assets in the event of the liquidation, dissolution or winding up of the Corporation. Except as provided by the OBCA, the Preference Shares would not as a class (but one or more series may) be entitled to vote. The Preference Shares would be issuable by the Board of Directors at any time or from time to time in one or more series without further shareholder approval. The Board would be authorized to fix the number of shares comprising each series, to determine the issue price of the series, and (subject to the ranking as to dividends and the distribution of assets in the event of the liquidation, dissolution or winding up of the Corporation referred to above) to determine the preferences and other rights attaching to the shares of the series, which could include general voting rights.

The OBCA provides for separate class votes of the Common Shares and the Preference Shares and for appraisal rights (as hereinafter described) where the Corporation is proposing to make any of a number of specified changes in the capital of the Corporation. However, the OBCA permits the elimination of such right to vote separately as a class in respect of several of such specified changes and, accordingly, one of the proposed terms of the Common Shares and of the Preference Shares is that the holders of each such class of shares shall not be entitled to vote separately as a class, and shall not be entitled to appraisal rights, in respect of three of the specified changes, namely, a proposal to amend the Articles of the Corporation to: (i) change any maximum number of authorized shares of such class or increase any maximum number of authorized shares of a class or series of a class having rights or privileges equal or superior to such class; (ii) effect an exchange, reclassification or cancellation of the shares of such class; or (iii) create a new class or series of a class equal or superior to such class. Holders of shares of all classes and series carrying general voting rights would vote together on these changes.

To be effective, the Special Resolution, the text of which is set forth as Schedule "A" hereto, must be passed by a majority of at least two thirds ($^2/_3$) of the votes cast by the holders of Common Shares who vote in respect of the Special Resolution at the meeting. In addition, the Articles of Amendment authorized pursuant to the Special Resolution must be filed with the Director appointed under the OBCA. **The persons named in the enclosed form of proxy intend to vote in favour of the Special Resolution, unless the shareholder signing the form of proxy specifies that the form of proxy be voted against the Special Resolution.**

Any holder of Common Shares of the Corporation who gives written notice to the Corporation of his objection to the Special Resolution at or before the meeting and votes against the Special Resolution at the meeting will be entitled to appraisal rights, i.e., such holder may, if the Special Resolution is passed, require that the fair value of his shares be paid to him by the Corporation.

The execution or exercise of a proxy does not constitute a written notice of objection. Within 10 days after the approval of the Articles of Amendment by the shareholders, the Corporation must so notify any dissenting shareholder and such shareholder is then required, within 20 days after receipt of such notice, to send a written notice to the Corporation demanding payment of the fair value of all of his Common Shares (the "Demand Notice") and, within 30 days of the Demand Notice, to send to the Corporation or its transfer agent the certificates representing the shares in respect of which the shareholder is dissenting. The Corporation is then required, as of the effective date of the Articles of Amendment, to determine the fair value of the shares and, not later than seven days after the later of such effective date and the day the Corporation received the Demand Notice, to make a written offer to pay such amount to the dissenting shareholder. If such offer is not made or not accepted, either party may apply to the court to fix the fair value for the shares. If an application is made by either party, the dissenting shareholder will ultimately be entitled to be paid the amount fixed by the court. The foregoing is merely a summary of the provisions of Section 184 of the OBCA and any dissenting shareholder should make reference to such provisions.

The Board of Directors may, in its discretion, revoke the Special Resolution before it has been filed with the Director appointed under the OBCA without obtaining further shareholder approval.

ELECTION OF DIRECTORS

Twelve Directors are to be elected at the meeting to serve until the next annual meeting or until their successors are elected or appointed. The management of the Corporation proposes to nominate the twelve persons listed below. All such proposed nominees are now Directors of the Corporation. **It is the intention of the persons named in the accompanying form of proxy to vote for the election of the proposed nominees as Directors.** If any of such nominees should be unable to serve as a Director for any unforeseen reason, the persons named in the accompanying form of proxy reserve the right to vote for another nominee in their discretion.

Name and office held with the Corporation	*Principal occupation*	*Became Director*	*Number of shares of the Corporation beneficially owned*
*Ian D. Bayer *President and Chief Executive Officer*	President and Chief Executive Officer of the Corporation	1982	16,886
*Jack L. Cockwell	Executive Vice-President of Brascan Limited (natural resources, consumer products and financial services)	1984	Nil
*Philip S. Cross *Executive Vice-President and Chief Operating Officer*	Executive Vice-President and Chief Operating Officer of the Corporation	1978	5,085
John A. Hall	Company Director — Mining Engineer	1982	1,000
Keith C. Hendrick	Senior Vice-President of Noranda Inc. (natural resources developers, operators and manufacturers) and President of Noranda Minerals Inc.	1986	Nil
J. Ossie Hinds	Senior Vice-President - Exploration and Development of Noranda Inc.	1974	300
Gilbert Kerlin	Partner in the firm, Shearman & Sterling (attorneys-at-law)	1982	Nil
†*James W. McCutcheon, Q.C. *Chairman of the Board*	Partner in the firm, Shibley, Righton & McCutcheon (barristers and solicitors)	1975	200
Donald G. Neelands, Q.C.	Company Director	1973	200
†*Jean P. W. Ostiguy, O.C.	Honorary Chairman of Richardson Greenshields of Canada Limited (investment dealers)	1968	100
†*Alfred Powis, O.C.	Chairman and Chief Executive Officer of Noranda Inc.	1969	2,711
Donald E. G. Schmitt	Company Director - Mining Engineer	1973	600

* Members of the Executive Committee † Members of the Audit Committee

NOTE: Information as to shares owned, as shown above, has been provided by the Directors individually.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

1. The six "Executive Officers" of the Corporation, as defined in applicable securities legislation, were paid cash compensation aggregating $543,882 during the fiscal year ended December 31, 1986. Certain of these Officers also received non-cash personal benefits during the year which did not exceed $50,000 in aggregate value.

2. Under a share purchase plan established in 1970, the Corporation from time to time advances money by way of interest-free loan to a trustee to be applied in payment of the subscription price of treasury Common Shares of the Corporation to be purchased by the trustee for sale to certain

Executive Officers and senior management employees, in accordance with the governing corporations law. In this regard, interest-free loans totalling $823,842 are currently outstanding against which the trustee holds 50,100 shares. This is also the largest aggregate amount outstanding since the beginning of 1986. All of these shares were sold by the trustee at various times during the period 1981 to 1986 inclusive to a total of eight eligible employees on the same terms as those on which they were acquired by the trustee, including the then current market prices per share which ranged from $14.25 per share to $18.02 per share. The trustee retains custody of the shares until payment is made by the employees to the trustee, which is required within seven years from their respective sale dates.

During the most recently completed financial year, $115,234 was advanced by way of interest-free loans to the trustee to be applied in payment of the subscription prices of $15.11 per share for 4,400 shares and $16.25 per share for 3,000 shares of the Corporation purchased by the trustee and sold on the same terms to certain of the Executive Officers in accordance with the foregoing plan.

3. Under a stock option plan established in 1963, the Directors of the Corporation may grant stock options to certain key employees of the Corporation, dependent upon their seniority, earnings level or other special qualifications. The purchase price for the shares of the Corporation under the option shall be the fair market value of the Corporation's shares traded on The Toronto Stock Exchange at the time of the grant. The option period shall be up to ten years, and no more than one-quarter of the shares under any option may be purchased in any one option year.

   During the most recently completed financial year, stock options granted to certain of the Executive Officers in previous years were exercised, and the aggregate net value of the relevant shares at the dates of exercise was $6,439.

4. In accordance with the By-laws of the Corporation, each Director is remunerated for his services as a Director at such rate as the Board may from time to time determine, and is reimbursed in respect of the out-of-pocket expenses incurred by him in attending meetings of the Board or of any committee of the Board of which he is a member. In this regard, since 1981, each Director of the Corporation has been compensated at the rate of $4,000 per annum, plus $500 for each Board meeting attended by him. Each Director who is not an Officer or employee of the Corporation or of any subsidiary has also been compensated at the rate of $500 for each committee meeting of the Board attended by him.

APPOINTMENT OF AUDITORS

The persons named in the accompanying form of proxy intend to vote for the re-appointment of Messrs. Clarkson Gordon, Chartered Accountants, Toronto, as auditors of the Corporation to hold office until the close of the next Annual Meeting of Shareholders, and for the authorization of the Board of Directors of the Corporation to fix the remuneration of the auditors.

OTHER BUSINESS

Management of the Corporation knows of no matters to come before the meeting other than the matters referred to in the Notice of Meeting. However, if matters not now known to management should properly come before the meeting, shares represented by proxies solicited by management will be voted on each such matter in accordance with the best judgment of the nominees voting same.

APPROVAL

The contents and the sending of this Information Circular have been approved by the Board of Directors of the Corporation.

Dated at Toronto, Ontario, this 16th day of March, 1987.

