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DOME MINES

DOME MINES
LIMITED

ANNUAL REPORT 1985

COMPARATIVE HIGHLIGHTS

(thousands of Canadian dollars, except per share)

	1985	1984	1983
Financial Results			
Revenue			
Mining —			
Gold	$205,295	$199,427	$221,793
Coal	$37,738	—	—
Oil and gas	$17,522	$15,667	$12,962
Income (losses) related to associated companies	$ (3,201)	$(50,146)	$(293,427)
Net income (loss)	$12,210	$(25,674)	$(216,435)
Cash provided by operating activities	$52,591	$59,214	$93,383
Financial Position			
Cash, short-term investments and bullion	$39,781	$75,856	$66,772
Shareholders' equity	$272,666	$159,505	$140,198
Per Share			
Net income (loss)	$0.15	$(0.36)	$(3.09)
Dividends	$0.12	$0.12	$0.11½
Production			
Ounces of gold	466,274	430,676	424,686
Oil and natural gas liquids (bbls)	512,000	467,000	430,000
Natural gas (mmcf)	1,719	1,623	1,330

Amounts in this report are expressed in Canadian dollars, unless otherwise stated.

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Fraser M. Fell

In 1985, the Dome Mines group of companies continued to enhance its position among the largest and lowest cost producers of gold in North America.

Consolidated net income of Dome Mines for 1985 increased to $12.2 million ($0.15 per share) from a consolidated loss of $25.7 million in 1984. The prior year's earnings had been adversely affected by losses of Dome Petroleum. Dividends of $0.12 per share were declared during the year, the same as in 1984.

Over the past several years, Dome Mines' strategy has been to make its gold mining operations as cost efficient and productive as possible; to increase gold production from its existing mines which have not yet achieved their optimum production rate; to explore and develop or acquire new gold deposits in Canada and the United States; and, to diversify into other mining operations where there is both proven management expertise and substantial growth potential.

The central element in Dome Mines' strategy has been to make its gold mining operations as productive as possible. To this end it has invested in excess of $100 million over the last three years to modernize and improve its operations. Dome Mines has been successful in its efforts to reduce costs in many areas by combining modern technology and computer applications with experienced operating management.

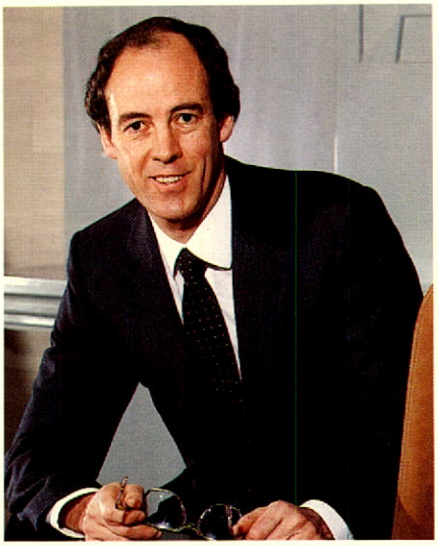
The Dome Mines Group has used forward sales contracts and options to protect and maintain cash flow. This has minimized the downside risk of lower gold prices while leaving open to a significant degree the upside price potential. Most of Campbell's share of production from the Detour Lake Mine and most of Sigma's production was sold forward in 1985 to protect those operations from declines in prices. In 1985, revenue per ounce averaged $440 (US $322) per ounce on gold sales, compared to the average London second fixing of $433 (US $317).

Following the sharp drop in gold prices during the first quarter of 1985, the market strengthened considerably, with continued improvement in market fundamentals. This has led to average prices during the first quarter of 1986 exceeding levels established in 1985. Shareholders are well-positioned to benefit from possible price increases in the future.

In 1985, the Dome Mines Group expended $14.0 million on gold exploration and preliminary underground development. As reported last year, underground exploration activities are continuing at the Dona Lake property near Pickle Lake, Ontario which is 50% co-owned by each of Dome Mines and Campbell. A feasibility study will be prepared based on the results of the program and a decision whether to proceed to production will be made in the fall of 1986. If a decision is made to proceed, it is contemplated that a mill with a rated capacity of 550 tons per day would be constructed, with start-up scheduled for early 1988. A surface diamond drilling program to investigate other targets on the Dona Lake property and other claim groups in the area is continuing.

Campbell has made substantial progress in the first phase of the development program at the Detour Lake Mine where an underground production shaft has been completed to a depth of 2,000 feet and an exploration program is being conducted on two levels to confirm the ore reserve estimates. The evaluation of this program is scheduled for completion in September, 1986 at which time a decision will be made whether to bring the underground mine into production at a rate of 2,750 tons per day by the first quarter of 1988.

In January, 1986 Campbell acquired 3,331,203 or 56.7% of the outstanding common shares of Kiena Gold Mines Limited, an efficient low cost producer with a modern plant situated in close proximity to the Sigma Mine at Val d'Or, Quebec in which Dome Mines has a 64.7% equity interest. The Kiena Mine produced 70,034 ounces of gold in 1985.



C. Henry Brehaut

Although Dome Mines' primary business is gold mining, it is prepared to make opportune investments in other quality mining operations. In 1985 Dome Mines acquired 1,942,534 or 52.9% of the outstanding common shares of McIntyre Mines Limited and 3,263,500 or 7.8% of the then outstanding common shares of Falconbridge Limited for $160 million. As McIntyre held 22.1% of the shares of Falconbridge, this transaction gave Dome Mines voting control over 29.9% of Falconbridge, a leading Canadian nickel and other base and precious metals producer. In March, 1986, Falconbridge purchased the Kidd Creek Mining Group from the Canada Development Corporation for cash, shares and debentures in a transaction valued at $615 million. After the purchase, the combined voting interest of Dome Mines and McIntyre in Falconbridge was approximately 24%. Kidd Creek owns one of the finest copper/zinc ore bodies in North America together with a modern environmentally sound metallurgical complex. With lower oil prices and an expanding world economy, industry projections call for improvement in base metal prices, which, if realized, will increase the profitability of both Kidd Creek and Falconbridge.

McIntyre recorded a loss of $26.3 million in 1985 due to reduced sales volume and a substantial write-down of coal inventory and mining assets; however, the negative impact of this loss on the net income of Dome Mines was limited to $2.2 million. McIntyre has now completed the restructuring of its mining operations with the objective of establishing an economically viable operation based on current market conditions.

In 1985, Canada Tungsten Mining Corporation Limited, in which Dome Mines holds a 20.2% equity interest, suffered a net loss of $28.9 million including a substantial write-down of its ore reserves. Dome Mines has decided not to participate in the current restructuring and refinancing of Canada Tungsten and, subject to certain conditions and closing of the transactions, has agreed to sell its shares for $8.2 million for a capital gain of $4.9 million.

During 1985, Campbell and Sigma continued their direct participation in oil and gas exploration, development and production in western Canada. Operating cash flow from the oil and gas properties, before income taxes, was $12.1 million in 1985 compared to $11.0 million in 1984. Income before income taxes amounted to $3.3 million in 1985, approximately the same as in 1984. Oil prices declined sharply in 1986 and continuation of recent price levels would have an adverse impact on the oil and gas operations of Campbell and Sigma.

Dome Mines continues to closely monitor its investment in Dome Petroleum which completed its financial restructuring and retired some debt last year and was able to further reduce its debt in 1986 by selling ten million of its Dome Mines shares through a secondary offering. At the present time Dome Mines owns 22% of the outstanding common shares of Dome Petroleum which, in turn, owns 23.2% of the outstanding common shares of Dome Mines. As a result of the steep decline in oil prices which occurred in early 1986, Dome Petroleum approached its lenders with a view to temporarily modifying the Debt Rescheduling Agreement implemented in February, 1985. Dome Petroleum proposes that its revised interim plan run from May 1, 1986 to October 28, 1986 (with provision for extensions until February 28, 1987) and that a long-term plan be developed and negotiated prior to the expiration of the interim plan. Dome Petroleum has acknowledged that its continued existence as a going concern in the short term is dependent upon lenders' acceptance of an interim plan or upon the receipt of waivers or extensions of debt due and, in the long term, on its ability to reach an agreement with its lenders on a permanent plan. However, the resolution of these matters is not assured. Dome Mines currently receives a fee of $900,000 per month from Dome Petroleum for guaranteeing, to a maximum of $225,000,000, certain indebtedness of Dome Petroleum's wholly-owned subsidiary, Dome Energy Limited. The revised interim plan contemplates a deferral of this fee. A deferral of all or a substantial portion of this fee would have a negative impact on future cash flow and earnings of Dome Mines. The interim plan is subject to negotiation and requires the approval of all parties affected, including Dome Mines.

Today, Dome Mines is a high quality gold mining company with important interests in base metals and oil and gas, and a long and profitable experience to help it weather cycles in commodity prices. Dome Mines is dedicated to enhancing the value of its shareholders' investment and to meeting its social responsibility by maintaining the profitability of its operations over the long term, by providing safe working conditions and by protecting the environment.

The contribution and commitment of the men and women who make up the Dome Mines group of companies is greatly appreciated.

Fraser M. Fell
Chairman and
Chief Executive Officer

C. Henry Brehaut
President and
Chief Operating Officer

April 16, 1986

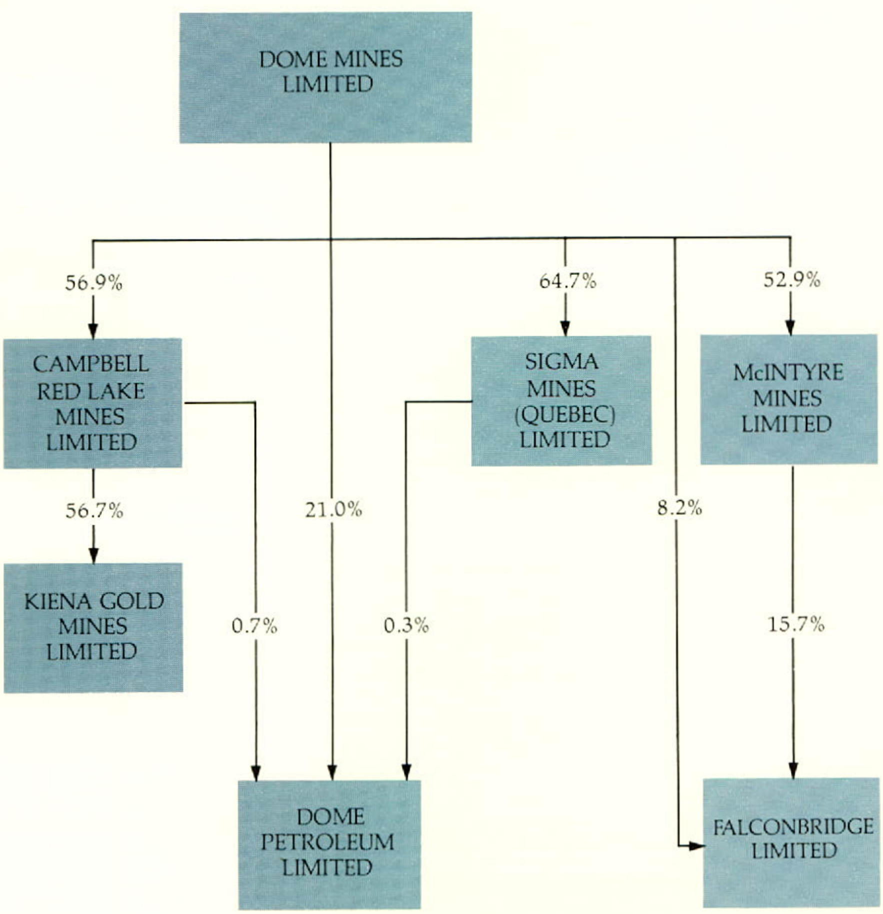
The Dome Mines Group of Companies

Dome Mines Limited is a Canadian gold mining company. In 1985, Dome Mines and its subsidiaries Campbell Red Lake Mines Limited and Sigma Mines (Quebec) Limited, produced 466,274 ounces of gold or approximately 17% of total Canadian production. On January 24, 1986, Campbell acquired Kiena Gold Mines Limited, which produced 70,034 ounces of gold in 1985.

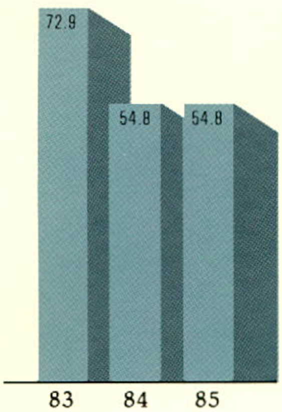
On May 29, 1985, Dome Mines acquired 1,942,534 common shares of McIntyre Mines Limited and 3,263,500 common shares of Falconbridge Limited. McIntyre's principal asset is it's ownership of 9,242,070 common shares of Falconbridge. Falconbridge is one of the largest producers of refined nickel in the non-communist world. On March 10, 1986 Falconbridge acquired the Kidd Creek Mining Group, a fully integrated mining enterprise which owns and operates base metal mining and metallurgical facilities. McIntyre is also engaged in the mining, preparation and sale of metallurgical coal.

The Dome Mines Group is also engaged in the oil and gas sector through its investment in Dome Petroleum. Direct participating interests in oil and gas production and exploration in western Canada are held by Campbell and Sigma.

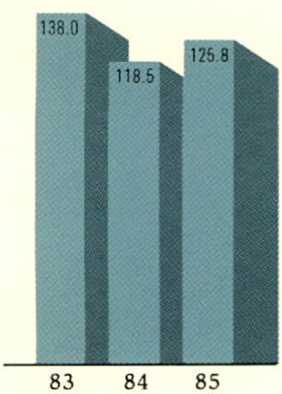
The following chart shows the principal corporate organization of the companies comprising the Dome Mines Group and their equity holdings as at April 16, 1986.



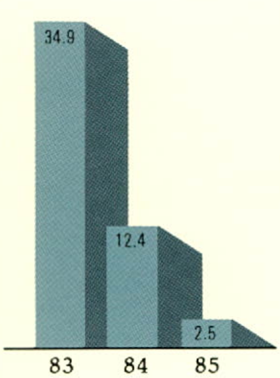
Dome Mine
Bullion Revenue
($ millions)



Dome Mine
Production
(000's of ounces)



Dome Mine
Operating Income
($ millions)



MINING

Dome Mine

The Dome Mine, located in Timmins in northeastern Ontario, completed its 76th year of operation in 1985 during which time it has produced over 11 million ounces of gold. New shaft facilities provide access to major ore bearing structures down to the 5,400 foot horizon below surface although close to 50% of the mill feed is being mined above the 2,000 foot level. A 50% expansion and modernization program was completed in 1985 which, in addition to a new shaft, included extensive improvements to the mill and other surface facilities.

	1985	1984	1983
Ounces of gold —			
From mine production	125,797	118,472	100,602
Recovered from mill equipment	—	—	37,418
Total	125,797	118,472	138,020
Revenue per ounce	$436	$463	$528
Operating cost per ounce	$416	$358	$275[1]
Cash operating cost per ounce	$362	$330	$262[1]
Operating income (000's)	$2,484	$12,415	$34,897

(1) Excluding ounces of gold recovered from plant and equipment replaced as part of the mill expansion, operating cost in 1983 is $378 per ounce and cash operating cost is $359 per ounce.

Operating income from the Dome Mine during 1985 decreased to $2,484,000 from $12,415,000 in 1984. Increased gold production was generally offset by lower gold prices but operating costs were higher primarily due to a 20% increase in tonnage and higher depreciation charges due to the completion of the expansion program. Cash operating costs in 1985 averaged $362 per ounce (U.S. $265). Operating income of $34,897,000 in 1983 was favourably influenced by higher gold prices and the recovery of gold from mill equipment taken out of service.

Gold production for the year totalled 125,797 ounces, from the milling of 1,028,000 tons at an average grade of 0.128 ounces per ton. The milling rate in 1985 averaged 2,816 tons per day, a 20% increase in ore milled compared to 1984. Gold production was favourably affected by higher than anticipated grades in 1984 and in 1983. Ore grades, however, were essentially as planned in 1985 at 0.128 ounces per ton. Anticipated gold production in 1986 is 133,000 ounces.

	1985	1984	1983
Tons milled	1,028,000	860,000	762,000
Grade treated (ounces per ton)	0.128	0.142	0.138
Mill recovery (%)	95.5	97.1	95.7
Operating cost per ton	$50.87	$49.30	$49.84

Mine operating costs per ton have shown little change over the past three years as economies of scale have largely offset the effects of inflation. The proportion of ore provided by the longhole mining method increased to 64% in 1985 compared to 57% in 1984 and 61% in 1983. Long-term production plans indicate a decrease in the proportion of longhole ore being replaced by more expensive but higher grade ore to

Drill jumbo at the Dome Mine

be mined using the cut-and-fill method. Mill recovery dropped to 95.5% in 1985 as the result of a higher proportion of refractory ore being milled.

At December 31, 1985, proven extractable reserves, after allowing for dilution, were as follows:

	1985	1984	1983
Total reserves, including broken ore (000's of tons)	2,538	2,629	2,600
Grade (ounces per ton)	0.170	0.170	0.182

Lower grade ore not included in the reserves and ore not previously defined are mined as part of normal operating practices. This ore, when included in the mill feed, accounts for the average grade milled being lower than the reserve grade. Despite a small drop in reported proven reserves at the end of 1985, sufficient ore has been identified for long-term mining.

After more than 75 years of mining, 47% of the mill feed is still extracted above the 2,000 foot level. The lowest current production level at the Dome Mine is the 4,000 foot elevation. The main geological structures have been traced to below 4,000 feet and are open to depth, which means that, based on all information to date, the Company has no reason to believe that the structures do not continue below the levels currently established. Completion of the new No. 8 shaft and related facilities in 1984 has provided access to mineralized areas to the 5,100 foot level.

During 1985, underground diamond drilling amounted to 53,232 feet, most of which was in support of mine planning, stope development and mine exploration activities. Development in 1985 amounted to 22,230 feet of drilling, crosscutting and raising.

Capital expenditures in 1985 totalled $2,871,000 with $1,726,000 being required to complete the expansion program. Of the capital items associated with on-going operations, $449,000 was applied to the purchase of more productive mining equipment. Capital expenditures are expected to be in the order of $4.6 million in 1986 with a number of productivity improvement programs being planned in addition to the construction of a new assay office and dam construction in the tailings area.

The compensable accident frequency at the Dome Mine was reduced by 36% from 4.4 lost time injuries per 200,000 man hours in 1984 to 2.8 in 1985 which compares favourably with an industry average in Ontario in 1985 of 4.2 accidents per 200,000 manhours.

Campbell Mine

The Campbell Mine, located at Balmertown in northwestern Ontario, was brought into production in 1949 and, in its 37 years of operation, has produced 5,980,674 ounces of gold. The Campbell Mine is one of the world's lowest cost gold mines, with 1985 cash operating costs of $138 (US$101) per ounce.

Operating income from the Campbell Mine in 1985 was $65.3 million compared to $69.2 million in 1984. Increased gold production in 1985 only partially offset the effects of lower gold prices and higher operating costs. The 1983 operating income of $86.4 million reflected higher gold prices and lower operating costs.

	1985	1984	1983
Ounces of gold	226,152	213,946	219,200
Revenue per ounce	$437	$463	$520
Operating cost per ounce	$148	$140	$126
Cash operating cost per ounce	$138	$131	$117
Operating income (000's)	$65,319	$69,198	$86,421

Ore from the Campbell Mine is processed through a mill with a demonstrated annual capacity of 392,000 tons, using gravity separation, flotation, roasting and cyanidation to recover gold which is refined into bullion at the Campbell Mine.

During 1985, 392,000 tons of ore were processed through the Campbell mill and 226,152 ounces of gold were recovered. Gold production increased from 1984 as a result of mining an increased percentage of higher grade ore by the cut-and-fill mining method and improved grade control measures. Anticipated production in 1986 is 227,000 ounces. As a result of on-going testing and research, mill recovery continued to improve and averaged 94.9% in 1985.

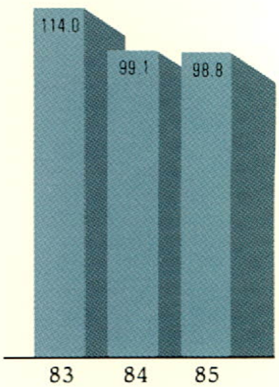
	1985	1984	1983
Tons milled	392,000	395,000	390,000
Grade treated (ounces per ton)	0.608	0.573	0.598
Mill recovery (%)	94.9	94.5	94.2
Operating cost per ton	$85.44	$75.78	$70.62

Mine operating costs per ton increased in 1985 and in 1984 primarily as a result of an increased proportion of ore being mined by the more expensive cut-and-fill method. Ore from cut-and-fill mining increased to 70% of all ore milled in 1985 compared to 62% and 50%, respectively, in 1984 and 1983.

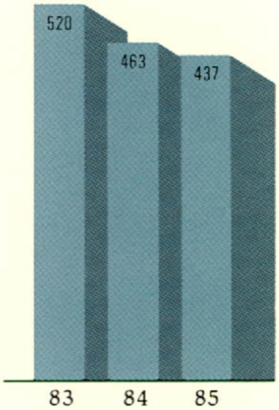
Other factors contributing to increased operating costs were hourly wage increases of 6.9% and 6.8%, respectively, in 1985 and 1984, higher government charges for workers' compensation and more extensive ground control measures. Wage increases at the Campbell Mine, which is not unionized, are related to pay rates at other mines in northwestern Ontario and are designed to maintain Campbell's ability to attract and retain employees. Over the past year, mill operating costs increased by only 1%, with operational efficiencies in a number of areas generally offsetting the increased cost of labour and supplies.

