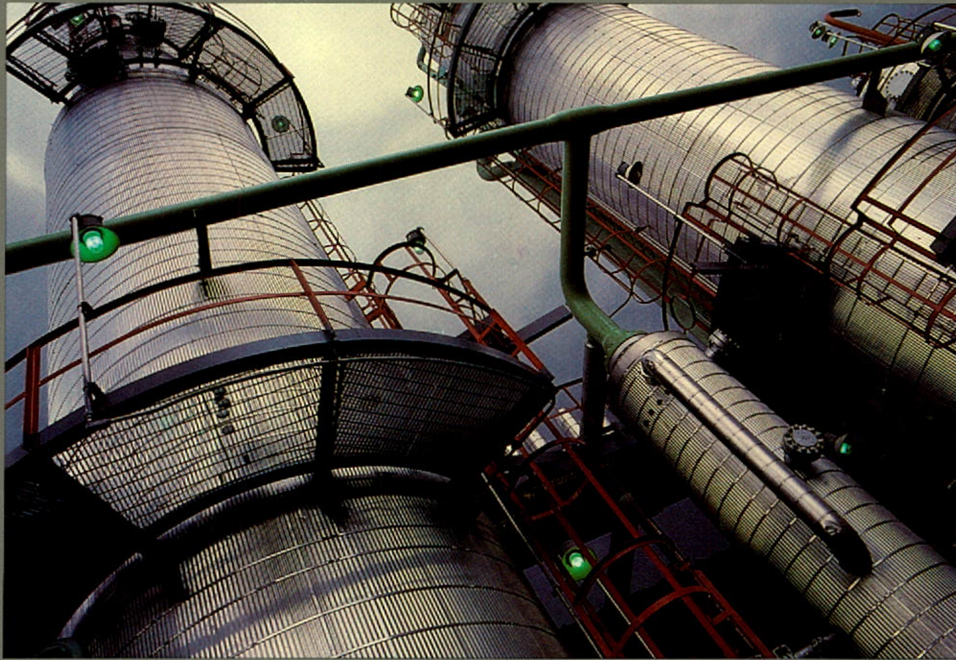
CANADA DEVELOPMENT CORPORATION



The past year was another one of significant accomplishment in building successful enterprises and value for CDC shareholders. We recorded the second highest net income in our history from profitable operations and sales of investments, and our free cash flow exceeded our capital requirements, allowing us to reduce our indebtedness by more than $400 million.

1985 ANNUAL REPORT

Financial Highlights
(millions except per share amounts)

Canada Development Corporation

	1985	1984
Revenue	$3,257.0	$3,103.1
Income from operations	$ 54.4	$ 39.3
Gain on investments	127.2	49.5
Results of non-consolidated subsidiaries	(10.7)	(7.7)
Net income	$ 170.9	$ 81.1
Per share		
–basic	$ 3.17	$ 0.98
–fully diluted	$ 2.16	$ 0.92
Free cash flow		
–operations	$ 227.0	$ 154.6
–gain on investments	165.0	58.4
	$ 392.0	$ 213.0

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Other Annual Reports
Some companies in which CDC has an interest produce annual reports outlining in more detail their operations. Annual reports are available from Canterra, Falconbridge, Polysar, CDC Life and Savin by writing to the address below.

For further information
Contact:
J. Patrick Howe
Suite 200
444 Yonge Street
Toronto, Ontario
M5B 2H4

Version française
Pour obtenir la version française du présent rapport prière d'écrire à CDC.

A YEAR OF CHANGE

CDC is a builder of leading and internationally competitive companies. The past year was an important period of progress and achievements which should lead to further growth.

It was a year of strong operating results for CDC, particularly at Canterra, CDC Life Sciences and Sentrol.

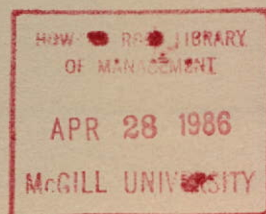
Polysar assumed full ownership of Petrosar and began an important capital program to make it a profitable and world-competitive supplier of feedstocks.

Canterra became a public company with the sale of common shares and convertible debentures to private investors.

CDC sold its holdings in Kidd Creek and became a shareholder in Falconbridge Limited, an even stronger and more diversified Canadian-based mining company.

From successful operations and profitable dispositions, CDC reduced its consolidated indebtedness by more than $400 million.

The federal government reduced its holdings in CDC to 12 percent, with legislation passing Parliament to permit the sale of its remaining interest.



APR 28 1986
McGILL UNIVERSITY

TO OUR SHAREHOLDERS:

The past year was another one of significant accomplishment in building successful enterprises and value for CDC's shareholders. We recorded the second highest net income in our history – $170.9 million or $2.16 per fully diluted common share–from profitable operations and sales of investments, and our free cash flow exceeded our capital requirements, allowing us to reduce our indebtedness by more than $400 million. With the exception of Savin, our holdings made good progress in meeting their longer-term plans for profitable growth.

In our approach to business, we endeavour to see that all our companies have innovative, farsighted and entrepreneurial management so that each can build internationally competitive enterprises. We are willing to take risks that may mean lower profitability in the short term in order to achieve better-than-average returns over a longer time horizon. These returns come from the increasing profitability of our operations which, in turn, add value to our investments–value that we can capture for our shareholders by retaining them through the next stage of their growth, outright sale, offering minority interests to public investors or creating joint ventures with others who have particular expertise, technology or market positions.

Our reputation for being able to add value to our holdings–established in previous periods by a successful public offering of a minority interest in CDC Life Sciences and the outright disposition of other smaller holdings–was further enhanced during the past year by the sale of Kidd Creek Mines to Falconbridge Limited. This transaction, valued at $615.0 million, provided us with $140.0 million of cash, which was used to repay debt in early 1986, as well as marketable securities representing 18 percent of Falconbridge's common equity. The gain from this transaction reflects the value that was added by CDC since 1981 when we purchased the subsidiary of a foreign-owned multinational and transformed it into a dynamic Canadian company, which was able to expand output, increase productivity and operate profitably in an environment of low prices and relatively weak demand. In the process, we have helped to create an even stronger and more diversified mining company: Falconbridge has now taken a large step forward as one of the world's leading mineral producers.

Earlier in the year, we created another investment vehicle for Canadians by taking Canterra public, in the process raising from private investors $202.5 million in new capital to finance its growth in petroleum, natural gas and sulphur. In its first year as a public company, Canterra achieved record earnings and cash flow, while more than replacing its conventional reserves of oil and gas, and participating in a number of important discoveries in the frontier.

Adding value in an enterprise like CDC is a continuous process: initiatives to capitalize on opportunities or solve entrenched operating difficulties usually require more than one year to complete successfully. Despite a difficult environment for primary petrochemicals, Polysar made important progress in implementing a plan to return Petrosar's operations to consistent profitability. It purchased all the common equity in Petrosar that it did not own through a financial arrangement with two former minority shareholders. The impact of this transaction was to raise $208 million of preferred equity for CDC which was subsequently used by Polysar to repay bank indebtedness and finance a cost-effective capital program to improve Petrosar's feedstock flexibility. This capital program is now well advanced and will be completed during 1986. The integration of Petrosar's operations with Polysar's is also creating important cost savings and better productivity.

To a year already filled with significant transactions, the government added still another with the successful implementation of its policy goal to dispose of its holdings of CDC common shares to private investors. It sold 23 million common shares by instalment which, when transferred into private hands by not later than September 16, 1986, will reduce the government's interest in CDC to under 12 percent. Legislation was passed by Parliament to enable the government to sell the remainder of its shares while making the Corporation like any other in the private sector except for certain ownership restrictions that ensure Canadian control and encourage a wide shareholder base. This wider private ownership of CDC's equity will increase the public float and remove ambiguity in some investors' minds about the role of government in CDC.

OPERATIONS

Continuing attention to operations resulted in good financial performances from most of our companies, details of which can be found throughout this report. In particular, Canterra recorded its best year ever, more than doubling its contribution to CDC as a result of successful exploration efforts, strong sulphur marketing and taking full advantage of government energy policy changes. At CDC Life Sciences, Connaught's success in the United States vaccine market and the expansion of Bio-Research's contract scientific research services contributed to a 28 percent revenue growth and a very profitable year. Sentrol, our industrial automation company operated profitably despite sluggish international markets and paid off all its third-party indebtedness. And our smaller investments–Onex and Allelix–achieved another year of success in meeting their long-term plans.

Polysar's operations resulted in a small loss to CDC due to the absorption of all Petrosar's losses during the last half of 1985. Despite higher depreciation expenses from the commercial operation of its new Sarnia butyl plant, Polysar's rubber and plastics operations made positive contributions. The company's reputation for being at the forefront of technology and developing high value-added products was further enhanced as was its worldwide marketing capabilities, particularly in the fast-growth Asia-Pacific region.

AES Data coped well with the temporary shrinkage in the growth of the office automation industry, increasing its unit volumes while reducing its loss. This company made a number of well-received product introductions, undertook a strategically important entry into the United States market and carried out cost-cutting and productivity-improvement efforts in all parts of the organization.

The year at Savin was less successful. A negative contribution during 1985 of $22.9 million ($24.6 million in 1984) eliminated the equity carrying value of our investment and–because it is no longer considered by your directors to be a strategic investment–we have deconsolidated its operations from our financial statements and are exploring new investment or marketing partnerships. While its results were unsatisfactory, the company made worthwhile strides in reducing its costs, strengthening its management and enhancing its technology. To help Savin return to early profitability, CDC agreed to participate in a financial restructuring of the company during the early part of 1986.

FINANCIAL POSITION

CDC's consistent strategy in the past few years has been to improve operating results, enhance financial flexibility, reduce indebtedness and seek opportunities to capitalize on the added values thus created throughout the group. We believe that we are establishing a better understanding among investors of our capacity to add to the value that lies behind each CDC share.

Each of our core holdings is financed independently of CDC and capable of raising any capital required for its future growth. When Polysar completes the capital program at Petrosar and establishes a track record for earnings growth, we intend to take it public as well, giving investors a direct chance to participate in one of the world's leading petrochemical companies. AES and Sentrol–both of which we believe will be consistent contributors to CDC's results in future periods–have developed longer-term strategies to build a significant presence in their respective businesses. We want to ensure a properly balanced portfolio of investments at the end of this decade, ranging from the large and more mature holdings that now underpin CDC's earnings to smaller enterprises with emerging technologies or strong growth opportunities which will provide growing income in the future. Thus in 1986, we intend to begin investigating new opportunities where we can add value and replace our maturing holdings.

This process will not result in an extensive round of acquisitions in the short term; rather, our first task continues to reduce corporate debt and strengthen balance sheets throughout the group. Our current cash resources, as well as lines of credit, are sufficient to meet all planned capital needs;

we intend to continue to focus on capital-saving ways to make better use of capacity. The continuation of non-inflationary growth in North America should allow us at the same time to make further reductions in our indebtedness in 1986 and beyond.

THE FUTURE

The sustained growth of the past three years should continue during 1986, bolstered by a lower price for oil and the benefits of rapid technological change, which will continue to soften inflationary pressures that often emerge at this point in a business cycle. Moreover, there is enough excess capacity in labour and product markets to ensure that the North American economy can look forward to a further period of expansion before strains and bottlenecks develop.

The greatest risks to this positive economic outlook are essentially political in nature–policies that are too inflationary, deficits that are brought under control too slowly and result in unnecessarily high real interest rates, difficulties in high-debt countries, and the spread of protectionism. Individual Canadians and many business enterprises have taken a number of the steps necessary to deal with today's realities of fierce competition, new technologies and structural changes in the economy. However, too many continue to think that government is capable of sheltering them from the process of change and the need to be more competitive and efficient.

At CDC we believe that we have a more realistic attitude towards what we–not government–must do: we are maintaining our emphasis on controlling costs, remaining flexible so we can respond to sudden shifts in demand or economic circumstances and looking out for new opportunities to grow and prosper in a manner that makes efficient use of capital and provides good returns. Thus, although the price of oil has fallen dramatically, Canterra has plans to make the necessary adjustments during 1986 to its operating expenses, its way of doing business and its capital programs so that it can continue to grow while meeting its goal of reducing its indebtedness by at least $500 million over the next five years. For other CDC companies, a lower oil price provides important benefits: as 60 percent of Polysar's costs are energy-related, the resulting cost benefits, together with higher growth in demand flowing from lower prices could greatly enhance this company's outlook in 1986 and beyond.

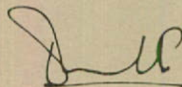
PEOPLE

While the government holds more than 10 percent of CDC's votes, it now has the right to appoint five directors to our board, formalizing a practice that began last year. We welcomed as directors representing the federal government Richard A.N. Bonnycastle, Patrick J. Keenan, Bernard Lamarre, Edward G. Rowe and William P. Wilder. We said farewell to Sidney Maislin and Murray B. Koffler during the year, both of whom served us with distinction during difficult as well as good times. We now extend our appreciation and thanks to Mr. Bonnycastle, Dr. Catherine Wallace and, L.R.(Red) Wilson who will not be standing for re-election at this year's annual meeting.

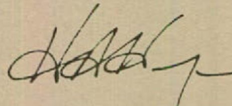
One of the Corporation's first employees–John B. Hague, Executive Vice President, and with CDC since 1972–joined Canterra at the beginning of 1986 as President and Chief Operating Officer. Bernard F. Isautier replaces John as Executive Vice President of CDC, while remaining Canterra's Chief Executive Officer and Chairman of the Board.

Once again in 1985, outstanding people proved to be our most important asset. We thank them on your behalf for their many contributions and look forward to another good year.

Respectfully submitted on behalf of the Board



Pierre Côté
Chairman

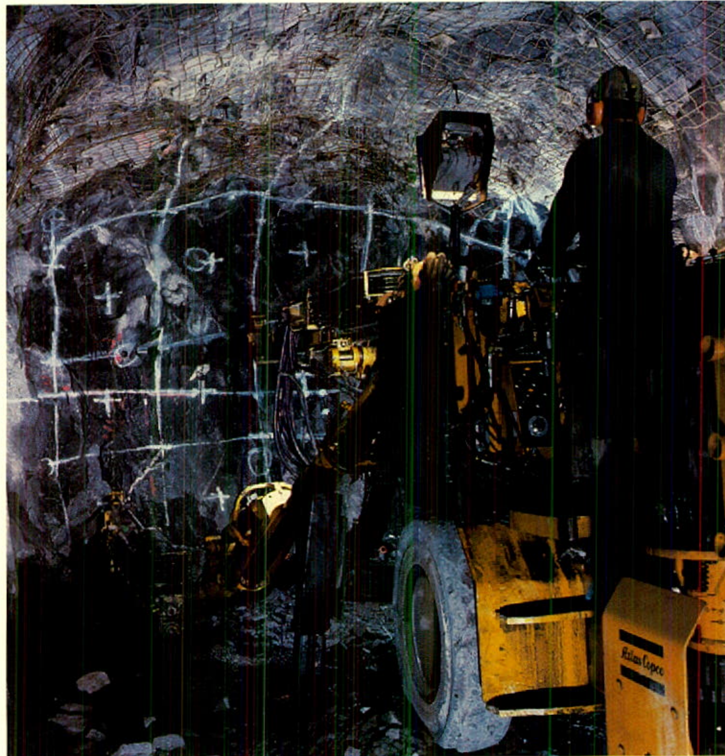


H. Anthony Hampson
President and Chief Executive Officer

March 19, 1986

CDC has been an investor in Canada's energy sector since 1975 when it purchased a relatively small oil and gas subsidiary of a U.S. integrated company. Today, that investment, with the addition of two others, has become Canterra Energy, one of Canada's more dynamic companies and a leader in such areas as exploring for hydrocarbons in frontier areas, supplying sulphur to world markets, and developing new techniques and technologies to exploit energy resources. At Canterra's Ram River plant in Alberta, sulphur is stripped from natural gas streams, stored in huge above-ground piles and shipped to customers in Canada and around the world. Last year, Canterra supplied 8 per cent of the sulphur consumed by the non-communist world.

Canterra



Late in 1985, CDC sold Kidd Creek Mines for cash and an 18 percent interest (30 percent on a fully converted basis) in Falconbridge Limited of Toronto. Falconbridge is now a more diversified mining company whose major products are nickel, copper, zinc, silver, cobalt and gold, which are produced and upgraded at operations in Canada, the Dominican Republic, Norway and Africa. In the pictures above, a new mining shaft is prepared for drilling at Falconbridge's Sudbury nickel operations, while a miner examines ore from the Hoyle Pond gold mine at Timmins which was put into full commercial production during the past year.

kidd

FALCONBRIDGE

Polysar Limited, a wholly-owned CDC subsidiary, is one of the world's largest manufacturers of synthetic rubber and latex, as well as an important producer of such basic petrochemical products as ethylene, propylene, benzene, butadiene and styrene, which are used in a wide variety of manufacturing processes. Petrosar, now a wholly-owned Polysar subsidiary, has underway a $30 million capital program to broaden the range of feedstocks that it can use. This capital program will improve the financial performance of Polysar's basic petrochemicals division. The pictures above show the installation of the propylene splitting tower at Polysar's Corunna plant (formerly Petrosar) and workmen attaching insulation to its exterior surface.

(1)

CDC Life Sciences Inc. has three fast-growing investments in the health-care industry. Wholly-owned Connaught Laboratories Limited is a leading world supplier of vaccines which are used to prevent and treat a variety of diseases in children and adults. Connaught's vaccine products(1) are manufactured under highly exacting conditions to ensure their safety and efficacy.