J. B. Sage

JOHN B. SAGE
Secretary

SCHEDULE "A"

Special Resolution

WHEREAS the authorized capital of the Corporation consists of 25,000,000 Common Shares without par value;

AND WHEREAS it is considered in the best interests of the Corporation to amend the Restated Articles of Incorporation dated May 11, 1984 (the "Articles"), as hereinafter provided;

RESOLVED AS A SPECIAL RESOLUTION OF THE CORPORATION THAT:

1. The Articles of the Corporation be and they are hereby amended as follows:

(a) by changing the authorized capital of the Corporation by deleting paragraph 7 of the Articles and substituting therefor the following:

"7. The classes and any maximum number of shares that the Corporation is authorized to issue: (i) an unlimited number of Common Shares, and (ii) an unlimited number of Preference Shares, issuable in series.";

(b) by providing that the Common Shares shall, as a class, carry and be subject to the following rights, privileges, restrictions and conditions to be set forth in paragraph 8 of the Articles:

"Common Shares

(i) each holder of Common Shares shall be entitled to vote at all meetings of shareholders and to one vote for each Common Share held at any such meeting, except meetings at which only holders of a specified class of shares (other than Common Shares) or a specified series of shares are entitled to vote;

(ii) the holders of Common Shares shall be entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, to receive the remaining property of the Corporation upon dissolution; and

(iii) the holders of Common Shares shall not be entitled to vote separately as a class, and shall not be entitled to dissent, upon a proposal to amend the Articles to:

(A) change any maximum number of authorized Common Shares, or increase any maximum number of authorized shares of a class or series of a class having rights or privileges equal or superior to the Common Shares;

(B) effect an exchange, reclassification or cancellation of the Common Shares; or

(C) create a new class or series of a class of shares equal or superior to the Common Shares."; and

(c) by providing that the Preference Shares shall, as a class, carry and be subject to the following rights, privileges, restrictions and conditions to be set forth in paragraph 8 of the Articles:

"Preference Shares

(i) The Preference Shares may be issued at any time or from time to time in one or more series, each series to consist of such number of Preference Shares as shall, before the issuance thereof, be fixed by the Board of Directors; each series of the Preference Shares shall be appropriately designated by some distinguishing number, letter or title;

(ii) with respect to each series, the Board of Directors shall determine (subject to the provisions hereof), before the issuance of the Preference Shares of such series, the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the Preference Shares of such series, including, but without in any way limiting the generality of the foregoing, the rate, amount or method of calculation of dividends, the amounts of the preferences over the Junior Shares (as hereinafter defined) with respect to the payment of dividends and with respect to the distribution of assets of the Corporation in the event of the liquidation, dissolution or winding up of the Corporation whether voluntary or involuntary or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs (a "Liquidation Distribution"), the consideration for which the Preference Shares of such series are to be issued, and the voting rights, if any, attached to the Preference Shares of such series in addition to the voting rights of the holders of the Preference Shares as a class as referred to in clauses (v) and (vi) hereof;

"Junior Shares" means the Common Shares and any other shares of the Corporation ranking junior to the Preference Shares with respect to the payment of dividends and with respect to a Liquidation Distribution;

(iii) the Preference Shares of each series shall be entitled to preferences (as set forth in the provisions attaching to such series) over the Junior Shares with respect to priority in the payment of dividends and with respect to priority in the event of a Liquidation Distribution, provided that, subject to clause (iv) hereof, the Preference Shares of each series may be given such other preferences over the Junior Shares as may be fixed by the Board of Directors as to the respective series authorized to be issued;

(iv) the Preference Shares of each series shall rank on a parity with the Preference Shares of every other series with respect to priority in the payment of dividends, if or to the extent that they are cumulative, and with respect to priority in the event of a Liquidation Distribution;

(v) except as referred to in clause (vi) hereof or as required by law, the holders of the Preference Shares as a class shall have no voting rights;

(vi) the provisions attaching to the Preference Shares as a class may be amended or repealed at any time or from time to time with such approval as may then be required by law to be given by the holders of the Preference Shares as a class, provided that the holders of the Preference Shares are not entitled to vote separately as a class, and shall not be entitled to dissent, upon a proposal to amend the Articles to:

(A) change any maximum number of authorized Preference Shares, or increase any maximum number of authorized shares of a class or series of a class having rights or privileges equal or superior to the Preference Shares;

(B) effect an exchange, reclassification or cancellation of the Preference Shares; or

(C) create a new class or series of a class of shares equal or superior to the Preference Shares;

(vii) on any poll taken at any meeting of the holders of the Preference Shares as a class, or at any joint meeting of the holders of two (2) or more series of the Preference Shares, each holder of Preference Shares entitled to vote thereat shall have one one-hundredth (1/100) of a vote in respect of each dollar ($1.00) (or its equivalent in a foreign currency at the date of issuance) of the issue price of each share held, and the formalities to be observed with respect to the giving of notice of and voting at any such meeting (including, without in any way limiting the generality of the foregoing, the record dates for the giving of notice and the entitlement to vote), the quorum therefor and the conduct thereof shall mutatis mutandis be those from time to time prescribed by the by-laws of the Corporation or standing resolutions of the Board of Directors with respect to meetings of shareholders.".

2. The Directors and proper officers of the Corporation be and they are hereby authorized and directed to execute all such documents, including Articles of Amendment, and do all such other things as they deem necessary or desirable to give effect to this resolution, provided that the Directors may revoke this resolution in their discretion without further approval by the shareholders, at any time prior to filing such Articles of Amendment.

Printed in Canada

KERR ADDISON MINES LIMITED

P.O. BOX 91 · COMMERCE COURT WEST
TORONTO, ONTARIO M5L 1C7
TELEPHONE (416) 982-7270
TELEX 06-23596

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August 28, 1986

To the Shareholders of
Kerr Addison Mines Limited

On August 27, 1986 Kerr Addison completed the acquisition of approximately 50 percent of the issued common shares of Corporation Falconbridge Copper (C.F.C.) from Falconbridge Limited in accordance with an agreement made on August 6, 1986. The aggregate consideration for the 6,673,296 common shares of C.F.C. purchased at $18 per share was $120 million. Kerr Addison financed the acquisition by using $50 million of existing cash reserves and borrowing $70 million from two Canadian chartered banks.

C.F.C. was incorporated under Quebec law in 1971, by the amalgamation of three companies, two of which had operating divisions. Other than the control block of shares now owned by Kerr Addison, the shares of C.F.C. are widely held and are listed on both the Toronto and Montreal Stock Exchanges. C.F.C. presently has three operating divisions: Lac Shortt (94.2 percent owned) which is located in Gand Township, about 70 miles west of Chapais in northeastern Quebec; Opemiska (100 percent owned) which is located at Chapais; and Lake Dufault (100 percent owned) which is located near Noranda, in northwestern Quebec. Total production from these three divisions in 1985 was approximately 100,000 ounces of gold, 45 million pounds of copper and 20 million pounds of zinc.

C.F.C. is going through a period of transition, with one mine in the development phase and another ore deposit in the advanced stages of underground exploration. In this respect, the Winston Lake orebody (80 percent owned) is located near Schreiber, in northwestern Ontario. This property will be brought into production by early 1988 at a rate of 1,000 tonnes per day grading 16 percent zinc and 1 percent copper, with some precious metals. At the Lake Dufault division, as reserves at the Corbet mine have been depleted, its 1,500 ton per day concentrator will be used to mill ore from the Ansil deposit, where two shafts are being sunk to carry out detailed underground exploration. Assuming this programme is successful, the Ansil deposit is expected to be in production by early 1989 at a rate of 1,400 tons per day grading 7 percent copper, with some precious metals. C.F.C. has strong operating personnel and they will be complemented by John K. Carrington as Vice-President — Operations and Philip S. Cross as Consultant. Mr. Carrington was formerly Manager of Operations of Kerr Addison and Mr. Cross is Executive Vice-President and Chief Operating Officer of this Company.

C.F.C. has had a considerable number of exploration successes during the 1980's, as evidenced by the discoveries at Lac Shortt, Winston Lake and Ansil. During 1986, planned exploration expenditures amount to $10.2 million, of which $8.1 million is being funded by the issue of "flow-through" common shares. C.F.C. will hopefully continue this outstanding exploration record through excellent staffs working out of regional offices located in Noranda, Quebec, Thunder Bay, Ontario and Vancouver, British Columbia. David H. Watkins, formerly Regional Exploration Manager, Vancouver for C.F.C. has been appointed Vice-President — Exploration, and is being relocated to the head office in Toronto.

At June 30, 1986, C.F.C. had total assets of $144 million, of which $74 million was cash and short-term securities, and it was debt-free. Earnings, which amounted to $0.2 million in 1985 and $2.3 million during the first half of 1986, are expected to increase substantially in 1988 and beyond as the new mines come into production. C.F.C. has the operating cash flow and financial resources to internally finance the capital costs of the Winston Lake and Ansil projects.

The directors and management of Kerr Addison believe that C.F.C. is an excellent company which has substantial growth potential over the coming years. C.F.C. will be a highly competitive producer of gold, zinc and copper, and its principal properties offer the opportunity to significantly expand their reserves. For Kerr Addison, this purchase represents a major step in our efforts to greatly expand and diversify its operating base with quality mines.

Yours sincerely,

Ian Bayer

Ian D. Bayer
President and
Chief Executive Officer

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KERR ADDISON MINES LIMITED

Suite 3970
P.O. Box 91, Commerce Court West
Toronto, Ontario
M5L 1C7

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE is hereby given that the Annual Meeting of Shareholders of Kerr Addison Mines Limited will be held in Commerce Hall, Concourse Level, Commerce Court West, Bay and King Streets, Toronto, Ontario on

FRIDAY, MAY 13, 1988

at 11:30 a.m. (Toronto Time) for the following purposes:

1. to receive the Annual Report, including financial statements and Auditors' Report for the fiscal year ended December 31, 1987;
2. to elect Directors;
3. to appoint auditors and authorize the Directors to fix the remuneration of the auditors;
4. to transact such other business as may properly come before the meeting or any adjournment thereof.

A copy of each of the said reports and financial statements and an Information Circular accompany this notice.