Current ore reserves are located between surface and the 21st level (3,100 feet below surface) which is the lowest active mining level. Additional levels have been established to the 27th level (4,000 foot elevation) for future mining. Currently known zones have

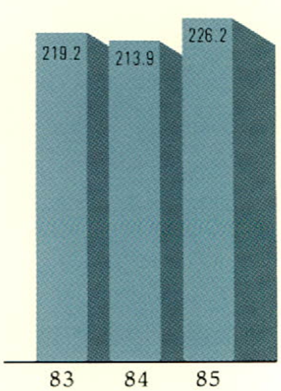
Campbell Mine
Bullion Revenue
($ millions)



Campbell Mine
Revenue Per Ounce
($ Cdn)



Campbell Mine
Production
(000's of ounces)



Roaster control room at the Campbell Mine the potential of adding to reserves above the 21st level. In addition, the structures are open to depth.

At December 31, proven extractable ore reserves, after allowing for dilution, were as follows:

	1985	1984	1983
Reserves in place (000's of tons)	2,022	2,026	2,052
Grade of reserves in place (ounces per ton)	0.616	0.622	0.622
Broken ore reserves (000's of tons)	233	265	277

As a result of rock bursting in 1982 and 1983, stoping in one zone and sill removal activities in another zone were halted. Production from other areas was increased with the mining of a higher proportion of ore using the cut-and-fill method. Notwithstanding the rock bursts, planned production tonnage was maintained throughout 1984 and 1985. Plans have been developed to resume mining on a limited basis at a future date in the ore zone principally affected by rock bursting.

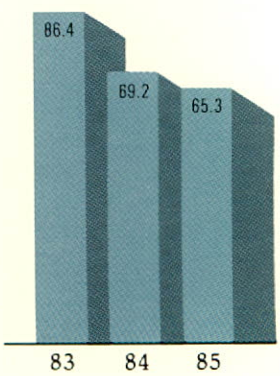
During 1985, underground diamond drilling amounted to 51,864 feet, all in support of mine planning, stope development and mine exploration activities. The underground exploration program was successful in maintaining sufficient proven reserves for long-term planning purposes. In 1985, development footage for stope preparation and the extension of known ore zones totalled 13,790 feet, substantially the same as in 1984.

Capital expenditures of $1,894,000 during 1985 included the purchase of more efficient mining equipment and emergency power equipment. Capital expenditures are expected to increase in 1986 to $4,421,000 in order to implement a number of cost reduction programs and to improve working conditions. Major projects underground include the purchase of larger and more productive mining equipment and improvements to the mine ventilation system. In the mill, changes to the ore storage and grinding sections are planned in order to improve labour utilization.

The accident frequency at the Campbell Mine in 1985 was 0.9 lost time injuries per 200,000 man hours worked compared to a frequency of 3.4 in 1984 and an industry average of 4.2 in 1985.

In 1985, the Campbell First Aid Team won the McCrea Trophy which is awarded to the best first aid team in the mining industry in Ontario.

Campbell Mine Operating Income
($ millions)

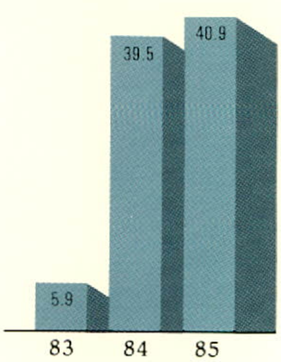


Detour Lake Mine

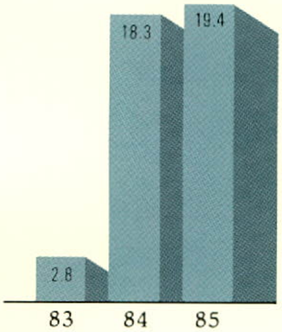
The Detour Lake Mine, located approximately 125 miles northeast of Timmins, Ontario, was brought into production in November 1983. Campbell has, under a joint venture arrangement, a 50% working interest in, and is the operator of, the Detour Lake Mine. The remaining 50% interest is held by Amoco Canada Petroleum Company Ltd.

Campbell's share of operating income, before depreciation, in 1985 was $3,940,000. After depreciation charges of $4,618,000, Campbell's share of the Detour Lake Mine operating loss in 1985 was $678,000. This compares to an operating loss of $4,496,000 in 1984 after depreciation charges of $5,096,000. Reduced operating costs, higher gold production and better gold prices, largely achieved through forward sales contracts, all contributed positively to operating results in 1985. Cash operating costs were reduced to $379 (US$277) per ounce in 1985 from $447 (US$345) in 1984.

Campbell's Share of Detour Lake Mine Production
(000's of ounces)



Campbell's Bullion Revenue from Detour Lake Mine
($ millions)



Campbell's 50% Share	1985	1984
Ounces of gold	40,884	39,479
Revenue per ounce	$475	$462
Operating cost per ounce	$492	$576
Cash operating cost per ounce	$379	$447
Operating cost per ton	$44.90	$51.93
Operating loss (000's)	$678	$4,496

The Detour Lake mill processes ore using cyanidation and the carbon-in-pulp process to recover gold which is then refined into bullion at the mine site. Mill recovery averaged 93.6% in 1985. The mill currently has a demonstrated annual capacity of 896,000 tons although its capacity will be increased to 1,000,000 tons if underground mining proceeds. During 1985, 895,000 tons of ore were processed for an average throughput of 2,450 tons per day and 81,768 ounces of gold were recovered. Gold production increased by 4% over 1984 production due to improvements in tonnage, grade and mill recoveries. Changes in operating methods and control procedures in the mill resulted in an 0.8% increase in 1985 in mill recovery to 93.6%. Operating time for the grinding unit was also increased as improvements were made to maintenance procedures.

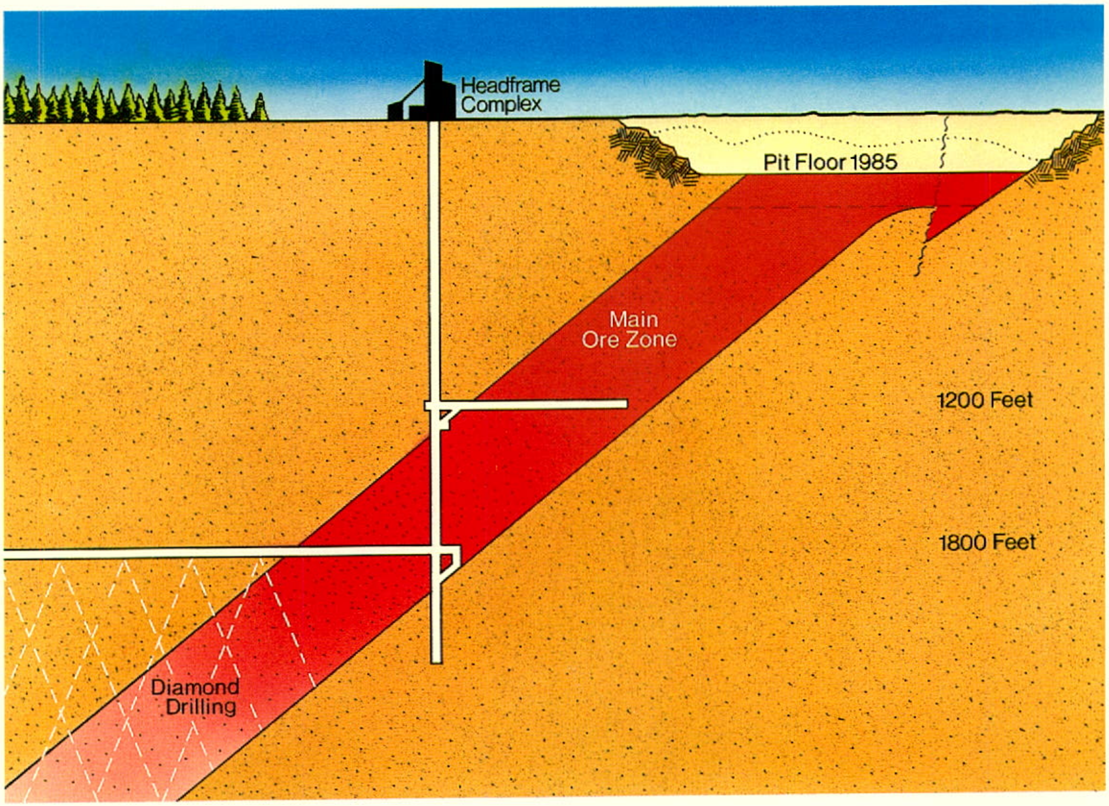
100% of production	1985	1984
Tons milled (000's)	895	876
Grade (ounces per ton)	0.098	0.097
Mill recovery (%)	93.6	92.8

Mine operating costs decreased in 1985 mainly due to a wide range of cost improvement measures implemented during the year. Significant savings were made in the utilization of manpower and supplies and over the year the workforce was reduced from 303 to 241 employees.

Open pit and milling operations are now expected to continue to the end of 1986. During 1986, Campbell's share of production is expected to be in the order of 34,000 ounces. Operating costs should be lower due to a significantly lower ratio of waste to ore mined.

An underground development program has been underway at the Detour Lake Mine since late 1983. In April 1985, a decision was made to divide the development of the underground mine into two phases and to shorten the life of the current open pit operation. The first phase of the underground development program consists of the sinking of the underground production shaft to a depth of 2,000 feet, drifting and crosscutting on two levels (1,800 and 1,200 feet, respectively, below surface), diamond drilling and bulk sampling. The objectives of this program are to confirm the present underground ore reserve estimates, to examine areas with the potential of adding to reserves above the 1,800 foot level and to test for extensions to the ore body down to the 2,800 foot horizon. The first phase is expected to be completed by June, 1986, at an estimated cost of $12,547,000, of which Campbell's share is $6,274,000. An analysis of the results of the first phase is expected to be completed in September, 1986 and the decision whether to proceed with the second phase of the underground development program will be made at that time. Shaft sinking was completed by the end of 1985 and level development commenced on the 1,800 and 1,200 foot levels in early 1986.

The total cost to Campbell and Amoco of the second phase of the underground development program is estimated to be $58 million, of which Campbell's share would be $29 million, for a planned production rate of 2,750 tons per day. If the second



Detour Lake Mine longitudinal section

phase is approved, underground production is scheduled to commence during the first quarter of 1988 and consideration will be given to operating the mill during 1987 using low grade stockpiles and underground ore accessible from the pit.

At December 31, 1985 and 1984, ore reserves in place, after allowing for dilution, were estimated by Campbell as follows:

100% of reserves	1985	1984
Open pit (000's of proven tons)	726	1,823
Grade (ounces per ton)	0.099	0.108
Underground (000's of probable tons)	8,546	9,046
Grade (ounces per ton)	0.134	0.132
Total proven and probable reserves (000's of tons)	9,272	10,869
Grade of reserves in place (ounces per ton)	0.131	0.128

In light of 1984 production experience and lower gold prices, a study of ore reserve estimates was undertaken with the assistance of an independent consultant who was retained by Campbell to review the methodology employed by Campbell to estimate reserves. As a result of this study, and in light of then current gold prices, a downward revision was made in total proven and probable ore reserves in place as of December 31, 1984. Total proven and probable ore reserves in place, as of December 31, 1985, after allowing for dilution, are estimated by Campbell to be 9.3 million tons at an average grade of 0.131 ounces of gold per ton. In addition, possible ore reserves in place, after allowing for dilution, is estimated by Campbell to be 8.9 million tons at a grade of 0.082 ounces per ton. During 1985, 0.9 million tons of ore were milled and 0.3 million tons were added to the surface stockpiles. Surface stockpiles of broken, mainly low grade ore amounted to 0.6 million tons at an average grade of 0.044 ounces per ton at December 31, 1985.

The main zone, which constitutes a high proportion of the proven and probable reserves, has not been explored by diamond drilling below the 1,800 foot level and is open to depth. In addition, several dozen ore grade intersections outside the presently defined ore zones may be indicative of mineralized structures requiring further exploration underground.

Campbell's share of capital expenditures in 1985 amounted to $3,424,000 of which $3,303,000 was spent on the underground development program. Campbell's share of capital expenditures for 1986 is expected to be $3,250,000, mainly for underground development.

The accident frequency at the Detour Lake Mine in 1985 was 11.7 lost-time injuries per 200,000 manhours worked compared to a frequency of 7.9 in 1984 and an industry average of 4.2 in 1985. There is no townsite at the Detour Lake Mine. As a result, while first aid facilities and qualified nurses are available at the mine site, a number of minor injuries have been recorded as lost-time accidents because of the time taken to travel to a local community for medical examination. Having regard to the foregoing, the Company believes that accident experience at the Detour Lake Mine is better than the industry average.

In September 1985, the United Steelworkers Union was successful in replacing the International Union of Operating Engineers as the certified bargaining agent for the production and maintenance employees. The previous contract expired on October 6, 1985. Negotiations for a new contract are continuing.

Kiena Mine

On January 24, 1986, Campbell purchased a 56.7% interest in Kiena Gold Mines Limited which operates a gold mine in the Val d'Or mining area of Quebec. The Kiena Mine commenced production in the fourth quarter of 1981 using custom milling facilities in the area. The construction of a mill at the mine site was completed in 1984 and Kiena is now treating all ore through its own facilities.

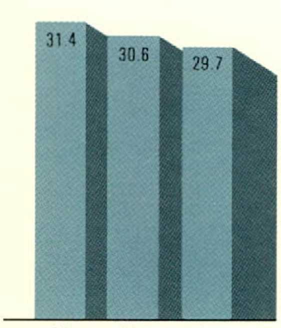
In 1985, the Kiena Mine produced 70,034 ounces of gold at a cash operating cost of $285 (US$208) per ounce. Operating income was $6.8 million and net earnings were $3.8 million. At the end of 1985, Kiena was debt free and had cash and short-term deposits totalling $3.2 million.

The following table sets forth certain operating results as reported by Kiena:

	1985	1984	1983
Ounces of gold	70,034	66,657	61,193
Revenue per ounce	$424	$458	$513
Operating cost per ounce	$327	$333	$324
Cash operating cost per ounce	$285	$300	$298
Operating income (000's)	$6,789	$8,338	$11,585
Net income (000's)	$3,778	$4,328	$5,748

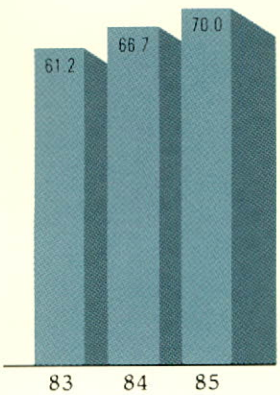
In 1985, 420,000 tons were milled at a grade of 0.172 ounces per ton. Mine production is expected to increase to the mill capacity of 440,000 tons in 1986 but gold production is anticipated to remain at approximately 70,000 ounces due to lower ore grades.

Kiena Mine
Bullion Revenue
($ millions)




Aerial view of the Kiena Mine

Kiena Mine
Production
(000's of ounces)



	1985	1984	1983
Tons milled	420,000	416,000	339,000
Grade treated (ounces per ton)	0.172	0.172	0.196
Mill recovery (%)	95.3	94.2	92.2
Operating cost per ton	$54.45	$53.42	$58.50

The nature of the ore body lends itself to the use of highly mechanized mining systems resulting in an efficient underground operation. Mechanized cut-and-fill stoping is the primary mining method but longhole stoping and longhole pillar recovery methods are also being employed.

At December 31, proven and probable ore reserves, as estimated by Kiena are as follows:

	1985	1984	1983
Proven reserves (000's of tons)	3,707	1,768	1,706
Probable reserves (000's of tons)	2,464	4,146	3,876
Total	6,171	5,914	5,582
Grade (ounces per ton)	0.152	0.158	0.163

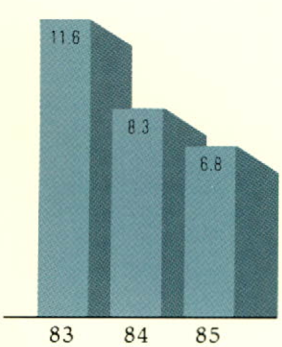
The upper limit of the main ore zone is about 300 feet below surface and has been traced to 1,800 feet below surface. The average strike length is 800 feet and its average width is about 60 feet. The ore body is open to depth. In addition, a number of exploration targets on the property have been identified which consist of known mineralized zones, extensions to favourable geological structures, geophysical anomalies and isolated diamond drill intersections showing gold mineralization. Kiena's planned 1986 exploration program includes a major exploration drifting program in order to provide a drilling base for the southeast corner of the property.

During 1985, capital expenditures totalled $4,122,000, of which long-term development costs amounted to $2,233,000. In addition, $1,127,000 was spent on surface and underground exploration.

The long-term development program, which was completed during 1985, included the deepening of the shaft and changes to other major facilities required to enable mining to proceed to depth. In 1986, capital and exploration expenditures are projected by Kiena to be $1.8 million and $2.3 million, respectively.

At December 31, 1985, the Kiena Mine had 192 employees. An outstanding safety record has been maintained by the employees since the start-up of operations more than four years ago. A single injury involving loss of time was suffered in 1985. In 1984, for the third consecutive year the employees were awarded the F. J. O'Connell Trophy for the Province of Quebec for the safest mine in its class in that province.

Kiena Mine
Operating Income
($ millions)



Sigma Mine

Since operations began in 1937, the Sigma Mine has produced 3.45 million ounces of gold. Current underground mining activities extend from approximately 1,200 feet to 5,200 feet below surface. In addition, the Sigma No. 2 Mine, located fifteen miles from the Sigma mill, has been developed as an open pit operation and during 1985 provided 9% of the total mill tonnage.

During 1985, operating income from the Sigma Mine was $3,841,000 compared to $4,519,000 in 1984. Although gold production was higher in 1985, the increase was insufficient to offset the effects of lower gold prices. Bullion revenue was $26,143,000 in 1985 and $26,469,000 in 1984. Cash operating costs per ounce decreased from $380 in 1984 to $366 in 1985 due to increased production from higher grades of ore mined and the limiting of cash cost increases to less than 1%. The operating income in 1983 of $11,570,000 was favourably affected by higher gold prices and production due to increased average mine grades.

	1985	1984	1983
Ounces of gold	59,465	56,980	61,529
Revenue per ounce	$440	$465	$523
Operating cost per ounce	$375	$385	$335
Cash operating cost per ounce	$366	$380	$331
Operating income (000's)	$3,841	$4,519	$11,570

Methods of ore extraction are mainly by shrinkage, room-and-pillar and cut-and-fill mining. The narrow vein structures preclude large scale mechanized methods and the Sigma Mine is relatively labour-intensive. Open pit mining is employed at the Sigma No. 2 Mine.

Ore is processed through a mill with current annual capacity of 485,000 tons, using cyanidation for gold recovery. The gold is refined into bullion at the Sigma Mine.

During 1985, 479,000 tons of ore were milled from which 59,465 ounces of gold were recovered. Gold production increased over 1984 levels as a result of higher grades from the mine. It is anticipated that production in 1986 will be 60,300 ounces as mining from the higher grade cut-and-fill stopes is to be increased.

	1985	1984	1983
Tons milled	479,000	478,000	481,000
Grade treated (ounces per ton)	0.129	0.124	0.137
Mill recovery (%)	96.3	96.3	96.7
Operating cost per ton	$46.56	$45.92	$42.85

Despite normal inflationary pressures, mine operating costs per ton increased only 1% due to cost improvement measures taken during the year and better productivity in the stopes.

Current reserves are primarily located between the 10th level (1,225 feet below surface) and the 37th level (5,190 feet below surface). At December 31, 1985, proven ore reserves, after allowing for dilution, at the Sigma Mine were as follows:

	1985	1984	1983
Reserves in place (000's of tons)	978	984	978
Grade of reserves in place (ounces per ton)	0.194	0.198	0.196
Broken ore reserves (000's of tons)	290	231	192

Lower grade ore not included in reserves and ore not previously defined are mined as part of normal operating practices. The inclusion of such ore in mill feed each year accounts for the average grade milled being lower than the reserve grade.

During 1985, the Sigma Mine was successful in maintaining its level of proven ore reserves. The current trend of maintaining proven reserves is expected to continue during the next few years based on exploration targets currently identified. Underground exploration, which was suspended during the year because of low gold prices, will be resumed in 1986.

Probable reserves at the Sigma No. 2 Mine, based on surface diamond drilling and surface sampling, were estimated by Sigma to be 550,000 tons at an average grade of 0.084 ounces per ton at the end of 1985. At December 31, 1984, the probable reserves were reported to be 592,000 tons grading 0.087 ounces per ton. Reported reserves were reduced during the year to reflect the amount of ore mined.

Capital expenditures were $301,000 in 1985 compared to $794,000 in 1984. In 1986, the expenditure of $325,000 is planned for replacement of plant vehicles and for additional mining equipment required for increased cut-and-fill mining.

In 1985, the frequency of compensable accidents decreased to 2.4 per 200,000 manhours worked compared to 6.0 in 1984 and the Quebec mining industry average of 7.1 in 1985.

The two year labour agreement negotiated with the hourly employees represented by Le Syndicat des Employés de Les Mines Sigma (Québec) Limitée, expires June 30, 1986. This contract provided for hourly wage rate increases of 3.6% in 1984 and 3.4% in 1985.

Dee Gold Mine

Dome Mines, Campbell and Sigma have an aggregate 29⅓ indirect interest in Dee Gold Mining Co., a Nevada partnership which owns and operates an open pit gold mine and 850 ton per day mill complex near Boulder, Nevada. Construction was completed in 1984 at a total capital cost of U.S.$21,016,000. Production officially commenced October 15, 1984.

Total gold production in 1985, the first full operating year, was 47,647 ounces, net of a 4% royalty, with the Dome Mines Group's share being 13,976 ounces. Mill production accounted for 42,613 ounces of gold from a treated tonnage of 325,000 tons grading 0.143 ounces per ton. An additional 7,019 ounces of gold were produced from the heap leaching of low grade ores. The Dome Mines Group's share of 1986 production is anticipated to be 12,900 ounces of gold.

The cash operating cost per ounce in 1985 was U.S.$169. The operating cost per ounce in 1985, including depreciation, was U.S.$238. During 1985, the Dome Mines Group's share of capital expenditures was $305,000.