Another investment of CDC Life Sciences is a 35.4 percent interest in Nordic Laboratories Inc., which develops and manufactures pharmaceuticals and markets

(2)

(3)

them throughout Canada, including the highly successful drug Cardizem™ for the treatment of angina. To obtain approval for public sale, Nordic financed important research work at the Montreal Heart Institute, a leading medical research institution.(2) A wholly-owned subsidiary of CDC Life Sciences, Bio-Research Laboratories Ltd., provides contract scientific research to chemical, consumer and pharmaceutical companies throughout the world. The company expanded its facilities in Montreal for clinical and bioanalytical testing during the past year.(3)

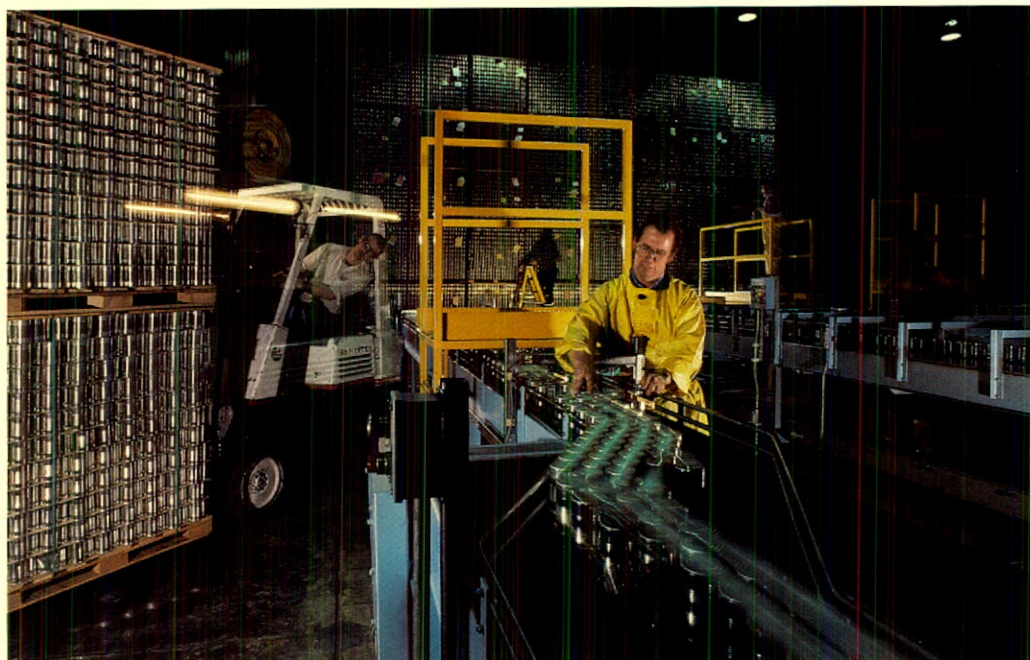
AES

AES Data Inc., a wholly-owned CDC subsidiary, develops, manufactures and markets software-rich and network-oriented office products. The picture above was taken at the head office of Petro Canada, which is a longstanding AES customer, as well as a significant user of IBM* equipment. Using Petro Canada's computing facilities, AES is testing protocols that allow the easy exchange of documents between the equipment of these two companies. This strategy of co-existence with large vendors is an important component in AES' future growth.

*trademark of IBM

CDC has an investment in the rapidly growing field of industrial automation through its subsidiary Sentrol Systems Ltd. of Toronto. Sentrol's products are on the leading edge of today's computer technology and include automation products for the forest products, automotive and metal coating industries. During the past year, Sentrol installed a number of advanced systems, including one to control water distribution for the City of Columbus, Ohio. Sentrol's technology for controlling the operations of oil and gas pipelines is being successfully adapted to water distribution systems, a market that offers interesting potential. In the United States, looming shortages of fresh water are causing many municipal governments to invest in automation equipment to improve the efficiency of their transportation, reservoir and waste management systems.

sentrol



CDC has investments in a number of other companies. It holds a 16 percent interest in Onex Capital Corporation which invests in medium-sized companies with the intent to develop their operations in a manner that adds significant value. Onex has a 55 percent interest in American Can Canada Inc. which recently opened a highly automated can manufacturing plant near Toronto and is making heavy investments in new packaging technologies. CDC also holds a 50 percent interest in Allelix Inc., which is developing commercial products at modern laboratory and plant facilities in Toronto using the techniques of biotechnology. During 1985, Allelix announced a joint venture to develop and commercialize new hybrid varieties of canola.

Allelix

ONEX

CDC's investment in petroleum and sulphur is through its controlling interest in Canterra Energy Ltd. Canterra is a major producer of crude oil, gas liquids and natural gas and sulphur; it operates two heavy oil experimental pilot projects and is Canada's largest marketer of sulphur. It has been an aggressive explorer in Western Canada for oil, natural gas and sulphur, and is present in all major frontier areas. The company also has oil and gas properties and a coal mining subsidiary in the United States.

Canterra's earnings during 1985 more than doubled to $86.9 million, while free cash flow of $310.4 million was $123.3 million higher than the year-earlier period. After deducting the minority shareholders' interest and reflecting a different cost basis for the treatment of depletion, Canterra contributed $88.8 million to CDC's results during the past year. These significantly improved results were due to favourable changes in government energy policies, new oil and gas discoveries, increased production from enhanced recovery schemes, and a continued strong sulphur market.

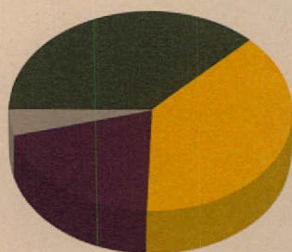
*Canterra Energy**
Financial results

(millions)	1985	1984
Results reported by Canterra	**$86.9**	$41.4
Add: Depletion expense recorded by Canterra and reversed by CDC	**4.2**	4.6
Less: Minority interest	**(2.3)**	
Contribution to CDC	**$88.8**	$46.0

*further financial information is provided on page 25 of this annual report

During the past year, Canterra was able to increase its financial flexibility by refinancing, on more favourable terms, a significant portion of its long-term indebtedness and selling a minority interest in the company through a public offering of equity and subordinated debentures. As a result of the public issue, CDC now owns a 95 per cent interest in Canterra on an undiluted basis (87 per cent fully diluted). A 12-year term loan of $1.2 billion (U.S.) represents 71 per cent of Canterra's outstanding indebtedness and has repayments scheduled to begin in July, 1987.

*Breakdown of sales**



Total revenues $765.9 million

- Oil and natural gas liquids 40%
- Sulphur 36%
- Natural gas 21%
- Coal 3%

*net of royalties

EXPLORATION

Canterra was successful in increasing the effectiveness of its exploration programs in Western Canada during 1985, and in the process enhancing its reputation for efficiency in finding hydrocarbons. Net capital expenditures for 1985 were $213.9 million after incentive payments of $84.6 million compared with $160.5 million after grants of $86.1 million in 1984. Promising results continued to be achieved in the company's frontier drilling program, particularly off the Canadian east coast where significant new oil and gas discoveries were made.

Western Canada

A total of $91.6 million after incentive payments was spent on exploration programs in Western Canada during the past year, an increase of 35 per cent over 1984. Canterra's search for new reserves in this region was particularly successful in finding oil. A total of 1.3 million cubic metres (gross) of new oil reserves were added during the past year, including a prolific 100 percent owned well in the Rainbow South area. Most of the new oil reserves were discovered in the Peace River Arch, Rainbow, Zama, Shekilie and Grande Prairie regions of northern Alberta.

During 1985, Canterra added 700,000 cubic metres (gross) of natural gas to its reserves through discoveries. Deregulation is expected to provide enhanced market opportunities in future periods and the company is stepping up its search for natural gas. In particular, the company has been concentrating its search for gas prospects that have a significant potential to increase its sulphur reserves.

In all, Canterra participated in 122 (net 63.8) working interest exploratory tests, resulting in 15 (net 6.3) gas wells, 41 (net 22.8) oil wells and 58 (net 30.2) abandonments, with eight wells still drilling at year end. Although the number of gross tests decreased from the 149 drilled during 1984 to 122, the number of net wells increased by 8 per cent to 63.8. Canterra's ownership–or net participation–in each well is higher on average because it initiated more of its own exploration projects during the past year. The success ratio on exploratory drilling was 49.1 per cent, down from 56.6 per cent in 1984.

Frontier

During 1985, Canterra's frontier drilling program discovered significant volumes of hydrocarbons on the Scotian Shelf, Grand Banks and in the Northwest Territories. After incentive programs, the cost of Canterra's frontier drilling program was $21 million. The company participated in 24 exploration wells, of which 16 were located off the coasts of Newfoundland and Nova Scotia. Four tests were oil wells; six were gas discoveries, while 10 were dry. Four wells were still drilling at year end. One well at the North Triumph structure has since been completed as a promising natural gas discovery off the coast of Nova Scotia.

Two of the oil wells were at Nipterk, a discovery in the Beaufort Sea, while the remainder were at Terra Nova on the Grand Banks, where a delineation program is underway to determine the size of reserves and a possible development

program. Most of the gas discoveries were on the Scotian Shelf, although a drilling program at Tweed Lake, 180 kilometres north of Norman Wells in the Northwest Territories, resulted in two gas wells. On the Scotia Shelf, delineation drilling continued to probe the size of previous discoveries with a disappointing offset well at Glenelg and a successful one at Alma. Canterra participated in a gas well at West Olympia through a farm-in and a delineation well at Thebaud as a result of the purchase of a subsidiary of a U.S. company. Through the purchase of this interest in Thebaud, Canterra is now a participant in the pre-development process for the Venture gas project.

At the end of 1985, non-depletable costs relating to the frontier totalled $439.5 million, compared with $529.0 million at the end of 1984. The company's policy is to transfer these costs to its depletable pool as proved reserves are established or any impairment in value occurs. To date, $388.3 million of other costs have been transferred to the depletable pool. The company is now participating in studies for three possible development projects in the frontier, one at Terra Nova and two off the coast of Nova Scotia. For 1986 and beyond, Canterra expects to place increasing emphasis on bringing these various projects to the development stage and less effort will be placed on wildcat drilling.

Canterra Energy
Capital expenditures
(millions)

	1985	1984
Canadian frontier	$ 73.8	$ 92.0
Western Canada exploration	113.8	87.3
Western Canada production	79.9	46.3
U.S. and other	31.0	21.0
	298.5	246.6
Less: petroleum incentive program and provincial grants	84.6	86.1
	$213.9	$160.5

Canterra Energy
Western Canada Division
Replacement of oil, natural gas liquids and gas production by proved reserve additions from exploration discoveries and revisions
(millions of cubic metres of oil equivalent)
(gross before royalties)

Year	Proved reserve additions and revisions	Production	Percent of production replacement
1982	6.0	3.5	171%
1983	1.1	3.4	32%
1984	4.6	3.4	135%
1985	**4.6**	**3.3**	**139%**

WESTERN CANADA PRODUCTION

Increased oil revenues during the past year were the result of new discoveries coming on stream, aggressive development programs for existing fields and higher prices. Capital expenditures totalling $69.8 million after incentive payments reflected the positive impact of the Western Accord, new royalty regimes and the economic benefits from enhanced oil recovery schemes.

Canterra Energy
Yearly sales volumes

	1985	1984
Oil & natural gas liquids (10^3m^3)		
Before royalties		
Canada	1,681.9	1,717.8
United States	130.3	137.4
After royalties		
Canada	1,261.1	1,226.8
United States	106.9	112.7
Heavy oil & tar sands (10^3m^3)		
Before royalties	25.4	14.6
After royalties	23.5	13.4
Gas (10^3m^3)		
Before royalties		
Canada	1,817.1	1,791.4
United States	141.1	100.6
After royalties		
Canada	1,303.9	1,285.8
United States	106.8	76.4
Sulphur (10^3t)		
Before royalties		
Canada	1,968.1	1,704.2
United States	136.9	312.9
After royalties		
Canada	1,776.5	1,419.9
United States	136.9	312.9
Coal (10^3t)	469.9	886.6

Oil and natural gas liquids
New production and development drilling during the past year largely offset a decline in production from the company's older properties at the Rainbow Lake field. Last year, production from this field accounted for 63 per cent of Canterra's total oil and liquids output. For the year, average prices for oil and natural gas liquids were 7 per cent higher than 1984.

Natural Gas
Although natural gas volumes increased 1.4 per cent during the past year, revenue was down 6 per cent because of lower prices. Canterra expects that Canadian natural gas volumes will rise substantially over the next five years as the present surplus in the United States disappears. Exports of natural gas should then increase significantly. Canterra would benefit from this develop-

Canterra Energy
Average sales price

	1985	1984
Oil & natural gas liquids ($ Cdn./m^3)		
Canada	$222	$207
United States	$218	$234
Total	$222	$209
Heavy oil & tar sands ($ Cdn./m^3)	$193	$185
Gas ($ Cdn./10^3m^3)		
Canada	$ 96	$103
United States	$142	$166
Total	$ 99	$107
Sulphur ($ Cdn./tonne)	$142	$ 89
Coal ($ Cdn./tonne)	$ 49	$ 46

ment because of its significant reserves and the likelihood that the price of natural gas on an energy equivalent basis will move closer to oil than it has been in recent years.

Sulphur
Sulphur demand, which had recovered during the second half of 1983 and continued to grow throughout 1984, reached a plateau in 1985. Despite this moderation of the growth in consumption, demand continues to exceed production on a global basis which resulted in contract price increases during 1985. Canterra sold a record volume of sulphur during the past year, with gross revenues up 66 per cent largely because of higher average prices.

Canterra Energy *Proven reserves* December 31, 1985	Proven reserves at beginning of 1985	Additions (after production)	Proven reserves at end of 1985
Western Canada and United States			
Oil and natural gas liquids(1)			
Gross	**18.3**	1.4	19.7
Net	**13.7**	1.5	15.2
Natural gas(2)			
Gross	**38.6**		38.6
Net	**28.9**	.8	29.7
Sulphur(3)			
Gross	**14.3**	(1.4)	12.9
Net	**12.9**	(1.1)	11.8

(1) millions of cubic metres
(2) billions of cubic metres
(3) millions of tonnes

During 1985, approximately 53 per cent of sulphur sold came from current natural gas production and purchases, while the remaining 47 per cent was melted from the company's above-ground inventories.

A major project last year–and an important part of the company's strategy to make significant additions to its sulphur reserves in future periods–was the successful production test of a well in the Central Foothills of Alberta containing high levels of hydrogen sulphide. Several previous attempts to put the Panther River well into production had failed because no technology existed to overcome the problem of plugging in the wellbore. Using special equipment and solvents, Canterra proved that significant production could be obtained from this well–and potentially others throughout the province with reservoirs containing 60 to 90 percent hydrogen sulphide. If further testing using Canterra's proprietary technology is successful, the Panther River well could add up to two million tonnes to Canterra's sulphur reserves, the equivalent of one year's sales volume at current rates.

Heavy Oil and Tar Sands
Canterra continued development of its steam recovery process at its two pilot projects–one in the Athabasca region of northeastern Alberta and the other near North Battleford in Saskatchewan. The Athabasca pilot produced in excess of 21,100 cubic metres of bitumen during the past year, an increase of 155 per cent. The North Battleford pilot increased production by 15 per cent to 37,300 cubic metres during 1985.

Reserves
Canterra has made significant additions to its net reserves of oil and gas liquids since 1982 through exploration and enhanced recovery programs. At the end of 1985, the company had proved and probable reserves of 16.1 million cubic metres of oil and gas liquids, up almost 50 per cent from 1981 for an average annual increase of 12.5 per cent. Proved natural gas reserves of 37 billion cubic metres gross represent 20.4 years of production at 1985 rates.

UNITED STATES OPERATIONS

Oil and Gas
Exploration efforts in 1985 replaced oil and natural gas liquids and resulted in a 14 per cent growth in natural gas reserves. While several oil well completions were made in the Williston Basin, exploration activity was terminated in early 1986. Significant results were realized in the Gulf Coast area where five important gas-condensate wells were discovered in the Cameron and Calcasieu Parish in Louisiana in addition to an oil discovery in Alabama. Production of oil and natural gas liquids decreased by 5 per cent with production at an average of 357 cubic metres per day. Gas sales, on the other hand, increased by 41 per cent to 387,000 cubic metres per day as the result of new discoveries and an aggressive gas marketing program.

Coal
Due to surplus capacity and stagnant demand, which led to low selling prices, Canterra's coal operations in Pennsylvania experienced a difficult year. A strike at Canterra's underground coal subsidiary by the United Mine Workers of America, which began during the summer, continued beyond the end of the year. Company supervisory personnel, in implementing new work methods following the walkout, succeeded in significantly improving the productivity of the underground mining operations.

OUTLOOK

The sharp decline in international oil prices experienced in early 1986 has created major uncertainties for the petroleum industry. Canterra is in a strong position to face this instability because a significant portion of its cash flow is derived from such non-oil activities as the sale of sulphur. Canterra's capital expenditure program will be lower in 1986 and allocated primarily to conventional exploration and production projects with high returns and quick pay-out. Thus, its cash flow is expected to exceed its financial obligations.

Canterra Energy
Sensitivities
(millions)

		Approximate effect on 1986 results	
Variable	Change	Free cash flow	Net income
Interest rates	1 percent	$23	$9
Oil price	$1 Cdn./bbl.	9	4
Gas price	10¢ Cdn./MCF	5	2
Sulphur price	$1 Cdn./tonne	2	1

FALCONBRIDGE/KIDD CREEK

Late last year, CDC arranged for the sale to Falconbridge Limited of its 100 percent interest in the Kidd Creek mine, as well as other mining and metallurgical assets in the Timmins area. In return, CDC received a total consideration of $615 million, consisting of $140 million of cash, approximately 10.5 million Falconbridge common shares and $271 million principal amount of convertible debentures. CDC now holds an 18 percent interest in Falconbridge (30 percent on a fully converted basis) and will account for its investment using the cost method, under which the interest payable on the 8.5 percent debentures will be included in CDC's income.

CDC retains ownership of a number of assets previously held by Kidd Creek, including a 40 percent interest in the Allan Potash mine and a 35 percent net profits royalty interest in the Nanisivik mine on Baffin Island.

This restructuring allowed CDC to establish a market value for a significant portion of its mining assets that exceeded their purchase price. As a result of this transaction, CDC recorded a gain of $145.4 million in its 1985 results, a recognition of the value that has been added to Kidd Creek by its dedicated employees since the company was purchased by CDC in 1981.

The sale of Kidd Creek to Falconbridge was effective at the end of 1985. During the past year, Kidd Creek's operations made a contribution to CDC's results in addition to the gain recorded from their sale. For 1985, Kidd Creek contributed $12.2 million to CDC from revenue of $544.3 million. This compared with $16.9 million from revenue of $559.4 million for 1984. The reduced contribution during 1985 was due to the impact of lower selling prices for most Kidd Creek products and higher non-controllable costs, which were only partially moderated by increased volumes of copper metal and silver, additional revenues from the full commercial production of a new gold mine and lower interest expense.