DATED at Toronto, Ontario, this 6th day of April, 1988.

By Order of the Board,

JOHN B. SAGE,
Secretary

Shareholders are entitled to vote at the meeting either in person or by proxy. If it is not your intention to be present at the meeting, please exercise your right to vote by promptly signing, dating and returning the attached form of proxy in the envelope provided for that purpose.

KERR ADDISON MINES LIMITED

Suite 3970
P.O. Box 91, Commerce Court West
Toronto, Ontario
M5L 1C7

INFORMATION CIRCULAR
for
ANNUAL MEETING OF SHAREHOLDERS
to be held on May 13, 1988

This Information Circular accompanies the Notice of the Annual Meeting of Shareholders of KERR ADDISON MINES LIMITED (hereinafter referred to as the "Corporation") to be held on May 13, 1988, and is furnished in connection with the solicitation of proxies by management of the Corporation for use at said meeting. The solicitation will be primarily by mail, but proxies may also be solicited by regular employees of the Corporation. The cost of solicitation by management will be borne by the Corporation.

The persons named in the accompanying form of proxy are Officers of the Corporation. **If, however, a shareholder desires to appoint some other person (who need not be a shareholder) to represent him at the meeting other than those designated in the form of proxy, he may do so by inserting such other person's name in the blank space provided in the form of proxy or by completing another form of proxy.** All such proxies should be properly executed and deposited with The Canada Trust Company, 110 Yonge Street, Toronto, Ontario M5C 1T4, prior to the date of the meeting or with the Chairman of the meeting prior to its commencement.

A shareholder who has given a proxy may revoke it pursuant to the provisions of Section 110(4) of the Ontario Business Corporations Act, 1982 (the "OBCA") at any time prior to its use either, (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Corporation at its Head Office address shown above, (b) by signing personally or by attorney a written notice of revocation and delivering it to the Secretary of the Corporation prior to the date of the meeting or to the Chairman of the meeting prior to its commencement, or (c) in any other manner permitted by law.

On any ballot at the meeting, the persons named in the accompanying form of proxy will vote the shares in respect of which they are appointed nominees in accordance with the instructions of the appointors, and will vote such shares in accordance with any choices that may be specified regarding matters identified in the Notice of Meeting. The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the meeting.

VOTING SHARES AND PRINCIPAL HOLDER THEREOF

The issued and outstanding capital of the Corporation consists of 17,536,652 Common Shares at the date of this Information Circular, and shareholders will be entitled to one vote for each share registered in the shareholder's name on the list of holders of Common Shares prepared as of the April 6, 1988 Record Date, unless a person has transferred shares after April 6, 1988 and the new holder of such shares establishes proper ownership and requests at any time before the meeting to be included on the list of shareholders.

Management of the Corporation understands that the only person who owns beneficially or exercises control or direction over shares carrying more than 10% of the voting rights attached to all of the outstanding shares of the Corporation is Noranda Inc. which owns directly 8,793,507 Common Shares, or 50.1% of the outstanding shares of the Corporation.

ELECTION OF DIRECTORS

Ten Directors are to be elected at the meeting to serve until the next Annual Meeting or until their successors are elected or appointed. The management of the Corporation proposes to nominate the ten persons listed below. All such proposed nominees are now Directors of the Corporation except Mr. E. Courtney Pratt, who has not been previously elected to the Board of Directors. **It is the intention of the persons named in the accompanying form of proxy to vote for the election of the proposed nominees as Directors.** If any of such nominees should be unable to serve as a Director for any unforeseen reason, the persons named in the accompanying form of proxy reserve the right to vote for another nominee in their discretion.

Name and office held with the Corporation	*Principal Occupation*	*Became Director*	*Number of shares of the Corporation owned or controlled*
*Ian D. Bayer *President and Chief Executive Officer*	President & Chief Executive Officer of the Corporation	1982	62,261
*Jack L. Cockwell	Executive Vice-President of Brascan Limited (natural resources, consumer products and financial services)	1984	10,000
*Philip S. Cross, P.Eng.	Consultant to the Corporation	1978	500
John A. Hall	Company Director – Mining Engineer	1982	1,000
Keith C. Hendrick	Senior Vice-President of Noranda Inc. (natural resources developers, operators and manufacturers) and President of Noranda Minerals Inc.	1986	Nil
David W. Kerr	President of Noranda Inc. since March 1987, prior to which he was Senior Vice-President – Strategic Planning and Development of Noranda Inc. From 1985 to October 1986, he was Executive Vice-President of Brascan Limited and, prior to 1985, had been Chief Operating Officer of Hees International Corp. (merchant bankers).	1987	10,000
†*James W. McCutcheon, Q.C. *Chairman of the Board*	Partner in the firm Shibley, Righton & McCutcheon (barristers & solicitors)	1975	1,000
E. Courtney Pratt	Senior Vice-President – Human Resources and Strategic Planning of Noranda Inc. since November 1987, prior to which he was Senior Vice-President, Human Resources and Administration of Royal Trustco Limited (financial services). Prior to July 1984, he was a Partner in the firm Touche Ross and Partners (management consultants).	—	Nil
†*Jean P.W. Ostiguy	Honorary Chairman of Richardson Greenshields of Canada Limited (investment dealers)	1968	100
†*Alfred Powis, O.C.	Chairman & Chief Executive Officer of Noranda Inc.	1969	2,711

*Members of the Executive Committee †Members of the Audit Committee

NOTE: Information as to shares owned or controlled, as shown above, has been provided by the Directors individually. Messrs. Bayer and McCutcheon each hold 1,000 shares of Minnova Inc., a subsidiary of the Corporation.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

1. The "Executive Officers" of the Corporation, as defined in applicable securities legislation, were paid cash compensation, including directors' fees where applicable, by the Corporation and a subsidiary aggregating $512,631 during the fiscal year ended December 31, 1987. Certain of these Officers also received non-cash personal benefits during the year which did not exceed $30,000 in aggregate value. The number of Executive Officers was reduced from six to five during the year.

2. Under the Share Purchase Plan of the Corporation established in 1970, the Board of Directors from time to time authorizes the Corporation to make interest-free loans to a corporate trustee to be applied in payment of the subscription price of Common Shares of the Corporation to be purchased by the trustee from treasury for sale to key employees of the Corporation or of its subsidiaries. Each employee gives the trustee a promissory note for the price of the shares sold to him and pledges the shares as collateral security for the payment of the note, which is required within seven years from the sale date. The Plan was amended in 1987 to provide that loans made thereafter shall bear interest equal to the cash dividends paid on the pledged shares, and must be repaid within a maximum period of five years at a rate of not more than 20% per year. A total of 80,000 Common Shares were issued and sold under the Plan in 1987 to five key employees at a subscription price equal to 90% of the market price of the shares at the time.

Indebtedness of the "Senior Officers", as defined in applicable securities legislation, and other employees of the Corporation under the Share Purchase Plan during the year ended December 31, 1987 was and at present is as follows:

Name	*Largest amount outstanding during year ended December 31, 1987*	*Amount currently outstanding*
Ian D. Bayer, Toronto, Ontario	$1,051,795	$984,795
Peter Bojtos, Willowdale, Ontario	243,000	243,000
Arthur H. Cross, Scarborough, Ontario	164,522	122,647
John B. Sage, Etobicoke, Ontario	107,268	97,218
Other employees (in the aggregate)	404,077	100,840

3. Under a stock option plan established in 1963, the Directors of the Corporation may grant stock options to certain key employees of the Corporation, dependent upon their seniority, earnings level or other special qualifications. The purchase price for the shares of the Corporation under the option shall be the fair market value of the Corporation's shares traded on The Toronto Stock Exchange at the time of the grant. The option period shall be up to ten years, and no more than one-quarter of the shares under any option may be purchased in any one option year.

   During the most recently completed financial year, stock options granted to certain of the Executive Officers in previous years were exercised, and the aggregate net value (market price less exercise price) of the relevant options at the dates of exercise was $15,388.

4. In accordance with the By-laws of the Corporation, each Director is remunerated for his services as a Director at such rate as the Board may from time to time determine, and is reimbursed in respect of the out-of-pocket expenses incurred by him in attending meetings of the Board or of any committee of the Board of which he is a member. Each Director of the Corporation who is not a full time employee of the Corporation is eligible to be compensated at the rate of $10,000 per annum. Each Director who is not an Officer or full time employee of the Corporation is also eligible to be compensated at the rate of $500 for each meeting of any committee of the Board attended by him.

APPOINTMENT OF AUDITORS

The persons named in the accompanying form of proxy intend to vote for the re-appointment of Messrs. Clarkson Gordon, Chartered Accountants, Toronto, as auditors of the Corporation to hold office until the close of the next Annual Meeting of Shareholders, and for the authorization of the Board of Directors of the Corporation to fix the remuneration of the auditors.

OTHER BUSINESS

Management of the Corporation knows of no matters to come before the meeting other than the matters referred to in the Notice of Meeting. However, if matters not now known to management should properly come before the meeting, shares represented by proxies solicited by management will be voted on each such matter in accordance with the best judgment of the nominees voting same.

APPROVAL

The contents and the sending of this Information Circular have been approved by the Board of Directors of the Corporation.

DATED at Toronto, Ontario, this 10th day of March, 1988.