Reserves as of December 31, 1985 are estimated by the operator to be 2,138,000 tons, all of which are proven, at an average grade of 0.113 ounces per ton. Additional ore reserves amenable to heap leaching methods are estimated to be 1,479,000 tons at an average grade of 0.27 ounces per ton.

Mineral Exploration

Dome Mines, Campbell and Sigma as a group (the "Exploration Group"), conduct a joint program of mineral exploration in Canada and the United States. Dome Mines and Campbell participate equally in mineral exploration programs commenced in Ontario since 1977, except programs undertaken within specified distances of the Dome and Campbell mines. Sigma undertakes all new exploration projects in Quebec but does not participate in new mineral exploration projects in Ontario. In the rest of Canada and in the United States, participation is generally Dome Mines as to 50%, Campbell as to 40% and Sigma as to 10%. Sigma has elected not to participate in new Canadian exploration programs outside Quebec in 1985 and 1986.

During 1985, exploration expenditures by the Exploration Group were $13,971,000 compared to $12,459,000 in 1984 and $6,771,000 in 1983. Emphasis continues to be placed on gold properties in Ontario where $8,755,000 was spent in 1985. Other expenditures included $1,158,000 in British Columbia, $2,291,000 in Quebec and $1,278,000 in Nevada.

In 1985, Exploration Group members participated in 62 exploration programs of which 36 included diamond drilling. Approximately 90% of 1985 Exploration Group expenditures were on Canadian projects, most of which are located in Ontario, Quebec and British Columbia. Projects in the provinces of Ontario and Quebec accounted for 63% and 16% of total expenditures, respectively. As in previous years, areas near producing mines of the Exploration Group received special emphasis. In the United States, exploration programs were carried out in Nevada and neighbouring states.

In 1984, a gold occurrence was discovered on the Dona Lake property near Pickle Lake, Ontario. This property is owned as to 50% by each of Dome Mines and Campbell. Gold mineralization occurs in a folded sulphide-bearing iron formation. Prelimary studies indicate a mineral inventory, to date, of 1,474,000 tons at an estimated mining grade of 0.23 ounces of gold per ton to a depth of approximately 1,150 feet. Economic studies determined that an underground exploration program was warranted and the sinking of a small exploration shaft was started in August 1985. The shaft has been completed to its planned depth of 580 feet. The underground exploration program will consist of development on two levels, bulk sampling and diamond drilling of the current mineral inventory and its possible extension to depth. A feasibility study will be prepared based on the results of the program and the decision whether to proceed to production will be made in the fall of 1986.

If a decision is made to proceed to production at Dona Lake, it is contemplated that a mill with a rated capacity of 550 tons per day would be constructed, with start-up scheduled for early 1988. The estimated costs, based on preliminary studies, are expected to be $27 million for the development stage. Sufficient reserves have been outlined to date to support seven years of operation.

The iron formation which hosts the gold-bearing zone has an apparent strike-length on the property of about seven miles. A surface diamond drilling program to investigate other targets along the iron formation and other claim groups in the area is continuing. In diamond drilling carried out on the Dona Lake property in 1985, gold values were encountered 2,000 feet north of the exploration shaft. However, additional work is required in this geologically complex area to assess the significance of these intersections.

Under a joint venture agreement, the Exploration Group has a 35% participating interest in, and is the operator of, an exploration program, which has been continuing since 1974, on the Musselwhite property, a large property near Opapimiskan Lake, approximately 184 miles northeast of Red Lake. In 1984, an underground exploration program was carried out for the purpose of determining grade and continuity of mineralization discovered previously in the West Anticline area. The grade of gold mineralization proved to be disappointing and no further underground work is currently planned in this area. A surface drill program started in 1985 discovered a gold-bearing zone in the Snoppy Lake area of the property. Follow-up diamond drilling in 1986 has further defined this discovery; however, current information is insufficient to determine a mineral inventory at this time. To date, 20 diamond drill holes have intersected the zone and the intersections average 0.26 ounces of gold per ton over 15 feet of core length.

In Quebec, Sigma carried out work in the Val d'Or area and other parts of northwestern Quebec. The largest exploration program in Quebec was on the optioned Ligneris property of Société d'Exploration Minière Vior Inc., which is located approximately 70 miles northwest of Val d'Or. Extensive geological, geophysical and drilling programs were carried out in 1985, but no zones of economic significance were discovered. The diamond drilling program will be continued in 1986 to examine in more detail certain areas in which gold mineralization was indicated in 1985 and to test other geological targets on the remainder of the property.

McIntyre Mines Limited

On May 29, 1985, Dome Mines acquired from subsidiaries of Mobil Corporation, 1,942,534 common shares (52.9%) of McIntyre and 3,263,500 common shares (then 7.8%) of Falconbridge for an aggregate price of $160 million. McIntyre's principal asset is it's ownership of 9,242,070 common shares (then 22.1%) of Falconbridge. McIntyre is also engaged in the mining, preparation and sale of metallurgical coal through its wholly-owned subsidiary, Smoky River Coal Limited, at the Smoky River Mine located near Grande Cache, Alberta. McIntyre also has interests in other undeveloped coal properties in western Canada.

Since the acquisition of McIntyre, Dome Mines has consolidated the results of the coal operations of McIntyre. Dome Mines recorded an operating loss of $5,795,000 from the operations of McIntyre which, after taking into account the portion attributable to the minority shareholders of McIntyre, had the effect of reducing net income of Dome Mines by $2,244,000.

McIntyre recorded a loss of $26.3 million in 1985 after taking into account its equity accounted share of Falconbridge's earnings in the amount of $9.6 million.

The 1985 operating loss was primarily caused by reduced sales volumes and prices for coal, higher costs due to extended shutdowns and reduced production levels, a charge of $7.1 million to operating costs relating to the revaluation of clean coal and mining supplies inventories and a $16.3 million write-off of mining assets.

In 1986, McIntyre is planning its operations on the basis of sales of 510,000 long tons of clean coal to customers in the steel industry, 327,000 long tons of raw coal to thermal plants and 325,000 long tons of clean coal through spot sales from inventory.

In accordance with its sales targets, McIntyre has restructured its mining operations and is revising its mining plans with the objective of developing an economically viable operation, based on current market conditions. However, McIntyre continues to review and evaluate its long term options with respect to the Smoky River coal operation in view of the worldwide oversupply of metallurgical coal. Accordingly, McIntyre has retained the services of an investment dealer to advise it and assist in the possible disposition of Smoky River.

During 1985, 679,000 long tons of clean coal ("LTC") were sold with revenue per LTC averaging $63.81. In comparison, 1,168,000 LTC were sold in 1984 at an average price of $79.76 per LTC. The drop in sales volume and price reflects the continued worldwide oversupply of metallurgical coal which has affected most producers and the termination of McIntyre's sales contract with a consortium of Japanese steel mills in October, 1984. The decline in 1985 prices was also affected by the continued drop in long-term contract prices as well as sales into the spot market.

In 1985, Smoky River produced 686,000 long tons of raw coal from the open pit mine and 486,000 long tons from the underground mine compared with 1,155,000 and 577,000 long tons, respectively, in 1984. In terms of clean coal, Smoky River produced 681,000 LTC in 1985 compared to 1,220,000 LTC in 1984. The pit operated for only nine months in 1985 in order to balance production with sales.

As of January 1, 1986, proven and probable open pit reserves were 22.0 million tons with a stripping ratio of 6.6:1 bank cubic yards per long ton of raw coal. Underground reserves were 10.5 million tons based on the criterion that they be recoverable through existing mine facilities. The total proven and probable reserves of 32.5 million long tons are significantly lower than the 109.0 million long tons reported as of January 1, 1985. While this reduction reflects current economic conditions, the open pit and underground coal resources at the Smoky River mine, which cannot be currently classified as reserves based on economic criteria, are substantial and are available for future mining if coal prices or sales volumes improve.

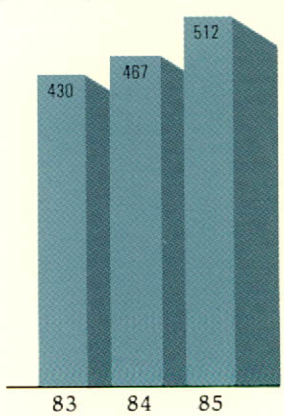
Capital expenditures for McIntyre's coal operations during 1985 totalled $1,955,000, of which $1,586,000 was spent on plant and equipment and $369,000 on deferred mine development. McIntyre estimates that capital expenditures for its coal operations in 1986 will be approximately $2.6 million, primarily for road construction.

Oil and Gas

Campbell and Sigma participate in a program of direct investment in oil and gas exploration, development and production in western Canada. Generally, oil and gas activities are managed by Dome Petroleum as operator under an agreement which provides for payment to Dome Petroleum of an overriding royalty and management fee.

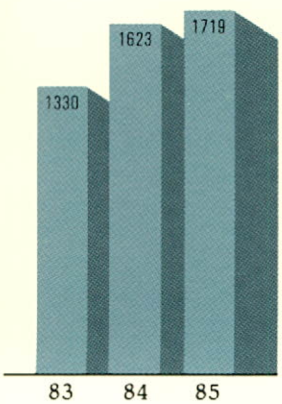
Oil and gas revenues increased 12% to $17,522,000 in 1985 principally as a result of increased production. Sales of oil represented 77% of total oil and gas revenues during 1985. At December 31, 1985, Campbell and Sigma had a net working interest in 110 producing wells of which 82 were oil and 28 were gas. Oil and gas fields in Alberta accounted for approximately 81% of crude oil production and approximately 94% of natural gas production in 1985. Of the gross revenues received by Campbell and Sigma in 1985 from oil, gas and natural gas liquids, approximately 68% was derived from producing wells in the Grand Forks (35%), Pembina (20%), Jenner (5%), Kakwa (4%) and Chauvin (4%) areas of Alberta. Oil production has increased 19% since 1983 principally as a result of increased demand and additional production from new wells. Natural gas sales volumes have increased 29% since 1983 as a result of increased demand and export of natural gas to the United States.

Oil Production
(000 bbls)

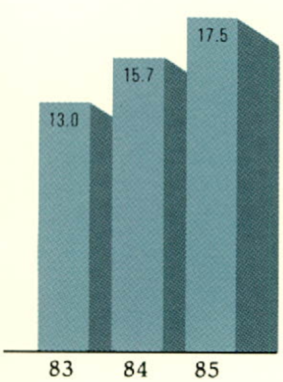


During the first five months of 1985, approximately 41% of Campbell's and Sigma's crude oil production received the New Oil Reference Price ("NORP"), approximately $40.90 per barrel, which was above the world price for reference quality crude during that period. The remaining 59% of crude oil production received the Conventional Old Oil Price ("COOP"), which was set at $29.75 per barrel. For the remainder of 1985, Campbell's and Sigma's production of crude oil was sold into the Canadian and United States markets at prevailing world price levels. The average price received during this

Gas Production
(mmcf)



Oil and Gas Revenue
($ millions)



latter period for Campbell's and Sigma's total mix of crude oil qualities was $33.60 per barrel.

The average price received for gas decreased 5% in 1985 compared to an increase of 13% in 1984. The 1985 price for natural gas remained lower than 1984 levels due to continued sales of industrial gas at discounted prices and more competitive pricing on exports to the U.S. which reduced export flowback. Average selling prices for the past three years is as follows:

	1985	1984	1983
Average sales price —			
Oil and natural gas liquids (per bbl)	$33.53	$32.14	$29.59
Natural gas (per mcf)	$2.43	$2.57	$2.28

Operating income was down marginally from 1984 and down 27% from 1983, principally as a result of increased depletion charges and higher costs arising from increased operating activity. Operating cash flow from oil and gas operations before income taxes was $12,084,000 in 1985, $10,977,000 in 1984 and $8,823,000 in 1983.

Prices have declined sharply in the international oil market since the beginning of 1986. If lower oil prices persist, revenues, operating income and cash flows from oil and gas operations will be significantly reduced in 1986.

Oil and gas capital expenditures were $6,566,000 in 1985 compared to $7,819,000 in 1984 and $3,206,000 in 1983, including capitalized interest of $695,000 and $307,000 in 1984 and 1983, respectively. During 1985 and 1984, exploration and development activities were concentrated in oil prone and oil producing areas, respectively. Development expenditures in 1985 included $629,000 for gas plant facilities. The level of expenditures in 1983 was affected by reduced direct activity by Dome Petroleum and an increased number of farmouts by Dome Petroleum.

The following table summarizes Campbell's and Sigma's land holdings and interests by area at December 31, 1985.

(thousands of acres)	Gross working interest	Net working interest	Gross royalty interest
Alberta	8,407	232	888
British Columbia	1,091	29	39
Manitoba	1,093	46	1
Ontario	38	1	—
Saskatchewan	2,483	92	141
Mackenzie Valley	3,786	83	2,234
Total	16,898	483	3,303
Developed	2,270	55	606
Undeveloped	14,628	428	2,697

Of total net working interest acreage in the traditional producing areas of western Canada, approximately 43% is mineral title land for which Campbell and Sigma hold mineral rights in perpetuity and pay no Crown royalty.

Net proved reserves of Campbell and Sigma as at December 31 for each of the last three years, as supplied by Dome Petroleum, are as follows:

	1985	1984	1983
Net proved reserves —			
Oil and natural gas liquids (000's bbls)	6,406	6,258	5,984
Natural gas (bcf)	71.2	66.8	61.8

Reserve figures are stated after the deduction of all royalties other than provincial Crown royalties. Crown royalty rates are a function of factors in each of the provinces which cannot be predicted with a reasonable degree of certainty.

Further disclosure of oil and gas producing activities is included under the heading "Unaudited Supplementary Information — Oil and Gas"

Falconbridge Limited

Dome Mines, directly and indirectly through its subsidiary, McIntyre, exercises control over approximately 24% of the issued and outstanding common shares of Falconbridge. Falconbridge is one of the largest producers of refined nickel in the non-communist world and has been engaged in mining, processing and marketing mineral products since 1928. Principal products are nickel, ferronickel, copper, cobalt and other base metals, gold, silver and platinum group metals, industrial minerals and steel castings. The principal operations of Falconbridge are located in Canada, Norway and the Dominican Republic.

Falconbridge reported earnings in 1985 of $38,543,000 from revenues of $890,247,000. Dome Mines' equity accounted share of earnings since the date of its investment in Falconbridge and McIntyre amounted to $4,547,000.

On December 18, 1985, Falconbridge agreed to acquire Kidd Creek Minerals Ltd. and its subsidiaries ("Kidd Creek") from Canada Development Corporation ("CDC") for a total consideration of $615 million payable as follows: $140 million cash; 10,473,568 common shares of Falconbridge (valued at $19.50 per share, being the market value on December 18, 1985); and $270.8 million principal amount of 8½% convertible debentures of Falconbridge maturing in 20 years and convertible into common shares of Falconbridge at a conversion price of $21.95 per share. The Kidd Creek acquisition was completed on March 10, 1986.

As a condition of the closing of the Kidd Creek acquisition, Dome Mines and McIntyre (the "Dome Group"), Falconbridge and CDC entered into a shareholders' agreement which provides that each of the Dome Group and CDC will limit to a maximum of 40%, its beneficial ownership of Falconbridge voting securities (except in certain limited circumstances including a third party take-over bid) and confers upon CDC and the Dome Group certain reciprocal rights of first refusal in the event that either wishes to dispose of any of their Falconbridge voting securities.

Kidd Creek is a fully integrated mining enterprise which sells its products on a worldwide basis. It owns and operates mining and metallurgical facilities in Timmins, Ontario. The Kidd Creek ore body yields substantial quantities of zinc, copper and silver. Kidd Creek owns and operates the Owl Creek gold mine which commenced operations in early 1982 and the Hoyle Pond gold mine which came into production in 1985. It also has an interest in a number of exploration properties.

In February, 1986, Falconbridge issued 6.6 million common shares the proceeds of which were used to finance a substantial amount of the cash portion of the acquisition cost of Kidd Creek. Dome Mines purchased 1.6 million of these common shares at a cost of $33.2 million.

At December 31, 1985, Dome Mines held 3,263,500 and its subsidiary, McIntyre, held 9,242,070, of the common shares of Falconbridge representing 7.8% and 22.1%, respectively, of the outstanding common shares of Falconbridge. As a result of the equity issue by Falconbridge and the Kidd Creek acquisition, as of April 16, 1986, Dome Mines' holding of 4,863,500 shares and McIntyre's holding of 9,242,070 shares of Falconbridge represent 8.2% and 15.7%, respectively, of the outstanding common shares of Falconbridge. CDC currently holds approximately 18% of the outstanding common shares of Falconbridge.

Aerial view of Kidd Creek metallurgical complex.

Dome Petroleum Limited

At April 16, 1986, Dome Mines and its wholly-owned subsidiaries together owned 69,528,400 (20.9%) and Campbell and Sigma owned an additional 2,315,000 (0.7%) and 1,078,000 (0.3%), respectively, of the outstanding common shares of Dome Petroleum.

Dome Mines' equity accounted loss related to its investment in Dome Petroleum, amounted to $14,302,000 in 1985, a significant improvement over the 1984 loss of $55,697,000 and the 1983 loss of $290,947,000. Offsetting these losses are gains of $12,597,000 in 1985 and $6,724,000 in 1984, arising from issues of common shares by Dome Petroleum. In addition, in 1985, Dome Mines reported an extraordinary item of $4,929,000 representing its share of Dome Petroleum's recovery of income taxes.

Dome Petroleum Debt Rescheduling

During 1982, Dome Petroleum experienced a severe cash flow shortfall as a result of then current maturities of long-term debt, high interest rates and lower than anticipated revenues. In September, 1982, Dome Petroleum, its principal Canadian bankers, the Government of Canada and Dome Mines signed an Agreement in Principle ("AIP") which contemplated a rescheduling of Dome Petroleum's debt repayment obligations and an issue of equity-related securities primarily to Dome Petroleum's secured lenders and the Government of Canada.

Dome Petroleum developed a plan to replace the AIP and presented it to its lenders on December 1, 1983. After considerable negotiation, the plan became the basis of an agreement between Dome Petroleum and certain of its lenders. This agreement as amended, including the credit facilities rescheduled thereunder, is hereinafter referred to as the "Debt Rescheduling Agreement". Closing occurred under the Debt Rescheduling Agreement on February 5, 1985 with an effective date of December 31, 1984. The AIP terminated on October 1, 1984 without any funds having been drawn thereunder.

In early 1986, the international price of crude oil declined significantly. A continuation of lower oil prices, together with price declines for natural gas and natural gas liquids that could result, without compensating interest rate reductions and changes in government fiscal policies, will have a material adverse impact on Dome Petroleum's revenue and cash flow.

If Dome Petroleum met all scheduled interest and preferred share dividend payments, debt principal repayments and preferred share redemptions it would experience a significant reduction in liquidity. Accordingly, in March, 1986, Dome Petroleum approached its affected lenders, including those who are party to the Debt Rescheduling Agreement, with an interim plan. The interim plan originally provided that the operation of certain portions of the Debt Rescheduling Agreement be suspended during the period from May 1, 1986 to June 30, 1987. The main components of this interim plan are described in note 2 to Dome Petroleum's consolidated financial statements included herein.

On April 15, 1986, Dome Petroleum announced the terms of a revised interim plan. Dome Petroleum stated that the basic premise of this revised interim plan continues to be matching repayments to secured lenders with cash flow available from the assets securing their loans, net of capital expenditures on those assets and an allocation for general and administrative costs. Interest and principal unpaid to secured lenders are proposed to be deferred, together with all payments to capital secured and unsecured lenders. Dome Petroleum proposes that deferred interest and principal payments not become due at the termination of the interim plan period, but be covered in a long-term plan to be developed and negotiated prior to the expiration of the interim plan. The revised interim plan would run from May 1, 1986 to October 28, 1986, with provision for extensions until February 28, 1987, with the approval of certain Debt Rescheduling Agreement lenders.

Dome Petroleum has requested agreements in principle from all of the affected lenders on or before April 30, 1986. There is no certainty as to the outcome of the discussions being held by Dome Petroleum and its lenders and, therefore, no assurance that the revised interim plan or any other plan will be adopted. If Dome Petroleum has not reached overall agreement with its affected lenders by April 30, 1986, it has stated that it proposes to implement the interim plan and to seek waivers or extensions of the debt due after that date. There can be no assurance that all necessary waivers and consents will be granted. Failure to obtain an overall interim plan agreement with the affected lenders or timely waivers of extensions of debt due could lead to a default under one or more of Dome Petroleum's credit agreements, which in turn could lead to an acceleration of substantially all of Dome Petroleum's debt.

The Dome Mines Guarantee of a portion of the Dome Energy Loan (as defined below) provides for the termination of the Guarantee in the event that certain changes are made to the terms of that loan without the prior written consent of Dome Mines. Accordingly, Dome Mines anticipates being requested to consent to the interim plan. To date, no negotiations have been held between Dome Mines and Dome Petroleum, or any of its lenders, with respect to the interim plan or the Guarantee. See "Dome Mines Guarantee" below.

Dome Mines Guarantee

In connection with Dome Petroleum's acquisition of Hudson's Bay Oil and Gas Company Limited, Dome Mines, on March 10, 1982, guaranteed to a maximum of Cdn $250,000,000 a bank loan (the "Dome Energy Loan") of U.S. $1 billion and Cdn $50 million made by Bank of Montreal, Canadian Imperial Bank of Commerce, The Royal Bank of Canada and The Toronto-Dominion Bank (the "T-D Bank") (collectively, the "Four Banks") to Dome Energy Limited, a wholly-owned subsidiary of Dome Petroleum. At February 17, 1986, the outstanding principal amount of the Dome Energy Loan was approximately Cdn $787.1 million.

In November, 1983, the maximum amount of the Guarantee was reduced from $250,000,000 to $225,000,000 in connection with the sale of certain security for the Dome Energy Loan and application of the proceeds of disposition to reduce the principal amount of that loan. In conjunction with the implementation of Dome Petroleum's Debt Rescheduling Agreement, the term of the Dome Energy Loan was extended to December 31, 1995 and the term of the Guarantee correspondingly extended to January 8, 1996.