CDC'S INVESTMENT IN MINING

CDC's involvement in the mining industry dates back to 1973 when a significant minority position was purchased in Texasgulf Inc. In 1981, CDC exchanged its 35 percent interest in Texasgulf and $537 million for that company's Canadian assets. These included petroleum and sulphur assets subsequently transferred to Canterra and mining assets that were incorporated into a company that became known as Kidd Creek Mines Ltd. After its purchase by CDC, Kidd Creek was transformed from a division of a multinational company into an independent, free-standing and productive Canadian enterprise that was able to improve its financial performance and position during a severe recession and a period of generally depressed metals prices. It was able to make major efficiency and productivity gains during this period that included:

–an 11 percent increase in the amount of ore taken from the Kidd Creek mine;

–a 72 percent gain in the production of copper and zinc from metallurgical facilities;

–a 117 percent increase in the output of silver and 76 percent for gold; and

–a reduction in manpower of 12 percent.

As well, Kidd Creek completed a number of significant capital projects during this period, including a copper smelter and refinery, an expansion of its zinc plant, and the start up of two gold mines in the Timmins area.

The challenges facing Kidd Creek required that the company look beyond its aggressive program to improve output and productivity. A number of large-scale and highly efficient producers–many located outside North America–hold significant cost advantages for most base metals and are likely to continue producing at capacity even if prices remain low by historical standards. Higher resource taxes in Canada, as well as increases in other non-controllable costs, continue to squeeze already depressed margins in the domestic mining industry. CDC began to seek other ways to maintain Kidd Creek's competitiveness in the face of these worldwide factors. A major conclusion was that some form of partnership with another mining company would allow further cost reductions and rationalization of operations.

The combination of Kidd Creek and Falconbridge–each with a sound asset base and highly productive operations–creates a company that has the ability to continue competing effectively in world markets, a sound financial position, and a good reputation in the marketplace. The combined company should be able to achieve major operating, administrative and exploration cost savings during the next few years, thereby providing its shareholders with the opportunity of a good return on their investments.

Kidd Creek Mines
Actual volume, prices and financial highlights
1981-1985

	1981	1982	1983	1984	1985	% Change 1981-85
Production (000 tonnes)						
Copper metal	61	67	90	105	130	+113.1
Zinc metal	109	106	107	122	128	+ 17.4
Zinc concentrate	119	161	178	211	180	+ 51.3
Silver (K oz.)	4,700	5,400	6,300	8,700	9,400	+100.0
Gold (K oz.)	0	25	25	25	46	
Prices (U.S. $)						
Copper	0.84	0.68	0.72	0.63	0.66	−22.6
Zinc	0.45	0.39	0.38	0.46	0.39	−13.3
Silver	10.50	8.70	13.60	8.14	6.30	−40.0
Gold	450	386	440	370	320	−28.9
Financial (millions)						
Net income (loss)		$ (37)	$ (1)	$ 17	$ 13	+124.3
Free cash flow		(79)	135*	96	80	+192.6
Capital expenditures		51	18	33	54	−46.7
Long-term debt		775	775	754	743	−13.5

*includes tax recovery of $74.5 million

FALCONBRIDGE LIMITED

In business since 1928, Falconbridge is the second largest producer of nickel in the non-communist world. Its principal products include nickel, ferronickel, copper, cobalt, and other base metals, as well as gold, silver and platinum group metals, industrial minerals and steel castings. With the acquisition of Kidd Creek, Falconbridge has successfully diversified its operations away from nickel–previously its major product which accounted for 60 percent of its 1985 revenue–into copper and zinc. By acquiring one of the lowest-cost producers of copper and zinc, Falconbridge will be able to benefit from any future price increases for its more diversified portfolio of products, as well as from economies of scale and the competitive advantages that are available to a larger mining company.

Falconbridge's nickel mining operations are located principally in the Sudbury district of Northern Ontario and in the Dominican Republic. Falconbridge's wholly-owned integrated nickel operations include mining and reduction facilities near Sudbury; a refinery in Norway which processes concentrate from its Canadian and Dominican operations, as well as for other parties; and a marketing organization that sells its products throughout the world. Its operations in the Dominican Republic, which are 67.1 percent owned, include a lateritic nickel mining operation and metallurgical facilities for the production of ferronickel. Falconbridge sells nickel in eight forms for use in manufacturing stainless and alloy steels, other alloys, castings and chemicals and in an unalloyed state principally for plating.

The Kidd Creek operations, which are now part of Falconbridge, include a world-class copper-zinc-silver ore body, two gold mines and a metallurgical complex at Timmins. The Kidd Creek ore body is one of the world's largest single sources of zinc and the company is considered to be one of the lowest-cost producers of copper and zinc in North America. During 1985, the company brought the Hoyle Pond gold mine into commercial production at a total cost of $5.4 million, and began construction of a new gold mill at an estimated cost of $6.7 million.

In addition to its nickel operations and ownership of Kidd Creek, Falconbridge holds varying interests in a number of other companies involved in mining and related ventures in Canada, the United States and Africa. It holds a 50.4 percent interest in Corporation Falconbridge Copper, a public company that produces gold and copper from a number of mines in Quebec. Among its other more significant holdings are a 19.2 percent interest in Giant Yellowknife Mines Limited, which owns and operates two gold mines in the Northwest Territories; a 42.2 percent interest in United Keno Hill Mines, a silver-lead producer with mines and a concentrator in the Yukon Territory; and a 25 percent interest in Western Platinum Limited, which produces platinum group metals at a mining operation located in Africa.

PETROCHEMICALS

POLYSAR LIMITED

CDC owns 100 percent of the common shares of Polysar Limited, one of the world's largest producers of synthetic rubber and rubber latex. During 1985, Polysar acquired full ownership of Petrosar Limited, a world-scale producer of basic petrochemicals and fuel products. The company employs more than 6,600 people around the world and has 20 plants in six countries. Polysar's products are sold in over 90 countries and are used by other manufacturers to make a range of industrial and consumer goods, including automotive tires, coated paper, plastics, roofing membranes, carpet adhesives, sealants, and foam-rubber carpet backing.

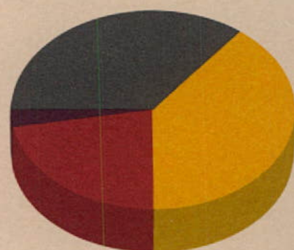
*Polysar**
Financial results

(millions)	**1985**	1984
Results reported by Polysar	**$ 0.1**	$35.9
Less: Dividends on Polysar preferred shares held by public investors	**(6.8)**	(6.9)
Contribution to CDC	**$(6.7)**	$29.0

*further financial information is provided on page 25 of this annual report

Polysar had an unsatisfactory financial performance during 1985 with revenues unchanged at $2.2 billion and a negative contribution to CDC of $6.7 million, compared with a profit of $29.0 million during 1984. In 1985, Polysar's rubber and latex businesses continued their strong performance. However, the negative impact of including 100 percent of Petrosar's losses from May 31, 1985, combined with the full absorption of interest and other costs associated with Polysar's new Sarnia butyl rubber manufacturing facilities, depressed both gross profits and earnings during the past year.

Breakdown of revenues



Total revenues $2,194 million

- Rubber 38%
- Basic petrochemicals 37%
- Diversified products 23%
- Other 2%

Despite these financial results, Polysar developed a foundation for a period of strong growth in profitability based on a physical restructuring of the Petrosar plant; steps to develop leadership positions in several significant business segments; and emphasis throughout the organization on high-quality products and service, superior technology, and innovation.

In particular, the environment for Polysar's basic petrochemicals operations is being enhanced because of several internal and external actions:

–a $30 million program to convert the Petrosar plant to use up to 40 percent natural gas liquids will ensure a secure supply of feedstocks at competitive prices for Polysar's downstream operations. It will also improve Petrosar's flexibility, allowing a broader range of feedstocks–including natural gas liquids–to be used in manufacturing its slate of primary petrochemical and fuel products depending upon the most advantageous purchasing opportunities available;

–the lifting of restrictions on crude oil exports into Canada by the United States now allows Polysar to shop North American–as well as world–markets for the best feedstock prices; and

–the establishment of a joint venture with CanStates Energy Ltd. of Calgary will allow Polysar to source–as well as enhance its trading abilities for–natural gas liquid feedstocks in an efficient and cost-effective manner.

This improved environment, along with the completion of the plant restructuring during 1986, will allow Polysar's basic petrochemical group to operate profitably on a consistent basis and to be fully competitive with the major U.S. Gulf Coast producers who play an important role in establishing market prices for petrochemical products.

To accommodate the acquisition of Petrosar, the company underwent a corporate reorganization during the past year. The basic petrochemicals group includes Petrosar's feedstock and fuel operations and Polysar's Sarnia monomer and feedstock operations. Polysar's new operating structure includes two further business units based on product lines–rubber and diversified products–and the establishment of an Asia-Pacific group, which has been organized to focus on the company's growth strategy in this region which now accounts for more than $100 million of annual sales. A new regional headquarters for this group will be opened in Singapore during 1986.

BASIC PETROCHEMICALS

Basic petrochemicals accounts for about 37 percent of Polysar's total sales. Sales were $1.1 billion during 1985 with about $800 million of its basic petrochemical and fuel products sold to outside customers, while the balance was consumed by Polysar's downstream operations. The creation of this amalgamated division allows Polysar to plan purchasing and pricing of petrochemical feedstsocks for maximum efficiency and permit downstream operations in rubber and diversified products to concentrate on the development of new products and markets for their respective businesses.

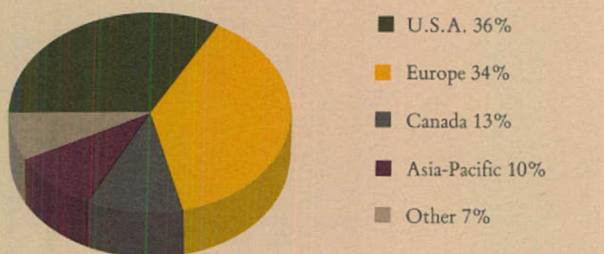
The group's primary products are ethylene and propylene, which account for 40 percent of its annual petrochemical production. By the end of 1985, prices being received for ethylene and propylene were firming, while at the same time, the cost of crude oil feedstocks were falling. Because Polysar produces almost 1.7 billion pounds of ethylene and propylene annually, a price increase of one cent per pound produces an approximate $12 million pre-tax increase in Polysar's net income. Improved ethylene prices and lower feedstock costs during early 1986 along with continuing internal improvements should bolster the group's performance during the year.

RUBBER

Rubber accounts for 38 percent of the company's sales. While the European rubber operations showed excellent profitability, and Polysar continued its successful market penetration for high-quality butyls and halobutyls, the North American business was affected by a decline in consumption. The group's operating profit of $82 million was lower than the $102 million for 1984 because of the absorption of costs associated with the new Butyl II plant in Sarnia. Return on sales for the rubber group was 10 percent during 1985.

Rubber sales by major geographic market

Total sales $840 million

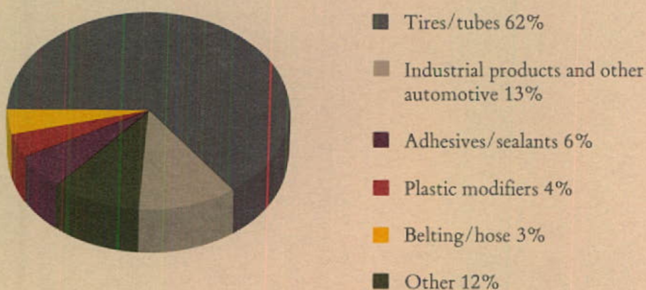


With the decreasing demand for commodity rubbers, Polysar is emphasizing production of specialty rubbers. Demand is growing for products in which the company has a technical edge, such as temperature and oil-resistant rubbers used for products under the auto hood or in drilling equipment. Automobile manufacturers are substituting rubber-modified plastics for metal parts to reduce weight and improve their performance.

One specialty rubber which Polysar produces in significant quantity is butyl rubber and its halobutyl derivatives. Other innovative specialties include Tornac™, a new nitrile rubber produced in pilot plant quantities for certain high temperature uses, and a new grade of ethylene propylene rubber, produced by Polysar's Orange, Texas plant and sold into the European market. This new grade blends readily and improves impact resistance in automotive bumpers.

Stressing timely service and quality, the company worked more closely with its customers during the past year to ensure that products are consistent and meet market needs. Polysar is also working with customers to develop electronic links to their plants to enhance productivity.

Global rubber end uses 1985



DIVERSIFIED PRODUCTS

Diversified products consists of the latex, plastics, and specialties divisions of Polysar and had combined 1985 sales of over $500 million, representing 23 percent of revenue. While these divisions are quite different from each other, they have a mandate for significant growth. This business unit is expected to make one of the larger contributions to the company's future revenue growth.

Latex, with 1985 sales of $311 million or 14 percent of total Polysar sales, had an outstanding year during 1985 and is expected to perform well in 1986. Since 1980, overall latex sales have nearly doubled, while profitability has significantly improved due to a combination of cost efficiencies, improved pricing and market growth.

Polysar
Diversified products sales by major geographic market during 1985
(millions)

	Latex	Plastics	Specialty products	Total
Canada	$ 26	$ 44		$ 70
U.S.A.	157	85	$46	288
Europe	115	1		116
Asia-Pacific	8	15		23
Other	5	5		10
	$311	$150	$46	$507

North American latex operations were particularly strong while the European business suffered somewhat as a result of a difficult trading environment and rising raw material prices. Continued growth in current business, along with the potential opportunities from new technology, acquisitions and joint ventures, is expected to produce significant revenue gains during the next few years.

Polysar produces more than 70 varieties of latex, a suspension of synthetic rubber particles in water. Markets in industries such as carpeting and papercoating as well as textiles and adhesives are quite different from those served by other Polysar divisions and lessen the Company's exposure to the automotive industry. The company is concentrating on developing specialty latex products for use as bridge decking and in construction renovation, underwater sealants and adhesives, oil-resistant products for dipped goods, and agricultural mulch.

Polysar's plastics business, which consists of the production of polystyrene resin, has experienced strong demand but extremely poor margins for some time due to overcapacity in the industry. In 1985, the division had sales of $150 million, or 7 percent of total sales. The polystyrene industry is currently dominated by the major oil companies which use the product as an outlet for surplus raw materials. The existing polystyrene business is being used by Polysar as a base from which to diversify into a range of proprietary plastics products. To this end, the company has opened a new plastics-dedicated research laboratory in Leominster, Massachusetts with emphasis on developing products which build on Polysar's polymer expertise to produce plastics products that meet specific market needs. The division also stresses development of high performance, engineered products which are tougher, stronger and more heat resistant. As part of its growth strategy, Polysar is looking to acquire businesses with sales of up to $100 million which it can expand by adding its proprietary technology.

Latex end uses

Carpet 47%
Paper coating 22%
Other 31%

The specialty products division has a mandate to build on current Polysar products and technology as well as acquire new businesses and technology. In 1985, however, this business operated at breakeven, slightly lower than 1984. New customers have been developed, and the outlook is for a significant increase in sales and profits during 1986. In its existing custom-compounding business, Polysar adds value to rubber products through custom and proprietary mixing with reinforcing agents, fillers, curatives, and other additives. Based in Akron, Ohio, a new market-oriented product development team is seeking to commercialize a number of Polysar innovations. New products now under consideration include a stretch-and-stick adhesive, new modifiers for polyester and asphalt, silicone rubbers, orthopedic compounds, and other sealants and adhesives.

TECHNOLOGICAL DEVELOPMENT

Polysar spent $30 million in research and development during 1985, a 22 percent increase over 1984. The company's strategy is to develop products with improved performance characteristics, which provide significant differentiation from its competitors.

FINANCIAL SITUATION AND OUTLOOK

The company has developed a plan that is designed to improve its financial performance in the short term. With the restructuring of its basic petrochemicals division, improved returns from rubber and diversified products, the expected growth in new businesses and increased sales in the Asia-Pacific region, Polysar should be capable of achieving a significant improvement in its return on shareholder's investment in the coming years.

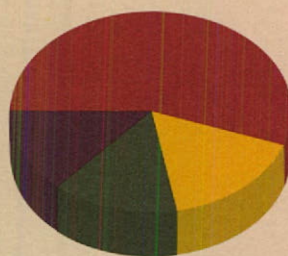
Polysar
Sensitivities
(millions)

		Approximate effect on 1986 results	
Variable	Change	Free cash flow	Net income
Interest rates	1 percent	$10	$6
Ethylene/propylene	1¢ Cdn./lb.	13	7
Crude	$1 Cdn./bbl	6	3

CDC LIFE SCIENCES INC.

CDC holds a 67 percent interest in CDC Life Sciences Inc., which in turn has invested in three highly successful companies. Last year, revenue of CDC Life Sciences increased 28 percent to $121.5 million and its earnings of $12.6 million provided a return on shareholders' equity of 19 percent. Its contribution to CDC after deducting minority earnings was $8.2 million. CDC expects the current investments of CDC Life to show strong growth in the future.

CDC Life Sciences
Breakdown of revenues



CONNAUGHT LABORATORIES LIMITED

Connaught Laboratories, which is 100 percent owned by CDC Life Sciences, is a leading international supplier of biologically based products for human use. Its business is focused on developing, manufacturing and marketing biological products which regulate the body's immune system. Vaccines represented 63 percent of Connaught's 1985 revenue, which exceeded $100 million for the first time. The company's scientific and technical skills are based on the biological sciences and involve such areas as tissue culture, microbial fermentation, genetic engineering, protein purification and monoclonal antibody production.

Vaccines

Connaught's vaccine sales increased 42 percent to $66 million in 1985. Mass immunization programs using vaccines are the major cost-effective method of preventing the spread of disease. Connaught produces a range of vaccines for children and adults to protect them against polio, measles, diphtheria, whooping cough, meningitis, rabies, tetanus, cholera and yellow fever. Total worldwide sales of vaccines during 1985 were an estimated $700 million, about half of which were in North America, Connaught's primary market. The vaccine market offers excellent opportunities for profitable growth and Connaught is committed to doubling its 15 percent share of the vital North American market.