JOHN B. SAGE
Secretary

Printed in Canada

Kerr Addison Mines Limited

DIRECTORS:

*Ian D. Bayer
President & Chief Executive Officer
Kerr Addison Mines Limited

*Jack L. Cockwell
Executive Vice-President
Brascan Limited

*P. S. Cross
Executive Vice-President &
Chief Operating Officer
Kerr Addison Mines Limited

J. A. Hall
Company Director - Mining Engineer

K. C. Hendrick
President
Noranda Minerals Inc.

J. O. Hinds
Senior Vice-President
— Exploration & Development
Noranda Inc.

Gilbert Kerlin
Partner
Shearman & Sterling

†*James W. McCutcheon, Q.C.
Partner
Shibley, Righton & McCutcheon

D. G. Neelands, Q.C.
Company Director

†*J. P. W. Ostiguy, O.C.
Honorary Chairman
Richardson Greenshields
of Canada Limited

†*Alfred Powis, O.C.
Chairman & Chief Executive Officer
Noranda Inc.

D. E. G. Schmitt
Company Director - Mining Engineer

*Member of the Executive Committee
†Member of the Audit Committee

OFFICERS:

James W. McCutcheon, Q.C.
Chairman of the Board

Ian D. Bayer
President & Chief Executive Officer

P. S. Cross
Executive Vice-President &
Chief Operating Officer

D. A. Lowrie
Vice-President — Exploration

A. H. Cross
Treasurer

J. B. Sage
Secretary

OPERATIONS:

The Kerr Addison Mine
D. S. Douglass
Manager

Corporation Falconbridge Copper

J. K. Carrington
Vice-President — Operations

D. H. Watkins
Vice-President — Exploration

J. Desrosiers
Mine Manager —
Lake Dufault Division

T. A. Dickson
Mine Manager —
Winston Lake Division

D. D. Tolgyesi
Mine Manager — Opemiska Division
and Lac Shortt Division

HEAD OFFICE AND EXPLORATION OFFICE:

Suite 3970
P.O. Box 91
Commerce Court West
Toronto, Ontario
M5L 1C7

TRANSFER AGENT AND REGISTRAR:

The Canada Trust Company
Toronto, Ontario

CO-TRANSFER AGENT:

Registrar & Transfer Company
Cranford, New Jersey and
New York, N.Y.

SHARES LISTED: ("KER")

The Toronto Stock Exchange

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Friday, May 1, 1987, 11:30 a.m.
in Commerce Hall
Commerce Court West
King and Bay Streets
Toronto, Ontario

The front cover presents the mining operations of Corporation Falconbridge Copper, in which Kerr Addison acquired a 49.3% equity interest in August 1986, displayed within the original Kerr Addison logo painting. Shown clockwise from top left are; the Ansil Project, the Winston Lake Division, the Lac Shortt Division, the Opemiska Division, and the Norbec Mill at the Lac Dufault Division.

The back cover shows the flare during production testing of a Canadian Hunter gas well in Alberta.

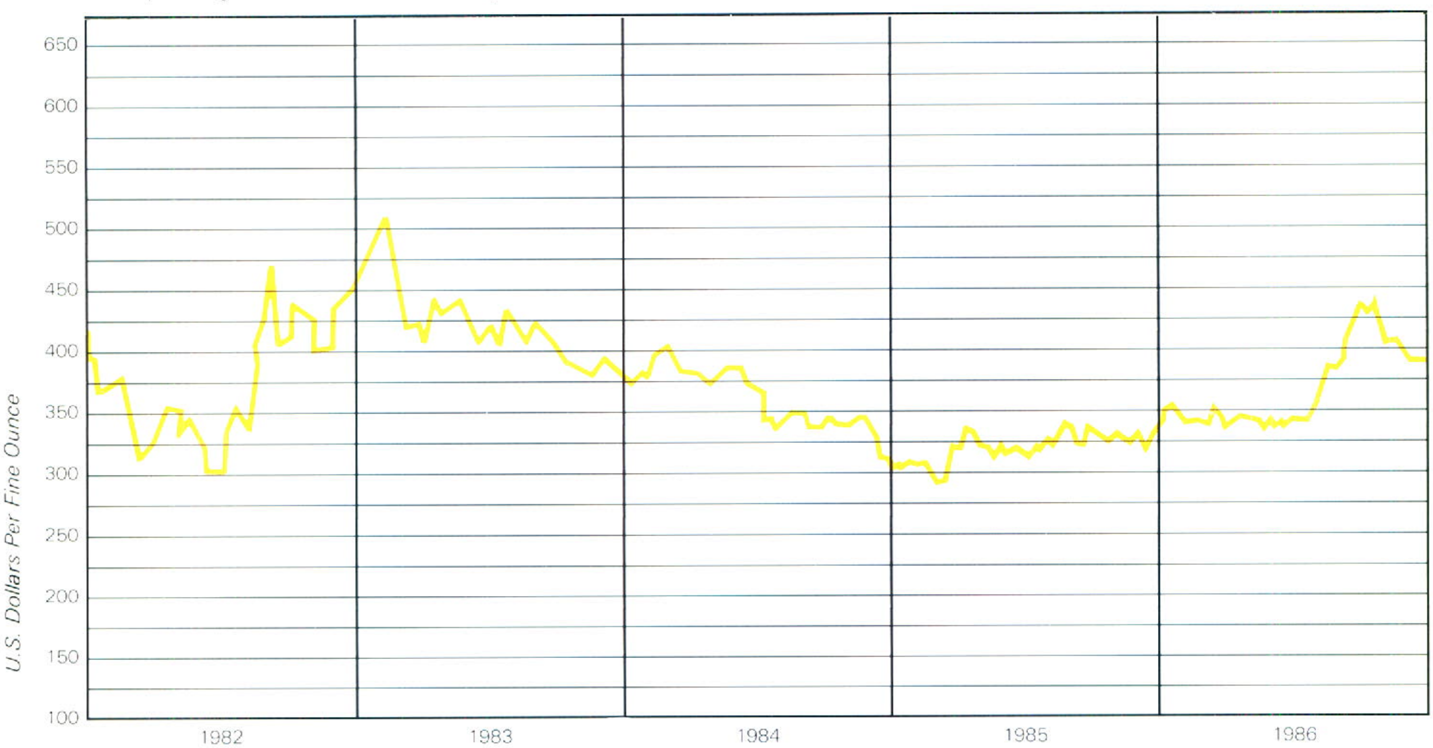
Financial Summary:

	1986	1985	1984	1983	1982
Millions of Dollars					
Production revenue	**$ 59.2**	$ 48.0	$ 48.7	$ 47.5	$ 55.0
*Net income	**5.1**	2.5	16.3	16.3	4.0
Working capital	**91.0**	47.0	26.0	49.9	51.1
*Total assets	**518.1**	388.7	425.1	450.1	380.8
Long-term debt	**50.0**	5.0	40.0	70.0	
*Shareholders' equity	**331.1**	336.2	341.7	335.5	329.1
Dollars Per Share					
*Net income	**$ 0.30**	$ 0.14	$ 0.95	$ 0.95	$ 0.39
Dividends declared	**.60**	.60	.60	.60	.60

*1982 to 1984 figures restated for the change in the method of accounting for oil and gas expenditures.

The Gold Picture:

Weekly Average Gold Price, Second Fixing — London Gold Market



Director's Report To the Shareholders:

Fifty Years of Progress

Fifty years ago on April 9, 1936, the predecessor of Kerr Addison was incorporated to explore and assess mining claims originally staked in 1906 on the northeast arm of Larder Lake Ontario by Mr. H. L. Kerr and Dr. William Addison. From initial production in 1938, when reserves were indicated to be 150,000 ounces, the Kerr Addison mine has gone on to produce over 10 million ounces of gold and provide the foundation for the future growth of the Company.

In the intervening years the Company has owned and operated six other mines, four in Canada, one in the United States, and one in Ireland. It has made extensive investments in Canadian resource industries and, in the late 1970's and again in the early 1980's, diversified into the oil and gas business. Kerr Addison has paid dividends yearly for the past 47 years with accumulative payments amounting to $190 million, or 60 percent of net income.

Corporation Falconbridge Copper

On August 27, 1986, Kerr Addison completed the acquisition of 49.3 percent of the issued common shares of Corporation Falconbridge Copper (C.F.C.) for an aggregate cash consideration of $120 million. C.F.C. was incorporated under Quebec laws in 1971 and, other than the control block of shares now owned by Kerr Addison, the shares of C.F.C. are widely held and listed on both the Toronto and Montreal Stock Exchanges.

C.F.C. presently has two operating divisions: the Lac Shortt gold mine (94.2 percent owned) which is located in Gand Township, about 70 miles west of Chapais in northeastern Quebec, and the Opemiska gold/copper mines (100 percent owned) which are located at Chapais. In addition, C.F.C. has one mine in the development phase and another ore deposit in the advanced stages of underground exploration. In this respect the Winston Lake orebody (80 percent owned) is located near Schreiber in northwestern Ontario. This property will be brought into production by early 1988 at the rate of 1,000 tonnes per day grading 16 percent zinc and 1 percent copper with some precious metals. The Ansil deposit, which is part of the Lac Dufault Division (100 percent owned), is located near Noranda, Quebec and is expected to be in production by early 1989 at the rate of 1,400 tons per day, grading 7 percent copper with some precious metals. C.F.C. has strong operating personnel and has had a considerable number of exploration successes during the 1980's. In addition, the Company has $72 million cash and short-term securities and is debt free.

1986 Financial Results

Kerr Addison's net income for 1986 is $5.1 million, or 30 cents per share, compared to earnings of 14 cents per share in the previous year. The principal reason for this increase was a gain of $5.6 million on the sale of investments during 1986.