As security for the repayment to Dome Mines of any amount paid by Dome Mines under its Guarantee, Dome Petroleum and its wholly-owned subsidiary, Provo Gas Producers Limited, pledged their joint and several demand debenture, secured by a fixed and specific charge on their interests in certain Beaufort Sea acreage. In addition, as guarantor, Dome Mines has subrogation rights in the security taken by the Four Banks for the Dome Energy Loan. The value to Dome Mines of its subrogation rights is dependent upon there being realizable security available to it after payment to the Four Banks of all amounts owing under the Dome Energy Loan. Neither the amount of such realizable security nor the value of Dome Mines' debenture security is now determinable by Dome Mines.

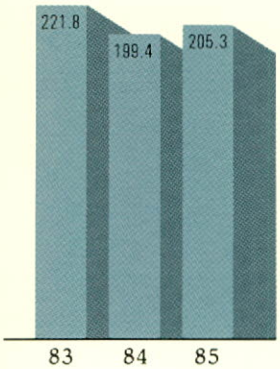
The Dome Mines Guarantee is supported by a $225,000,000 standby line of credit with the T-D Bank, which standby credit has been assigned to the Four Banks. As security for this standby credit, Dome Mines is obligated to keep pledged to the T-D

Bank Campbell common shares having a market value of at least 140% of the amount of the standby credit facility.

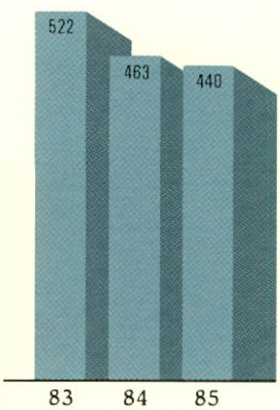
As part of the arrangements relating to the Debt Rescheduling Agreement and the Guarantee amendments, Dome Petroleum covenanted with the Four Banks to sell, by December 31, 1986, at least 10,000,000 of the 30,861,184 Common Shares of Dome Mines which it owned. Dome Mines has certain rights of consent with respect to sales of Dome Mines Common Shares owned by Dome Petroleum. Dome Mines consented to, but declined to participate as a buyer in, the sale by Dome Petroleum to certain Canadian underwriters of 10,000,000 Common Shares of Dome Mines on February 17, 1986. A secondary offering of such Common Shares was qualified for sale to the public in Canada.

For providing the Guarantee during 1985, Dome Mines received fees of $10,800,000 from Dome Petroleum and is entitled to receive a gross fee of $900,000 per month, or part thereof, during which the Guarantee remains in place at $225,000,000. Note 17(b) to Dome Petroleum's consolidated financial statements included as part of The Dome Mines consolidated financial statements states that: "The status of this fee after April 30, 1986 is uncertain at this time and future payment will be dependent upon the final terms of the interim plan." The revised interim plan announced by Dome Petroleum Limited on April 15, 1986 contemplates a deferral of this fee. A deferral of all or a substantial portion of the fee would have a negative impact on the future cash flow and earnings of Dome Mines. The revised interim plan is subject to negotiation and requires the approval of all parties affected, including Dome Mines. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Bullion Revenue
($ millions)



Revenue Per Ounce
($ Cdn)



Consolidated net income of Dome Mines for 1985 was $12,210,000 or $0.15 per share compared to losses of $25,674,000 or $0.36 per share in 1984 and $216,435,000 or $3.09 per share in 1982. The increase in earnings reflects improved 1985 operating results reported by Dome Petroleum and earnings from the investment in Falconbridge which was acquired by Dome Mines on May 29, 1985. These factors offset a decline in operating income from mining operations.

MINING

Gold mining

The number of ounces of gold produced, the price of gold and operating costs are the principal determinants of mine operating income and cash flow. Operating income from gold mining declined 11% to $60,125,000 in 1985. The contribution to operating income by gold mining activity is summarized as follows:

(thousands of Canadian dollars)	1985	1984	1983
Dome Mine	$ 2,484	$ 12,415	$ 34,897
Campbell —			
Campbell Mine	65,319	69,198	86,421
Detour Lake Mine	(678)	(4,496)	(1,372)
Sigma Mine	3,841	4,519	11,570
Dee Gold Mine	1,639	(10)	—
	72,605	81,626	131,516
Outside mineral exploration	(11,409)	(12,459)	(6,771)
Consolidating adjustments (1)	(1,071)	(1,313)	(529)
Total gold mining operating income	$ 60,125	$ 67,854	$124,216

(1) Primarily amortization of the excess of cost, to Dome Mines, of acquiring shares of Campbell and Sigma over their underlying book values and amortization of interest capitalized to assets held by subsidiary companies.

Operating cash flow from gold mining operations, before taxes, amounted to $76,617,000 in 1985, $79,763,000 in 1984 and $129,595,000 in 1983.

Bullion revenue increased 3% in 1985 to $205,295,000 as increased gold production offset a decline in revenue per ounce to $440. In 1984, although production increased, bullion revenue declined as a result of reduced revenue per ounce of $463 compared to $522 in 1983.

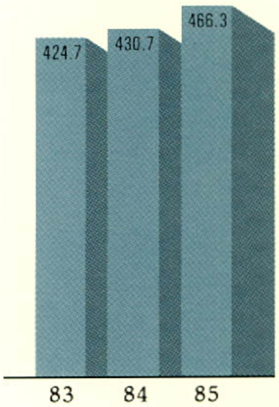
Production of gold increased 8% in 1985 to 466,274 ounces, primarily as a result of increased production at the Campbell Mine and the Dome Mine and a full year of production from the Dee Gold Mine. Production over the last three years is summarized as follows:

Ounces of gold	1985	1984	1983
Dome Mine —			
Mine production	125,797	118,472	100,602
Recovered from equipment	—	—	37,418
Campbell —			
Campbell Mine	226,152	213,946	219,200
Detour Lake Mine (1)	40,884	39,479	5,937
Sigma Mine	59,465	56,980	61,529
Dee Gold Mine (2)	13,976	1,799	—
	466,274	430,676	424,686

(1) Commercial production commenced November 1, 1983; ounces produced represent Campbell's 50% share of production only.

(2) Commercial production commenced October 15, 1984; ounces produced represent Dome Mines' pro rata 29⅓% interest only.

Gold Production
(000's of ounces)



The increase in production at the Dome Mine in 1985 is a result of an increase in tons of ore milled on completion of a program, which has been underway since 1981, to expand mill throughput. The production increase at the Campbell Mine in 1985 was a result of improved mill recovery, better grade control and a higher proportion of higher grade ore mined by the cut-and-fill method.

In 1984, gold production at the Dome Mine rose as a result of treating increased tonnage of higher grade material. Production in 1983 included 37,418 ounces of gold recovered from plant and equipment replaced as part of the mill expansion at the Dome Mine. Production in 1984 from the Detour Lake Mine reflects the first full year of production. At the Campbell Mine and the Sigma Mine, the number of ounces of gold produced declined in 1984 as a result of treating lower grades of ore.

Operating costs of gold mining, including outside mineral exploration, increased 10% to $145,170,000 in 1985. The increase in 1985 is primarily attributable to the increase in tons milled at the Dome Mine and higher depreciation charges associated with the expanded operation. Costs at the Campbell Mine increased in 1985 primarily due to an increased proportion of ore being mined by the more expensive cut-and-fill method. Costs at the Detour Lake Mine decreased in 1985 due to a number of cost improvement measures during the year.

Operating costs in 1984 increased $33,996,000, or 35%, to $131,573,000. Campbell's share of the cost of a full year's operations at the Detour Lake Mine amounted to $22,742,000 in 1984 compared to $4,140,000 for two months of operations in 1983. Operating costs in 1984 at the Dome Mine increased $4,410,000 and expenditures on outside mineral exploration increased by $5,688,000 as the scope of the exploration program was expanded.

Coal Mining

Since the acquisition of McIntyre on May 29, 1985, Dome Mines has consolidated the results of the coal operations of McIntyre. Dome Mines recorded an operating loss of $5,795,000 from the operations of McIntyre which, after taking into account the portion attributable to the minority shareholders of McIntyre, had the effect of reducing net income of Dome Mines by $2,244,000.

OIL AND GAS

Oil and gas revenue increased to $17,522,000 from $15,667,000 in 1984 and $12,962,000 in 1983. Increased production of oil and gas liquids and higher oil prices in Canadian dollar terms accounted for most of the increases. Depletion and depreciation which represent the major portion of operating costs, increased to $8,756,000 from $7,516,000 in 1984 and $4,277,000 in 1983. Operating income amounted to $3,328,000 compared to $3,461,000 in 1984, and $4,546,000 in 1983.

INVESTMENTS

Dome Petroleum

Dome Mines' loss related to its investment in Dome Petroleum, accounted for by the equity method, amounted to $14,302,000 in 1985, a significant improvement over the 1984 loss of $55,697,000 and the 1983 loss of $290,947,000. Offsetting these losses are gains of $12,597,000 and $6,724,000 recorded by Dome Mines in 1985 and 1984, respectively, arising from issues of common shares by Dome Petroleum which result in a dilution of Dome Mines' percentage interest. In addition, in 1985, Dome Mines reported an extraordinary item of $4,929,000 representing its share of Dome Petroleum's recovery of income taxes.

Falconbridge

On May 29, 1985, Dome Mines acquired from subsidiaries of Mobil Corporation, 1,942,534 common shares (52.9%) of McIntyre and 3,263,500 common shares (then 7.8%) of Falconbridge for an aggregate price of $160 million, which was approximately the quoted market value of the shares at the time of the acquisition. On May 29, 1985, McIntyre owned 9,242,070 common shares (22.1%) of Falconbridge, which gave Dome Mines an aggregate direct and indirect voting interest of approximately 30% of the then outstanding shares of Falconbridge.

Falconbridge reported earnings in 1985 of $38,543,000 from revenues of $890,247,000. Dome Mines' equity accounted share of earnings since the date of its investment in Falconbridge and McIntyre amounted to $4,547,000.

In February 1986, Dome Mines purchased 1,600,000 common shares of Falconbridge for a total cost of $33,200,000.

On March 10, 1986, Falconbridge purchased Kidd Creek Minerals Ltd. from Canada Development Corporation ("CDC"). The total consideration for such purchase was $615 million, payable as follows: $140 million cash; 10,473,568 Falconbridge common shares and $270.8 million principal amount of Falconbridge 8½% convertible debentures, maturing in 20 years and convertible into Falconbridge common shares at a conversion price of $21.95 per share.

With the closing of the Kidd Creek acquisition, the combined voting interest of Dome Mines and McIntyre is approximately 24% and CDC holds approximately 18% of the currently outstanding common shares of Falconbridge. Dome Mines, McIntyre, Falconbridge and CDC have entered into a shareholders' agreement with respect to these holdings. See "Falconbridge Limited".

Canada Tungsten

Canada Tungsten reported a loss of $28,862,000 for the year ended December 31, 1985, which includes a $20,350,000 charge to income with respect to a write-down of property, plant and equipment and an increased provision for reclamation costs. Canada Tungsten's estimate of the life of the mine has been reduced to approximately four years. Dome Mines' share of the loss of Canada Tungsten was $5,821,000.

By agreement made as of March 12, 1986, Dome Mines has agreed, subject to the fulfillment of certain conditions, to sell all of its shares of Canada Tungsten to a third party for $8,192,000. The closing is scheduled to occur on or before June 26, 1986.

Other Income

In 1985, Dome Mines received fees, net of related bank standby charges, of $9,675,000 from Dome Petroleum for guaranteeing a portion of a loan to Dome Energy Limited, a wholly owned subsidiary of Dome Petroleum. The fees, net of bank standby charges, were $10,321,000 in 1984 and $11,183,000 in 1983. See "Dome Petroleum", below.

In 1983, Dome Mines, Campbell and Sigma sold investments for gains totalling $35,556,000 before income taxes ($26,564,000, after taxes). In 1983, Campbell wrote off the cost of an investment in an oil and gas drilling fund as the wells drilled related to dry holes and non-commercial gas wells.

FINANCIAL CONDITION

On June 17, 1985, Dome Mines sold to the public 9,000,000 Units, each Unit consisting of one Common Share and one-half of a Common Share purchase warrant of the Company at a price of $11.00 per Unit. Each whole warrant entitles the holder to purchase one Common Share at a price of $13.25 prior to the close of business on June 15, 1988. The net proceeds from this public issue, amounting to approximately $94,545,000, were used to retire a portion of the bank indebtedness incurred in acquiring the shares of Falconbridge and McIntyre.

Dome Mines financed most of its 1985 mineral exploration program in Canada through a private placement of flow-through Common Shares. As a result of this private placement in 1985, Dome Mines issued 265,844 Common Shares, of which 34,644 shares were issued in January, 1986. Sigma also issued flow-through common shares to finance its 1985 mineral exploration program in the province of Quebec. The purchase price of flow-through shares is higher than market value, as tax deductions for Canadian exploration expenditures incurred are available to the purchaser of such shares and not the issuer.

During 1985, Campbell purchased in the market 1,274,000 common shares of LAC Minerals at a cost of $44,684,000. On March 7, 1986, a trial court rendered judgment which, if upheld on appeal, could result in the loss of LAC's Page-Williams gold mine in the Hemlo area of Ontario. LAC has appealed the judgment and the transfer of the mine has been temporarily stayed. At March 25, 1986, the quoted market value of this investment had declined to $26,754,000. In the first quarter of 1986, a charge to earnings will be required to reflect the decline in value.

Prices have declined sharply in the international oil market since the beginning of 1986. If lower oil prices persist, revenues, operating income and cash flow from oil and gas operations will be significantly reduced in 1986.

Kiena

On January 24, Campbell acquired from Falconbridge 3,331,203 common shares (56.7%) of Kiena for an aggregate cash purchase price of $86.6 million. Campbell arranged a revolving term loan with its Canadian bankers to finance the acquisition of

Kiena. Subject to the state of the financial and gold bullion markets, Campbell intends to arrange equity financing from which the debt incurred in this acquisition would be repaid.

Detour Lake Mine

An underground development program has been underway at the Detour Lake Mine since late 1983. In April, 1985, a decision was made to divide the development of the underground mine into two phases and to shorten the life of the current open pit operation. The first phase is expected to be completed by June, 1986, at an estimated cost of $12,547,000 of which Campbell's share is $6,274,000. An analysis of the results of the first phase is expected to be completed in September, 1986 and the decision whether to proceed with the second phase of the underground development program will be made at that time.

The total cost of the second phase of the underground development program is estimated to be $58 million, of which Campbell's share would be $29 million, for a planned production rate of 2,750 tons per day. If the second phase is approved, underground production is scheduled to commence during the first quarter of 1988 and consideration will be given to operating the mill during 1987 using low grade stockpiles and underground ore accessible from the pit.

Open pit and milling operations are now expected to continue to the end of 1986. During 1986, Campbell's share of production is expected to be in the order of 34,000 ounces. Operating costs should be lower due to a significantly lower ratio of waste to ore mined.

McIntyre

McIntyre's principal asset is its 15.7% interest in Falconbridge. McIntyre is also engaged in the mining, preparation and sale of metallurgical coal at its Smoky River mine near Grande Cache, Alberta. The termination of long-term sales contracts, combined with a general worldwide oversupply of metallurgical coal, has resulted in an uncertain future for Smoky River's coal operations. Accordingly, McIntyre has retained the services of an investment dealer to advise it on the possible disposition of Smoky River. It is not yet possible to predict if or in what time frame such a disposition might be completed.

Dome Petroleum

On May 14, 1985, Dome Petroleum issued 34,000,000 units and a further 250,000 common share purchase warrants by way of an international public offering. Each unit, issued at Cdn $3.55, consisted of one common share of Dome Petroleum and one-half of a common share purchase warrant of Dome Petroleum. A wholly-owned subsidiary of Dome Mines purchased 6,140,900 units at a total purchase price of $21,800,000.

At March 27, 1986, Dome Mines owned directly and indirectly 69,528,400 (21.0%) and Campbell and Sigma owned an additional 2,315,000 (0.7%) and 1,078,000 (0.3%), respectively, of the outstanding common shares of Dome Petroleum. Dome Mines also owns indirectly 3,070,450 common share purchase warrants of Dome Petroleum exercisable at $3.80 per share up to December 15, 1986. At March 27, 1986, the aggregate quoted market value of these investments, which is not necessarily indicative of realizable value, was $146,273,000 compared to its cost of $152,068,000.

The investment in Dome Petroleum is accounted for by the equity method. The Company's share of the losses reported by Dome Petroleum since the dates of acquisition exceed the cost to Dome Mines of the investment. These losses and the existence of the Dome Mines Guarantee have resulted in the carrying value of the investment in Dome Petroleum being reduced to a negative value of $56,533,000 at December 31, 1985. Should Dome Petroleum incur further losses, the Company would continue recording its share of such losses of Dome Petroleum until the negative carrying value of the investment in Dome Petroleum equals the amount of the Dome Mines Guarantee.

In conjunction with the implementation of Dome Petroleum's Debt Rescheduling Agreement, the term of the Dome Energy Loan was extended to December 31, 1995. The term of the Dome Mines Guarantee was correspondingly extended to January 8, 1996.

The Dome Mines Guarantee is supported by a $225,000,000 standby line of credit with The Toronto-Dominion Bank, which standby credit has been assigned to the Four Banks, lenders under the Dome Energy Loan. As security for this standby credit, Dome Mines is obligated to keep pledged to The Toronto-Dominion Bank Campbell common shares having a market value of at least 140% of the amount of the standby credit facility.

Set forth below is an extract from Dome Petroleum's Annual Report on form 10-K for the fiscal year ended December 31, 1985, concerning Dome Petroleum's current financial position. All references in this extract to the "Company" are to Dome Petroleum.

> "During 1985, the Company's financial position improved such that its cash balance at December 31, 1985 was $466 million and working capital was $178 million. However, a continuation of the steep decline in oil prices which has occurred in the first quarter of 1986 will cause a severe reduction in revenues and cash flow. In order to avoid a significant reduction in liquidity, the Company has approached certain of its lenders with a view to temporarily modifying the Debt Rescheduling Agreement and implementing an interim plan for the period currently expected to be from May 1, 1986 to June 30, 1987 (the interim period). As the outlook for oil prices becomes more stable, the Company plans to develop a permanent plan prior to the expiry of the interim period.
>
> The Company's interim plan provides that, commencing May 1, 1986, the aggregate principal and interest payments payable by the Company be restricted to income secured lenders and certain exempt and public debt and be limited to cash flows, net of associated capital expenditures and general and administrative expense. Any interest payments deferred under the interim plan would be payable at the end of the interim period, and principal deferred would be payable at the end of the interim period, or approximately three months after in certain circumstances, depending on the type of security granted in respect of the particular loan. The application of certain other provisions of the Debt Rescheduling Agreement including financial covenant tests and security coverage ratios would be suspended during the interim period. Commencing May 1, 1986, the Company will suspend dividend payments and redemptions of all preferred shares. . . .
>
> In the absence of a significant improvement in oil prices or compensating interest rate reductions and changes in government fiscal policies, the Company's continued existence as a going concern in the short term is dependent upon the lenders' acceptance of an interim plan or upon the receipt of waivers or extensions of debt due and, in the longer term, on its ability to reach agreement with its lenders on a permanent plan. However, the resolution of these matters is not assured."

Under the terms of its Debt Rescheduling Agreement which took effect as of December 31, 1984, approximately $5.3 billion of Dome Petroleum's debt was rescheduled over a period to 1995. In early 1986, the international price of crude oil declined significantly and in March, 1986, Dome Petroleum approached its lenders with an interim plan providing that the operation of certain portions of the Debt Rescheduling Agreement be suspended during the period from May 1, 1986 to June 30, 1987.

On April 15, 1986, Dome Petroleum announced the terms of a revised interim plan. Dome Petroleum stated that the basic premise of this revised interim plan continues to be matching repayments to secured lenders with cash flow available from the assets securing their loans, net of capital expenditures on those assets and an allocation for general and administrative costs. Interest and principal unpaid to secured lenders are proposed to be deferred, together with all payments to capital secured and unsecured lenders. Dome Petroleum proposes that deferred interest and principal payments not become due at the termination of the interim plan period, but be covered in a long-term plan to be developed and negotiated prior to the expiration of the interim plan. The revised interim plan would run from May 1, 1986 to October 28, 1986, with provision for extensions until February 28, 1987, with the approval of certain Debt Rescheduling Agreement lenders.

There is no assurance that the revised interim plan or any other plan will be adopted. If Dome Petroleum has not reached overall agreement with its affected lenders by April 30, 1986, it has stated that it proposes to implement the interim plan and to seek waivers or extensions of the debt due after that date. Failure to obtain an overall interim plan agreement with the affected lenders or timely waivers or extensions of debt due could lead to a default under Dome Petroleum's credit agreements, which in turn could lead to an acceleration of substantially all of Dome Petroleum's debt. Dome Mines has guaranteed up to a maximum of $225,000,000 of the Dome Energy Loan.

Dome Mines receives a monthly fee of $900,000 from Dome Petroleum for its Guarantee. Dome Petroleum has made the following statement in its consolidated financial statements contained in its 1985 Annual Report on Form 10-K with respect to the Guarantee fee: "The status of this fee after April 30, 1986 is uncertain at this time and future payment will be dependent upon the final terms of the interim plan." The revised interim plan announced by Dome Petroleum Limited on April 15, 1986 contemplates a deferral of this fee. A deferral of all or a substantial portion of the fee would have a negative impact on the future cash flow and earnings of Dome Mines. The revised interim plan is subject to negotiation and requires the approval of all parties affected, including Dome Mines.

Disclosure of the differences between Canadian and United States generally accepted accounting principles is contained in Note 12 to the Consolidated Financial Statements of Dome Mines. For discussion of the effects of changing prices see heading "Unaudited Supplementary Information — Effects of Changing Prices."