Sales of vaccines in the United States more than doubled during the past year. A joint marketing venture with E.R. Squibb and Sons Inc. performed well despite the high competitive influenza market. Prospects for Fluzone™, the company's vaccine for protection against influenza, are encouraging because of the higher priority being placed on adult immunization programs by government agencies in the United States. The company will launch its newly licensed bacterial meningitis vaccine for children in the United States in early 1986 and will complete licensing requirements to permit public sale of its oral and injectable polio vaccines in 1986 or early 1987.

Considerable progress was made on the development of a new whooping cough vaccine. Clinical testing is well advanced for a new generation vaccine which will provide longer-term protection against bacterial meningitis–one of the last childhood diseases lacking a preventive product. Connaught has also developed a new process to manufacture both oral and injectable poliomyelitis vaccines.

Insulin

Connaught holds an 85 percent share of the Canadian insulin market through its joint venture with Novo Industries of Denmark. During 1985, human insulin was introduced into the Canadian market under the trade name, Novolin. Connaught has formed a partnership with Damon Biotech to commercialize a promising new technology for the treatment of diabetes which involves encapsulated living cells which, when implanted in test animals, have shown the ability to produce enough insulin to control diabetes for up to two years.

BIO-RESEARCH LABORATORIES LTD.

Bio-Research is a Montreal-based company, which is wholly owned by CDC Life. It has built an international reputation as one of the world's premier companies in testing the safety and effectiveness of drugs, chemicals and consumer products. It is the largest company of its kind in Canada and nearly 80 percent of its sales are to foreign clients. The company completed a major expansion of its clinical research and drug analysis business during 1985, doubling its size. This new facility, coupled with existing toxicology testing laboratories, will enable the company to further enhance its reputation and position as a leader in its field. Bio-Research is aggressively pursuing research and development programs to expand further the range of services it can offer clients, thus enhancing its growth opportunities. In 1985, revenues increased 30.7 percent to $16.4 million.

The toxicology division, which produced 61 percent of the company's 1985 revenue, determines the toxic effects of a wide range of pharmaceutical, chemical and consumer compounds. The excellent reputation Bio-Research has built in this field produced strong demand for its services and the division operated at close to capacity throughout 1985.

The clinical and analytical division evaluates the rate and extent of absorption and the metabolism of drugs in humans, as well as performing safety studies on new drugs. The results of Bio-Research's work for clients in this area often forms part of the extensive evidence required to register drugs in the United States, Canada and other countries.

NORDIC LABORATORIES INC.

Nordic Laboratories, a Montreal-based company in which CDC Life holds a 35.4 percent equity interest, is now one of Canada's fastest growing pharmaceutical companies as a result of successful marketing of two major prescription drugs. Nordic's sales were $38.4 million in 1985, an increase of $17 million over 1984, primarily because of strong sales growth for Cardizem™, a cardio-vascular drug for the treatment of angina.

*CDC Life Sciences**
Financial results

(millions)	**1985**	1984
Results reported by CDC Life Sciences	**$12.6**	$15.4**
Less: minority interest	**(4.4)**	(0.4)
corporate adjustments		(6.6)
Contribution to CDC	**$ 8.2**	$ 8.4

*further financial information is provided on page 25 of this annual report

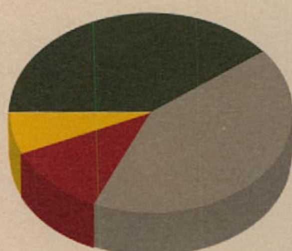
**includes extraordinary income of $7.0 million.

OFFICE AUTOMATION PRODUCTS

AES DATA INC.

AES Data Inc., a wholly-owned CDC subsidiary, made important progress over the past year. AES develops, manufactures and markets software-rich and network-oriented office automation products. The market for office automation products experienced a slowdown in growth during the past year. Although total units sold increased, prices continued to fall and AES finished the year with revenue of $143.0 million, a small decline from 1984. Through its cost-reduction efforts and productivity programs, the company was able to improve its financial performance during the year, with its loss of $4.3 million reduced from $5.1 million in 1984.

AES Data
Breakdown of revenues



Total revenues $143.0 million

- Canada 42%
- Europe 42%
- United States 5%
- Other 11%

Marketing

The cornerstone of the company's product strategy and marketing efforts is a firm commitment to total information management–the full integration of data and word processing through the creation of systems that allow users to make the best use of their information resources.

The company has an innovative and competitive product line that is directed to an increasingly sophisticated marketplace, which is demanding better productivity and performance from the office automation industry:

- Introduced during the past year, the AOS 1 (Automated Office System–Phase 1) has moved AES from a supplier of word processing equipment to broader office systems. The AOS 1, a product on the leading edge of technology, was the key to a number of important sales during 1985, including a large order from the Regional Municipality of Halton near Toronto.

- The AES 7100 is the company's standalone word processing product, consisting of a screen, keyboard, and storage and system unit. This product is one of the most cost effective in the fast-growing mid-to-high priced electronic typewriter market.

- During 1985, AES introduced a personal computer to its product line. Designed to complement the company's powerful word processing and office systems, the AES PC is an important tool that is allowing the company's sales force to offer a total package of solutions to its customers. During 1986, AES will augment its personal computer with a comprehensive list of options.

- AESOP, which stands for AES Office Productivity, is a software package that runs on a personal computer, providing basic AES word processing to PC users. The introduction of AESOP means that the company can offer its customers a way to integrate the professional into the mainstream of office automation.

- The AES 7300 Distributed Office System helps people in the office work together as a team. It allows a work group to link up with corporate mainframe computers and to access external data bases. During 1986, the company will introduce a number of hardware and software enhancements for the AES 7300 that will increase speed, add a broader range of printers and expand networking capability.

- The AES 7600 Network Applications System is a Unix-based computer suitable for many mid-sized data-processing applications. The 7600 provides high-capacity storage, sophisticated communications and a comprehensive document management system for workstations in the network.

For the future, AES intends to position its products in communications- intensive functions such as providing electronic mail and management-support systems, integrating personal computers in the mainstream of office automation, and develop-

*AES Data**
Financial results

(millions)	**1985**	1984
Results reported by AES	**$(4.3)**	$ (5.1)
Less: CDC corporate adjustments, including goodwill	**(3.7)**	(6.2)
Contribution to CDC	**$(8.0)**	$(11.3)

*further financial information is provided on page 25 of this annual report

ing new high-speed local-area networks. It will continue to enhance the ability of its products to interconnect with those of other vendors. The company is committed to maintaining this compatibility with evolving IBM™ standards, as well as providing products that are complementary to large corporate mainframe computers.

During the past year, AES continued to strengthen its worldwide marketing operations. The Canadian sales force was restructured to improve its responsiveness. To improve penetration of the United States market, AES opened a new sales office in Washington to service major accounts. The company also signed an agreement with TRW Systems to provide national service to users of AES products in the United States. It expects to open additional offices in the United States during 1986, as well as enter distribution arrangements that will augment its sales effort in important market areas.

Outlook

Office and manufacturing facilities were rationalized late in the year to reduce overhead levels. Manufacturing operations were further improved by establishing better procurement and inventory procedures and reducing manpower levels. The company will continue to take steps to improve its financial performance by focussing on improving the sales effort, particularly in the United States market, and by developing products with specialized applications where market opportunities exist.

INDUSTRIAL AUTOMATION

SENTROL SYSTEMS LTD.

Sentrol Systems is Canada's only significant designer, manufacturer and marketer of sophisticated measurement and control systems for use in large-scale industrial operations. Sentrol's unique sensors and specialized computer software, which are sold throughout the world, allow a broad range of industrial processes to be automated.

Industrial automation is an expanding international market. Manufacturers continue to make wider use of reliable automation systems to increase productivity, improve product quality and reduce waste of raw materials and energy.

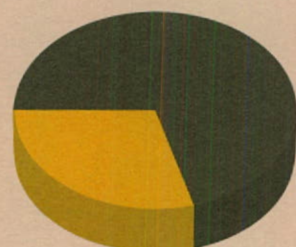
For a number of years, Sentrol has been an important supplier of measurement and control systems to the North American and international pulp and paper industry. In recent years, the company has successfully applied its technologies to oil and gas pipelines and water distribution systems, as well as the metals, automotive and battery industries. The quality, reliability and consistency of its systems have made Sentrol a favoured supplier in many of the markets in which it competes.

Operations

During 1985, Sentrol improved operating efficiencies by building on the positive results of an internal reorganization that took place at the end of 1984. Improved business conditions in North America and broader customer acceptance of Sentrol's systems also contributed to a better 1985 performance.

Sentrol Systems
Breakdown of revenues

Total revenues $32.4 million



Systems 69%

Service and parts 31%

*Sentrol Systems**
Financial results
(millions)

	1985	1984
Results reported by Sentrol	**$ 3.8**	$ 2.0
Less: CDC corporate adjustments, including goodwill	**(5.0)**	(3.5)
Contribution to CDC	**$(1.2)**	$(1.5)

*further financial information is provided on page 25 of this annual report

Revenue for 1985 totalled $32.4 million, compared with $32.1 million a year earlier. Strong sales in the North American pulp and paper, water distribution and metals industries were partially offset by limited activity in international markets during the past year.

Streamlined reporting structures and continued focus on cost management throughout the company produced substantially improved profit during 1985. The company's 1985 net income of $3.8 million almost doubled the 1984 level of $2.0 million. As a result of its strong performance during the past three years, Sentrol has eliminated all third-party indebtedness.

Sentrol maintained its commitment to research and development during 1985, spending almost 8 percent of revenue to develop new sensors and advanced systems architecture. Last year, sales of products incorporating Sentrol's technology for cross-machine direction control in paper manufacturing were particularly encouraging. Its technology to measure and control metal coatings in the production of automobile parts is now unmatched in the process control industry. A continuing commitment to research has been the key to Sentrol's technological edge.

Outlook

Sentrol expects improved revenue and earnings performance during 1986. Repeat system orders in the North American pulp and paper industry, as well as new orders in the metals, water distribution and oil and gas pipelines markets, are positive signs of continued growth. Improved conditions in international markets are expected to provide increased revenue. The company continues to emphasize its service performance to retain the loyalty of its customer base.

Sentrol will seek opportunities to broaden its technology and product range through alliances with other companies in an effort to generate above-average growth. It will also broaden its international marketing efforts, particularly in the critical European and South American markets.

OTHER INVESTMENTS

ALLELIX INC.

Allelix Inc. is Canada's leading company developing products and processes based on the new biotechnologies. The company's scientific programs are shaped by market research which has identified attractive business opportunities in agriculture, diagnostics and specialty chemicals.

One major agricultural research project is developing improved canola hybrids, an agricultural product used to manufacture a variety of industrial and consumer oil products. A joint venture was established during 1985 with United Grain Growers Limited (UGG) of Winnipeg to develop spring varieties of canola suitable for cultivation in Western Canada. Canola hybrids developed by Allelix were tested in several field plots during the past year under UGG's supervision with positive results. The number of varieties and range of locations will be expanded in 1986, with the first seeds expected to be marketed through UGG in the late 1980's after the completion of cooperative registration trials. During the past year, the canola research project was broadened to include winter canola, a product for cultivation in Eastern Canada, Europe and the United States. A program using sophisticated plant cell manipulation techniques produced an important scientific breakthrough that will be utilized in the development of new canola varieties.

A second major agricultural project is to develop bacterial soil inoculants, which are micro-organisms that enhance plant yield and resistance to disease. Several strains proved exceptionally competitive in independent field trials, and these will undergo more extensive testing in 1986 in collaboration with a multinational agrichemicals company.

Easy-to-use diagnostic tests are being developed using a novel delivery technology and Allelix' proprietary UREIASE™ enzyme reagents. A pregnancy detection kit for the over-the-counter market is close to finalization, and is expected to be licensed in 1986 to a major health care company for extensive market testing and possible worldwide sales commencing in 1987. Allelix is developing additional test chemistries for the kit to increase the number of potential applications. A key strategy is to develop a range of low-cost kits for use in physicans' offices, with Allelix participating directly in their commercialization. Sales of the UREIASE™ reagents to commercial and university laboratories are increasing worldwide, with a major U.S. distributorship arrangement currently under negotiation.

Allelix has developed important proprietary technologies for the production of specialty chemicals. These were achieved by applying genetic engineering to yeast and fungal systems, where the company has an outstanding scientific reputation, and through the development of new techniques in microbial fermentation. These technologies are considered to have important commercial product opportunities in the area of fine chemical synthesis and are being developed within Allelix and through collaborative programs with outside parties.

In its third year of operations, the company completed equipping and staffing research laboratories at its headquarters in Mississauga, and opened a large greenhouse complex on 40 hectares of farmland in Caledon, Ontario. Company-wide staffing reached 170 at year end, including 55 Ph.D. level scientists and 14 commercial professionals.

ONEX CAPITAL CORPORATION

Onex Capital Corporation is a diversified industrial company headquartered in Toronto in which CDC holds a 16 percent equity interest. Onex has assets of about $450 million, 6,000 employees and 1985 revenues of $750 million. Its operating subsidiaries are American Can Canada Inc., the largest can manufacturing and specialized plastic packaging company in Canada; Macleod-Stedman Inc., operators of a chain of 508 company-owned and franchised retail stores located throughout Canada; and Na-Churs Plant Food Company, a liquid fertilizer manufacturer and distributor operating in the United States.

The past year was very successful for Onex. It acquired the remaining 55 percent interest of Macleod-Stedman Inc. that it did not previously own. American Can made two successful acquisitions and, together with Reynolds Metals Company, created a partnership–known as Bevco–to market metal cans to the Canadian beer and soft drink industries.

After lengthy negotiations during 1985, Onex signed an agreement in early 1986 to acquire the Sky Chefs food catering division of American Airlines for approximately $240 million. Sky Chefs, which will be 60 percent owned by Onex, is the second largest airline caterer and airport food, beverage and news stand concession operator in the United States.

Onex is planning to increase its paid-in equity during 1986 and begin a program to search for further acquisitions.

SAVIN CORPORATION

Savin Corporation, in which CDC now holds a 62 percent interest, is a distributor of photocopier products in the United States and Canada. As a result of continuing losses, the equity carrying value of CDC's investment in Savin was eliminated during the past year. The Corporation decided to deconsolidate the company's operations and look at new investment or marketing partnership opportunities.

In early 1986, Savin completed a restructuring of third-party indebtedness into a combination of senior subordinated notes and common stock. As part of this restructuring, CDC agreed to provide an additional credit facility of $30 million (U.S.) and reduce the ranking of previous advances to the company. This restructuring reduces Savin's financing charges and gives it the time necessary to restore its operations to profitability. It has a number of assets on which to build for the future:

–it is the only company in North America offering a full range of both dry and liquid toner photocopiers;

–it is the only significant independent distribution network left in North America;

–it has a relatively strong position in selling photocopiers to major account customers, particularly governments in the United States and Canada; and

–significant potential exists for its ElectroInk™ imaging technology that has been developed from basic and applied research.

During the past year, Savin's ElectroInk™ technology was licensed to Xerox Corporation for $18 million (U.S.), representing an advance royalty payment. A number of other licenses for the ElectroInk™ technology have been granted by Savin. Savin's own product line using the ElectroInk™ technology–the 8000 series copier–made good progress in its development during the year, but the company's inability to generate sufficient cash from its operations or raise funds from other investors to finance its commercialization resulted in the project being shut down late in the year. Savin is still investigating opportunities to have its technology developed by others. As part of its efforts to return to profitability, important management changes were made in early 1986.

CDC VENTURES LTD

CDC continues to investigate opportunities to divest its remaining venture capital holdings, which are held by wholly-owned CDC Ventures Ltd. The Corporation is gradually reducing its involvement in this area because of the significant increase in recent years in the number of companies and individuals supplying venture capital funding to small businesses or start-up ventures. At year end, the value of CDC's remaining venture capital investments was estimated at more than $5 million.

Innocan Inc. of Montreal, a very successful investment for CDC since it was established in 1973, had another good year during 1985. During the past year, Innocan–in which CDC Ventures holds a 10 percent interest–arranged for the profitable sale to Canadian Pacific Airlines Limited of shares held by its investors in Nordair Inc., a regional air carrier.

AVF Investments Ltd., in which CDC Ventures holds a 13 percent interest, has a range of investments oriented to the energy sector in Western Canada. Prime Energy Ltd., AVF's oil and gas subsidiary, had another successful year during 1985, with production up almost 25 percent and continued growth in cash flow and earnings.

Atlantis Corporation, in which CDC Ventures holds a 35 percent interest, is investing in the startup of a regional air carrier to serve the Atlantic provinces. Its crab processing operations, which had been so successful in previous periods, had a poor year because of an absence of raw material.

INSYSTEC INC.

Insystec Inc., a wholly-owned subsidiary based in Orlando, Florida, has developed an integrated voice-data communications product for use in the automated office. Small quantities of the company's desk-top units were produced and introduced to good reviews at a major office automation show in the United States. Efforts in 1986 will focus on establishing a relationship with a major distributor to bring Insystec's product to market.

CDC had income from operations for the year ended December 31, 1985 of $54.4 million or 3 cents per common share after the payment of preferred share dividends, compared with $39.3 million or a loss of 18 cents per common share for 1984. Revenue from consolidated operations increased 5 percent to $3.3 billion. In addition to these operating results, CDC's financial performance was affected by:

–gain on investments after tax of $127.2 million during 1985 resulting from the disposition of Kidd Creek, the sale of a minority interest in Canterra and a provision to reduce the carrying value of working capital advances to Savin;

–gain on investments after tax of $49.5 million during 1984 resulting from the sale of investments in Delphax and Wordplex and a minority interest in CDC Life Sciences; and

–earnings of $12.2 million ($16.9 million in 1984) from the operations of Kidd Creek and a negative contribution of $22.9 million ($24.6 million negative contribution in 1984) from Savin, both of which have been deconsolidated from results for both periods.

Including operations, gain on investments and the impact of deconsolidated operations, CDC had profit of $170.9 million or $3.17 per common share ($2.16 per common share on a fully diluted basis) for the latest period, compared with $81.1 million or 98 cents per common share (92 cents fully diluted) in 1984.