Operating profits were adversely affected by the five month strike at the Canadian Electrolytic Zinc smelter, which was finally settled in early November. This resulted in a loss for the year from this joint venture. The oil and gas sector provided improved earnings in 1986 because of reduced Federal P.G.R.T. taxes, which were eliminated on October 1st, and lower Provincial royalties. This improvement occurred despite lower product prices and declines in natural gas sales. Production revenues increased in 1986 as a result of the acquisition of the control position in C.F.C. and the consolidation of that company's accounts effective September 1, 1986.

Cash flow from operations and investments was $20.3 million for the year, and proceeds from the sale of investments amounted to $47.0 million. Kerr Addison's long-term debt increased to $50 million, reflecting the purchase of the common shares of C.F.C. for a cash consideration of $120.4 million. Cash balances in C.F.C. at the time of acquisition amounted to $76.3 million and, as a result, consolidated cash and short-term investments increased to $74.3 million at December 31, 1986. Dividend payments to shareholders amounted to 60 cents per share, as in 1985. Capital expenditures totalled $20.4 million.

Mining and Smelting

Gold production from the Kerr Addison mine in Virginiatown, Ontario was 43,400 ounces, down 10 percent from the previous year because of the lower average grade of ore milled. Operating profit from the mine, before deducting amortization and taxes, declined by $0.7 million to $2.1 million in 1986 due to higher unit operating costs and the lower grade. Estimated ore reserves increased by 150,000 tons to 955,000 tons at December 31, 1986, after milling 366,930 tons during the year.

Zinc slab production at the CEZ plant at Valleyfield, Quebec, in which this Company has a 9.8 percent joint venture interest, was 130,000 tons or approximately 50 percent of capacity due to the effects of the strike. The plant anticipates full capacity operations for 1987. During the first half of 1986, CEZ successfully introduced a new product, zinc shot, for the electrogalvanizing of high quality sheet steel used in automotive body panels. CEZ is the only major supplier to this expanding market segment in the United States.

C.F.C. has reported net income of $4.7 million for 1986. This improvement over the previous year reflects higher gold prices and reduced underground exploration expenditures. Gold production amounted to 107,000 ounces for the year.

Kerr Addison and C.F.C. will continue to maintain independent mineral exploration departments. Both companies have large property holdings near their existing mining operations and in other geologically favourable areas. Kerr Addison spent $7.0 million and C.F.C. $8.3 million on mineral exploration programs in 1986, and similar levels of expenditures are planned by each for 1987. Most of these funds will be provided by the issue of flow-through common shares from the respective companies.

Oil and Gas

Canadian Hunter Exploration Ltd., in which Kerr Addison has a 13 percent joint venture interest, is a major natural gas producer with its head office in Calgary, Alberta. Kerr Addison's share of Hunter's daily production averaged 13 million cubic feet of natural gas and 700 barrels of oil and liquids. Natural gas deliveries decreased by 13 percent from 1985 because of reduced sales in North America by TransCanada PipeLines. Production of natural gas liquids increased by 33 percent because of new liquids extraction facilities which were brought on-stream late during the second half of 1985. Operating profit was $9.4 million for the year, down about 20 percent because of lower product prices.

Director's Report (continued)

Anderson Exploration Ltd., in which Kerr Addison has a 32.6 percent equity interest, is also a major natural gas producer with headquarters in Calgary. Anderson's daily production averaged 48 million cubic feet of natural gas and 1,200 barrels of oil and gas liquids in 1986. Natural gas production declined by 30 percent from the previous year due to reduced sales to northern California. Anderson's cash flow net of interest costs was $20.0 million. Kerr Addison's share of Anderson's loss declined to $0.6 million.

Investments

Kerr Addison owns 8 million shares of Noranda Inc. which has announced substantially improved earnings and financial results for 1986. Noranda has reported a net income of $43 million for 1986, compared to a loss of $254 million for the previous year. In addition, substantially better results from the forest product segment of its business, and other transactions, have greatly improved Noranda's financial position.

Kerr Addison owns 24 percent of MFC Mining Finance Corporation. During May 1986, MFC's 50 percent-owned subsidiary, Blackdome Mining Corporation, brought its British Columbia gold mine into production at a rate of 50,000 ounces per year. MFC also acquired a 50 percent joint venture interest in The Stibnite Mine in Idaho. MFC now controls approximately 65,000 ounces of annual gold production through these two operations.

Major Projects

On July 25, 1986, the decision was made to resume work towards bringing the Winston Lake property into production. Since then, surface construction and underground development have proceeded and good progress has been made in recruiting the operating staff. The access road and water storage dam have been completed and the service building complex is nearing completion. The Sturgeon Lake mill complex has been dismantled and moved to Winston Lake, and the basic structural steel for the mill building has been erected. The concentrator should be commissioned during the fourth quarter of 1987, and full production is anticipated during the second quarter of 1988. Estimated construction and development expenditures to complete the project are $45 million.

At the Ansil Project, the production shaft has been completed to its initial depth of 1,400 metres below surface. Sinking of the ventilation shaft commenced in October and is progressing well. The changeover to the underground exploration program and the construction of the service building complex were both nearing completion at year-end. Drifting on three levels and detailed diamond drilling to delineate and evaluate the deposit should be completed by the end of 1987. Planned expenditures for the year are $20 million.

Canadian Hunter's major exploration program in the British Columbia portion of the Deep Basin Region is well under way with 16 successful wells in 1986 out of an 18 well program. Standard Oil Production Company is Canadian Hunter's partner in the British Columbia Deep Basin program and is providing the funds for this current phase of exploration. Canadian Hunter and Standard have a 900,000 gross acre land position in this significant extension of the Elmworth natural gas field.

In May 1986, Anderson Exploration decided to proceed with construction of a $15.7 million deep-cut plant to recover propane plus liquids at the Dunvegan natural gas field. Construction is proceeding as planned with startup expected for May 1987. Anderson's interest in the project is 47.5 percent and this plant should increase its daily natural gas liquids production by 1,100 barrels at present nomination rates.

Outlook

The current strength in gold markets, which began in the second half of 1986, will be particularly beneficial to Kerr Addison which now controls annual production of 140,000 ounces. In addition, the two new mines coming into production will expand and diversify Kerr Addison's mine operating base. Although base metal prices have been trading below historical levels for most of the 1980's, the fundamental changes taking place in international exchange relationships and cost structures provide a favourable background for improved copper and zinc prices in North American currencies over the balance of this decade. The acquisition of C.F.C. has not changed Kerr Addison's strong financial position. With two talented exploration groups and excellent property position, continued expansion of reserves is anticipated.

The substantial decline in world oil prices during 1986 has effected fundamental changes in the Canadian oil and gas industry. This has resulted in lower land prices, reduced drilling and operating costs, and has improved the quality of exploration plays. In addition, favourable changes in the tax and royalty structures of the Canadian industry have substantially increased the economics of finding new reserves. Both Canadian Hunter and Anderson Exploration should do well in this environment.

Successful companies have been blessed with effective foresighted people. This Company has been no exception. As Kerr Addison enters its second fifty years, its success will depend on the diligence and efforts of all of its employees. On behalf of the Directors, it is a pleasure to acknowledge the efforts of all employees during the past year.

On behalf of the Board,

Ian D. Bayer
President and
Chief Executive Officer

Toronto, Ontario
February 25, 1987

Report on Mining Operations

The Kerr Addison Mine

The Kerr Addison gold mine at Virginiatown, Ontario, produced 366,930 tons of ore during 1986, averaging 1,005 tons per day at a recovered grade of 0.118 ounces of gold per ton. Production amounted to 43,415 ounces of gold and 2,110 ounces of silver having a realized value of $21.3 million or $58.15 per ton milled, an increase of 3.9 percent over the previous year. Overall recovery of gold was 97.15 percent. The average price received per ounce of gold sold during the year was $486 Canadian compared to $429 in 1985. Improved revenue in 1986 was due entirely to the higher gold prices.

During 1986, 1,939 feet of drifting and raising were completed, 16 percent less than last year. Underground diamond drilling amounted 9,303 feet comprising 93 hole completions.

Mining operations were carried on in 9 ore zones on 17 levels between the 1,000 and 4,200 foot horizons. A total of 42 stopes were worked during the year. The internal No. 4 shaft provided 8.6 percent of the total ore mined. The tonnage broken by mining method during 1986 was 9 percent square set, 66 percent cut and fill, 22 percent shrinkage and blasthole with the balance of 3 percent coming from development. The carbonate ore zones provided 37 percent of the tonnage mined at a grade of 0.060 ounces of gold per ton with the flow ore zones providing 32 percent at a grade of 0.150 ounces per ton. The balance came from the graphitic ore zone with a grade of 0.166 ounces per ton. The broken ore reserve at year end was 109,814 tons. Backfill placed underground amounted to 177,500 tons containing 2,771 tons of cement.

Total operating costs per ton of ore milled increased by 9.7 percent from 1985 due in part to the lower tonnage of ore mined and treated. Costs per ounce of gold produced increased by 17.3 percent mainly as a result of the lower grade of ore mined. Labor and material costs increased by 2.9 percent and 9.2 percent respectively during 1986.

At the end of 1986 the mineable ore reserves with dilution were as follows:

	Tons	Ounces per ton
Proven:	692,684	0.108
Probable:	263,031	0.145
Total:	955,715	0.119

After the milling of 366,930 tons in 1986, total reserves increased by 152,825 tons over those reported at the end of 1985. The substantial tonnage of new ore found during 1986 is mainly in the low grade carbonate zones resulting in a slightly lower overall ore reserve grade.