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Dome Mines Limited:

The accompanying consolidated financial statements of Dome Mines Limited and all information in the Annual Report are the responsibility of the Board of Directors and management of the Company. The consolidated financial statements have been prepared by management based on information available to March 27, 1986 and are in accordance with generally accepted accounting principles in Canada. These principles are in all material respects consistent with those in the United States, except as described in note 12 to the consolidated financial statements of Dome Mines. Financial information presented throughout this Report is consistent with the data presented in the consolidated financial statements.

A system of internal accounting control is maintained in order to assure, on a reasonable basis, the reliability of this financial information. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities. An annual budget is established against which performance is monitored, variations are investigated and corrective action taken where required.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee composed of five directors, none of whom are members of management. This Committee meets with management to assure that it is performing its responsibility to maintain financial controls and systems and to approve the annual consolidated financial statements of the Company. The Audit Committee also meets with the independent auditors to discuss the results of their audit, their review of internal accounting controls and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by Clarkson Gordon, whose appointment was ratified at the annual shareholders' meeting. The auditors' report outlines the scope of their examination and their opinion on the financial statements.

H. Douglas Scharf

H. Douglas Scharf
Vice-President, Finance,
Treasurer and Chief Financial Officer

March 27, 1986.

**To the Shareholders of
Dome Mines Limited:**

We have examined the consolidated balance sheets of Dome Mines Limited as at December 31, 1985 and 1984 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1985 in accordance with accounting principles generally accepted in Canada applied, except for the changes in accounting in 1983, with which we concur, by Dome Petroleum Limited, as described in note 2(c) to the consolidated financial statements, on a consistent basis during the period.

Toronto, Canada,
March 27, 1986.

Clarkson Gordon
Chartered Accountants

Comment by Independent Chartered Accountants for United States readers on differences between Canadian and United States reporting standards.

The above opinion is expressed in accordance with standards of reporting generally accepted in Canada. Had our report been prepared in accordance with United States reporting standards, our opinion on the 1985 consolidated financial statements would have been qualified as being subject to the uncertainties described in notes 1(c) and 2 to the consolidated financial statements.

Toronto, Canada,
March 27, 1986.

Clarkson Gordon
Chartered Accountants

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, in the Company's case, conform in all material respects with those generally accepted in the United States except as disclosed in note 12. The significant accounting policies are as follows:

Basis of consolidation

The consolidated financial statements include the accounts of subsidiary companies Sigma Mines (Quebec) Limited (No personal liability) ("Sigma") (1985 — 64.7% owned; 1984 and 1983 — 65.2% owned), Campbell Red Lake Mines Limited ("Campbell") (56.9% owned) including Campbell's 50% undivided interest in the assets, liabilities and expenses of the Detour Lake Mine, an unincorporated joint venture, and McIntyre Mines Limited ("McIntyre") (52.9% owned) which was acquired on May 29, 1985.

Marketable securities

Marketable securities are carried at the lower of cost and market.

Inventories

Bullion is valued at net realizable value. Coal inventory is valued at the lower of cost and estimated net realizable value. Mining and milling supplies are valued at average cost.

Investments

Falconbridge Limited

The investment in Falconbridge Limited ("Falconbridge") is accounted for by the equity method whereby the investment is carried at cost plus the Company's share of earnings and foreign currency translation adjustments of Falconbridge since the date of acquisition. The excess of the cost of the investment over the underlying book value of Falconbridge at the date of acquisition has been attributed to Falconbridge's producing properties and is being amortized to income on a straight-line basis over 20 years.

Dome Petroleum Limited

The investment in Dome Petroleum Limited ("Dome Petroleum") is accounted for by the equity method. The excess of the cost of the investment over the underlying book value of Dome Petroleum at the dates of acquisition has been attributed to Dome Petroleum's Canadian oil and gas reserves and is amortized to income in the same ratio that Dome Petroleum's current production is to current plus estimated future production from proved reserves. During the two years ended December 31, 1984, the excess of the cost of the investment over the underlying book value of Dome Petroleum was amortized to income in the same proportion that Dome Petroleum's current production revenues were to current plus estimated future revenues from proved reserves.

Since the Company owns common shares of Dome Petroleum and Dome Petroleum owns Common Shares of Dome Mines, the Company has a pro rata interest in its own shares. Accordingly, the investment in Dome Petroleum and shareholders' equity are reduced by the pro rata interest in the cost to Dome Petroleum of its Dome Mines' shares, and the Company's share of losses of Dome Petroleum reflected in the consolidated statements of income is based on losses of Dome Petroleum excluding its share of earnings of Dome Mines. The portion of Dome Mines' dividends applicable to its average pro rata interest is deducted from dividends in retained earnings and added to the carrying value of the investment in Dome Petroleum.

Canada Tungsten Mining Corporation Limited

Dome Mines owns 1,161,951 or approximately 20.2% of the common shares of Canada Tungsten Mining Corporation Limited ("Canada Tungsten") and accounts for this investment by the equity method.

Other investments

Marketable securities and other investments are carried at cost.

Property, plant and equipment

Mining

Property, plant and equipment are carried at cost. Depreciation and amortization are provided using the straight-line method based on estimated economic life using the following annual rates:

Mine, mill and plant	5%
Equipment	10% to 20%
Deferred exploration and development	5% to 20%

The cost of property, plant and equipment related to coal operations is amortized on the unit-of-production basis.

Exploration costs, overhead costs, interest (see "Capitalized interest") and other carrying charges related to the development of mineral properties with the potential for economically recoverable reserves are deferred until the start of commercial production and are then amortized over the estimated economic lives of the properties or producing mines.

Upon the sale or retirement of capital assets, their cost and related depreciation or amortization are removed from the accounts and any gain or loss is taken into income. Repairs and maintenance are charged to operations; major betterments and replacements are capitalized.

Oil and gas

Oil and gas operations of Dome Mines' subsidiaries, Campbell and Sigma, are accounted for by the full cost method whereby all costs of exploring for and developing reserves are capitalized. Such costs include land acquisitions, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, interest and other carrying charges of non-producing property and overhead costs related to exploration activities. However, the carrying value of oil and gas properties cannot exceed the sum of estimated future net revenues from proved reserves plus the lower of cost and net realizable value of unproved properties. Any excess is charged to expense.

On March 28, 1985, the federal government and participating provincial governments reached an agreement which effectively deregulated crude oil pricing. In addition, the governments have agreed to phase in deregulation of gas prices effective November 1, 1985. Because of the changed circumstances, effective November 1, 1985, depreciation and depletion of oil and gas properties have been provided on the composite unit-of-production method based on estimated proved reserves of oil and gas rather than on production revenues. The costs of acquiring certain undeveloped properties are excluded from the depletion base until the properties are evaluated through further exploration or over a term not exceeding five years.

Gains or losses on the disposition of oil and gas properties are not recognized unless such disposition would significantly alter the relationship between capitalized costs and proved reserves. Upon the sale or retirement of other assets, their cost and related depreciation and depletion are removed from the accounts and any gain or loss is taken into income. Repairs and maintenance are charged to operations; major betterments and replacements are capitalized.

Mineral exploration and development

Exploration costs incurred prior to establishing that a mineral property has the potential for economically recoverable reserves are charged to income. On-going development expenditures on producing properties are expensed as incurred.

Capitalized interest

Interest costs related to properties undergoing exploration or development activities that are not subject to depletion and depreciation are capitalized. When mining commences or oil and gas expenditures become subject to depletion, interest costs are charged to income.

Income and mining taxes

The provisions for income and mining taxes are based on accounting income. Deferred taxes arise as a result of recognizing costs in different periods for accounting and tax purposes. Investment tax credits are accounted for by the deferral method whereby the cost of assets is reduced at such time that reasonable assurance exists that the credits will be realized.

CONSOLIDATED BALANCE SHEETS
(thousands of Canadian dollars)

Assets	December 31	
	1985	1984
Current assets:		
Cash and short-term investments	$ 29,498	$ 61,257
Bullion and bullion settlements receivable	10,283	14,599
Marketable securities (note 13(b))	44,684	—
Income and mining taxes recoverable (note 9(d))	11,843	—
Accounts receivable —		
Dome Petroleum	2,461	—
Other	8,633	4,487
Coal inventory	17,665	—
Mining and milling supplies	17,911	11,396
Total current assets	142,978	91,739
Investments:		
Associated companies —		
Falconbridge (quoted market value: $256,364) (note 1)	248,720	—
Dome Petroleum (quoted market value: 1985 — $216,577; 1984 — $144,246) (note 2)	(56,533)	(90,692)
Canada Tungsten (quoted market value: 1985 — $9,586; 1984 — $16,141) (notes 3 and 13(c))	4,845	10,666
Other (note 4)	8,381	2,869
Property, plant and equipment (note 5(a))	396,425	394,284
	$744,816	$408,866

(See accompanying accounting policies and notes to consolidated financial statements)

Liabilities and Shareholders' Equity	December 31	
	1985	1984
Current liabilities:		
Accounts payable and accrued liabilities	$ 30,749	$ 12,066
Income and other taxes payable	23,809	19,835
Dividends payable —		
Dome Petroleum	926	926
Other shareholders	1,770	1,492
Total current liabilities	57,254	34,319
Long-term obligations (note 6)	91,595	—
Deferred income and mining taxes	131,806	127,794
Deferred revenue (notes 7(a) and 11)	689	689
Minority interest	190,806	86,559
Contingencies and commitments (notes 1(c), 2(a), (d) and (e), 9(d), 11 and 13)		
Shareholders' equity:		
Capital (note 7) —		
Authorized:		
Unlimited number of Preference Shares issuable in series		
Unlimited number of Common Shares		
Issued:		
89,837,253 (1984 — 80,606,053) Common Shares	175,765	76,501
Common Shares to be issued	378	—
Common Share warrants	2,250	—
Contributed surplus (note 8)	22,050	16,623
Retained earnings	102,751	102,539
Cumulative translation adjustment (note 1(b))	2,735	—
	305,929	195,663
Less Dome Mines' pro rata interest in the cost of its own Common Shares held by Dome Petroleum	33,263	36,158
Total shareholders' equity	272,666	159,505
	$744,816	$408,866

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF INCOME

(thousands of Canadian dollars, except per share amounts)

	Years ended December 31		
	1985	1984	1983
Revenue	$260,555	$215,094	$234,755
Operating costs	208,750	150,200	112,117
Operating income	51,805	64,894	122,638
Interest on long-term debt	(5,336)	(3,147)	(6,836)
Less interest capitalized	—	3,147	6,836
Other income	13,685	15,830	50,710
Income before taxes and other items	60,154	80,724	173,348
Income and mining taxes (note 9(a))	39,978	44,526	78,677
Income after taxes, before other items	20,176	36,198	94,671
Income (losses) related to associated companies:			
Equity in earnings (losses) of —			
Falconbridge (note 1)	4,547	—	—
Canada Tungsten (note 3)	(5,821)	(1,173)	(2,480)
Dome Petroleum (note 2)	(14,302)	(55,697)	(290,947)
Gain on share issues by associated companies	12,375	6,724	—
Minority interest	(9,694)	(11,726)	(17,679)
Income (loss) before extraordinary item	7,281	(25,674)	(216,435)
Extraordinary item:			
Share of Dome Petroleum's recovery of income taxes	4,929	—	—
Net income (loss)	$ 12,210	$(25,674)	$(216,435)
Per share (note 7(b)):			
Income (loss) before extraordinary item	$0.09	$(0.36)	$(3.09)
Extraordinary item	0.06	—	—
Net income (loss)	$0.15	$(0.36)	$(3.09)
Dividends	$0.12	$0.12	$0.11½

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(thousands of Canadian dollars)

	Years ended December 31		
	1985	1984	1983
Retained earnings, beginning of year	$102,539	$137,919	$362,399
Net income (loss)	12,210	(25,674)	(216,435)
Costs of issuing Common Shares, net of income tax reductions (1985 — $2,493; 1984 — $1,138)	(2,310)	(1,094)	—
	112,439	111,151	145,964
Dividends	10,498	9,492	8,924
Less portion applicable to Dome Mines' pro rata interest in its own Common Shares held by Dome Petroleum	810	880	879
	9,688	8,612	8,045
Retained earnings, end of year	$102,751	$102,539	$137,919

(See accompanying accounting policies and notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)

	Years ended December 31		
	1985	1984	1983
Cash provided by (used in) operating activities:			
Net income (loss)	$ 12,210	$(25,674)	$(216,435)
Items not affecting cash —			
Depreciation, depletion and amortization	27,378	19,425	9,656
Deferred income and mining taxes	4,012	13,913	32,607
Provision for reclamation	254	—	—
(Income) losses related to associated companies	(1,728)	50,146	293,427
Minority interest	9,694	11,726	17,679
Gain on issue of shares by a subsidiary	(147)	—	(762)
Gain on investments	—	—	(33,716)
	51,673	69,536	102,456
Net change in non-cash items related to operations —			
Income and mining taxes recoverable	(11,843)	—	—
Accounts receivable	(3,469)	2	(487)
Mining and milling supplies	410	(1,697)	32
Coal inventory	13,331	—	—
Accounts payable and accrued liabilities	(1,485)	880	779
Income and other taxes payable	3,974	(9,507)	(9,397)
	918	(10,322)	(9,073)
Cash provided by operating activities	52,591	59,214	93,383
Cash provided by (used in) investment activities:			
Marketable securities	(44,684)	—	54,312
Additions to property, plant and equipment (note 5(c))	(14,353)	(37,356)	(65,388)
Less share issue by a subsidiary	—	—	1,871
Investment in shares of —			
Falconbridge and McIntyre (note 1(a))	(159,705)	—	—
Dome Petroleum (note 2(b))	(21,800)	—	—
Canada Tungsten	—	(2,007)	—
Other investments	178	—	30,085
Net change in accounts payable related to investment activities	(507)	(944)	(1,485)
Cash provided by (used in) investment activities	(240,871)	(40,307)	19,395
Cash provided by (used in) financing activities:			
Bank loan	—	—	(30,000)
Long-term debt	70,737	(29,000)	(58,100)
Share issues by a subsidiary	473	—	—
Issues of Common Shares and warrants (note 7(a))	99,580	39,018	267
Deferred revenue	—	689	—
Dividends	(10,219)	(10,072)	(7,997)
Dividends paid to minority interests	(8,366)	(10,458)	(10,659)
Cash provided by (used in) financing activities	152,205	(9,823)	(106,489)
Net increase (decrease) in cash	(36,075)	9,084	6,289
Cash, beginning of year	75,856	66,772	60,483
Cash, end of year	$ 39,781	$ 75,856	$ 66,772
Changes in components of cash:			
Cash and short-term investments	$(31,759)	$3,715	$ 7,417
Bullion and bullion settlements receivable	(4,316)	5,369	(1,128)
	$(36,075)	$9,084	$ 6,289

(See accompanying accounting policies and notes to consolidated financial statements)

1. Investment in Falconbridge and McIntyre

(a) On May 29, 1985, the Company acquired, for an aggregate price of $160,000,000, 1,942,534 (52.9%) of the outstanding common shares of McIntyre and 3,263,500 (7.8%) of the then outstanding common shares of Falconbridge, which purchases have been accounted for by the purchase method. Details of the Company's share of assets acquired are as follows:

(thousands of Canadian dollars)	
Value attributed to —	
Falconbridge	$164,534
Working capital (including cash of $295)	6,568
	171,102
Less long-term liabilities	(11,102)
Purchase price	$160,000

(b) As at December 31, 1985, Dome Mines exercised, directly and indirectly through McIntyre, control and direction over a total of 12,505,570 or 29.9% of the then outstanding common shares of Falconbridge (as of March 27, 1986, 23.9% — see note 13(d)). Details of the investment in Falconbridge are as follows:

(thousands of Canadian dollars)	
Carrying value:	
Cost	$240,245
Share of undistributed income	4,325
Share of cumulative translation adjustment (including minority interest portion of $1,415)	4,150
	$248,720
Quoted market value (which is not necessarily indicative of realizable value)	$256,364

At December 31, 1985, the unamortized excess of the cost of the investment over underlying book value of Falconbridge was $15,801,000.

(c) Summarized financial information for Falconbridge is as follows:

Falconbridge Limited
Summarized Consolidated Balance Sheets

	December 31	
(thousands of Canadian dollars)	1985	1984
Assets:		
Current assets	$ 660,603	$ 521,372
Property, plant and equipment:		
Producing assets	569,765	505,176
Non-producing assets	71,592	100,381
	641,357	605,557
Other:		
Investment in associated and other companies	32,793	30,935
Other	16,625	7,686
	49,418	38,621
	$1,351,378	$1,165,550
Liabilities:		
Current liabilities	$ 126,498	$ 106,711
Long-term debt	283,970	283,842
Deferred income and mining taxes	107,610	88,956
Minority interest	47,115	50,047
	565,193	529,556
Shareholders' equity	786,185	635,994
	$1,351,378	$1,165,550

Summarized Consolidated Statements of Operations

	Years ended December 31		
(thousands of Canadian dollars)	1985	1984	1983
Revenues	$890,247	$733,312	$615,387
Operating profit (loss)	$ 80,838	$ 97,041	$ (4,122)
Other income	47,380	53,094	36,251
Other corporate costs	(79,892)	(98,994)	(81,942)
Income (loss) from investment in associated and other companies	879	(664)	6,277
	49,205	50,477	(43,536)
Income and mining taxes	(11,642)	(22,161)	816
Minority interest in losses of subsidiary companies	980	378	11,311
Income (loss) before extraordinary items	38,543	28,694	(31,409)
Extraordinary items	—	51,492	14,816
Net income (loss)	$ 38,543	$ 80,186	$ (16,593)

Falconbridge Dominicana, C. por A. ("Falcondo"), a 67.1% owned subsidiary of Falconbridge, is dependent on the continued support of its sponsors. While it is difficult to determine when market conditions will improve sufficiently to achieve profits and a sustained positive cash flow, it is the opinion of Falconbridge's management that the net carrying value of its property, plant, equipment, preproduction, and other deferred charges will be recovered eventually. The carrying value of Falconbridge's investment in Falcondo at December 31, 1985 was $53,894,000.

(d) The Company's financial statements incorporate the results of operations of McIntyre and Falconbridge from May 29, 1985, the date of acquisition of the investments in those companies. The following pro forma information with respect to Dome Mines for the years ended December 31, 1985 and 1984 has been prepared as if the investments in McIntyre and Falconbridge had been made on January 1, 1985 and 1984, respectively.

(thousands of Canadian dollars, except per share amounts)	1985	1984
Revenue	$274,982	$310,080
Income (loss) before extraordinary items	$11,075	$(18,044)
Extraordinary items	4,929	10,938
Net income (loss)	$16,004	$ (7,106)
Per share:		
Income (loss) before extraordinary items	$0.13	$(0.23)
Extraordinary items	0.06	0.14
Net income (loss)	$0.19	$(0.09)
Net weighted average number of Common Shares outstanding (000's)	82,942	80,012

2. Dome Petroleum Limited

(a) Dome Petroleum's consolidated financial statements (see pages 60 to 88) are an integral part of these consolidated financial statements and are incorporated herein by reference.

The continued existence of Dome Petroleum as a going concern and the carrying value of the Company's investment in Dome Petroleum are primarily dependent upon the outcome of certain events as described in notes 2 and 22 to Dome Petroleum's consolidated financial statements.

(b) As of December 31, 1985, Dome Mines exercised control and direction over 72,921,400 (22.0%) of the outstanding common shares of Dome Petroleum and Dome Petroleum owned 30,861,184 (34.3%) of the outstanding Common Shares of Dome Mines. As a result of these holdings, Dome Mines had a 7.4% pro rata interest in its own shares. Dome Mines also owns 3,070,450 common share purchase warrants of Dome Petroleum which are exercisable at $3.80 per share up to December 15, 1986.

On May 14, 1985, Dome Petroleum issued 34,000,000 units and a further 250,000 common share purchase warrants. Each unit, issued at Cdn $3.55, consisted of one common share of Dome Petroleum and one-half of a common share purchase warrant of Dome Petroleum. A wholly-owned subsidiary of Dome Mines purchased 6,140,900 units at a total purchase price of $21,800,000.

Details of the investment in Dome Petroleum are as follows:

	December 31	
(thousands of Canadian dollars)	1985	1984
Carrying value:		
Cost of —		
Common shares	$150,533	$130,268
Common share warrants	1,535	—
	152,068	130,268
Dome Mines' pro rata cumulative interest in its own dividends paid to Dome Petroleum	7,762	7,531
Share of losses of Dome Petroleum	(183,100)	(192,333)
	(23,270)	(54,534)
Less Dome Mines' pro rata interest in the cost of its own Common Shares held by Dome Petroleum	33,263	36,158
	$ (56,533)	$ (90,692)
Quoted market value (which is not necessarily indicative of realizable value)	$217,682	$144,246

At March 27, 1986, the quoted market value of the investment was $146,273,000.

At December 31, 1985, the unamortized excess of the cost of the investment over the underlying book value of Dome Petroleum was $56,044,000 (1984 — $64,930,000).

Should Dome Petroleum incur further losses, the Company would continue recording its share of such losses of Dome Petroleum until the negative carrying value of the investment in Dome Petroleum equals the amount of the Dome Mines Guarantee (see note 2(e)).

On February 17, 1986, Dome Petroleum sold 10,000,000 Common Shares of Dome Mines. After giving effect to this sale, Dome Petroleum owns 20,861,184 or 23.2% of the outstanding Common Shares of Dome Mines. Consequently, Dome Mines' pro rata interest in its own shares has been reduced to 5%.

(c) As described in note 3(a) to Dome Petroleum's consolidated financial statements, on December 31, 1983, Dome Petroleum and its equity accounted investee, Dome Canada Limited, segregated their investments in Frontier areas from their western Canada oil and gas lands and established separate cost centres. As a consequence, in 1983, certain Frontier costs were charged directly to income while other Frontier costs are being amortized over 15 years. Under the accounting policy followed prior to December 31, 1983, Frontier costs would have been included with other oil and gas property costs subject to depletion and amortized to income in accordance with Dome Petroleum's depletion policy for western Canada lands. This change in accounting policy by Dome Petroleum increased Dome Mines' 1983 consolidated loss by $83,281,000 or $1.19 per share.