During the latest period, free cash flow–the amount available for capital expenditures and debt repayments after all expenses, including capitalized charges–increased to $392.0 million ($6.04 per common share on a fully diluted basis) from $213.0 million ($3.60 fully diluted) for 1984. Included in the free cash flow for the 1985 period was $165.0 million from gain on investments. Year-earlier results include free cash flow from gain on investments of $58.4 million.

Contribution summary (millions)	Revenue		Net income	
	1985	1984	**1985**	1984
Canterra	**$ 765.9**	$ 610.1	**$ 88.8**	$ 46.0
Polysar	**2,193.6**	2,218.4	**(6.7)**	29.0
CDC Life Sciences	**121.5**	94.9	**8.2**	8.4
AES Data	**143.0**	144.8	**(8.0)**	(11.3)
Sentrol	**32.4**	32.1	**(1.2)**	(1.5)
Other investments	**0.6**	2.8	**(5.2)**	(7.8)
Corporate			**(21.5)**	(23.5)
From operations	**3,257.0**	3,103.1	**54.4**	39.3
Non-consolidated subsidiaries			**(10.7)**	(7.7)
Gain on investments			**127.2**	49.5
Total	**$ 3,257.0**	$ 3,103.1	**$ 170.9**	$ 81.1

Cash flow contribution (millions)	Cash flow before financing charges		Free cash flow	
	1985	1984	**1985**	1984
Canterra	**$ 544.5**	$ 466.8	**$ 310.4**	$187.1
Polysar	**169.6**	192.7	**24.1**	26.4
CDC Life Sciences	**14.7**	3.9	**12.9**	1.3
AES Data	**3.9**		**(1.6)**	(6.4)
Sentrol	**3.4**	2.6	**3.2**	1.8
Other investments	**(11.3)**	1.6	**(11.3)**	1.6
Corporate	**0.8**	36.3	**(110.7)**	(57.2)
From operations	**725.6**	703.9	**227.0**	154.6
Gain on investments	**165.0**	58.4	**165.0**	58.4
Total	**$ 890.6**	$ 762.3	**$ 392.0**	$213.0

PROGRESS AGAINST FINANCIAL OBJECTIVES

CDC made significant progress in achieving a number of medium-term goals that were established to improve operational and financial performance. As outlined in last year's annual report, these goals were to:

–continue making improvements in the operations of all CDC companies, placing particular emphasis on increasing the use of capacity, so that the Corporation's rate of return on equity and assets could be restored to acceptable levels;

–reorganize the Corporation's capital structure to make each underlying investment more independent, provide CDC with more financial flexibility and allow minority interests to be sold to investors as appropriate;

–reduce consolidated indebtedness by more than $1 billion over the next five years; and

–create an environment among investors that will facilitate the sale by the federal government of its holdings of CDC common shares.

Operations

Good operating performances–particularly by Canterra and CDC Life Sciences–a profitable disposition, and a gain from the sale of a minority interest, contributed to significantly improved returns during the past year. The details of the successful operations of these and other CDC companies are outlined throughout this annual report. The favourable operating performances came from a relatively strong and non-inflationary North American economy. Sales volumes increased in most CDC companies, in part because of the strong emphasis placed on using existing capacity throughout the group and good demand for major products, particularly for Canterra's sulphur. Prices for most commodities–sulphur being the major exception–were actually lower than 1984. As well, finance costs decreased because of lower interest rates and falling absolute debt levels, the benefits of which were further enhanced by increased revenues from the sale of products with prices that are denominated in United States dollars. Despite gains in sales volumes throughout the group, manpower levels continued to decline, reflecting a continuing heavy emphasis on productivity improvements and the enforcement of strict cost control measures.

Effective and profitable operations are CDC's way of creating value for its shareholders. One of the ways of realizing on these added values is through disposition. During 1985, the Corporation entered into a number of transactions which impacted upon results for the year. These were:

–Kidd Creek Mines was sold to Falconbridge for a total consideration of $615.0 million, consisting of $140.0 million in cash, $270.8 million principal amount of subordinated debentures and about 10.5 million Falconbridge common shares. This transaction was effective on December 31, 1985, and its completion resulted in a gain of $145.4 million to CDC.

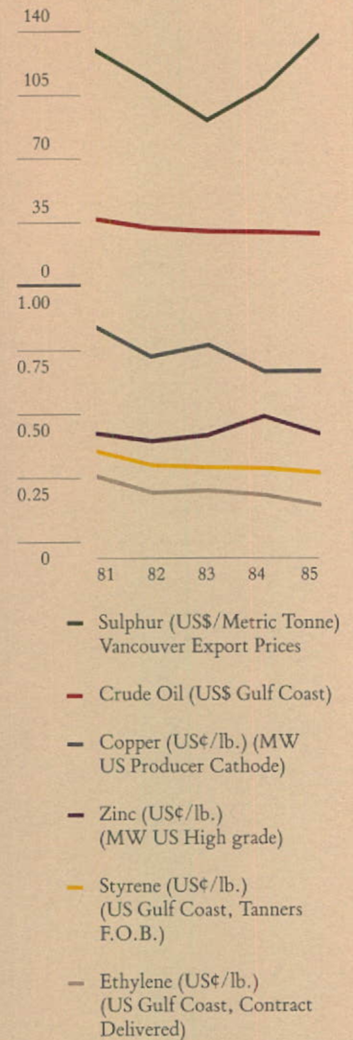
–Canterra raised $300.4 million in new capital (of which CDC subscribed for $97.9 million) from the sale of a minority interest to public investors. This offering consisted of $222.5 million of convertible subordinated debentures and $77.9 million of common shares. The successful completion of this offering resulted in a gain of $19.9 million to CDC.

The latest period also includes the impact of the following transactions at Savin and Polysar:

–Polysar purchased the advances to and the interests of minority shareholders in Petrosar during the past year. As part of this transaction, the two former minority shareholders in Petrosar subscribed for $208.0 million of CDC non-voting preferred shares carrying a floating dividend having a maximum annual rate of 7 percent and minimum of 5 percent. Funds received from this offering were reinvested by CDC in a new issue of Polysar preferred shares, having similar attributes. The funds received from Petrosar's former minority shareholders was used to repay some indebtedness and commence a capital program to broaden feedstock flexibility. Benefits from the ownership of 100 percent of Petrosar is expected during 1986 and beyond; however, Polysar's operating results were reduced during 1985 by the full absorption of its losses during the last half of the year.

–The operations of Savin were deconsolidated during 1985 as a result of continuing losses that eliminated the equity carrying value of CDC's investment. A negative contribution of $22.9 million was included in 1985 results, representing Savin's operations prior to deconsolidation. In addition, CDC reduced the carrying value of its working capital advances to Savin by making a $50.8 million charge ($38.1 million after tax) which is reflected in gain on investments.

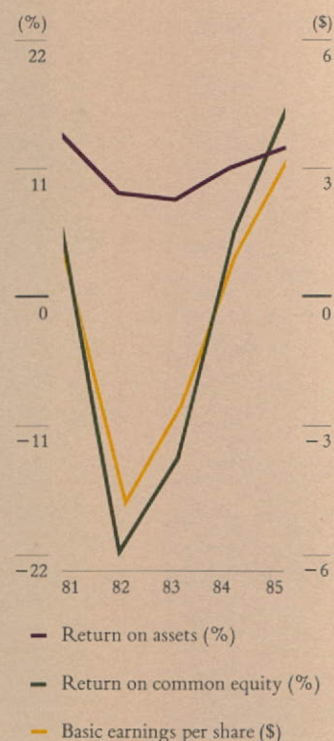
Commodity prices 1981-1985



As a result of the strong growth in earnings and cash flow from operations and other transactions, all major financial performance ratios improved during the year. CDC's return on equity–which had been at negative levels in 1982 and 1983–reached a more acceptable level during 1985, while per share earnings more than tripled over 1984.

CDC companies undertook a modest program of capital spending during 1985, with aggregate expenditures totalling $367.1 million, including capitalized overhead and financing costs of $73.6 million. The largest proportion of capital expenditures during 1985 were at Canterra to finance its exploration and capital programs. Polysar's program to broaden the feedstock flexibility of its basic petrochemical operations was the other significant capital item.

Key performance indicators (1981-1985)



Employment in major CDC companies	1985	1983	1981
Canterra	**1,331**	1,362	1,622
Kidd Creek	**2,864**	2,892	3,243
Polysar	**6,655**	6,633	8,077
AES	**1,670**	1,700	2,389
Savin	**3,755**	4,774	6,000
CDC Life Sciences	**1,136**	1,151	1,143
Sentrol	**397**	343	505
Total	**17,808**	18,855	22,979

Investment spending (millions)	Net capital expenditures*		Capitalized expenditures		Research and development	
	1985	1984	**1985**	1984	**1985**	1984
Canterra	**$213.9**	$160.5	**$73.4**	$113.0		
Polysar	**60.2**	45.0	**0.2**	23.1	**$23.6**	$24.5
CDC Life Sciences	**11.2**	7.8			**14.3**	12.6
AES Data	**7.7**	8.7			**11.3**	13.9
Sentrol	**0.5**	0.4			**2.5**	
Other					**12.8**	11.4
Total	**$293.5**	$222.4	**$73.6**	$136.1	**$64.5**	$62.4

*includes additions to deferred charges

Capital restructuring

As a result of actions taken during 1985, most CDC consolidated subsidiaries are now self-financing. This has allowed greater access to equity capital and helped establish market values for most of the Corporation's investments. The major action during the past year was the restructuring of CDC's syndicated lending arrangements which had accounted for about half of total long-term debt at the end of 1984. This $2.1 billion (U.S.) syndicated loan with 38 Canadian and foreign banks was used in 1981 to finance the purchase of Canterra and Kidd Creek, both of which serviced interest payments on a large portion of this credit from 1981 to 1985. During the past year, CDC, Kidd Creek and Canterra completed new lending arrangements that had the effect of reallocating 74 percent of this debt directly to these subsidiaries. As a result of this debt restructuring, CDC was able to sell the minority interest in Canterra and dispose of its interest in Kidd Creek during 1985.

Debt Reduction

During the past year, CDC made substantial progress in its goal of reducing long-term indebtedness. After the deconsolidation of Kidd Creek and Savin, CDC's consolidated long-term debt, which totalled $4.5 billion (including a current portion of $207.8 million) at December 31, 1984, was reduced to $4.1 billion (including a current portion of $187.4 million) by the end of 1985. All consolidated companies in the CDC group reduced their net debt levels during 1985.

With the refinancing of the syndicated loan, the Corporation and its subsidiaries utilized cash resources to prepay $189.0 million of this credit. With the proceeds from the Canterra issue, a further $300.7 million of syndicated debt was prepaid during 1985. CDC used cash resources and the

proceeds from a new issue of 100 million Swiss franc notes to repay maturing notes totalling 250 million Swiss franc notes. In early 1986, CDC utilized the cash proceeds from the sale of Kidd Creek to prepay approximately $100 million of syndicated corporate debt.

As part of the debt and capital restructuring accomplished during the past year, CDC's maturities of debt and term preferred shares have been extended. Maturities during the 1986-90 period have been reduced by over $500 million. During 1986, maturities of $187.4 million will be met through the drawdown of cash and refinancing programs. In early 1986, Canterra raised 125 million Swiss francs ($93.0 million) through a six-year issue of notes while Polysar received $80.0 million from the proceeds of an issue of European currency units. Both issues were arranged and managed by major European bank syndicates.

Debt maturities
(millions)

	1986	1987	1988	1989	1990
Canterra	$ 4.0	$ 76.6	$167.3	$185.9	$ 277.1
Polysar	40.0	58.3	98.6	59.2	122.6
CDC Life Sciences	0.8	3.2	0.8	0.9	0.7
AES Data	43.8	0.2	3.5		1.2
Corporate	98.8		53.1	53.1	598.5
Total	$187.4	$138.3	$323.3	$299.1	$1,001.1

Sale of government shares
During the past year, the federal government offered 23,000,000 CDC common shares by instalment to private investors. The first instalment of $5.75 was paid in September, 1985. The second instalment is due on or before September 16, 1986; when this instalment is paid and these shares are transferred to the private sector, the federal government's interest in CDC will fall to about 12 percent. CDC realized no funds from this transaction, as all proceeds were (and will be) paid to the federal government. However, the distribution of these common shares to the private sector will allow a broader and deeper market from the greater number of investors participating as shareholders in CDC.

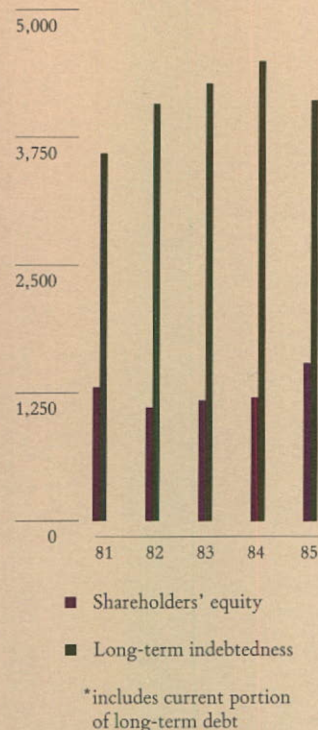
Bill C-66 was passed by Parliament during 1985, providing for continuance of CDC under the Canada Business Corporations Act as a constrained share corporation. In early 1986, the filing of articles of continuance had the ultimate effect of repealing the CDC Act. Under CDC's articles, the maximum voting interest which may be held by any one Canadian resident together with his associates will be limited to 25 percent. Non-resident ownership will be limited to an aggregated 25 percent of voting rights, provided that a non-resident, together with associates, does not own more than 10 percent.

Foreign Exchange
During 1985, CDC expensed $79.8 million of foreign exchange losses on long-term debt that was denominated largely in U.S. dollars. These charges consisted of $11.3 million realized from payment of long-term debt; $6.1 million from amortization of deferred foreign translation losses associated with unhedged long-term debt; and $62.4 million from the loss of designated revenue hedges resulting from the sale of Kidd Creek to Falconbridge.

CDC's policy for its consolidated operations recognizes that foreign denominated long-term debt is effectively hedged when there is a corresponding foreign-denominated revenue stream which more than offsets expected debt repayments in any given year. Deferred foreign exchange charges (including the revenue hedge) are included in other assets on the consolidated balance sheet and totalled $354.8 million at the end of 1985, of which 87 percent was at Canterra; 10 percent at Polysar, and 3 percent at CDC.

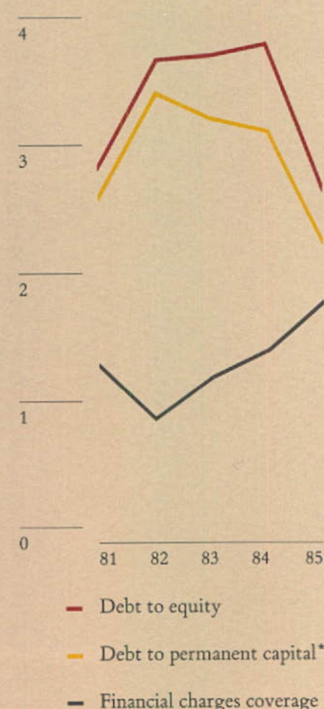
Foreign exchange losses or gains are reflected in the earnings statement as the debt is repaid or a designated revenue hedge is lost through sale or other transactions. In addition, deferred foreign translation gains or losses associated with debt which does not have a natural revenue hedge, and is thus exposed to foreign currency fluctuations, are amortized into earnings over the life of the debt.

Trend in long-term indebtedness and shareholders' equity*
(millions)



*includes current portion of long-term debt

Historical improvement ratios



Taxes

For 1985, CDC's consolidated tax rate, as a percentage of income from operations before income tax and minority interest, amounted to 26 percent. The consolidated tax rate reflects the impact of a number of situations for each CDC company which cause individual rates to vary from an expected tax rate of 51 percent. The more significant items are foreign subsidiaries of Polysar that are taxed at lower effective rates; non-deductible Crown charges net of allowances at Canterra which were more than offset by manufacturing and processing tax credits, and the amortization of purchase price discrepancies on acquisitions which are not deductible for tax purposes.

Taxes in 1985 (millions)	Income before the following	Income from dispositions minority interests and other	Income taxes	Net income
Canterra	$218.9	$ (2.3)	$(127.8)	$ 88.8
Polysar	(38.8)	(15.9)	48.0	(6.7)
CDC Life Sciences	14.6	(6.2)	(0.2)	8.2
AES Data	(10.5)		2.5	(8.0)
Sentrol Systems	0.6	(0.5)	(1.3)	(1.2)
Other	(11.3)		6.1	(5.2)
Corporate	(66.4)		44.9	(21.5)
Results of non-consolidated subsidiaries		(10.7)		(10.7)
Gain on investments		127.2		127.2
Total	$107.1	$ 91.6	$ (27.8)	$170.9

CAPITALIZATION

CDC is an equity investor which makes investments, adds value and achieves gains over time. As part of its role in adding value, the Corporation raises capital to make investments or purchase assets either directly or through its subsidiaries. CDC's unconsolidated capitalization includes only debt and equity capital raised directly by the Corporation to make investments in subsidiaries.

Consolidated Capitalization

At the end of 1985, CDC and its subsidiaries had consolidated assets which have been financed with total capital of $6.6 billion. As a result of loan repayments and the addition of permanent equity capital during 1985, CDC's consolidated long-term debt, including subordinated debt, represented 62 percent of total capital at the end of the year. This was down significantly from 68 percent at the end of 1984. Subordinated debt increased by $150.0 million during 1985 as a result of Canterra's sale of convertible debentures to third parties as part of its minority offering.

Permanent equity capital was raised through the Canterra public offering ($52.5 million); the sale of a new series of CDC preferred shares as part of the restructuring of the ownership in Petrosar ($208.0 million); and profitable operations which increased retained earnings ($115.9 million after payment of preferred dividends).