The total number of mine employees at year end was 329, the same as at the end of last year. A three year collective agreement effective October 1, 1986, providing wage and benefit increases of 11.5 percent over the contract period, was ratified by the hourly employees on November 14, 1986. The accident frequency per 200,000 man hours worked was 3.6 compared to 3.7 for all Ontario gold mines, and 2.9 for the Kerr mine in 1985.

From the start of production in May of 1938 to December 31, 1986, the Kerr Addison mine has milled 37,888,051 tons of ore at a recovered grade of 0.270 ounces of gold per ton producing 10,217,993 ounces of gold and 562,869 ounces of silver.

Corporation Falconbridge Copper

Corporation Falconbridge Copper is a diversified precious and base metal producer comprising four mining divisions in Quebec and Ontario which, during 1986, had three producing operations, Lac Shortt, Lac Dufault and Opemiska and two mines, Ansil and Winston Lake, in the exploration and development stages.

Lac Shortt Division

The Lac Shortt gold mine, in which Corporation Falconbridge Copper holds a 94.2 percent interest, is located in Gand Township some 115 kilometres by road west of Chapais, Quebec. During 1986, it treated an average of 1,095 tonnes of ore per day for a total of 399,647 tonnes grading 5.32 grams of gold per tonne, a tonnage increase of 25 percent over that of 1985. The cost per ounce of gold produced was $293 Canadian compared to $326 in 1985. The operation contributed $30.9 million to C.F.C.'s total net revenue.

Underground exploration drilling totalled 13,438 metres, a three fold increase over that drilled in 1985. Delineation drilling amounted to 20,420 metres, about the same as in 1985. Underground production development was 4,728 metres of drifting and raising, with an additional 571 metres of exploration drifting being completed.

Two specific underground exploration programs were initiated in 1986. An exploration drift was started on the 250 level to test a gold bearing structure approximately 1,000 metres west of the mine workings, and a crosscut was commenced north into the hanging wall on the 500 level, to test the extension of the main orebody below the 500 level. It is hoped that both programmes, which are expected to be completed during the third quarter of 1987, will add materially to the ore reserve picture.

Diluted ore reserves in all classifications at December 31, 1986 were estimated at 1,552,000 tonnes having a grade of 4.90 grams of gold per tonne. New reserves of 112,000 tonnes grading 4.22 grams per tonne were insufficient to replace the 399,647 tonnes milled during the year.

At year end the Lac Shortt Division had a total of 154 employees, an increase of 9 from the end of 1985. All employees contributed to the excellent safety record of the Division, a year to date accident-frequency per one million man hours worked of 10.2, compared to the average frequency for all metal mines of the Quebec Metal Mining Association of 43.0. Significantly, the Division was awarded the QMMA Quarterly Safety Trophy in the fourth quarter in recognition of its accomplishments.

Report on Mining Operations *(continued)*

Opemiska Division

The Opemiska Division located at Chapais, Quebec, consists of three underground mines, the Springer, Cooke and Perry. Production during 1986 totalled 507,732 tons grading 1.22 percent and 0.087 ounces gold per ton with Springer contributing 46 percent, Cooke 38 percent and Perry 16 percent. Metal production amounted to 12 million pounds of copper, 39,586 ounces of gold and 112,825 ounces of silver having a net revenue of $25.5 million. Owing to diminishing reserves this performance represents a 25 percent reduction from the previous year. A further reduction of 12 percent is forecasted for 1987. A strike at Noranda's Horne smelter forced the Division to stockpile its copper concentrate production at the mine site from November 1986 through February 1987.

Underground exploration and ore definition diamond drilling totalled 233,467 feet, a 20 percent reduction from 1985. Exploration development advance totalled 34,364 feet compared to 35,666 feet in 1985.

At December 31st, 1986, the diluted, proven and probable reserves were estimated at 731,000 tons grading 1.52 percent copper and 0.084 ounces of gold per ton, about the same as at the end of 1985. The reserves at the Springer and Cooke mines remain essentially unchanged from 1985 at 740,000 tons grading 1.5 percent copper and 0.086 ounces of gold per ton. New proven and probable reserves delineated in 1986 totalled 419,000 tons grading 1.5 percent copper and 0.08 ounces of gold per ton.

At year end there were 306 active employees at the Division, a decrease of 58 compared with the work force a year ago. A third year wage reopener to the collective bargaining agreement was negotiated successfully in August.

Lac Dufault Division

The Corbet mine of the Lac Dufault Division, located 15 kilometres north of Noranda, Quebec terminated operations in September of 1986 following exhaustion of reserves. By year end the mine had been decommissioned and sealed. Production for the year which, was treated in the Norbec mill, amounted to 381,504 tons grading 2.57 percent copper and 1.37 percent zinc producing 19 million pounds of copper, 7 million pounds of zinc, 7,363 ounces of gold and 121,861 ounces of silver. Net revenue amounted to $15.2 million.

Corporation Falconbridge Copper has a non-participating 30 percent interest in the Mobrun deposit, operated by Audrey Resources Inc. The deposit is located approximately 18 kilometres north of the Norbec mill in which 86,689 tons of Mobrun ore were treated during the fourth quarter of 1986 as an extensive test to establish metallurgical grades and recoveries. Audrey will provide the necessary funds to develop and exploit the Mobrun deposit and Corporation Falconbridge Copper will make the Norbec mill available for a specific period of time to treat Mobrun ore on a custom basis.

As the Corbet operations declined over the year, reductions in manpower occurred. At year end there was 126 active employees at the Division compared to 188 a year ago.

Underground exploration of the Ansil Deposit of the Lac Dufault Division, located 5 kilometres west of the Norbec mill, continued during the year. The production shaft reached the initial planned depth of 1,400 metres below surface, where it has been stopped temporarily in order to delineate the ore body by diamond drilling from three levels. The ventilation shaft was collared and had reached a depth of 200 metres by year end. It is expected that the Ansil mine will be in production at 1,400 tonnes per day early in 1989. Expenditures to year end have amounted to $12 million, net of grants received. Planned expenditures on the project for 1987 are $20 million.

Drill indicated reserves with dilution are estimated to be 2,100,000 tonnes grading 7.0 percent copper, 0.5 percent zinc, 24.0 grams silver per tonne and 1.7 grams of gold per tonne.

Winston Lake Division

The Winston Lake Division is developing a high grade zinc copper deposit approximately 27 kilometres north of Schreiber, Ontario. Following a decision in November 1985 to put the project on hold pending a better zinc price and market, the decision was made in July 1986 to bring the property into production. By year end the mine access road had been upgraded, the water storage dam constructed, plant design was 35 percent complete, the service complex building had been closed in and a start was made on the erection of the concentrator structural steel. The underground development was also fully underway. An application for environmental permitting was submitted and a public hearing was held in February 1987, following which approval was given to commence the clearing of the tailings disposal area.

Total cost to bring the mine into production at 1,000 tonnes per day during the first quarter of 1988 is estimated at $72 million of which $27 million has been spent to year end. Expenditures during 1986 amounted to $13 million.

Probable and possible ore reserves with dilution are estimated at 3,100,000 tonnes with a grade of 15.9 percent zinc, 1.0 percent copper, 30.3 grams of silver per tonne and 1.0 grams of gold per tonne.

Exploration – Kerr Addison

In 1986, the minerals exploration budget for Kerr Addison Mines Limited was raised to $7.0 million to cover expanded drilling activities in Quebec and to a lesser extent in Ontario. Actual expenditures were increased by a further $4.0 million as a result of the application of outside funds to Quebec/Ontario projects. More than 140,000 feet of diamond drilling on 22 projects was performed in Ontario and Quebec as a result of outside funding. A large zone of gold mineralization was discovered by drilling in Dasserat Township. Several scattered gold intersections were found in Montgolfier Township and in the Frotet area of Quebec by drill testing of geophysical targets. The objectives in these areas are to extend the known mineralization by drilling and to direct the search toward mineable ore bodies in the areas of gold mineralization. It is encouraging to have obtained several gold intersections of up to 0.15 ounces per ton over 10 feet during the first large reconnaissance drilling programme.

Kerr Addison's exploration drilling activities covered many areas in 1986, as shown here (clockwise) in; Dasserat Township, Quebec, the Pickle Lake area, Northwestern Ontario, the Mt. Skukum area, Yukon, Frotet-Troilus Township, Quebec and Noyon Township, Quebec.

Report on Gas and Oil Investments *(continued)*

Anderson Exploration

Anderson is headquartered in Calgary, while its principal producing assets are located in northwestern Alberta. That company is the operator and 47.5 percent owner of the Dunvegan gas contract area, from which approximately 60 percent of its gas production was derived in 1986. Anderson is primarily a gas producer with some 80 percent of its production revenues being generated by natural gas sales, most of which is contracted to Alberta and Southern Gas Co. Ltd., which supplies natural gas to the large Northern California market.

Anderson's daily production volumes, before deductions for royalties were 48 million cubic feet of natural gas and 1,200 barrels of oil and natural gas liquids. These figures represent 32 percent and 15 percent declines from the 1985 levels. Some 35 percent of the decline in natural gas sales to the California market was weather related; the balance was due to the switch to alternate fuels by large commercial customers, together with the substitution of hydro and nuclear generation in fossil-fueled steam generators. The combination of lower production and reduced product prices resulted in a 44 percent decline in gross revenues. Net revenues, after royalties, were down only 35 percent due to reductions in Alberta Crown Royalty rates, and an accelerated gas cost allowance which reduced royalties prior to the commencement of operations of the new deep cut liquified petroleum gas facility.