Effective January 1, 1984, Dome Petroleum adopted foreign currency translation policies generally accepted in Canada. This change in accounting policy by Dome Petroleum increased Dome Mines' consolidated loss by $4,390,000 or $0.06 per share in 1984.

(d) Set forth below is an extract from Dome Petroleum's Annual Report on Form 10-K for the fiscal year ended December 31, 1985 concerning Dome Petroleum's current financial position. All references in this extract to the "Company" are to Dome Petroleum.

> "During 1985, the Company's financial position improved such that its cash balance at December 31, 1985 was $466 million and working capital was $178 million. However, a continuation of the steep decline in oil prices which has occurred in the first quarter of 1986 will cause a severe reduction in revenues and cash flow. In order to avoid a significant reduction in liquidity, the Company has approached certain of its lenders with a view to temporarily modifying the Debt Rescheduling Agreement and implementing an interim plan for the period currently expected to be from May 1, 1986 to June 30, 1987 (the interim period). As the outlook for oil prices becomes more stable, the Company plans to develop a permanent plan prior to the expiry of the interim period.
>
> The Company's interim plan provides that, commencing May 1, 1986, the aggregate principal and interest payments payable by the Company be restricted to income secured lenders and certain exempt and public debt and be limited to cash flows, net of associated capital expenditures and general and administrative expense. Any interest payments deferred under the interim plan would be payable at the end of the interim period, and principal deferred would be payable at the end of the interim period, or approximately three months after in certain circumstances, depending on the type of security granted in respect of the particular loan. The application of certain other provisions of the Debt Rescheduling Agreement including financial convenant tests and security coverage ratios would be suspended during the interim period. Commencing May 1, 1986 the Company will suspend dividend payments and redemptions of all preferred shares. . . .

In the absence of a significant improvement in oil prices or compensating interest rate reductions and changes in government fiscal policies, the Company's continued existence as a going concern in the short term is dependent upon the lenders' acceptance of an interim plan or upon the receipt of waivers or extensions of debt due and, in the longer term, on its ability to reach agreement with its lenders on a permanent plan. However, the resolution of these matters is not assured."

(e) In connection with Dome Petroleum's acquisition of Hudson's Bay Oil and Gas Company Limited, Dome Mines, on March 10, 1982, guaranteed to a maximum of Cdn $250,000,000 a bank loan (the "Dome Energy Loan") of U.S. $1 billion and Cdn $50 million made by Bank of Montreal, Canadian Imperial Bank of Commerce, The Royal Bank of Canada and The Toronto-Dominion Bank (the "T-D Bank") (collectively, the "Four Banks") to Dome Energy Limited, a wholly-owned subsidiary of Dome Petroleum. At February 17, 1986, the outstanding principal amount of the Dome Energy Loan was approximately Cdn $787.1 million.

In November, 1983, the maximum amount of the Guarantee was reduced from $250,000,000 to $225,000,000 in connection with the sale of certain security for the Dome Energy Loan and application of the proceeds of disposition to reduce the principal amount of that loan.

As security for the repayment to Dome Mines of any amount paid by Dome Mines under its Guarantee, Dome Petroleum and its wholly-owned subsidiary, Provo Gas Producers Limited, pledged their joint and several demand debenture, secured by a fixed and specific charge on their interests in certain Beaufort Sea acreage. In addition, as guarantor, Dome Mines has subrogation rights in the security taken by the Four Banks for the Dome Energy Loan. The value to Dome Mines of its subrogation rights is dependent upon there being realizable security available to it after payment to the Four Banks of all amounts owing under the Dome Energy Loan. Neither the amount of such realizable security nor the value of Dome Mines' debenture security is now determinable by Dome Mines.

Dome Mines' Guarantee is supported by a $225,000,000 standby line of credit with the T-D Bank (see note 6(a), which standby credit has been assigned to the Four Banks. As security for this standby credit, Dome Mines is obligated to keep pledged to the T-D Bank Campbell common shares having a market value of at least 140% of the amount of the standby credit facility.

In February, 1985, Dome Petroleum and certain of its lenders closed the Dome Petroleum Debt Rescheduling Agreement, effective December 31, 1984, under which repayment of $5.3 billion of Dome Petroleum's debt was rescheduled over a twelve year period extending to 1995. In conjunction with the extension of the Dome Energy Loan to December 31, 1985 pursuant to the Debt Rescheduling Agreement, the term of the Dome Mines Guarantee was correspondingly extended to January 8, 1996.

For providing the Guarantee, Dome Mines received fees of $10,800,000 in 1985 (1984 — $10,800,000, 1983 — $11,800,000) or $9,675,000 net of standby fees (1984 — $10,321,000, 1983 — $11,183,000) from Dome Petroleum. During the period in which the Guarantee remains in place at $225,000,000, Dome Mines is entitled to receive a gross fee of $900,000 per month, or part thereof. Note 17(b) to Dome Petroleum's consolidated financial statements contained herein, states that: "The status of this fee after April 30, 1986 is uncertain at this time and future payment will be dependent upon the final terms of the interim plan." To date, there have been no negotiations with Dome Mines with respect to the interim plan or the Guarantee fee.

3. Canada Tungsten Mining Corporation Limited

Details of the investment in Canada Tungsten, which is accounted for by the equity method, are as follows (see note 13(c)):

	December 31	
(thousands of Canadian dollars)	1985	1984
Number of shares	1,161,951	1,152,895
Carrying value:		
Cost	$3,346	$ 3,346
Equity in undistributed earnings	1,499	7,320
	$4,845	$10,666
Quoted market value (which is not necessarily indicative of realizable value)	$9,586	$16,141

Dome Mines received 9,056 common shares in October, 1985 as a result of Canada Tungsten declaring a dividend payable in common shares.

4. Other investments

Details of other investments are as follows:

	December 31	
(thousands of Canadian dollars)	1985	1984
With no quoted market value —		
Panarctic Oils Ltd., 820,807 (1984 — 820,807) common shares	$2,345	$2,308
Sundry (1)	6,036	561
Total	$8,381	$2,869

(1) At December 31, 1985, sundry investments principally include housing and long-term receivables related to the operations of McIntyre.

5. Business segments

The Board of Directors has determined that mining and oil and gas exploration and production are the principal business segments of the Company. These activities are carried out principally in Canada. Selected financial information by business segment is summarized below.

(a) Total assets at December 31 are summarized as follows:

(thousands of Canadian dollars)	1985	1984
Mining:		
Gold —		
Property, plant and equipment	$212,689	$208,196
Less accumulated depreciation, depletion and amortization	58,659	47,043
	154,030	161,153
Deferred exploration and development	68,358	69,970
	222,388	231,123
Current assets	36,483	29,147
	258,871	260,270
Coal —		
Property, plant and equipment	11,462	
Less accumulated depreciation and depletion	2,431	
	9,031	
Deferred development	4,173	
	13,204	
Current assets	29,434	
	42,638	
Oil and gas:		
Property, plant and equipment	186,395	179,967
Less accumulated depreciation and depletion	25,562	16,806
	160,833	163,161
Current assets	1,841	926
	162,674	164,087
Assets not allocated to segments:		
Current assets	75,220	61,666
Investments	205,413	(77,157)
	280,633	(15,491)
	$744,816	$408,866

(b) Revenue, operating costs and operating income by segment are as follows:

(thousands of Canadian dollars)	1985	1984	1983
Mining:			
Gold —			
Bullion revenue	$205,295	$199,427	$ 221,793
Operating costs —			
Mine, mill and plant	106,934	97,531	77,112
General and administrative	10,335	9,674	8,315
Depreciation, depletion and amortization	16,492	11,909	5,379
Outside mineral exploration	11,409	12,459	6,771
	145,170	131,573	97,577
Operating income	60,125	67,854	124,216
Coal —			
Coal revenue	37,738		
Operating costs —			
Operations	39,129		
Depreciation and depletion	2,130		
Reclamation	254		
General and administrative	2,020		
	43,533		
Operating loss	(5,795)		
Total mine operating income	54,330	67,854	124,216
Oil and gas:			
Revenue	17,522	15,667	12,962
Operating costs —			
Operations	2,898	2,553	2,069
General and administrative	792	738	725
Depreciation and depletion	8,756	7,516	4,277
Revenue taxes	1,748	1,399	1,345
	14,194	12,206	8,416
Operating income	3,328	3,461	4,546
General corporate costs	5,853	6,421	6,124
Operating income	51,805	64,894	122,638
Other income (expense):			
Interest income	4,116	3,906	4,618
Interest expense on long-term debt	(5,336)	(3,147)	(6,836)
Less interest capitalized	—	3,147	6,836
Dividends	281	—	286
Gain on investments	—	—	33,716
Guarantee fees, net (note 2(e))	9,675	10,321	11,183
Gain on issue of shares by a subsidiary	147	—	762
Other	(534)	1,603	145
	8,349	15,830	50,710
Income before taxes and other items	60,154	80,724	173,348
Income and mining taxes	(39,978)	(44,526)	(78,677)
Income after taxes, before other items	20,176	36,198	94,671
Income (losses) related to associated companies	(3,201)	(50,146)	(293,427)
Minority interest	(9,694)	(11,726)	(17,679)
Extraordinary item	4,929	—	—
Net income (loss)	$ 12,210	$ (25,674)	$(216,435)

(c) Net expenditures during the past three years on property, plant and equipment are summarized as follows:

(thousands of Canadian dollars)	1985	1984	1983
Mining —			
Gold	$ 7,757	$29,833	$62,217
Coal	168	—	—
Oil and gas	6,428	7,523	3,171
	$14,353	$37,356	$65,388

(d) At December 31, 1985, all costs of acquiring non-producing oil and gas properties are included in the calculation of depletion. In prior years acquisition costs of certain non-producing oil and gas properties were excluded from assets for purposes of calculating depletion. The amounts excluded were $19,834,000 in 1984 and $43,977,000 in 1983.

Effective November 1, 1985, depreciation and depletion of oil and gas costs are based on the unit-of-production method. Until October 31, 1985, depreciation and depletion of capitalized oil and gas costs were calculated based on a percentage of oil and gas revenue. These rates were 51% in the first ten months of 1985, 48% in 1984 and 32% in 1983. The rate for November and December of 1985 averaged $9.78 per equivalent barrel.

6. Long-term obligations

Long-term obligations comprise the following at December 31, 1985:

(thousands of Canadian dollars)	
Dome Mines	$71,000
McIntyre	20,595
	$91,595

(a) Dome Mines

Dome Mines has a $125,000,000 revolving bank line of credit which expires December 31, 1987. At December 31, 1985, $71,000,000 in long-term bank indebtedness had been drawn under the line of credit by way of short-term bankers' acceptances and demand notes. In addition, Dome Mines has a $225,000,000 bank standby credit in support of its Guarantee described in note 2(e). The standby credit expires on the earlier of the 40th business day following January 2, 1996 or the release of the Guarantee. As security for the standby credit, Dome Mines is obligated to keep pledged to the T-D Bank common shares of Campbell having a market value of at least 140% of the amount of the standby credit facility. Dome Mines pays standby fees of ¼% and ½% per annum on the undrawn portion of the revolving and standby lines of credit, respectively.

(b) McIntyre

McIntyre's long-term obligations as at December 31, 1985 are as follows:

(thousands of Canadian dollars)	
Provision for reclamation	$10,763
Mortgages on houses held for sale	6,227
Capital leases	838
Alberta Power Limited agreement	3,375
	21,203
Less current portion included in accounts payable	608
	$20,595

McIntyre has available to it a line of credit of $30,000,000 on which no commitment fees are charged.

7. Shareholders' equity and net income (loss) per share

(a) Capital

On June 17, 1985, Dome Mines sold 9,000,000 Units, each consisting of one Common Share and one-half of a Common Share purchase warrant at a price of $11.00 per Unit for gross proceeds of $99,000,000. Each whole warrant entitles the holder to purchase one Common Share of Dome Mines prior to June 16, 1988, at a price of $13.25.

During 1985, the Company financed $4,626,000 of its mineral exploration program through the private placement of 265,844 flow-through Common Shares of which 34,644 shares were issued in January, 1986. The portion of the subscription price relating to the market value of the shares at the date of agreement is included as share capital and the balance of the subscription price is included as a reduction of outside mineral exploration expense.

On October 16, 1984, the Company sold 3,000,000 Units, each consisting of one Common Share and a warrant to purchase 0.02 ounces of gold, at a price of $14.00 per Unit (see note 11). Proceeds from the sale of the warrants have been recorded as deferred revenue and will be included in income upon the exercise or expiry of the warrants.

(b) Net income (loss) per share

Net income (loss) per share is calculated using the net weighted average number of Common Shares outstanding during the year (1985 — 79,192,000; 1984 — 71,012,000; 1983 — 69,950,000) after deducting the Company's pro rata interest in its own Common Shares held by Dome Petroleum. The exercise of outstanding share purchase warrants, options and convertible securities of the Company and its associated companies would have no material dilutive effect on reported earnings per share.

(c) Stock options

In December 1982, the Key Employee Stock Option Plan was established under which options to purchase shares of the Company may be granted for terms of up to ten years. Details of the options granted, surrendered and exercised for each of the three years ended December 31, 1985 are as follows:

	Number of Common Shares	Option price per share
Options outstanding, December 31, 1982	250,000	$13.55
Granted during year	224,000	$13.55-$20.50
Surrendered or expired	(32,195)	
Exercised	(13,805)	
Options outstanding, December 31, 1983	428,000	
Granted during year	17,000	$16.50
Options outstanding, December 31, 1984	445,000	
Granted during year	106,400	$12.25
Options outstanding, December 31, 1985	551,400	$12.25-$20.50

A total of 295,400 options were immediately exercisable at December 31, 1985 with the remainder exercisable over periods extending to 1989.

The Plan provides for Stock Appreciation Rights whereby the employee may surrender options and receive an amount equal to the excess of the fair market value of the Common Shares over the exercise price of the options. Upon the exercise of Stock Appreciation Rights, an amount equal to such excess is charged to earnings. Upon the exercise of options, amounts received are credited to share capital.

8. **Contributed surplus**

Contributed surplus increased $5,427,000 during 1985, $11,994,000 during 1984 and $1,023,000 during 1983. Contributed surplus results principally from the reduction of the Company's pro rata interest in its own Common Shares arising on issue of common shares by Dome Petroleum.

9. **Income and mining taxes**

(a) Details of income and mining tax expense (recovery) are as follows:

(thousands of Canadian dollars)	Current	Deferred	Total
1985			
Federal income tax	$14,418	$5,473	$19,892
Provincial income taxes	7,547	(400)	7,147
Provincial mining taxes	14,000	(1,061)	12,939
	$35,965	$4,012	$39,978
1984			
Federal income tax	$10,975	$10,997	$21,972
Provincial income taxes	5,275	3,370	8,645
Provincial mining taxes	14,363	(454)	13,909
	$30,613	$13,913	$44,526
1983			
Federal income tax	$18,854	$18,206	$37,060
Provincial income taxes	7,594	7,935	15,529
Provincial mining taxes	19,622	6,466	26,088
	$46,070	$32,607	$78,677

(b) Deferred taxes arising from claiming costs for tax purposes at amounts differing from those charged to income are as follows:

(thousands of Canadian dollars)	1985	1984	1983
Depreciation	$3,650	$11,081	$26,834
Exploration and development	(986)	3,059	4,613
Interest capitalized	590	(106)	3,350
Other	758	(121)	(2,190)
	$4,012	$13,913	$32,607

(c) The reconciliation of the statutory income and mining tax rates to the effective tax rate is as follows:

	1985	1984	1983
Income taxes —			
Basic statutory rate	50.3%	49.7%	49.4%
Less:			
Resource allowance	13.5	10.9	7.5
Earned depletion	5.2	6.1	7.8
Premium on flow-through share issues	(2.7)	—	—
Crown royalties	(2.5)	(1.4)	(0.6)
Revenue taxes	(1.4)	(0.8)	(0.4)
Income (expenses) not subject to income taxes (1)	(6.5)	0.1	5.6
Federal surtax	(1.2)	—	(0.5)
Sundry	0.9	(3.1)	(0.3)
	5.3	11.8	19.1
Effective rate	45.0	37.9	30.3
Mining taxes —			
Average rate on mining income	20.2	20.8	21.1
Income (expenses) not subject to mining taxes	(1.3)	3.5	6.0
Effective rate	21.5	17.3	15.1
Effective tax rate	66.5%	55.2%	45.4%

(1) Exempt income consists principally of dividends from Canadian corporations and the non-taxable portion of capital gains on the sale of investments. Non-deductible expenses consist principally of losses arising from operations in the United States and McIntyre's coal operations which are not transferable to the parent company and exploration expenses incurred with respect to flow-through share issues.

(d) In March, 1985, the Company received notices of reassessment under the Ontario Mining Tax Act imposing additional taxes and interest for the years 1979 to 1982, inclusive. The Company believes the reassessments are not warranted and has filed notices of appeal.

Pending resolution of the appeals, payments made in respect of the reassessments have been recorded as taxes recoverable. Should the appeals be unsuccessful, any additional tax provision required with respect to the years reassessed would be charged to retained earnings as a prior period adjustment. Under accounting principles generally accepted in the United States, such an adjustment would be included in income in the period the reassessment is resolved. The maximum amount of the adjustment, if any, is not expected to exceed $2,639,000.

(e) At December 31, 1985, McIntyre and its subsidiaries had approximately $31 million in tax loss carryforwards and $88 million of aggregate unused capital cost allowance and exploration and development deductions available to offset future income from certain activities or mining properties. The tax loss carryforwards will expire as follows: 1987 — $15 million; 1988 — $4 million; 1992 — $12 million.

10. Pension plans

Substantially all employees are eligible for and are members of pension plans requiring contributions by Dome Mines and its subsidiaries. Pension costs are calculated and funded based on actuarial estimates. At December 31, 1985, there were no unfunded past service obligations. Pension expense was $1,035,000 in 1985, $815,000 in 1984 and $1,631,000 in 1983.

Vested and non-vested benefits under the plans and the net assets available for plan benefits are as follows:

	December 31	
(thousands of Canadian dollars)	1985	1984
Actuarial present value of accumulated plan benefits, using an assumed discount rate averaging 5.9%:		
Vested benefits	$24,020	$15,608
Non-vested benefits	464	615
	$24,484	$16,223
Net assets available for plan benefits	$33,673	$18,179

11. Commitment

At December 31, 1985, Dome Mines had 3,000,000 gold purchase warrants outstanding (see note 7(a)) which entitle holders to purchase a total of 60,000 ounces of gold at U.S.$425 per ounce during the period ending October 16, 1989.

12. Differences between Canadian and United States generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian basis") which differ in some respects from those applicable in the United States ("U.S. basis"). Had the Company followed the U.S. basis, certain items on the consolidated balance sheets and consolidated statements of income would have been reported as follows:

Consolidated Balance Sheets

	December 31	
(thousands of Canadian dollars)	1985	1984
Investments:		
Dome Petroleum	$(36,782)	$(32,629)
Falconbridge	$249,826	—
Current liabilities	$56,225	$34,319
Minority interest in subsidiary companies	$191,860	$86,559
Retained earnings	$123,686	$160,601

Consolidated Statements of Income

	Years ended December 31		
(thousands of Canadian dollars)	1985	1984	1983
Net income (loss) in accordance with the Canadian basis	$ 12,210	$(25,674)	$(216,435)
Add (deduct) adjustments to income (losses) related to associated companies	(37,127)	(18,569)	85,701
Loss in accordance with the U.S. basis	$(24,917)	$(44,243)	$(130,734)
Loss per share in accordance with the U.S. basis	$(0.32)	$(0.62)	$(1.87)

The principal differences between accounting principles generally accepted in Canada and the United States as they affect Dome Mines pertain to Dome Petroleum and are described in note 21 to Dome Petroleum's consolidated financial statements.

The Company's method of determining the limitation on the amount (the "ceiling amount") of the carrying value of its oil and gas assets differs from the method generally accepted in the United States. Under the U.S. basis the ceiling amount is limited, at the end of each reporting period, to the present value of estimated future net revenues, discounted at 10% and based on period end prices and costs, plus the cost of properties not being depleted and unproved properties at the lower of cost or net realizable value, all adjusted for related income tax effects. In addition, the U.S. basis requires that if a price decline occurs subsequent to the reporting period, which would have resulted in the carrying value of oil and gas properties exceeding the ceiling amount at the reporting period end if such prices had been used, disclosure of the amount of the excess is required.

Calculation of the ceiling amount in conformity with the U.S. basis as at December 31, 1985 indicated no adjustment to the carrying value of oil and gas properties was required. Had the ceiling amount been calculated at December 31, 1985 in conformity with the U.S. basis, by reference to crude oil prices of U.S. $16 or U.S. $12 per barrel, the carrying value of oil and gas assets would have exceeded the calculated ceiling amounts and approximately $27 million or $50 million, respectively, would have been charged to income, net of related income taxes.

13. Subsequent events

(a) Kiena Gold Mines Limited

On January 24, 1986, Campbell acquired from Falconbridge Limited 3,331,203 or 56.7% of the outstanding common shares of Kiena Gold Mines Limited for an aggregate cash purchase price of $86,611,000 or $26.00 per share. The acquisition, which was financed by bank borrowing, is accounted for on the purchase basis of accounting as follows:

(thousands of Canadian dollars):	
Net assets acquired —	
Total assets	$110,424
Liabilities	6,085
	104,339
Minority interest	17,728
	$ 86,611

The excess of the cost of the acquisition over Kiena's book value amounted to $58,314,000. This excess has been ascribed to Kiena's mining property and will be amortized over the estimated economic life of the property.