Because of better operating performance, lower debt levels and increased capital, CDC's two key financial ratios showed marked improvement. The total debt to capital ratio*–the best measurement between debt and equity at CDC–was 2.2 at the end of 1985, improved from 3.1 and 3.2 at the end of 1984 and 1983 respectively. The Corporation's financial coverage ratio–the number of times interest and dividend payments are covered by cash flow–was 1.8 during 1985, an improvement from 1.4 in 1984 and 1.2 for 1983.

*aggregate amount of total debt and dividend-paying preferred shares of subsidiaries to the aggregate amount of shareholders' equity, deferred taxes and non-dividend paying minority interests

Consolidated capitalization (millions)	December 31 1985	1984
Long-term debt	**$3,850.7**	$4,401.8
Subordinated debt	**235.0**	80.3
Term preferred minority interest	**389.2**	452.2
Other preferred and common minority interest	**247.4**	112.7
Deferred income taxes	**313.6**	352.8
Preferred shares	**765.3**	557.6
Common shares	**352.5**	346.2
Retained earnings	**402.2**	286.3
Total	**$6,555.9**	$6,589.9

Unconsolidated Capitalization

On an unconsolidated basis at the end of 1985, CDC had assets totalling $2.4 billion, of which 88 percent were investments in, and advances to, underlying companies. To finance these investments, CDC has raised an equivalent amount of capital, of which 37 percent was in the form of long-term debt; 32 percent in preferred equity, and 31 percent in common equity and retained earnings.

Though the reorganization and reallocation of debt from CDC to Canterra and Kidd Creek, as well as the repayment of other indebtedness, CDC significantly reduced its corporate debt during 1985. A result of profitable operations for CDC and the sale of Kidd Creek during 1985 was an increase in CDC's retained earnings.

At the end of 1985, CDC had corporate debt of $900.3 million, of which 82 percent was represented by a floating rate syndicated loan. In early 1986, CDC prepaid about $100 million of this syndicated loan.

CDC has $270.8 million of Falconbridge convertible debentures which pay annual interest at 8.5 percent, on which the Corporation receives regular payments. In addition, the Corporation holds $72.5 million of Canterra convertible debentures which pay interest at 8.5 percent.The revenue received from these debentures fund a significant portion of the interest expense for the syndicated loan.

CDC's $85.0 million subordinated debenture is offset by a matching receivable due from a Falconbridge subsidiary.

Thus, CDC had uncovered corporate debt of $373.2 million on March 20, 1986, when this annual report went to press.Annual dividend requirements on CDC preferred shares are $58.0 million of which $11.0 million is funded by Polysar.

Unconsolidated balance sheet (millions)	December 31 1985	1984
Assets		
Investments (at equity)	$2,174	$4,153
Corporate assets	246	73
	$2,420	$4,226
Capital		
Debt	$ 900	$3,036
Preferred equity		
Non-convertible	333	125
Convertible	432	433
Total preferred equity	765	558
Common equity	755	632
Total shareholders' equity	1,520	1,190
Total capital	$2,420	$4,226
Type of Capital		
Coupon bearing	69%	85%
Non-coupon bearing	31%	15%
	100%	100%

CDC corporate debt (net)

(millions)	March, 1986
Total corporate debt	$900.3
Offsets: Falconbridge debenture	270.8
Canterra debenture	72.5
Subordinated debenture	85.0
	472.0
Paid March, 1986	98.8
Corporate debt (net)	$373.2

Conclusion

CDC's financial results remain sensitive to a number of economic and business factors. Because of the significant amount of floating-rate debt, changes in interest rates can have a substantial effect on net income and free cash flow. Changes in prices and volumes of commodities sold by CDC's resource companies could also have a substantial impact on the Corporation's performance.

CDC consolidated sensitivities			Approximate effect on 1986 results	
(millions)	Average 1985	Change	Free cash flow	Net income
Interest rates				
LIBOR	8.8			
Canadian prime	10.6	1 percent on floating rate debt	$30	$12
U.S. prime	9.9			
Exchange rate	1.36	1 cent decline in Canadian dollar vs. U.S. dollar	5	3
Prices				
Sulphur ($Cdn./tonne)	$143.23	$1/tonne	2	1
Oil* ($Cdn./barrel)	34.76	$1/barrel	9	4
Natural gas ($Cdn./mcf)	2.84	10¢/mcf	5	2
Ethylene ($Cdn./pound)	20.9	1¢/pound	9	4

*Canterra effect only

This summary of the significant accounting policies of Canada Development Corporation is presented to assist the reader of the financial statements. These accounting policies are in conformity with accounting principles generally accepted in Canada which are also in conformity with the historical cost accounting standards of the International Accounting Standards Committee.

Principles of Consolidation

The consolidated financial statements incorporate the financial position, operating results and changes in financial position of the Corporation and its subsidiary companies excluding Kidd Creek Minerals Ltd. and its subsidiaries (note 3), and Savin Corporation and its subsidiaries (note 4).

Foreign Currency Translation

The results of integrated foreign subsidiaries are translated using the temporal method. Under this method, monetary assets and monetary liabilities of foreign integrated operations and long-term debt of the Corporation are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the rates prevailing when they were acquired or incurred. Corresponding revenue and expenses, except depreciation, depletion and amortization, are translated at rates in effect during the year. Gains or losses resulting from this translation method are included in the consolidated statement of income.

To the extent that U.S. dollar denominated long-term debt is hedged by future U.S. dollar revenue streams, the foreign exchange exposure is deferred and included in the consolidated statement of income in the period when repayments occur. Gains or losses on unhedged debt are deferred and amortized over the life of the particular debt.

Assets and liabilities of foreign operations deemed to be self-sustaining are translated at the rate of exchange in effect at the balance sheet date. Corresponding revenue and expenses are translated at rates in effect during the year. Gains or losses resulting from this translation method are deferred until there is a reduction in the net investment in the foreign subsidiaries.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Long-Term Investments

The Corporation accounts for investments in companies over which it has significant influence on an equity basis. Other long-term investments are accounted for by the cost method.

Property, Plant and Equipment

(a) Cost

Property, plant and equipment are recorded at cost. Fixed asset additions include related financing costs incurred during major plant construction.

The Corporation follows the full cost method of accounting for oil, gas, and sulphur operations, whereby all costs of acquiring properties, exploring for and developing oil, gas and sulphur and related reserves are capitalized and accumulated in country-by-country cost centres. Such costs include land acquisition, drilling both productive and non-productive wells, overhead expenses and financing costs. The net carrying value of each cost centre is limited to the estimated value of future net revenues from proved reserves (based on current prices less operating costs and applicable taxes) plus the lower of cost or estimated fair value of unproved properties.

(b) Depreciation, Depletion and Amortization

Depreciation of plant and equipment is based on the estimated useful life of the assets from commencement of commercial production and is calculated on the straight-line or a diminishing balance basis as considered most appropriate.

For oil, gas and sulphur operations, depletion of cost centres with producing oil and gas properties is provided on the unit-of-production method based on proven reserves in each cost centre as determined by the Corporation. Costs of acquiring undeveloped properties in producing cost centres are included in the depletion calculation over their anticipated period of development. Costs of acquiring and evaluating the Canadian Frontier areas, including the Beaufort Sea, Arctic Islands and East Coast, are transferred into cost centres subject to depletion once proved reserves are attributable to the properties or when impairment has occurred. All dry hole costs are included in cost centres subject to depletion.

Pre-Production and Deferred Expenditures

Expenditures incurred in connection with major new production facilities are deferred and amortized from commencement of production on the straight-line basis over a period generally not exceeding ten years.

Goodwill

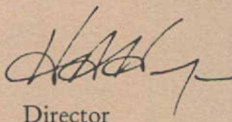
Goodwill arising on acquisitions is being amortized over the expected period of benefit, not to exceed forty years. If it becomes apparent that the expected value will not be realized it will be appropriately written down.

Comparative Amounts

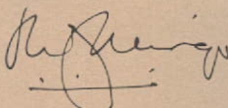
The 1984 consolidated financial statements have been reclassified to conform to 1985 presentation.

	December 31	
ASSETS	**1985**	1984
Current Assets		
Accounts receivable	**$ 762.3**	$ 573.6
Inventories (note 1)	**562.9**	572.9
Other current assets	**17.5**	17.1
	1,342.7	1,163.6
Long-Term Investments (notes 2, 3 and 4)	**771.7**	1,280.3
Property, Plant and Equipment (note 5)	**4,499.3**	4,354.0
Other Assets (note 6)	**645.3**	502.5
	$7,259.0	$7,300.4
LIABILITIES		
Current Liabilities		
Short-term loans	**$ 209.6**	$ 217.6
Accounts payable and accrued liabilities	**493.5**	492.9
Long-term debt due within one year	**187.4**	207.8
	890.5	918.3
Long-Term Debt (note 7)	**3,898.3**	4,274.3
Deferred Income Taxes	**313.6**	352.8
Interests of Minority Shareholders (note 8)	**636.6**	564.9
	5,739.0	6,110.3
SHAREHOLDERS' EQUITY		
Capital Stock (note 9)	**1,117.8**	903.8
Retained Earnings	**402.2**	286.3
	1,520.0	1,190.1
	$7,259.0	$7,300.4

Approved on behalf of the Board



Director



Director

Consolidated Statement of Income (millions)

Canada Development Corporation

	Year ended December 31	
	1985	1984
Revenue	**$3,257.0**	$3,103.1
Expenses		
Cost of sales	**2,488.8**	2,398.6
Selling, administration and research	**328.5**	274.0
Interest on long-term debt (note 2)	**304.6**	288.2
Other interest	**32.8**	41.5
	3,154.7	3,002.3
	102.3	100.8
Equity in earnings of other companies (note 2)	**4.8**	3.3
Income before the following	**107.1**	104.1
Income taxes (note 10)	**(27.8)**	(55.7)
Minority interest	**(24.9)**	(9.1)
Income from Operations	**54.4**	39.3
Results of non-consolidated subsidiaries (note 11)	**(10.7)**	(7.7)
Gain on investments (note 12)	**127.2**	49.5
Net Income	**$ 170.9**	$ 81.1
Earnings per common share after dividends on preferred shares (note 9)		
Income (loss) from Operations	**$ 0.03**	$ (0.18)
Net Income	**$ 3.17**	$ 0.98
Fully diluted earnings per common share		
Income (loss) from Operations	**$ 0.03**	$ (0.18)
Net Income	**$ 2.16**	$ 0.92

Consolidated Statement of Retained Earnings (millions)

Canada Development Corporation

	Year ended December 31	
	1985	1984
Retained Earnings at Beginning of Year	**$286.3**	$252.9
Net income	**170.9**	81.1
	457.2	334.0
Dividends on preferred shares	**53.1**	45.8
Amortization of costs of preferred share issues	**1.9**	1.9
	55.0	47.7
Retained Earnings at End of Year	**$402.2**	$286.3

Consolidated Statement of Changes in Financial Position
(millions)

Canada Development Corporation

	Year ended December 31	
	1985	1984
Operations		
Income from operations	**$ 54.4**	$ 39.3
Interest expense	**337.4**	329.7
	391.8	369.0
Non-cash items:		
Depreciation, depletion and amortization	**289.0**	236.9
Deferred income taxes	**24.7**	76.2
Minority interest	**24.9**	9.1
Decrease (increase) in equity in other companies	**(4.8)**	12.7
Cash Flow Before Financing Costs	**725.6**	703.9
Financing Costs		
Interest payments	**403.2**	452.2
Capitalized overhead costs	**7.8**	13.6
Dividends on preferred shares	**53.1**	45.8
Dividends to minority shareholders	**34.5**	37.7
	498.6	549.3
Free Cash Flow		
Operations	**227.0**	154.6
Gain on investments	**165.0**	58.4
	392.0	213.0
Equity Financing		
Issue of capital stock	**214.0**	5.0
Net increase in investment by minority interest	**81.3**	14.9
	295.3	19.9
Cash Generated for Investment Activities and Repayment of Debt	**687.3**	232.9
Investment Activities		
Additions to property, plant and equipment	**295.1**	212.5
Changes in working capital other than cash	**178.5**	1.0
Reduction of long-term investments (note 2)	**(425.6)**	(57.8)
Additions to other assets	**234.9**	264.0
	282.9	419.7
Cash Generated (Used) During the Year	**$ 404.4**	$(186.8)
Cash (Applied to) Funded by:		
Short-term debt	**$ (8.0)**	$ (44.3)
Long-term debt	**(396.4)**	231.1
	$(404.4)	$ 186.8

1 *Inventories*

(millions)	1985	1984
Finished goods	$225.1	$ 218.0
Raw materials and work in progress	287.0	307.1
Operating and maintenance supplies	50.8	47.8
	$562.9	$ 572.9

2 *Long-Term Investments*

(millions)	1985	1984
Falconbridge Limited		
Shares and convertible debentures	$475.0	
Kidd Creek Minerals Ltd.		
Shares		$ 464.8
Advances	111.4	636.6
Other mining assets	57.9	–
Petroleum and sulphur	44.5	43.9
Petrochemicals	42.1	43.2
Life sciences	14.8	12.0
Venture capital and other investments	26.0	24.4
Office information products		55.4
	$771.7	$1,280.3

Interest income on advances to Kidd Creek Minerals Ltd. of $30.4 million (1984, $68.9 million) have been included as a reduction of interest on long-term debt on the consolidated statement of income.

Included in equity in earnings of other companies is $2.2 million (1984, $1.3 million) representing CDC Life Sciences' 35.4% share of the earnings of Nordic Laboratories Inc.

3 *Kidd Creek Minerals Ltd.*

In December, 1985 the Corporation agreed to sell, effective December 31, 1985, its holdings in Kidd Creek Minerals Ltd. to Falconbridge Limited for total consideration of $615.0 million, consisting of cash of $140.0 million, 10,473,568 common shares of Falconbridge (valued at $19.50 per share) and $270.8 million of 8.5% debentures (maturing March 1, 2006) convertible into 12,335,535 common shares of Falconbridge. In accordance with the agreement, Kidd Creek transferred to the Corporation its interest in Canterra Energy Ltd., the Allan Potash mine in Allan, Saskatchewan, the 35% net profits royalty interest in the Nanisivik lead-zinc mine on Baffin Island and all the benefits and liabilities of Kidd Creek under certain agreements between the Corporation and Société Nationale Elf Aquitaine.

As a result of this transaction, the Corporation holds approximately an 18% interest in Falconbridge (approximately 30% if the convertible subordinated debentures were converted to common shares). A shareholders agreement provides for a mutual right of first refusal to the other significant shareholder in the event of possible cash sales of holdings in Falconbridge, voting restrictions under certain conditions and, limited and equal representation on the Board of Directors of Falconbridge.

In order to reflect this disposition, the Corporation has deconsolidated Kidd Creek's results from the consolidated financial statements and recorded a gain of $145.4 million. Kidd Creek's earnings of $12.2 million (1984, $16.9 million) are included in results of non-consolidated subsidiaries on the consolidated statement of income. Kidd Creek's revenue for the year was $544.3 million (1984, $559.4 million).

4 *Savin Corporation*

(i) Investment in Savin
The Corporation's equity investment in Savin was eliminated due to the recognition of its share of Savin's operating losses for the nine months ended September 30, 1985. In December 1985, Savin announced its decision to cancel the planned manufacture of the Series 8000 copier and to close all related facilities. Savin has negative net worth and is experiencing operating losses. The Corporation is currently assessing financial alternatives for Savin, including new investors, and accordingly the Corporation has deconsolidated Savin's results from the consolidated financial statements.

During 1985, the Corporation advanced $57.0 million (U.S.$41.9 million) to Savin resulting in total working capital advances of $81.8 million (U.S.$60.7 million) outstanding at December 31, 1985. The Corporation recorded a provision of $50.8 million ($38.1 million after tax) which is included in gain on investments on the Corporation's consolidated statement of income. Also, the Corporation's share of Savin's losses of $22.9 million (1984, $24.6 million) are included in results of non-consolidated subsidiaries on the consolidated statement of income.

(ii) Summary Financial Information of Savin

(U.S. millions)	1985	1984
Balance Sheet		
Current assets	$141.8	$175.2
Property, plant and equipment	49.1	93.0
Other assets	32.5	37.7
	$223.4	$305.9
Current liabilities	$107.8	$113.0
Note payable to Canada Development Corporation	60.7	18.8
Subordinated debentures	96.0	95.8
Long-term debt and other	47.6	62.7
Shareholders' equity (deficit)	(88.7)	15.6
	$223.4	$305.9
Operations		
Revenue	$431.7	$413.2
Loss	$102.7	$ 37.0

(iii) Proposed Financial Restructuring of Savin
In early 1986, Savin announced acceptance of exchange offers by holders of approximately U.S.$90 million of the two series of subordinated debentures outstanding. These offers consist of the exchange of each debenture for a package including an increasing rate senior subordinated note, a zero- coupon convertible senior subordinated note and common shares. Interest payments on the increasing rate notes can be settled by issuing additional common shares of Savin. The Corporation has agreed to establish a senior, secured U.S.$30 million credit facility for Savin and reduce the ranking of the existing U.S.$60.7 million notes to the same as that

of the senior subordinated notes offered in the exchange. As a result of this transaction, the Corporation's ownership of Savin has been initially reduced to approximately 62%.

5 *Property, Plant and Equipment*

(millions)	1985			1984
	Cost	Accumulated depreciation and depletion	Net	Net
Petroleum and sulphur	**$3,684.1**	**$ 612.0**	**$3,072.1**	$2,930.7
Petrochemicals	**2,007.0**	**654.3**	**1,352.7**	1,354.7
Non-resource	**135.3**	**60.8**	**74.5**	68.6
	$5,826.4	**$1,327.1**	**$4,499.3**	$4,354.0

Included in these assets are the Canadian Frontier properties which approximate $439.5 million (1984, $529.0 million) after transferring $160.7 million (1984, $227.6 million) to costs subject to depletion in future years.

Included in additions to property, plant and equipment is $73.6 million (1984, $136.1 million) of capitalized overhead and financing costs.

6 *Other Assets*

(millions)	1985	1984
Deferred foreign exchange	**$354.8**	$259.6
Pre-production and deferred expenses	**107.1**	129.4
Goodwill	**98.2**	41.1
Cost of long-term financings	**33.4**	17.5
Advances to Savin Corporation (note 4)	**31.2**	24.8
Long-term receivables	**20.6**	30.1
	$645.3	$502.5

During the next five fiscal years, pre-production and deferred expenses and goodwill are expected to be amortized to income at the rate of $33.1 million annually.