With the drop in World oil prices in April 1986, Anderson had to curtail its activities to compensate for the decline in revenues. Exploration and development expenditures were reduced to $18 million in 1986. Anderson participated in the drilling of 35 working interest wells, of which 26 were operated by that company and 9 by others. This drilling resulted in 4 oil wells and 10 natural gas wells, as Anderson pursued a high risk oil play in the Devonian sediments of the Peace River Arch. Some of the financial risk inherent in wildcat drilling is mitigated by farm-outs. Seven wells in this category were drilled, and produced 4 oil wells and 3 dry holes. Work continues on the $15.7 million Dunvegan Deep Cut Plant expansion project in which Anderson has a 47.5 percent interest. Start-up is scheduled for the second quarter of 1987.

Proven reserves, before royalties at Anderson's fiscal year ended September 30, 1986 were 431 billion cubic feet of natural gas and 10.8 million barrels of oil and natural gas liquids. Proven plus probable reserves at the same date are 621 billion cubic feet of gas and 17.1 million barrels of oil and liquids. Natural gas reserves are virtually unchanged from a year ago, while proven reserves of oil and natural gas liquids are up 45 percent because of the decision to place the Dunvegan Deep Cut Plant into production. Probable gas reserves have been reduced to reflect shrinkage for Dunvegan Deep Cut liquids. The September 30, 1986 land inventory consisted of 613,000 net acres, a very modest increase for the year.

Anderson's view of the future is one of optimism and enthusiasm. As reserves and deliverability dwindle in the consuming nations, prices will rise and the rewards, though slow in coming, certainly will come. One of that company's immediate goals is to increase its financial strength so that it may be in a better position to seize opportunities.

Toronto, Canada
February 25 1987

Accounting Policies

December 31, 1986

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The principal accounting policies are summarized hereunder to facilitate review of the consolidated financial statements.

A. **Basis of consolidation**

The consolidated financial statements include, on a consolidated basis, the accounts of Kerr Addison Mines Limited ("Kerr Addison" or "the company"), its 49.3% owned subsidiary company, Corporation Falconbridge Copper (note 2), and its wholly-owned subsidiary companies, Keradamex, Inc. and Kerramerican, Inc.

The accounts of Corporation Falconbridge Copper have been consolidated using the purchase method. Although only 49.3% of the common shares are presently owned, the company intends to increase its shareholding to more than 50% in 1987. Therefore consolidation is the most meaningful method of presentation.

The company has direct and undivided interests of 13.0% in all of the gas and oil properties, production and related activities of Canadian Hunter Exploration Limited ("Canadian Hunter") and 9.8% in all of the properties, production and related activities of Canadian Electrolytic Zinc ("CEZ"). Noranda Inc. is the major holder and operator of both of these ventures. The company's share of the ventures' assets, liabilities, revenues and expenses is reflected in the consolidated financial statements.

B. **Investments in associated companies**

The company's interest in the common shares of Noranda Inc. ("Noranda") is accounted for following the "cost method" whereby the investment is initially recorded at cost and earnings from the investment are recognized only to the extent that dividends are distributed from the net profits of Noranda arising subsequent to acquisition of the shares on September 30, 1982. Because of losses incurred by Noranda, principally in 1985, dividends received in 1985 and 1986 have been deducted from the cost of the company's investment.

The company's interest in the common shares of Anderson Exploration Ltd. ("Anderson") is accounted for following the "equity method" whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to reflect the company's share of post-acquisition earnings or losses.

C. **Concentrates, bullion and metals**

Consistent with industry practice, the company records as revenue the value of production of concentrates, bullion, and metals awaiting settlement, in transit and on hand at estimated net realizable value. Purchased concentrates are valued at the lower of actual cost and net realizable value.

D. **Property, plant and equipment**

Mining and smelting –

Property, plant and equipment and related expenditures are recorded at cost less applicable investment tax credits and government assistance. Property, plant and equipment includes previously deferred exploration and development expenditures on properties which have been brought into production. Preproduction and development expenditures on projects under construction are capitalized until the commencement of commercial production.

Mineral exploration and development expenditures are charged against current earnings unless they relate to interests in properties where the reserves have the potential of being economically recoverable, in which case the expenditures are deferred. Upon disposal or abandonment of such interests, the net gain or loss is reflected in earnings. If the properties are brought into production, deferred exploration and development expenditures relating thereto are reclassified with property, plant and equipment.

Depreciation of mining assets is provided on the unit-of-production basis over the estimated economic life of the related mine. Depreciation of smelting assets is provided on the straight-line method over periods of 4 to 20 years.

Accounting Policies *(continued)*

Gas and oil –

The company's gas and oil investments consist of its participation in Canadian Hunter and its common share interest in Anderson. The company follows the full cost method of accounting in accordance with the guideline effective in 1986 by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of gas and oil reserves, whether productive or unproductive, are capitalized in cost centres on a country by country basis and charged against earnings as set out below. Such costs include land acquisition, drilling, geological and geophysical interest and overhead expenses related to exploration and development activities.

Depletion is provided on costs accumulated in producing cost centres using the unit-of-production method based on estimated proven gas and oil reserves. The company periodically reviews the costs associated with unproven properties to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

The carrying value of the company's gas and oil investments in producing cost centres is limited to an ultimate recoverable amount which is the aggregate of future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future general and administrative costs, financing costs and income taxes. Future net revenues are estimated using year-end prices.

E. **Income Taxes**

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

F. **Retirement plans**

The costs of retirement plans are charged against earnings and include amounts for current service and amortization of past service costs. Pension plan surpluses are offset against current and past service costs where applicable. Pension plan surpluses in excess of current and past service costs are not amortized to income.

G. **Flow-through shares**

The company issues common shares ("flow-through" shares) from time to time which entitle the purchaser to earn tax deductions in respect of qualifying exploration and development expenditures made by the company. The portion of the subscription price of such shares which is based on their market value is credited to share capital. The remainder of the subscription price (the "premium") attributable to the tax benefits transferred to subscribers is credited to earnings.

Consolidated Statement of Operations

For the year ended December 31, 1986
(with comparative figures for the year ended December 31, 1985)
(in thousands of dollars)

	1986	1985
Operations:		
Value of production	**$59,249**	$48,021
Cost of production	**42,762**	26,089
	16,487	21,932
Dividends and interest income	**6,131**	1,861
	22,618	23,793
Deduct:		
Administrative and general expenses	**1,591**	1,534
Outside exploration expenses	**11,062**	7,180
Allocated premium on flow-through shares	**(999)**	(2,560)
Depreciation and amortization	**7,554**	4,601
Interest on long-term debt	**1,973**	2,279
	21,181	13,034
Profit from operations before tax	**1,437**	10,759
Income and production taxes (note 7)	**388**	6,312
Profit from operations	**1,049**	4,447
Less:		
Share of loss of Anderson Exploration Ltd.	**(587)**	(2,225)
Minority interest in earnings of Corporation Falconbridge Copper (note 2)	**(936)**	
Profit (loss) before the following:	**(474)**	2,222
Gain on disposal of investments and other assets (net of tax of $1,052; $492 in 1985)	**5,583**	236
Net income for the year	**$ 5,109**	$ 2,458
Net income per share (note 6)	**$0.30**	$0.14

(See accompanying notes to consolidated financial statements)

Consolidated Balance Sheet

December 31, 1986
(with comparative figures at December 31, 1985)
(in thousands of dollars)

ASSETS	1986	1985
Current:		
Cash and term deposits	**$ 74,265**	$ 36,723
Marketable securities, at cost (market value $12,856; 1985 – $5,087)	**4,267**	3,460
Accounts and interest receivable	**13,875**	7,840
Concentrates, bullion and metals awaiting settlement, in transit and on hand	**13,992**	8,930
Supplies and materials, at cost	**6,975**	1,855
Total current assets	**113,374**	58,808
Investments in associated companies (note 3)	**208,037**	251,805
Property, plant and equipment (note 4)	**196,717**	78,039
	$518,128	$388,652

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
Kerr Addison Mines Limited:

We have examined the consolidated balance sheet of Kerr Addison Mines Limited as at December 31, 1986 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1986 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.

Toronto, Canada
February 23, 1987.

Clarkson Gordon
Chartered Accountants

LIABILITIES AND SHAREHOLDERS' EQUITY	1986	1985
Current:		
Accounts payable and accrued charges	**$ 21,619**	$ 9,671
Income and production taxes payable	**737**	2,106
Total current liabilities	**22,356**	11,777
Long-term debt (note 5)	**50,000**	5,000
Deferred income taxes	**37,611**	25,704
Other deferred liabilities	**9,232**	9,998
Minority interest in Corporation Falconbridge Copper	**67,782**	
	186,981	52,479
Shareholders' equity:		
Share capital (note 6)	**180,783**	180,534
Retained earnings	**150,364**	155,639
	331,147	336,173
	$518,128	$388,652

On behalf of the Board:

Ian D. Bayer, Director

James W. McCutcheon, Director

Consolidated Statement of Retained Earnings

For the year ended December 31, 1986
(with comparative figures for the year ended December 31, 1985)
(in thousands of dollars)

	1986	1985
Retained earnings, beginning of year	$155,639	$163,504
Add net income for the year	5,109	2,458
	160,748	165,962
Deduct dividends ($0.60 per share in each year)	10,384	10,323
Retained earnings, end of year	$150,364	$155,639

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1986
(with comparative figures for the year ended December 31, 1985)
(in thousands of dollars)

	1986	1985
Sources of cash:		
Operations –		
Profit from operations	$ 1,049	$ 4,447
Items not affecting cash, primarily depreciation, amortization and deferred taxes	7,766	7,292
	8,815	11,739
Net change in non-cash working capital balances (receivables and inventories, less payables)	6,740	(463)
	15,555	11,276
Dividends from Noranda Inc.	4,695	6,113
Long-term debt	45,000	
Proceeds from sale of investments and other assets	47,006	65,087
Proceeds from issuance of shares	852	2,268
	113,108	84,744
Applications of cash:		
Investment in shares of Corporation Falconbridge Copper (note 2)	120,375	
Less cash balance in Corporation Falconbridge Copper at time of acquisition	76,328	
	44,047	
Repayment of long-term debt		35,000
Dividends – shareholders (excluding stock dividends of $41 in 1985)	10,384	10,282
– minority shareholders of subsidiary	687	
Additions to property, plant and equipment	20,448	6,136
	75,566	51,418
Increase in cash during the year	37,542	33,326
Cash and term deposits, beginning of year	36,723	3,397
Cash and term deposits, end of year	$ 74,265	$36,723

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

December 31, 1986

1. **Accounting policies**
The principal accounting policies followed by the company are detailed under the caption "Accounting Policies".