(b) LAC Minerals Limited

During 1985, Campbell purchased 1,274,000 common shares of LAC Minerals Limited at a cost of $44,684,000. On March 7, 1986, a trial court rendered judgment which, if upheld on appeal, could result in the loss of LAC's Page-Williams gold mine in the Hemlo area of Ontario. LAC has appealed the judgment and the transfer of the mine has been temporarily stayed. At March 25, 1986, the quoted market value of the investment had declined to $26,754,000. In the first quarter of 1986 a charge to earnings will be required to reflect the decline in value.

(c) Canada Tungsten

The Company owns 1,161,951 (20.2%) of the outstanding common shares of Canada Tungsten. By agreement made as of March 12, 1986, the Company has agreed, subject to the fulfillment of certain conditions, to sell all of these shares to a third party for an aggregate price of $8,191,755. The closing is scheduled to occur on or before June 26, 1986, at which time a gain would be recorded in the accounts of the Company.

(d) Falconbridge

In February, 1986, Falconbridge issued 6,600,000 common shares, of which Dome Mines purchased 1,600,000 for a total cost of $33,200,000. The acquisition by Dome Mines was financed by bank indebtedness.

On March 7, 1986, the shareholders of Falconbridge approved the Falconbridge purchase of Kidd Creek Minerals Ltd. ("Kidd Creek") for a total consideration of $615 million, payable as follows: $140 million in cash; 10,473,568 Falconbridge common shares valued at $204.2 million or $19.50 per share; and $270.8 million principal amount of Falconbridge 8½% convertible debentures maturing in twenty years and convertible into Falconbridge common shares at a conversion price of $21.95 per share. Upon closing of the Kidd Creek acquisition on March 10, 1986, the combined voting interest of Dome Mines and McIntyre was reduced to 23.9% (see note 1(b)).

(e) Oil and gas properties

The carrying value of the Company's oil and gas properties cannot exceed the sum of estimated future net revenues from proved reserves plus the cost of properties not being depleted and the lower of cost and net realizable value of unproved properties. Early in 1986, there was a significant decline in crude oil prices. If these reduced prices continue, a write-down of oil and gas properties may be required in 1986.

14. Reclassifications

Certain figures as at December 31, 1984 and for the years ended December 31, 1984 and 1983 have been reclassified to conform to the current year's presentation.

The following Consolidated Financial Statements of Dome Petroleum Limited are an integral part of the Consolidated Financial Statements of Dome Mines Limited. References made to the "Company" on pages 60 to 88 are to Dome Petroleum.

CONSOLIDATED BALANCE SHEET
(millions of Canadian dollars)

Assets	December 31 1985	December 31 1984
Current		
Cash and short-term deposits		
Restricted	$ —	$ 83
Unrestricted	466	155
Accounts receivable	631	497
Inventories		
Product	123	161
Materials and supplies	50	62
	1,270	958
Investments		
Dome Mines Limited (quoted market value December 31, 1985 — $390; December 31, 1984 — $285)	251	244
Less Dome Petroleum's pro rata interest in its common shares held by Dome Mines	(104)	(107)
	147	137
Dome Canada Limited (quoted market value December 31, 1985 — $340; December 31, 1984 — $234)	429	413
	576	550
Property, plant and equipment	5,843	6,095
Deferred foreign exchange	286	141
Other assets	204	172
	$8,179	$7,916

The Company follows the full cost method of accounting.

Dome Petroleum Limited

Liabilities and Shareholders' Deficiency	December 31	
	1985	1984
Current		
Short term bank loans	$ —	$ 15
Accounts payable and accrued liabilities	711	779
Income and other taxes payable	12	40
Long term debt due within one year	369	205
	1,092	1,039
Long term debt	5,901	6,098
Deferred revenue	201	213
Deferred income taxes	805	668
Redeemable preferred shares		
Issued by subsidiaries	350	220
Issued by the Company	96	98
Contingencies and commitments (Notes 2 and 20)		
Shareholders' deficiency		
Preferred shares	105	109
Common shares (issued and outstanding at December 31, 1985 — 331,219,556; December 31, 1984 — 278,564,775)	394	243
Common share warrants	8	—
Contributed surplus	50	46
Deficit	(719)	(711)
Dome Petroleum's pro rata interest in its common shares held by Dome Mines	(104)	(107)
	(266)	(420)
	$8,179	$7,916

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

(millions of Canadian dollars, except per share amounts)

	Three Years ended December 31		
	1985	1984	1983
Revenue			
Crude oil and natural gas	$1,181	$1,090	$ 953
Natural gas liquids	1,011	1,013	1,135
Contract drilling	244	336	409
Other	—	9	98
	2,436	2,448	2,595
Expense			
Operating expense			
Crude oil and natural gas	309	268	249
Natural gas liquids	802	834	895
Contract drilling	102	171	221
Other	—	12	119
Depletion, depreciation and amortization	376	368	335
Write-down of assets	—	—	1,099
Loss (gain) on disposal of assets	(66)	(40)	65
General and administrative	62	83	111
Interest and financing	655	839	647
Foreign exchange	28	123	27
Other corporate	(38)	(23)	2
	2,230	2,635	3,770
	206	(187)	(1,175)
Income taxes			
Current	33	(249)	135
Deferred	207	287	(161)
	240	38	(26)
	(34)	(225)	(1,149)
Equity in earnings of associated companies	19	28	44
Income (loss) before extraordinary item	(15)	(197)	(1,105)
Reduction of current income taxes on utilization of loss carry forward	22	—	—
Net income (loss)	$ 7	$ (197)	$(1,105)
Per common share (after deduction of preferred share dividends)			
Before extraordinary item	$(0.09)	$(0.84)	$(4.72)
Net income (loss)	(0.02)	(0.84)	(4.72)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)
(millions of Canadian dollars)

Dome Petroleum Limited

	Three Years ended December 31		
	1985	1984	1983
Retained earnings (deficit), beginning of year	$(711)	$(496)	$ 621
Net income (loss)	7	(197)	(1,105)
	(704)	(693)	(484)
Preferred share dividends			
Stock	(1)	(2)	(1)
Cash	(11)	(10)	(10)
Other	(3)	(6)	(1)
Deficit, end of year	$(719)	$(711)	$ (496)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
(millions of Canadian dollars)

	Three Years ended December 31		
	1985	1984	1983
Operating activities			
Cash operating income	$1,223	$1,163	$1,111
Interest and financing	(678)	(891)	(784)
General and administrative	(86)	(112)	(140)
Other — net	83	49	12
Cash from operations	542	209	199
Investment activities			
Expenditures on property, plant and equipment	(139)	(129)	(287)
Other — net	4	12	75
Cash used for investment	(135)	(117)	(212)
Financing activities			
Long term debt			
Increase	3	5	82
Repayment	(242)	(268)	(578)
Proceeds on disposal of assets	142	139	563
Issue of common shares and warrants	126	33	47
Other — net	(193)	137	206
Cash from (used for) financing	(164)	46	320
Increase in cash	243	138	307
Cash, beginning of year	223	85	(222)
Cash, end of year	$ 466	$ 223	$ 85

Cash comprises cash and short term deposits net of short term bank loans.

The accompanying notes are an integral part of the consolidated financial statements.

1. Summary of Significant Accounting Policies

Consolidated Financial Statements

The consolidated financial statements of the Company have been prepared on a going concern basis (see Note 2) in accordance with accounting principles generally accepted in Canada (see Note 21 for differences between Canadian and United States generally accepted accounting principles). These financial statements include the accounts of Dome Petroleum Limited and its subsidiary companies, except that Cyprus Anvil Mining Corporation (Cyprus) was not consolidated for the period from December 31, 1983 to November 21, 1985 since it was the Company's intention to dispose of this investment. The Company disposed of the mining assets of Cyprus on November 22, 1985.

The excess of the consideration paid for the shares of subsidiaries over their net book values at dates of acquisition has been attributed to the related property, plant and equipment. Substantially all of the Company's oil and gas operations are carried out jointly with others and these financial statements reflect only the Company's proportionate interest in such operations.

Foreign Currency Translation

The accounts of foreign operations are stated in Canadian dollars. Current assets, current liabilities and long term liabilities are translated at the rates of exchange prevailing at the balance sheet date. Long term assets are translated at the rates in effect on the dates the assets were acquired. Exchange gains or losses arising on translation of long term liabilities are deferred and amortized over the remaining term of the liabilities. Revenue and expense items are translated at monthly average rates during the year with the exception of depletion, depreciation and amortization, which are translated at the rates of exchange used for the related assets. The resulting gains and losses are included in income.

Inventories

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

Investments

The Company's investments in Dome Mines Limited (Dome Mines) and Dome Canada Limited (Dome Canada) are accounted for by the equity method. Under this method these investments are carried at cost plus the related equity in undistributed earnings less the amortization of the excess of the purchase price over the net book value at the dates of acquisition.

Property, Plant and Equipment

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized in two cost centres: western Canada and frontier. Such costs include land acquisition, geological and geophysical, interest and other carrying charges of unproved properties, costs of drilling both productive and non-productive wells and related overhead. The Company's share of costs incurred in drilling in the frontier includes depreciation of drillships and related facilities and operating costs.

The carrying value of the Company's oil and gas properties is limited to the amount determined by estimating the present value of future net revenues from proved properties together with the value of unproved properties at the lower of cost or net realizable value.

Gains or losses are not recognized upon disposition of oil and gas properties accounted for under the full cost method unless such a disposition would significantly alter the relationship between capitalized costs and proved reserves of oil and gas. Gains or losses are recognized upon disposition of other assets.

Depletion, Depreciation and Amortization

The changed circumstances resulting from the deregulation of oil and gas prices in 1985 have caused the Company to conclude that it is no longer appropriate to base provisions for depreciation of production facilities and depletion of oil and gas properties on production revenues. Accordingly, the 1985 provision for depreciation and depletion has been calculated on the unit-of-production method based on estimated proved reserves as determined by Company or independent engineers. Prior to 1985 the provisions for depreciation of production facilities and depletion of oil and gas properties were calculated as the proportion of net property and production facility costs that current production revenues were to current plus estimated future revenues from proved reserves. The effect of this change on the results of operations for 1985 was to decrease the loss before extraordinary item and increase net income by $16 million ($0.06 per common share) net of deferred income taxes of $6 million.

Frontier costs are excluded from the depletion calculation until quantities of proved reserves can be ascertained through further exploration. Frontier costs are currently amortized to income on a straight-line basis over 15 years commencing January 1, 1984. The amortization charged to income during the year ended December 31, 1984 amounted to $15 million ($0.06 per common share) net of deferred income taxes of $7 million. Significant acquisition costs of unproved properties in western Canada are also excluded from the depletion calculation and are added to the depletion base as actual exploration activities are carried out, but in any event over a term not exceeding five years.

The natural gas liquids system and pipelines, drillships and other vessels and other assets are depreciated on the straight-line basis at rates designed to amortize the assets over their estimated useful lives.

Developed oil sands rights and mining and related facilities are depreciated on the unit-of-production method. Undeveloped oil sands rights are amortized to income on the straight-line basis over 20 years.

Deferred Revenue

Payments received for undelivered gas have been deferred and are recognized as revenue when deliveries are made or upon expiry of the period allowed for such deliveries.

Capitalized Interest

Interest is capitalized on all oil and gas properties undergoing exploration and development activities that are not subject to depletion or amortization and on costs incurred during the construction of major additions to property, plant and equipment. When exploration and development ceases or is completed or the facility commences operations, subsequent interest costs are charged to income.

Income Taxes

The Company follows the deferral method of tax allocation accounting under which the income tax provision is based on the consolidated results of operations reported in the accounts. Under this method, the Company makes provision for income taxes deferred principally as a result of claiming capital cost allowance, interest and exploration and development costs in excess of the related amounts provided in the accounts.

Net Income (Loss) Per Common Share

Net income (loss) per common share is calculated, after deduction of preferred share dividends, using the weighted average number of common shares outstanding reduced by the Company's pro rata interest in its outstanding common shares held by Dome Mines (1985 — 290 million; 1984 — 248 million; 1983 — 237 million).

Reclassification

Certain comparative figures in the accompanying consolidated financial statements have been reclassified to conform to the consolidated financial statement presentation adopted for the year ended December 31, 1985.

2. Interim Plan

In early 1986, the international price of crude oil declined significantly. A continuation of lower oil prices, together with price declines for natural gas and natural gas liquids that could result, without compensating interest rate reductions and changes in government fiscal policies, will have a material adverse impact on the Company's revenue and cash flow (See Note 22 — Subsequent Event).

If the Company met all scheduled interest and preferred share dividend payments, debt principal repayments and preferred share redemptions, the Company would experience a significant reduction in liquidity. Accordingly, the Company approached its affected lenders, including those who are party to an agreement dated as of June 30, 1984, as amended and effective December 31, 1984, between the Company and certain of its lenders, including the credit facilities rescheduled thereunder, (the Debt Rescheduling Agreement), in March, 1986 with an interim plan. The interim plan provides that the operation of certain portions of the Debt Rescheduling Agreement be suspended during the period currently expected to be from May 1, 1986 to June 3, 1987 (the interim period). If the Company has not reached overall agreement with its affected lenders by April 30, 1986, it proposes to implement the interim plan and will therefore seek waivers or extensions of the debt due after that date. There can be no assurance that such consents will be granted. Failure to obtain an overall interim plan agreement with the affected lenders or timely waivers or extensions of debt due could lead to a default under one or more of the Company's credit agreements, which in turn could lead to an acceleration of substantially all of the Company's debt. The main components of the interim plan, the details of which are being are being negotiated with the affected lenders, are as follows:

- (i) All scheduled payments of principal and interest will be made until April 30, 1986. Commencing May 1, 1986, certain interest and principal repayments will be deferred either in whole or in part. (See Note 8 — Long Term Debt — Deferral of Debt Repayments).
- (ii) All preferred share dividends and preferred share redemptions will be made until April 30, 1986. Commencing May 1, 1986 the Company will suspend dividend payments and redemptions of all preferred shares. (See Notes 9 and 10).
- (iii) The rights of certain secured lenders to receive prepayments or be granted additional security under certain circumstances will be deferred until the end of the interim period.
- (iv) Financial covenants will be suspended.

The Company has requested agreements in principle from all of the affected lenders on or before April 30, 1986. Although the Company has been meeting with the affected lenders over the past weeks to discuss implementation and terms of the interim plan, no agreements have yet been reached and there can be no assurance that the affected lenders will accept the interim plan. Should the interim plan be accepted the Company will approach the affected lenders to develop a permanent plan prior to the expiry of the interim plan.

In the absence of a significant improvement in oil prices or compensating interest rate reductions and changes in government fiscal policies, the Company's continued existence as a going concern in the short term is dependent upon the affected lenders' acceptance of an interim plan or upon the receipt of waivers or extensions and, in the longer term, on its ability to reach agreement with the affected lenders on a permanent plan. However, the resolution of these matters is not assured.

3. Changes in Accounting Policies

(a) Frontier Exploration Costs

In 1983 the Company decided to concentrate its future capital expenditures on the development of assets in three strategic segments: western Canada oil and gas, natural gas liquids and contract drilling. As a result, the Company concluded that its investment in the frontier areas should be segregated from its western Canada oil and gas operations and that it was preferable to establish a separate cost centre. This conclusion was based on management's decision to minimize direct expenditures in frontier areas and the degree of uncertainty with respect to future development. Under the accounting policy followed prior to December 31, 1983, these costs would have been included with other oil and gas property costs and amortized to income in accordance with the Company's depletion policy. The application of this change in prior years under the Company's previous business plan would have had no effect on the results of operations or recorded costs in those years. Under the previous policy, any write-down of costs related to the frontier would not have been charged directly to income but would have been included in costs subject to depletion. This change in 1983 resulted in an increase in the net loss for the year of $317 million ($1.34 per common share). See also Investments regarding a 1983 change in accounting policy by Dome Canada.

(b) Foreign Currency Translation

Effective December 31, 1983, the Company commenced translation of long term liabilities repayable in foreign currencies at the rates of exchange prevailing at the balance sheet date. The resulting exchange gains and losses are deferred and commencing January 1, 1984, amortized over the term of the related liabilities. Previously, long term liabilities repayable in foreign currencies were translated at the rates in effect at the dates the liabilities were incurred and exchange gains and losses were included in income only as realized. There was no effect on the 1983 results of operations but for the year ended December 31, 1984, amortization of deferred foreign exchange resulted in an increase in the net loss of $19 million ($0.08 per common share).

4. Investments

(a) Dome Mines

At December 31, 1985 and 1984, the Company owned 30,861,184 common shares of Dome Mines of which 28,452,198 shares were pledged under certain of the Company's loan agreements.

The Company's holdings represent a 34.4% (1984 — 38.3%) interest therein, and Dome Mines together with its subsidiaries owned 22.0% (1984 — 24.0%) of the outstanding common shares of the Company, resulting in the Company having a pro rata interest of 7.4% (1984 — 9.0%) in its own common shares. Accordingly, the investment in Dome Mines has been reduced and shareholders' deficiency has been increased by the allocated portion of the cost of the investment that relates to the pro rata interest in the Company's common shares.

The reduction in the Company's interest in Dome Mines in 1985 and 1984 reflects equity issues by Dome Mines in which the Company did not participate. These issues resulted in a gain in 1985 of $13 million (1984 — $10 million) which is included in other corporate revenue.

The unamortized excess of the purchase price over the net book value of Dome Mines, other than its holdings in the Company, of $38 million is attributable to the value of the mineral assets held by Dome Mines and is being amortized over the expected life of these mineral assets.

In February, 1986 the Company sold 10 million common shares of Dome Mines for net cash proceeds of $147 million which were used to reduce long term debt. The sale resulted in a gain of $79 million, a decrease in the investment in Dome Mines of $81 million, a charge to the deficit of $13 million and a reduction in the Company's pro rata interest in its own common shares of $34 million. Income taxes of $24 million resulting from the gain will be eliminated by utilizing previously unrecorded capital loss carryforwards. As a result of this sale, the Company's interest in Dome Mines has been reduced to 23.2% and the Company's pro rata interest in its own common shares has decreased to 5%.

Dome Mines
Summarized Financial Information

Balance Sheets

	December 31,	
	1985	1984
Current assets	$143	$ 92
Investments — Dome Petroleum Limited	(56)	(91)
— Other	262	14
Property, plant and equipment	396	394
	$745	$409
Current liabilities	$ 57	$ 34
Long term obligations	92	—
Deferred income and mining taxes	132	128
Deferred revenue	1	1
Minority interest	191	87
Shareholders' equity	272	159
	$745	$409

Statements of Income

	Years Ended December 31,		
	1985	1984	1983
Revenue	$261	$215	$ 235
Operating income	$ 51	$ 65	$ 123
Income before taxes and other items	$ 60	$ 81	$ 174
Income and mining taxes	40	45	79
Income after taxes, before other items	20	36	95
Income (losses) related to associated companies:			
Falconbridge Limited	5	—	—
Canada Tungsten Mining Corporation Limited	(6)	(1)	(2)
Dome Petroleum	(14)	(56)	(291)
Gain on share issues by associated companies	12	7	—
Minority interest	(10)	(12)	(18)
Income (loss) before extraordinary item	7	(26)	(216)
Extraordinary item			
Share of Dome Petroleum's recovery of income taxes	5	—	—
Net income (loss)	$ 12	$ (26)	$(216)

(b) Dome Canada

At December 31, 1985 and 1984, the Company owned 42,461,538 common shares of Dome Canada (48%) which were pledged under certain of the Company's loan agreements.

Dome Canada
Summarized Financial Information

Balance Sheet

	December 31, 1985	December 31, 1984
Current assets	$ 295	$ 323
Long term receivable — Dome Petroleum Limited	101	112
Property, plant and equipment	1,144	1,000
	$1,540	$1,435
Current liabilities	$ 66	$ 62
Deferred revenue	24	27
Long term debt	227	227
Deferred income and revenue taxes	212	144
Shareholders' equity	1,011	975
	$1,540	$1,435

Statement of Income

	Years Ended December 31, 1985	1984	1983(1)
Revenue	$212	$189	$133
Operating income	$ 74	$ 66	$ 56
Income before taxes and other items	$105	$100	$ 79
Taxes	(70)	(68)	(39)
Gain on sale of TransCanada PipeLines Limited shares net of deferred income taxes	—	—	18
Write-down of Frontier costs net of deferred income taxes	—	—	(51)
Net income	$ 35	$ 32	$ 7

(1) During 1983, Dome Canada changed its accounting policy with respect to Frontier costs resulting in a reduction of net income of $51 million.

5. Property, Plant and Equipment

		1985			1984		
	Depletion, Depreciation and Amortization Rates	Investment at Cost	Accumulated Depletion, Depreciation and Amortization	Net Investment	Investment at Cost	Accumulated Depletion, Depreciation and Amortization	Net Investment
Oil and gas properties							
Western Canada							
Depleted	Unit of production(2)	$4,691	$1,004	$3,687	$4,422	$ 752	$3,670
Non-depleted(1)	—	105	—	105	302	—	302
Frontier(1)	6.7%	355	45	310	333	22	311
Oil sands							
Mining and related facilities and developed rights	Unit of production(2)	144	18	126	132	14	118
Undeveloped rights	5.0%	243	46	197	243	34	209
Production facilities	Unit of production(2)	724	147	577	685	116	569
Natural gas liquids system and pipelines	2.5% to 6.7%	565	170	395	582	170	412
Drillships and other vessels	6.7% to 15.0%	652	297	355	648	246	402
Other	5.0% to 30.0%	173	82	91	170	68	102
		$7,652	$1,809	$5,843	$7,517	$1,422	$6,095

(1) Significant acquisition costs of unproved properties in western Canada are excluded from the depletion calculation and are added to the depletion base as actual exploration activities are carried out, but in any event over a term not exceeding five years. Unproved oil and gas properties will be transferred to the depletion base by December 31, 1986.

Exploration and development costs incurred by the Company related to western Canada lands are included with costs to be depleted in the year of expenditure. Additional exploration costs on these lands and in the frontier incurred by farmout participants are not recorded in the accounts in accordance with industry practice.