7 *Long-Term Debt*

(millions)	1985	1984
Canada Development Corporation		
Floating rate syndicated loan, secured (United States dollars)		
repayable 1987 through 1990	**$ 735.7**	$ –
repayable 1987 through 1991	**–**	2,774.9
Subordinated debentures, due 1993 (United States dollars)	**85.0**	80.3
6.125% Notes, due 1990 (Swiss francs)	**67.8**	–
8% Notes, due 1992	**11.8**	10.9
4.375% Notes, due 1985 (Swiss francs)	**–**	167.7
Other	**–**	1.8
	900.3	3,035.6
AES Data Inc.		
Floating rate multi-currency bank loans due 1986	**46.5**	48.6
Other	**1.8**	1.6
	48.3	50.2
CDC Life Sciences Inc.		
8% Mortgages, repayable through 1997 (United States dollars)	**4.2**	4.3
Floating rate term loan, due 1987 (United States dollars)	**2.6**	2.7
Other	**4.2**	4.5
	11.0	11.5

7 *Long-Term Debt (continued)*

(millions)	1985	1984
Canterra Energy Ltd.		
Floating rate syndicated loan, repayable 1987 through 1997 (United States dollars)	**1,666.5**	–
Floating rate bank loans, due 1987 to 1992 (United States dollars)	**385.0**	320.3
8.5% Convertible subordinated debentures, due 2000.	**150.0**	–
Floating rate bank loans, due 1986 to 1991	**37.4**	90.8
5.75% Notes, due 1986	**28.3**	32.4
10.25% Mortgage, due 1995	**13.8**	14.0
11.25% Notes, due 1985 (United States dollars)	**–**	39.6
Customer prepayments	**37.4**	41.3
Other	**0.5**	1.5
	2,318.9	539.9
Polysar Limited		
Floating rate term loan, due 1986	**50.0**	50.0
Floating rate term loan, due 1989 through 1998	**30.0**	24.7
9% Sinking fund debentures, due 1993	**23.7**	25.3
7.5% Sinking fund debentures, due 1986 through 1987	**5.2**	5.8
Floating rate bank loans, due 1986 to 1991	**54.7**	100.0
Customer prepayments	**–**	49.4
In United States dollars		
Floating rate term loans, repayable 1986 through 1988	**71.6**	93.0
9.5% Debentures, due 1986	**68.5**	64.8
6.84% average rate, Notes and mortgages, repayable through 2003	**16.7**	10.4
Capitalized lease obligations, expiring through 1985	**–**	1.8
In other currencies		
Floating rate multi-currency term loan, due 1986 through 1992	**394.2**	372.7
12.53% average rate term loan, repayable 1988 through 1991 (Belgian francs)	**33.7**	–
Floating rate term loan, repayable 1986 through 1993 (French francs)	**17.6**	15.2
13.5% Loan, due 1987 through 1991 (Dutch guilders)	**16.0**	11.7
Other	**25.3**	20.1
	807.2	844.9
Long-term debt at current rates of translation	**4,085.7**	4,482.1
Less principal due within one year	**187.4**	207.8
	$3,898.3	$4,274.3

(i) In June, 1985, the floating rate syndicated loan of U.S. $2,100.0 million was refinanced in the following manner. The Corporation arranged a floating rate syndicated loan of U.S. $550.0 million and Canterra Energy Ltd. arranged a similar U.S. $1,412.0 million loan with essentially the same syndicate. The Corporation repaid the balance of U.S. $138.0 million.

In July, 1985, the Corporation repaid U.S. $23.6 million of the U.S. $550.0 million loan. This floating rate syndicated loan bears interest at a rate of three quarters of one percent over the London Interbank Offered Rate (LIBOR). It is secured by the pledge of substantially all of the common shares of Canterra Energy Ltd., the common shares of Falconbridge Limited, Polysar Limited and CDC Life Sciences Inc. and the convertible subordinated debentures of Falconbridge Limited owned by the Corporation.

(ii) The total sinking fund requirements and long-term debt due in each of the next five fiscal years are as follows:

1986	$187.4 million;	1989	$ 299.1 million;
1987	$138.3 million;	1990	$1,000.1 million.
1988	$323.3 million;		

(iii) The agreements for the syndicated loans require the maintenance of certain financial measurements which have been adhered to at December 31, 1985.

8 *Interests Of Minority Shareholders*

(millions)	1985	1984
Preferred equity		
Polysar Limited		
First Preferred	**$ 44.2**	$ 44.2
Third Preferred	**187.8**	–
Polysar Holdings (a subsidiary)	**85.0**	85.0
Petrosar Limited (a subsidiary)		
Class A	**240.0**	300.0
Class B	**–**	89.1
Class C	**–**	2.0
CDC Life Sciences Inc.		
Class A	**5.0**	5.0
Connaught Laboratories Limited (a subsidiary)	**15.0**	18.0
	577.0	543.3
Common equity	**59.6**	21.6
	$636.6	$564.9

(i) Petrosar's Class A redeemable preference shares bear a cumulative dividend at an annual rate of 1.35% plus 52% of the average of certain Canadian banks' prime rates. These shares are redeemable in the amount of $60 million in 1989 and $180 million in 1990. On May 31, 1985, all Class B and C shares owned by minority interests were purchased by Polysar.

(ii) Polysar's $44.2 million First Preferred Shares bear a cumulative dividend of 15.5%. During each month, Polysar is obligated to purchase for cancellation 10,000 First Preferred Shares if and to the extent that they are available for purchase at prices not exceeding $25 per share. Polysar is further obligated to repurchase the First Preferred Shares July 1, 1987 under certain circumstances, or on July 1, 1988. First Preferred Shares are redeemable at the option of Polysar at a redemption price of $27 per share reducing thereafter to $25 per share. There are no voting rights attached to preferred shares unless dividends are eight quarters in arrears.

On May 31, 1985 Polysar issued $187.8 million of Third Preferred Shares for cash. The Third Preferred Shares bear a cumulative cash or stock dividend equal to the lower of 55% of the average of a Canadian bank's prime rate or 8%, if certain earnings levels are achieved each year. The dividend is non-cumulative otherwise. Redemptions of $59 million are required in 1995, and the balance is redeemable in approximately equal amounts from 1996 through 2010 inclusive. Earlier redemptions may be required under certain conditions. There are no voting rights attached to these preferred shares.

Polysar Holdings' $85 million redeemable preferred shares bear a cumulative dividend of 1.25% plus one-half the prime rate of a Canadian bank. Redemptions are required to be made in equal annual amounts from 1986 through 1988 inclusive.

(iii) CDC Life Sciences' $5 million Class A preferred shares bear a dividend of 2%, plus one-half the prime rate of a Canadian bank. The shares are redeemable at the option of CDC Life Sciences at $25 per share until September 30, 1991.

Connaught Laboratories' $15 million redeemable preferred shares bear a cumulative dividend of 1% plus one-half the prime rate of a Canadian bank. These shares are redeemable in the amount of $3 million in 1986 and the balance of $12 million in 1987.

9 *Capital Stock*

On December 20, 1985 the Canada Development Corporation Reorganization Act received Royal Assent. This Act provides for the repeal of the Canada Development Corporation Act upon continuance of the Corporation under the Canada Business Corporations Act. The following reflects the capitalization upon continuance.

(i) Authorized

Senior Preferred
20 million shares without par value with stated capital not exceeding $200.0 million.

Public Preferred
130 million shares without par value with stated capital not exceeding $650.0 million.

Preferred
30 million shares without par value with stated capital not exceeding $150.0 million.

Common
200 million shares without par value

(ii) Issued

(millions)	1985	1984
Senior Preferred		
5,000,000 cumulative, redeemable, retractable shares, 1983 issue	**$ 125.0**	$125.0
Public Preferred		
15,000,000 cumulative, redeemable, convertible voting shares, 1980 issue	**300.0**	300.0
8,320,000 floating rate cumulative, redeemable, exchangeable shares, 1985 issue	**208.0**	–
Preferred		
1,323,019 (1984, 1,325,759) cumulative, redeemable, convertible, voting Class B shares	**132.3**	132.6
Common		
37,448,431 shares (1984, 36,724,803 shares)	**352.5**	346.2
	$1,117.8	$903.8

The 1983 issue of senior preferred shares carry the right to receive preferred cumulative dividends at an annual rate equal to the greater of Cdn. $2.35 per share and the Canadian dollar equivalent of U.S. $1.92 per share based on the prevailing rate of exchange for the United States and Canadian dollar on the record date for the payment of each dividend or if no such record date is set, on the date such dividend should have been paid in accordance with the share condition. Dividends on these shares are payable in Canadian currency or, at the request of their holders, in U.S. currency. These shares are redeemable at the option of the holder on June 1, 1990 at $25 plus accrued and unpaid dividends. These shares are redeemable by CDC after June 1, 1990. The holders of the 1983 issue of senior preferred shares are not entitled to notice of or to attend or vote at meetings of shareholders. Each 1983 senior preferred share carries

one currency purchase warrant which entitles the holder to purchase on June 1, 1990 the sum of U.S. $20.39 on payment of the sum of Cdn. $25.00.

The Class B preferred shares are redeemable at the option of the holder through October 1, 1986 at $100. They are redeemable at the option of the Corporation at $100 per share. Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. During the year 2,739 Class B preferred shares were converted into 27,390 common shares.

The 1980 issue of preferred shares are redeemable at the option of the Corporation from October 15, 1985 at $21 per share reducing by 20¢ per year until October 15, 1990 when they become redeemable at $20 per share. Each 1980 preferred share may be converted at the option of the holder into 1.27 common shares at any time until October 15, 1990.

The 1985 issue of preferred shares carry the right to receive preferred cumulative dividends at an annual rate equal to approximately 55% of the average prime rate of a Canadian bank subject to a minimum rate of 5% and a maximum rate of 7%. The Corporation may redeem the shares at any time for $25 per share but must redeem them in approximately equal amounts from 1992 through 1998 inclusive. The Corporation, at its option, may exchange all or a portion of the preferred shares for subordinated debentures either of itself or of a subsidiary approved by the shareholders. If such exchange occurs, each 1985 preferred share carries a common share purchase warrant entitling the holder to purchase 0.24 common shares, at $15.75 per share prior to June 30, 1990 increasing thereafter depending on the common share market value.

At meetings of shareholders, holders of Class B preferred shares are entitled to ten votes per share and holders of the 1980 preferred and the common shares are entitled to one vote per share.

The Corporation's floating rate syndicated loan includes certain restrictions limiting dividends on common shares under certain circumstances.

(iii) Issued during the year
In 1985, 696,238 common shares were issued for an aggregate consideration of $6.0 million under the Shareholder Dividend Reinvestment, Stock Dividend and Share Purchase Plans.

The Corporation issued 8,320,000 floating rate cumulative, redeemable, exchangeable public preferred shares, 1985 issue on May 31, 1985 for cash of $208.0 million.

(iv) On March 19, 1985, the Corporation granted under the 1985 Employee Stock Option Plan options to purchase 1,084,750 common shares at an exercise price of $8.50 per share. These options may only be exercised if the shares trade at no less than either $12 or $20 for a period of sixty consecutive days. These options expire in 1995.

(v) Common shares reserved
At December 31, 1985, common shares were reserved for issuance as follows:

Conversion of Class B preferred shares	13,230,190
Conversion of 1980 issue of preferred shares	19,050,000
Dividend Reinvestment, Stock Dividend and Share Purchase Plans	1,407,164
Employee Share Purchase and Stock Option Plans	1,476,428
Purchase warrants attached to 1985 issue of preferred shares	1,996,800
	37,160,582

(vi) Net income per common share
Net income per common share is based on the weighted average number of common shares outstanding during the year.

10 *Income Taxes*

The provision for income taxes in the consolidated statement of income reflects an income tax rate which differs from the Canadian corporate tax rate for the following reasons:

(millions)	1985	1984
Income before income taxes	**$107.1**	$104.1
Income tax provision at expected rates of 51.0%	**$ 54.6**	$ 53.1
Increase (decrease) in taxes resulting from:		
Non-allowable depletion and depreciation	**17.9**	22.4
Non-deductible crown charges net of allowances	**42.8**	36.9
Foreign subsidiaries taxed at different rates	**(37.8)**	(32.1)
Manufacturing and processing tax credit	**(8.8)**	4.8
Application of previously unrecognized losses	**(8.7)**	(5.2)
Provincial tax rates different from expected	**(7.8)**	(6.4)
Inventory allowance	**(4.4)**	(5.2)
Investment tax credits	**(4.3)**	(4.2)
After-tax earnings of equity investments	**(2.5)**	(1.7)
Other	**(13.2)**	(6.7)
Income tax provision	**$ 27.8**	$ 55.7
Current	**$ 6.2**	$ 6.1
Deferred	**21.6**	49.6
	$ 27.8	$ 55.7

11 *Results of Non-Consolidated Subsidiaries*

(millions)	1985	1984
Income of Kidd Creek Minerals Ltd. (note 3)	**$ 12.2**	$ 16.9
Share of losses of Savin Corporation (note 4)	**(22.9)**	(24.6)
	$(10.7)	$ (7.7)

12 *Gain on Investments*

(millions)	1985	1984
Kidd Creek Minerals Ltd.	**$145.4**	$ –
Canterra Energy Ltd.	**19.9**	–
Provision for loss on advances to Savin Corporation (note 4)	**(50.8)**	–
Delphax Systems	**–**	27.8
CDC Life Sciences Inc.	**–**	21.2
Wordplex Information Systems PLC	**–**	11.9
	114.5	60.9
Deferred income taxes	**12.7**	(11.4)
	$127.2	$ 49.5

13 *Litigation*

The Corporation and certain of its subsidiaries have been named as defendants in various legal proceedings. These proceedings are being contested and it is not possible at this time to predict their ultimate outcome. Accordingly, no provision for liability, if any, has been made in the financial statements.

14 *Segmented Information*

(i) Industry segments

The Corporation operates in the following industry segments:

	Petrochemicals		Petroleum & Sulphur		Mining		Office Information Products		Life Sciences	
(millions)	**1985**	1984	**1985**	1984	**1985**	1984	**1985**	1984	**1985**	1984
Sale of products and services	**$2,149.8**	$2,176.3	**$ 742.4**	$ 566.7			**$142.9**	$144.8	**$119.3**	$93.9
Interest and other income										
Total revenue										
Segment operating profit (loss)	**$ 30.3**	$ 74.8	**$ 372.4**	$ 287.1			**$ (1.6)**	$ (12.8)	**$ 9.7**	$ 8.1
Corporate expenses										
Interest expense										
Equity in losses of other companies										
Gain on investments										
Interest and other income										
Translation gains (losses)										
Income taxes										
Minority interest										
Net Income										
Identifiable assets	**$2,444.1**	$2,363.3	**$3,645.1**	$3,382.0	**$644.3**	$1,106.7	**$164.9**	$215.1	**$113.3**	$97.2
Corporate assets										
Total assets										
Capital expenditures	**$ 57.2**	$ 68.1	**$ 294.1**	$ 265.7			**$ 5.4**	$ 4.6	**$ 11.2**	$ 7.8
Depreciation, depletion and amortization	**$ 104.0**	$ 86.3	**$ 162.7**	$ 134.0			**$ 10.2**	$ 13.7	**$ 3.6**	$ 3.6

(ii) Geographic Segments

The Corporation considers its three geographic segments to be Canada, the United States, and Europe and the rest of the world. Financial information with respect to these segments is as follows:

	Canada		United States		Europe and Rest of World	
(millions)	**1985**	1984	**1985**	1984	**1985**	1984
Sale of products and services	**$1,872.4**	$1,773.4	**$723.2**	$699.6	**$591.2**	$540.8
Transfers between geographic segments	**390.3**	381.0	**27.0**	29.8	**39.9**	36.4
Interest and other income						
Total revenue	**$2,262.7**	$2,154.4	**$750.2**	$729.4	**$631.1**	$577.2
Segment operating profit	**$ 295.2**	$ 233.2	**$ 13.2**	$ 2.1	**$ 86.4**	$105.8
Corporate expenses						
Interest expense						
Equity in losses of other companies						
Gain on investments						
Interest and other income						
Translation gains (losses)						
Income taxes						
Minority interest						
Net Income						
Identifiable assets	**$5,326.4**	$5,104.3	**$673.8**	$589.6	**$325.0**	$263.2
Investments in other companies						
Corporate assets						
Total assets						

Transfers between geographic segments are accounted for at prices comparable to open market prices.

Canadian operations include export sales of $370.3 million (1984, $428.6 million).

(iii) Research and Development

Research and development expenditures charged to income amounted to $64.5 million (1984, $62.4 million)

Industrial Automation		Venture Capital & Other Investments		Consolidated	
1985	1984	**1985**	1984	**1985**	1984
$32.4	$ 32.1			**$3,186.8**	$3,013.8
				70.2	89.3
				$3,257.0	$3,103.1
$ 0.7	$ (0.4)	**$(13.0)**	$(15.4)	**$ 398.5**	$ 341.4
				(9.8)	(10.2)
				(337.4)	(329.7)
				(5.9)	(4.4)
				127.2	49.5
				70.2	89.3
				(19.2)	10.0
				(27.8)	(55.7)
				(24.9)	(9.1)
				$ 170.9	$ 81.1
$35.5	$ 37.1	**$ 34.3**	$ 29.4	**$7,081.5**	$7,230.8
				177.5	69.6
				$7,259.0	$7,300.4
$ 0.4	$ 0.4			**$ 368.3**	$ 346.6
$ 2.6	$ 0.9			**$ 283.1**	$ 238.5

Eliminations		Consolidated	
1985	1984	**1985**	1984
$ –	$ –	**$3,186.8**	$3,013.8
(457.2)	(447.2)		
		70.2	89.3
$(457.2)	$(447.2)	**$3,257.0**	$3,103.1
$ 3.7	$ 0.3	**$ 398.5**	$ 341.4
		(9.8)	(10.2)
		(337.4)	(329.7)
		(5.9)	(4.4)
		127.2	49.5
		70.2	89.3
		(19.2)	10.0
		(27.8)	(55.7)
		(24.9)	(9.1)
		$ 170.9	$ 81.1
$ (15.4)	$ (6.6)	**$6,309.8**	$5,950.5
		771.7	1,280.3
		7,081.5	7,230.8
		177.5	69.6
		$7,259.0	$7,300.4

Auditors' Report

To the Shareholders of
Canada Development Corporation

We have examined the consolidated balance sheet of Canada Development Corporation as at December 31, 1985 and the consolidated statements of income, 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 Corporation as at December 31, 1985 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.