2. **Acquisition of Corporation Falconbridge Copper**
On August 27, 1986, the company acquired 6,673,296, or 49.3%, of the outstanding common shares of Corporation Falconbridge Copper ("CFC") from Falconbridge Limited for cash of $120,119,328. The acquisition has been accounted for using the purchase method and, accordingly, the company's share of the operations of CFC have been consolidated from August 27, 1986. The excess of the cost of the shares over net book value at acquisition date has been assigned to mining properties in production and under development.
A summary of assets acquired and values assigned thereto based on their fair market values at date of acquisition is as follows:

	(in thousands)
Assets acquired:	
Cash	$ 76,328
Working capital	13,531
Producing properties	34,383
Properties under development	72,113
	196,355
Less:	
Deferred income taxes	(8,544)
Minority interest	(67,692)
Total purchase price	$120,119

3. **Investments in associated companies**

	1986	1985
	(in thousands)	
Noranda Inc.	**$133,763**	$176,944
Anderson Exploration Ltd.	**74,274**	74,861
	$208,037	$251,805

(a) Noranda Inc. –
At December 31, 1986, the company owned 7,961,281, or 5.5%, (1985 – 10,226,981 or 7.9%) of the total outstanding common shares of Noranda Inc. Noranda and its associated companies are engaged in businesses encompassing mining and metallurgy, manufacturing, forest products and oil and natural gas exploration and production. At December 31, 1986 the quoted market value of the shares was approximately $160 million.

(b) Anderson Exploration Ltd. –
The company owns 1,125,993, or 32.6%, of the total outstanding common shares of Anderson Exploration Ltd. Anderson is engaged in the exploration and development of oil and gas properties in Western Canada.

4. **Property, plant and equipment**

	1986			1985
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
		(in thousands)		
Mining and smelting properties:				
In production	**$204,454**	**$160,318**	**$ 44,136**	$10,989
Under development	**84,339**		**84,339**	
	288,793	**160,318**	**128,475**	10,989
Gas and oil properties	**86,140**	**17,898**	**68,242**	67,050
	$374,933	**$178,216**	**$196,717**	$78,039

5. **Long-term debt**
The company has a line of credit with its bankers which expires January 1, 1988. Advances are funded by bankers' acceptances. The effective interest rate payable on the bankers' acceptances is 8.3% at December 31, 1986. No assets have been pledged by the company as collateral for the line of credit.

Notes to Consolidated Financial Statements *(continued)*

6. **Share capital**

	Number of shares	
	1986	1985
Common shares without par value:		
Authorized	**25,000,000**	25,000,000
Issued and outstanding	**17,315,027**	17,298,629

During the year, 3,373 shares were issued at a value of $54,811 to complete 1985 "flow-through" share offerings.
During the year, 13,025 shares valued at $194,594 were issued under the employees' stock option and purchase plans. At December 31, 1986, options on 51,225 shares were outstanding, exercisable at prices varying from $12.02 to $15.11 for periods up to 1996.
The net income per share calculations have been based on the weighted average number of shares outstanding – 17,306,000 in 1986; 17,209,000 in 1985.

7. **Income and production taxes**
Income and production taxes consist of the following:

	1986	1985
	(in thousands)	
Income taxes – current		$ 1,852
– deferred	**$ 212**	2,957
Petroleum and gas revenue tax	**(61)**	1,143
Capital taxes	**237**	360
	$ 388	$ 6,312

The difference between the above provision for income and production taxes and the amount computed by multiplying the profit from operations before tax by the applicable statutory tax rate is as follows:

	1986	1985
	(in thousands)	
Profit from operations before tax	**$ 1,437**	$ 10,759
Statutory tax rate	**50.0%**	48.6%
Profit from operations before tax multiplied by the statutory tax rate	**$ 719**	$ 5,229
Taxes provided (as above)	**388**	6,312
Difference to be reconciled	**$ (331)**	$ 1,083
Represented by the tax effect of –		
Crown royalties, net of royalty tax credits	**$ 183**	$ 1,488
Foreign exploration and amortization	**634**	437
Flow-through exploration expenditures	**456**	1,316
Resource allowance	**(1,506)**	(1,933)
Depletion allowance	**(309)**	(1,280)
Non-taxable income	**(53)**	(516)
Other	**88**	68
	(507)	(420)
Petroleum and gas revenue tax	**(61)**	1,143
Capital taxes	**237**	360
	$ (331)	$ 1,083

8. **Segmented information**
The company operates primarily in two industries – mining and smelting, and gas and oil, and in one geographic area – Canada. The mining and smelting industry is comprised principally of the production of gold from the Kerr mine, the mining operations of Corporation Falconbridge Copper and the zinc reduction activities of Canadian Electrolytic Zinc. The gas and oil industry

comprises the company's interests in Canadian Hunter and Anderson Exploration. Information regarding industry segments is set out in the table below.

	Industry segments					
	Mining and smelting		Gas and oil		Consolidated	
	1986	1985	**1986**	1985	**1986**	1985
			(in thousands)			
Value of production	**$ 45,654**	$31,897	**$ 13,595**	$ 16,124	**$ 59,249**	$ 48,021
Cost of production	**38,614**	22,772	**4,148**	3,317	**42,762**	26,089
	7,040	9,125	**9,447**	12,807	**16,487**	21,932
Outside exploration expenses	**(11,062)**	(7,180)			**(11,062)**	(7,180)
Allocated premium on flow-through shares	**999**	2,560			**999**	2,560
Depreciation and amortization	**(3,418)**	(682)	**(4,136)**	(3,919)	**(7,554)**	(4,601)
Segment operating profit (loss)	**$ (6,441)**	$ 3,823	**$ 5,311**	$ 8,888	**(1,130)**	12,711
Dividends and interest income					**6,131**	1,861
Administrative and general expenses					**(1,591)**	(1,534)
Interest on long-term debt					**(1,973)**	(2,279)
Income and production taxes					**(388)**	(6,312)
Share of loss of Anderson Exploration Ltd.			**$ (587)**	$ (2,225)	**(587)**	(2,225)
Minority interest in earnings of Corporation Falconbridge Copper					**(936)**	
Gain on disposal of investments and other assets					**5,583**	236
Net income for the year					**$ 5,109**	$ 2,458
Identifiable assets	**$227,511**	$21,436	**$148,106**	$147,782	**$375,617**	$169,218
Corporate assets –						
Shares of Noranda Inc.					**133,763**	176,944
Other					**8,748**	42,490
Total assets					**$518,128**	$388,652
Capital expenditures	**$ 13,100**	$ 640	**$ 5,859**	$ 6,089	**$ 18,959**	$ 6,729

Canadian production includes exports of $4,731 ($19,021 in 1985) primarily to customers in the United States.

9. **Related party transactions**

The company participates in a number of transactions with Noranda Inc. and its affiliated companies ("the Noranda Group"). Details of significant transactions with the Noranda Group are set out below:

(i) *Canadian Electrolytic Zinc ("CEZ")* –
The company's portion of zinc concentrate purchased on the company's behalf by CEZ from the Noranda Group amounted to approximately $7,000,000 (1985 – $12,199,000). Zinc concentrate sales by Corporation Falconbridge Copper to CEZ during 1986 amounted to approximately $1,513,000 (1985 – $5,120,000).

(ii) *Marketing and administrative services* –
The Noranda Group markets substantially all of the company's production and renders technical and administrative services to the company. During the year marketing fees were $251,000 (1985 – $352,000) and fees for technical and administrative services were $123,000 (1985 – $150,000).

(iii) *Short-term investment pool* –
The company participates in a short-term investment pool with the Noranda Group. The pool is operated to provide participating companies with the opportunity to invest or borrow funds on a short-term demand basis within the group. Over the year the company earned interest on these funds amounting to $669,326 (in 1985 interest earned totalled $522,170). At the year end, the deposit in the pool was $6,100,000 (1985 – $3,000,000).

10. **Capital expenditure commitments**

Capital expenditures for 1987 for properties under development are estimated to be $75,000,000.

11. **Retirement plans**

Based on the most recent actuarial valuations of defined benefit plans as at December 31, 1985, there were surpluses of approximately $7,000,000. In 1986 and 1985, plan surpluses have been offset against current and past service costs. In addition, in 1985 the company received a return of contributions of $2,680,000 which was included in cost of production in the consolidated statement of operations.

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