Thorne Riddell
Chartered Accountants

Toronto, Canada
February 14, 1986

NET INCOME		1985	1984	1983
Revenues	Sales of products and service	**$3,186.8**	$3,013.8	$2,772.4
	Other income	**70.2**	89.3	97.1
		3,257.0	3,103.1	2,869.5
Expenses	Cost of sales	**2,488.8**	2,398.6	2,298.0
	Selling, administration and research	**328.5**	274.0	298.6
	Interest on long-term debt	**304.6**	288.2	219.0
	Other interest	**32.8**	41.5	45.0
		3,154.7	3,002.3	2,860.6
		102.3	100.8	8.9
Other	Equity in earnings of other companies	**4.8**	3.3	26.6
	Income (loss) before the undernoted	**107.1**	104.1	35.5
	Income taxes	**(27.8)**	(55.7)	(35.5)
	Minority interest in income of subsidiary companies	**(24.9)**	(9.1)	(5.3)
Income (loss) from Operations		**54.4**	39.3	(5.3)
	Results of non-consolidated subsidiaries	**(10.7)**	(7.7)	(45.0)
	Gain on investments	**127.2**	49.5	5.3
Net income (loss)		**$ 170.9**	$ 81.1	$ (45.0)

STATISTICS		1985	1984	1983
Per common share	Earnings (loss)	**$ 3.17**	$ 0.98	$ (2.41)
	Fully diluted earnings	**$ 2.16**	$ 0.92	
	Free cash flow	**$ 10.55**	$ 5.88	$ 2.32
	Fully diluted free cash flow	**$ 6.04**	$ 3.60	$ 1.71
Ratios	Return on common equity	**17.0%**	5.8%	(13.5)%
	Working capital ratio	**1.5:1**	1.3:1	1.4:1
	Debt/equity ratio	**2.7:1**	3.8:1	3.7:1
	Total debt/capital ratio*	**2.2:1**	3.1:1	3.2:1
Other	Common shares outstanding at year-end	**37,448,431**	36,724,803	35,688,366

*The ratio of the aggregate amount of total debt and dividend paying preferred shares of subsidiaries to the aggregate amount of shareholders' equity, deferred taxes and non-dividend paying minority interests.

1982	1981	1980	1979	1978	1977	1976
$3,089.2	$ 2,920.9	$2,305.7	$1,965.9	$1,342.1	$ 741.2	$ 595.6
134.8	98.5	53.5	49.0	23.3	15.3	13.7
3,224.0	3,019.4	2,359.2	2,014.9	1,365.4	756.5	609.3
2,528.5	2,361.3	1,792.9	1,529.0	1,087.5	580.0	471.8
378.4	339.5	262.1	244.5	154.2	100.7	92.4
296.4	150.0	39.1	37.6	29.9	17.4	9.7
72.6	59.6	38.7	19.5	16.7	10.0	8.5
3,275.9	2,910.4	2,132.8	1,830.6	1,288.3	708.1	582.4
(51.9)	109.0	226.4	184.3	77.1	48.4	26.9
7.9	0.8	(5.8)	(3.2)			
(44.0)	109.8	220.6	181.1	77.1	48.4	26.9
8.6	(39.5)	(81.8)	(63.7)	(22.1)	(19.2)	(12.1)
(46.9)	(65.4)	(57.8)	(40.6)	(26.1)	(6.0)	(4.6)
(82.3)	4.9	81.0	76.8	28.9	23.2	10.2
(43.5)	67.6	108.1	46.6	14.4	13.4	14.1
	12.6				(7.8)	0.4
$ (125.8)	$ 85.1	$ 189.1	$ 123.4	$ 43.3	$ 28.8	$ 24.7
$ (4.52)	$ 1.46	$ 5.13	$ 3.42	$ 0.84	$ 0.37	$ 0.24
	$ 1.25	$ 3.52	$ 2.45	$ 0.78		
$ (2.54)	$ 3.23	$ 7.74	$ 6.09	$ 2.49	$ 0.81	$ 0.50
	$ 2.17	$ 5.15	$ 4.27	$ 1.83	$ 0.76	
(21.0)%	6.2%	24.1%	19.1%	5.3%	2.4%	1.6%
1.4:1	1.9:1	3.1:1	2.2:1	2.8:1	1.2:1	1.4:1
3.6:1	2.8:1	0.5:1	0.7:1	0.8:1	1.0:1	0.7:1
3.4:1	2.6:1	0.8:1	1.2:1	1.3:1	1.1:1	0.8:1
35,382,010	35,036,918	32,929,400	32,161,336	30,712,170	30,712,158	30,712,038

FINANCIAL POSITION		1985	1984	1983
Assets	Working capital	$ 452.2	$ 245.3	$ 307.8
	Fixed assets (net)	4,499.3	4,354.0	4,291.2
	Long-term investments	771.7	1,280.3	1,293.5
	Other assets	645.3	502.5	255.8
		6,368.5	6,382.1	6,148.3
Liabilities	Long-term debt	3,898.3	4,274.3	4,151.0
	Deferred income taxes	313.6	352.8	266.3
	Interests of minority shareholders	636.6	564.9	579.3
		4,848.5	5,192.0	4,996.6
Shareholders' Equity	Preferred equity	765.3	557.6	557.6
	Common equity	754.7	632.5	594.1
		$1,520.0	$1,190.1	$1,151.7

CHANGES IN FINANCIAL POSITION				
Derived from	Cash flow before financing charges	$ 890.6	$ 762.3	$ 554.4
	Financing charges	498.6	549.3	471.9
	Free cash flow	392.0	213.0	82.5
	Issue (redemption) of capital stock	214.0	5.0	127.4
		606.0	218.0	209.9
Applied to	Investment in non-consolidated subsidiaries	(419.6)	9.6	112.4
	Capital expenditures	295.1	212.5	341.4
	Other uses of funds	147.6	181.7	(86.4)
	Changes in non-cash working capital	178.5	1.0	(65.6)
		201.6	404.8	301.8
	Cash generated (used) during the year	$ 404.4	$ (186.8)	$ (91.9)
(Applied to) Funded by	Short-term debt	$ (8.0)	$ (44.3)	$ (99.2)
	Long-term debt	(396.4)	231.1	191.1
		$ (404.4)	$ 186.8	$ 91.9

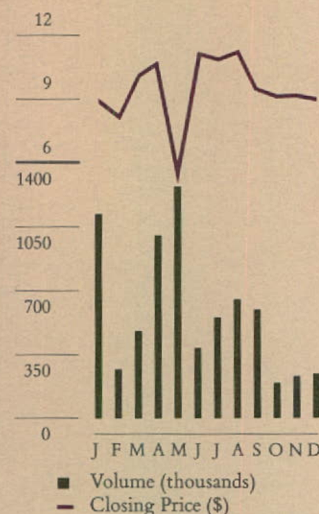
1982	1981	1980	1979	1978	1977	1976
$ 361.2	$ 669.2	$ 616.9	$ 430.7	$ 412.6	$ 60.3	$ 77.8
4,067.1	3,750.0	1,311.9	1,149.2	1,081.6	1,032.0	766.3
1,254.6	1,019.3	686.7	509.3	420.9	413.7	415.5
263.5	199.2	207.5	200.1	209.3	115.6	63.7
5,946.4	5,637.7	2,823.0	2,289.3	2,124.4	1,621.6	1,323.3
4,046.9	3,519.1	655.5	600.8	579.4	711.8	477.9
184.9	213.7	174.5	101.8	51.4	39.4	29.1
602.7	634.8	674.0	734.4	745.7	146.9	102.7
4,834.5	4,367.6	1,504.0	1,437.0	1,376.5	898.1	609.7
432.6	432.6	538.2	244.8	244.8	244.8	244.8
679.3	837.5	780.8	607.5	503.1	478.7	468.8
$1,111.9	$ 1,270.1	$1,319.0	$ 852.3	$ 747.9	$ 723.5	$ 713.6
$ 550.8	$ 508.6	$ 409.1	$ 324.5	$ 188.8	$ 121.7	$ 83.6
640.4	397.2	157.2	135.4	112.2	96.8	68.1
(89.6)	111.4	251.9	189.1	76.6	24.9	15.5
2.1	(97.9)	300.6				2.3
(87.5)	13.5	552.5	189.1	76.6	24.9	17.8
210.1	536.7					
423.5	441.9	244.8	123.6	83.5	257.3	266.2
114.7	1,846.2	176.2	68.8	(491.6)	19.0	35.7
(46.3)	190.1	104.0	102.0	140.9	83.0	42.4
702.0	3,014.9	525.0	294.4	(267.2)	359.3	344.3
$ (789.5)	$(3,001.4)	$ 27.5	$ (105.3)	$ 343.8	$ (334.4)	$ (326.5)
$ 295.8	$ 105.1	$ (63.1)	$ 58.9	$ (210.4)	$ 117.0	$ 87.7
493.7	2,896.3	35.6	46.4	(133.4)	217.4	238.8
$ 789.5	$ 3,001.4	$ (27.5)	$ 105.3	$ (343.8)	$ 334.4	$ 326.5

CDC EQUITY

CDC has four classes of shares, three of which entitle their holders to vote at shareholders' meetings.

Common Shares

At the end of 1985, there were 37,448,431 common shares outstanding which were registered in the name of 13,027 Canadian citizens or residents. The federal government is the registered owner of 30,711,990 common shares, representing 82.01 percent of those outstanding and carrying 46.76 percent of the votes at shareholders' meetings. During 1985, 7,842,278 common shares were traded on stock exchanges, representing 117 percent of those available for trading. Share prices fluctuated from a high of $12 5/8 in May to a low of $ 5 7/8 in January, closing the year at $9 1/8.

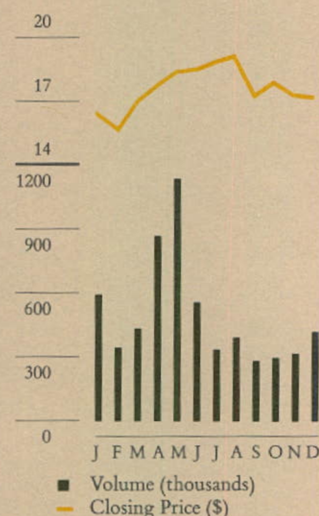


Class B Preferred Shares

The Corporation had outstanding 1,323,019 Class B preferred shares at the end of 1985, which were registered in the names of 8,359 Canadian citizens or residents. Each Class B share carries 10 votes at shareholders' meetings, and is convertible at any time, at the holder's option, into 10 common shares. A quarterly dividend of $2 is paid on the first of January, April, July and October. Class B shares are redeemable at the option of their holders at the original issue price of $100 each from October 2, 1985, to October 1, 1986. During 1985, 1,025,370 Class B shares were traded, representing 77.5 percent of those outstanding; the high of $127 1/4 was reached in May and a low of $98 5/8 in January, with the year's closing at $107.50.

1980 Preferred Shares

At the end of the past year, a total of 17,932 Canadian citizens or residents held 15,000,000 1980 preferred shares. Each 1980 preferred share carries one vote and is convertible at the option of the holder until October 15, 1990, into 1.27 common shares for each 1980 share. Based on the issue price of $20, the effective conversion price is $15.75 per common share. Each 1980 preferred share pays a quarterly dividend of 38 cents on the first of February, May, August and November. During 1985, 6,849,029 of the 1980 preferred shares were traded, representing 45.7 percent of those outstanding; the high price for the year was $19 1/2 in May while a low of $15 1/4 was recorded in January, closing at $17 1/4.

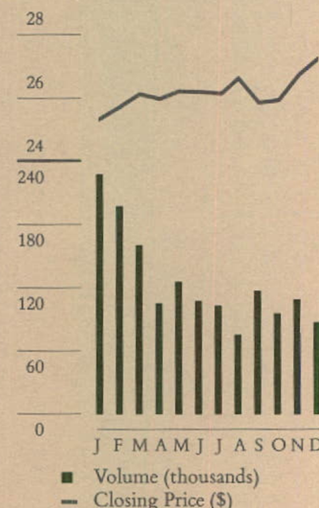


1983 Senior Preferred Shares

There was 5,442 registered holders of 5,000,000 non-voting 1983 Senior preferred shares. Each of these shares carries a non-detachable warrant which entitles its holder to purchase, on June 1, 1990, the sum of $20.39 (U.S.) on payment of $25 (Canadian). A quarterly cash dividend–payable on the first of March, June, September and December–is paid at a rate equal to the greater of 58.75 cents (Canadian) per share and the Canadian dollar equivalent of 48 cents (U.S.) per share based on the prevailing rate of exchange between the two currencies on the record date. The dividend is payable in Canadian currency or, if requested by the holder, in United States dollars. During 1985, the shares traded at a high of $27 1/4 in December and a low of $24 7/8 in February, closing at 27 1/4. There were 1,524,616 shares traded, representing 30.5 percent of the total outstanding.

INSTALMENT RECEIPTS

In May 1985, the Government of Canada announced its intention to sell 23,000,000 of its 30,711,990 CDC common shares. These shares were sold to the public, on an instalment basis, at a price of $11.50 per common share. The rights to purchase these shares is evidenced by instalment receipts, which are trading on stock exchanges until the final instalment is paid. The second instalment of $5.75 is due on September 16, 1986. At the end of 1985, there were 1,664 registered holders of the instalment receipts. During 1985, these receipts traded at a high of $5.875 in September and a low of $3.85 in November, closing at $4.50. There were 3,814,100 receipts traded on the Montreal and Toronto Stock Exchanges during 1986, representing 16.6 percent of those outstanding.



LISTING AND TRANSFER AGENT

CDC common, Class B and 1980 preferred shares are listed on the Montreal, Toronto and Vancouver stock exchanges. CDC's 1983 Senior preferred shares trade on the Toronto Stock Exchange. The transfer agent for all classes of CDC shares is National Trust Company at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and its agent, Royal Trust Company, at its principal office in Halifax. CDC maintains its own shareholder records and pays all dividends directly to shareholders. Changes of address and questions on dividends should be directed to CDC's Shareholder Services Department.

SHAREHOLDER INVESTMENT PROGRAM

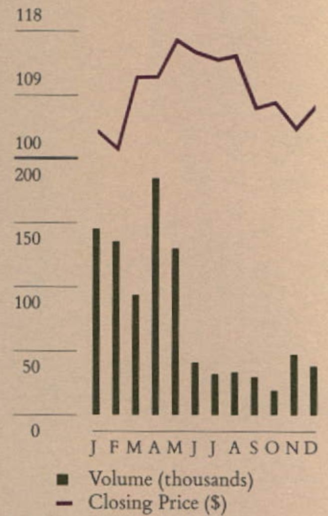
CDC has an investment program which offers its shareholders two convenient plans for purchasing additional common shares—reinvesting dividends at 95 percent of average market price or making cash contributions at 100 percent of average market price. The program has a number of advantages and, to help explain these and how to participate, a detailed offering circular is available from CDC's Shareholder Services Department, 444 Yonge Street, Suite 200, Toronto, Ontario M5B 2H4 (Phone: 416-598-7300).

The shareholder investment program continues to be well received by CDC shareholders. At year end, 5,460 shareholders were participating, representing 16.3 percent of all registered holders. Under the program, CDC issued 696,238 new common shares in 1985 for a total consideration of $6.0 million. The weighted average price paid by shareholders reinvesting their dividends was $8.51 per share while the value of shares issued as stock dividends or purchased with cash contributions was $9.64.

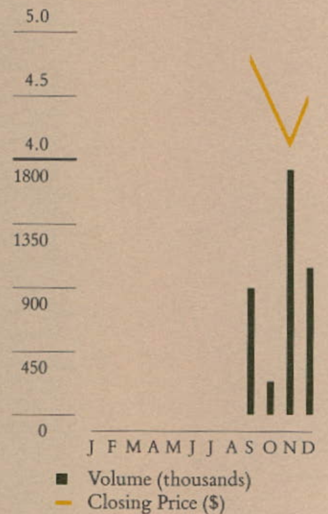
OTHER INFORMATION FOR SHAREHOLDERS

CDC regularly provides its shareholders with information about its operations. The annual report is available in April, while quarterly reports are issued about six weeks after the end of each quarter. Canterra, Falconbridge, Polysar, CDC Life Sciences and Savin publish annual and quarterly reports. Additional news is also disseminated to shareholders through special mailings and press announcements. At least one month prior to CDC's annual meeting–usually held on the third or fourth Thursday in May–shareholders receive a notice of meeting, information circular and proxy card. The Corporation also carries out a regular communications program with stock market analysts and investment dealers in order to assist them in keeping our shareholders informed. In some cases, investment dealers or banks will hold shares in their name on behalf of their customers. When this happens, published material often is not received by shareholders. Copies of these publications can be obtained by writing to CDC's Corporate Affairs Department, 444 Yonge Street, Suite 200, Toronto, Ontario M5B 2H4.

B. Preferred



Instalment Receipts



A. John Ellis
Honorary Chairman and Director Emeritus
Vancouver, British Columbia

DIRECTORS

Philippe de Gaspé Beaubien (3)
Chairman and Chief Executive Officer
Télémédia Corporation
Montreal, Québec

Laurent Beaudoin (1)
Chairman and Chief Executive Officer
Bombardier Inc.
Montreal, Québec

John Bruk
Chairman
Asia Pacific Foundation of Canada
Vancouver, British Columbia

Pierre Côté (1)
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Montreal, Québec

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Toronto, Ontario

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Redpath Industries Ltd.
Toronto, Ontario

(1) Executive Committee
(2) Audit Committee
(3) Communications Committee

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Norma Michael
Vice President
Business Development and Planning

Daniel P. Owen
Vice President

*to December 31, 1985
**from January 1, 1986

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