Costs excluded from the depletion base are as follows:

	December 31, 1985			Years Ended December 31			
	Western Canada	Frontier	Total	1985	1984	1983	1982 and Prior
Acquisition costs	$ 709	$ 102	$ 811	$ —	$ —	$ —	$ 811
Exploration costs	—	430	430	22	—	(1)	409
Capitalized interest	486	276	762	22	51	129	560
Transfers to depletion base	(1,090)	—	(1,090)	(219)	(268)	(240)	(363)
Write-down	—	(453)	(453)	—	—	(453)	—
Amortization	—	(45)	(45)	(23)	(22)	—	—
	$ 105	$ 310	$ 415	$(198)	$(239)	$(565)	$1,417

(2) Depletion, depreciation and amortization rates

	Years Ended December 31,		
	1985	1984	1983
Oil and gas properties and production facilities			
Per dollar based on production revenue	$ —	$0.20	$0.20
Per barrel of production	4.10	—	—
Oil sands			
Per barrel of production	3.19	4.33	3.09

6. **Restricted Cash and Unused Lines of Credit**

Restricted cash at December 31, 1984 was released in 1985, $35 million being applied to debt and $48 million released to the Company for general corporate purposes.

The availability and level of operating lines of credit depend upon agreement with the lenders as to the level of acceptable accounts receivable to be pledged as security. Currently, the lenders have agreed to provide $40 million of operating lines of credit. The amount of operating lines will vary monthly depending on the level of acceptable accounts receivable.

Subject to the acceptance by lenders of completed capital projects as security, the Company has contingently available a credit facility of up to $200 million and U.S. $29 million.

The Company's access to these lines of credit may be changed or limited as negotiations between the Company and its lenders continues with respect to the interim plan.

7. **Income Taxes**

(a) The income tax provisions differ from the calculated tax obtained by applying the combined Canadian federal-provincial corporate tax rate to the consolidated results of operations before income taxes as follows:

	1985	1984	1983
Corporate tax rate	47.1%	47.1%	47.1%
Calculated income tax provision	$ 97	$ (88)	$(553)
Add (deduct) the tax effect of Crown charges disallowed for tax purposes, less provincial rebates	145	147	115
Federal resource allowance	(132)	(128)	(99)
Earned depletion allowance	(1)	(62)	9
Non-deductible interest	12	32	23
Preferred share dividends of subsidiaries	6	7	16
Non-deductible depletion and depreciation	55	56	45
Petroleum and gas revenue tax (PGRT)	65	61	51
Non-deductible foreign exchange	11	44	8
Capital loss on write-down of assets	—	—	268
Differences between the Canadian rate and those rates applicable to foreign and mining operations	(1)	(12)	28
Capital loss (gain) on disposal of assets	(20)	(17)	40
Gain on deemed disposition of shares of Dome Mines	(6)	(5)	—
Reversal of tax provision on disposition of a subsidiary	—	10	—
Other	9	(7)	23
Income tax provision	$240	$ 38	$ (26)

(b) The income tax provision is calculated on the basis of revenue and expense recorded in the consolidated statement of operations. Deferred income taxes arising from timing differences in the treatment of these items for financial statement purposes compared to the treatment for statutory income tax purposes are as follows:

	1985	1984	1983
Depreciation, depletion and amortization	$179	$ (2)	$(114)
Interest — capitalized	11	24	56
— other[1]	(13)	239	(120)
Other capitalized expenses	11	14	1
Other	19	12	16
	$207	$287	$(161)

(1) 1984 includes the effect of the remission orders described below.

(c) The domestic and foreign components of income (loss) before income taxes together with related income taxes are set out below:

	1985			1984			1983		
	Canada	Foreign	Total	Canada	Foreign	Total	Canada	Foreign	Total
Income (loss) before income taxes, equity earnings and extra-ordinary item	$130	$76	$206	$(216)	$29	$(187)	$(969)	$(206)	$(1,175)
Income taxes:									
Current	$ 10	$23	$ 33	$(251)	$ 2	$(249)	$ 133	$2	$ 135
Deferred	207	—	207	287	—	287	(161)	—	(161)
	$217	$23	$240	$ 36	$ 2	$ 38	$ (28)	$2	$ (26)

Effective December 31, 1984, the Company received income tax remission orders allowing interest costs related to a subsidiary's 1982 acquisition to be deducted from the taxable income of the acquired company. The effect of these remission orders in the 1984 consolidated financial statements was to reduce current income taxes payable and increase deferred income taxes by $256 million in respect of 1982 and 1983 income taxes accrued but unpaid.

(d) At December 31, 1985, the Company had the following tax loss carryforwards, investment tax credits and realized capital losses for which the tax benefits have not been recorded, as their recovery is not virtually certain:

	Canadian		U.S.	
Expiring in	Capital Losses	Investment Tax Credits	Tax Loss Carryforwards	Investment Tax Credits
1986	$ —	$28	$ —	$ —
1987	—	—	—	—
1988	—	—	—	—
1990 and thereafter	449	—	119	12
	$449	$28	$119	$12

8. Long Term Debt

	Currency of Repayment	Repayment Dates	1985	1984
Bonds and Debentures				
Secured				
Income Debenture with interest at 52% of the prime bank rate plus ⅞%	Cdn.	1989 to 1995	$ 200	$ 200
10½% Series A Debentures	U.S.	1986 to 1993	160	165
14¾% Sinking Fund Debentures	U.S.	1992 to 2006	135	129
7.85% Collateral Trust Bonds net of funds on deposit of U.S. $2 million (1984 — U.S. $2 million)	U.S.	1994	—	—
10⅜% Sinking Fund Debentures	Cdn.	1986 to 1996	22	24
Unsecured				
10% Sinking Fund Debentures	U.S.	1986 to 1994	61	62
13½% Purchase Fund Debentures	U.S.	1986 to 1992	52	52
5¾% Purchase Fund Bonds	SF	1986 to 1991	65	51
7¼% Purchase Fund Bonds	SF	1986 to 1990	68	51
Term Bank Loans and Promissory Notes				
Secured				
6%	Cdn.	1986 to 1998	60	65
Up to 16%	Cdn.	By 2030	175	175
Prime plus 5%, payable to Dome Canada	Cdn.	1986 to 1990	112	112
Prime plus ⅜% to prime plus 1⅜%	Cdn.	1986 to 1995	2,386	2,476
LIBOR plus ⅝%	U.S.	1987 to 1995	66	62
LIBOR plus ¾%	U.S.	1986 to 1995	1,393	1,421
Unsecured				
16¼%	U.S.	1989	4	4
6%	SF	1986	62	51
10.84%	DM	1986 to 1991	14	10
Prime less ⅛% to prime plus 1⅛%	Cdn.	1987 to 1995	214	214
LIBOR plus ¼%	U.S.	1988	105	99
LIBOR plus ¼%	U.S.	1989	70	66
LIBOR plus ⅝% to LIBOR plus ¾%	U.S.	1987 to 1995	595	563
U.S. prime	U.S.	1985	—	2
Other				
Revenue Canada — Taxation (PGRT)	Cdn.	1986 to 1990	213	204
Leases and other —	Cdn.	Various	31	38
—	U.S.	Various	7	7
			6,270	6,303
Less amounts due within one year			369	205
			$5,901	$6,098

Approximate instalments (including sinking fund requirements) in each of the years 1986 to 1990 are (in millions): 1986 — $369; 1987 — $403; 1988 — $421; 1989 — $416 and 1990 — $500.

At December 31, 1984, a $187 million non-recourse secured term bank loan was offset by an account receivable of an equal amount from a third party. In 1985 the third party assumed the term bank loan in return for cancellation of the account receivable.

Deferral of Debt Repayments

As described in Note 2, the Company has approached affected lenders with an interim plan. Should an interim plan be accepted, the Company will approach the affected lenders to develop a permanent plan prior to expiry of the interim plan. The Company expects to renegotiate payment of deferred principal and interest as part of such a permanent plan.

The interim plan provides that effective May 1, 1986, scheduled payments pursuant to the Debt Rescheduling Agreement and the Company's other debt will be adjusted as follows:

- Payments to certain secured lenders holding debt totalling $3,787 million at December 31, 1985 will be based on net cash flows generated by the pledged assets less associated capital expenditures and general and administrative expenses. Payments will first be applied to interest and then to principal. The Company will, in an interest deferral certificate, acknowledge and confirm to each such lender its obligation to pay deferred interest at the end of the interim period. All deferred principal will also be payable at the end of such interim period.
- Payments to certain lenders holding debt totalling $763 million at December 31, 1985 will include interest and sinking fund payments except for final principal payments which are due during the period of the interim plan. The Company will be negotiating arrangements to have such payments refinanced or converted into equity.
- Payments to certain secured lenders holding debt totalling $360 million at December 31, 1985, will be suspended during the interim period unless the corporate investments pledged as underlying security are sold. The Company will, in an interest deferral certificate, acknowledge and confirm to each such lender its obligation to pay deferred interest at the end of the interim period. All deferred principal is to be payable approximately three months after the end of such interim period.
- Payments to all other lenders holding debt totalling $1,360 million at December 31, 1985 will be suspended during the interim period. The Company will, in an interest deferral certificate, acknowledge and confirm to each such lender its obligation to pay deferred interest at the end of the interim period. All deferred principal is to be payable approximately three months after the end of such interim period.

Security

Essentially all the assets of the Company are either pledged as security for existing indebtedness or are the subject of covenants in financial instruments whereby the Company's ability to give security on such assets is restricted.

The promissory notes with cost of borrowing of up to 16% are held by Arctic Petroleum Corporation of Japan. The notes are secured by floating charge debentures on the oil and gas interests of the Company and Dome Canada in the Beaufort Sea region. The Company arranged that Arctic Petroleum Corporation of Japan advance $400 million in 1981 and 1982 to be used in conducting exploration activities in the Beaufort Sea. The first $175 million was assigned to the Company and the remaining $225 million has been retained by Dome Canada. The Company and Dome Canada are jointly and severally liable for repayment of the principal balance by the year 2030 unless default occurs at an earlier date in which event the principal amount is payable on demand. Any other repayment of the principal amount prior to 2030, is to be made from 20% of the net proceeds of production from certain fields to be developed in the Beaufort Sea. The cost of borrowing will be based on production from the Beaufort Sea and will not exceed 16% per year compounded annually from the date funds were advanced, with any payment being contingent upon proceeds of production from the Beaufort Sea, which amounts cannot be determined. Accordingly, no provision will be made for such cost of borrowing until production commences. Under certain circumstances, the whole of the Company's proceeds of production from certain fields which may be developed in the Beaufort Sea may be required to service the debt obligation, which is to be paid solely out of the proceeds of such production.

Debt Rescheduling Agreement

Under the terms of the Debt Rescheduling Agreement which closed on February 5, 1985 and was effective December 31, 1984, approximately $5.3 billion of the Company's debt was rescheduled over the period to 1995. The effect of the Debt Rescheduling Agreement at December 31, 1984 was to reclassify $2.7 billion from current liabilities to long term debt. The Debt Rescheduling Agreement contains the following significant provisions (See Note 2 — Interim Plan):

(a) New uniform convenants which are in addition to existing convenants, requiring, among other things:

(i) The Company's working capital ratio (the ratio of current assets to current liabilities, as defined in the Debt Rescheduling Agreement) may not fall below 0.7 to 1 as at the end of two consecutive quarterly periods to March 31, 1988 and 0.8 to 1 after December 31, 1987. At December 31, 1985 the Company's working capital ratio was 1.2 to 1;

(ii) The Company is required to maintain a consolidated capital base (generally, the total of the Company's shareholders' equity and subordinated debt, if any, excluding certain unrealized foreign exchange losses charged to income from December 31, 1983 to February 5, 1985, and including preferred shares net of any retractions or mandatory redemptions prior to 1996 and at December 31, 1985, but not thereafter, the amount of the Series D Cumulative Preferred Shares) of not less than negative \$281 million, after reflecting proceeds of \$114 million from the equity issue, at December 31, 1985, negative \$315 million at December 31, 1986, negative \$215 million at December 31, 1987 and negative \$25 million at December 31, 1988 and thereafter in excess of \$100 million and equal to or greater than, for 1989, 90% of the Company's consolidated capital base at December 31, 1988 and thereafter, 90% of the average of the consolidated capital base as at the end of each of the two immediately preceding fiscal year ends. At December 31, 1985 the Company's consolidated capital base was negative \$95 million.

(iii) The Company's debt to equity ratio, the ratio of the Company's consolidated long term debt (generally, the total of long term debt excluding the current portion thereof, any retractions or mandatory redemptions of preferred shares prior to 1996, and the amount of deferred revenue in excess of \$210 million) to its consolidated capital base is not to exceed 17 to 1 at December 31, 1989, 10 to 1 at December 31, 1990, 5 to 1 at December 31, 1991, and 4 to 1 at December 31, 1992, and as at the end of each fiscal year after December 31, 1988 is not to exceed 90% of the debt to equity ratio as at the end of the immediately preceding fiscal year, but the Company will not be required to achieve or maintain a debt to equity ratio of less than 3 to 1;

(iv) Additional covenants restrict the level of capital expenditures and investments and limit, among other things, the Company's ability to grant new security, give guarantees, prepay debt, incur new debt or enter into capital and financial leases (See Note 9 — Redeemable Preferred Shares Issued by Subsidiaries). In addition, the Company is prohibited from paying cash dividends on its common shares until 1989. Thereafter such dividends are limited to 50% of annual earnings, provided that the cumulative amount of such dividends is not more than 50% of the amount by which retained earnings exceed \$1 billion.

(b) The Company's existing credit facilities, which were amended in part but not superseded by the Debt Rescheduling Agreement, contain additional covenants and events of default which will remain in force. The Debt Rescheduling Agreement also provides for new uniform events of default which are in addition to those currently in the Company's existing loan documents. While the Company received waivers of all events which constituted or may have constituted events of default under its rescheduled credit facilities known to its lenders effective as of the date of closing of the Debt Rescheduling Agreement, any future acceleration of debt under any credit facility, including those amended by the Debt Rescheduling Agreement, would constitute an event of default under the Debt Rescheduling Agreement itself, in addition to bringing into operation cross default clauses in the underlying credit facilities. Upon any failure to maintain compliance with the covenants contained in the Debt Rescheduling Agreement or the underlying credit facilities, the Company could seek a waiver or amendment of the covenants involved. A waiver or amendment of the covenants in the Debt Rescheduling Agreement described above would require the consent of (i) a majority of the Company's four principal Canadian bank lenders, (ii) members of a syndicate of the Company's principal U.S. bank lenders holding 66⅔% of the debt held by this syndicate, and (iii) lenders holding 66⅔% of the remaining debt subject to the Debt Rescheduling Agreement;

(c) Additional interest is payable on all rescheduled debt principal at the rate of ⅛% per annum commencing in April, 1987, and increasing by an additional ⅛% per annum in April of 1990 and 1993; and

(d) The Company may be required to make prepayments if production from oil and gas reserves securing certain rescheduled credit facilities occurs at a rate faster than that forecast for these rescheduled credit facilities, and may also become obligated commencing at any time on or after December 31, 1986, to grant additional security or to make prepayments under certain rescheduled credit facilities should the value of security for these facilities not meet a fixed ratio to outstanding indebtedness after that date. Proceeds from the sale of assets, rights or properties which secure any rescheduled credit facility must be used to prepay that facility.

Concurrently with the closing of the Debt Rescheduling Agreement, the Company reached agreement with Revenue Canada — Taxation to pay its 1982 and 1983 PGRT liabilities over a five year period commencing January 2, 1986 with interest at the rate prescribed by the Income Tax Act (Canada) and with Dome Canada to reschedule certain current obligations over the five year period commencing January 2, 1986.

9. Redeemable Preferred Shares Issued by Subsidiaries

	1985			1984		1983	
	Authorized	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount
Provo Gas Producers Limited Series A	2,200,000	2,200,000	$220	2,200,000	$220	2,200,000	$220
136908 Canada Ltd.	1,300,000	1,300,000	130		—		—
			$350		$220		$220

The 2,200,000 Series A, redeemable, cumulative, non-voting, first preferred shares have a dividend rate of 52% of the prime bank rate plus ¾%. Provo Gas Producers Limited (Provo) has agreed to redeem, at par, 97,400 shares over two years commencing in 1987 with the remaining shares to be redeemed in 1989. In respect of the remaining redemption obligation in 1989, the Company and Provo have arranged for an unsecured term bank loan repayable from 1989 to 1995.

The preferred shares issued by 136908 Canada Ltd., a wholly-owned subsidiary of Cyprus, are included in redeemable preferred shares issued by subsidiaries as a result of the consolidation of Cyprus with effect from November 21, 1985. (See Summary of Significant Accounting Policies — Consolidated Financial Statements.) The 1,300,000 cumulative, non-voting, first preferred shares have a dividend rate of 60% of the prime bank rate plus ¾%, increasing by ⅛% in April of 1987. 136908 Canada Ltd. has agreed to redeem, at par, 87,240 shares over three years commencing in 1987 with the remaining shares to be redeemed in 1990. In respect of the remaining redemption obligation in 1990, 136908 Canada Ltd. has arranged for an unsecured term bank loan repayable from 1990 to 1995.

The redemption obligations and the resulting unsecured term bank loans of both of the above share issues are subject to the terms and conditions of the Debt Rescheduling Agreement.

The Company plans to suspend dividends and redemptions on redeemable preferred shares issued by subsidiaries on May 1, 1986 (See Note 2 — Interim Plan).

10. Preferred Shares

Authorized: An unlimited number of preferred shares and subordinated preferred shares issuable in series.

Outstanding:

		1985		1984		1983	
	Authorized	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount
Redeemable at the option of the Company:							
7.76% Series							
A and B	10,500,000	4,593,321	$109	4,705,572	$113	4,847,649	$117
Stock dividends		63,633	1	107,949	1	107,223	2
Purchased		(224,560)	(5)	(220,200)	(5)	(249,300)	(6)
		4,432,394	$105	4,593,321	$109	4,705,572	$113
Redeemable at the option of the holder:							
8.725% Series C	1,450,000	1,450,000	$36	1,450,000	$36	1,450,000	$36
Redeemed		(72,500)	(2)	—	—	—	—
		1,377,500	34	1,450,000	36	1,450,000	36
7.25% Series D	4,110,517	4,110,517	62	4,110,517	62	4,110,517	62
		5,488,017	$96	5,560,517	$98	5,560,517	$98

The Series A Cumulative Preferred Shares and Series B Cumulative Stock Dividend Preferred Shares were issued at $25 per share and are interconvertible at any time on a share for share basis at the option of the holder. The shares are redeemable at the option of the Company at $25.80 per share to August 31, 1986, declining thereafter by $0.20 per share annually to $25 after August 31, 1989. The Company is required to use all reasonable efforts to purchase in the market each year a number of Series A or Series B Preferred Shares equal to the sum of 50,000 shares per quarter and 1% of the number of Series B shares issued as stock dividends since August 31, 1979, less certain other adjustments, provided such shares are available at prices not exceeding $25 per share plus cost of purchase.

The Series C Cumulative Preferred Shares were issued at $25 per share with an annual requirement to redeem 72,500 shares beginning in 1985 at $25 per share. Each holder has the right to waive this redemption obligation of the Company in any year. The dividend rate of 8.725% per annum will be adjusted in 1989 and every five years thereafter. The Company has certain obligations to vary the dividend rate to indemnify the holders against any reduction in the after-tax return on their investment resulting from future changes in Canadian income tax legislation.

The Series D Cumulative Preferred Shares (Series D Shares) issued at $15 per share have a stated dividend rate of 7.25% per annum. From July, 1982 the holder has received in lieu of dividends, interest at the bank prime rate plus 2% on an agreed redemption amount of $62 million. On March 12, 1986 the Series D Shares were exchanged for an equal number of newly authorized Series 1 Subordinated Convertible Preferred Shares (Series 1 Shares) redeemable at the Company's option at $15 per share together with any accumulated but unpaid dividends. The holder of the Series 1 Shares shall be entitled to receive cumulative dividends, as and when declared by the Board of Directors, equal to the sum of a fixed cash amount of $1.50 per share per annum payable in equal quarterly instalments and 10% per annum, payable quarterly in cash or common shares at the Company's option, of any dividends accrued but unpaid on any previous payment date. After March 12, 1987, at the option of the holder, the Series 1 Shares are convertible into 18,515,842 common shares. The Series 1 Shares are redeemable at the option of the holder at any time after January 4, 1996, or earlier in the event that the Company fails to pay the required dividend on three payment dates. Upon any such redemption the holder is entitled to receive $15 per share plus accrued but unpaid dividends to the date of redemption. Additional exchange, conversion and redemption entitlements could apply under certain specified conditions.

The Company plans to suspend dividends and redemptions on preferred shares on May 1, 1986 (See Note 2 — Interim Plan).

11. Common Shares

Authorized: An unlimited number of common shares of no par value.

Issued (cancelled):

	1985		1984		1983	
	Shares	Amount	Shares	Amount	Shares	Amount
Equity issue	34,000,000	$106	—	$ —	—	$ —
Issued to lenders	12,223,757	27	—	—	—	—
Employee Profit Sharing Plan	6,244,000	17	10,470,843	32	9,248,895	42
Employee Share Bonus Plans	—	—	27,000	—	517,757	3
Exercise of options	179,337	1	326,757	1	825,005	2
Share purchase plans	—	—	(151,250)	—	(105,875)	—
Exchange for shares of a subsidiary	7,687	—	2,122	—	6,375	—
Net increase in common shares outstanding	52,654,781	151	10,675,472	33	10,492,157	47
Common shares outstanding, beginning of year	278,564,775	243	267,889,303	210	257,397,146	163
Common shares outstanding, end of year	331,219,556	$394	278,564,775	$243	267,889,303	$210

On May 14, 1985 the Company completed an equity issue of 34 million units, each consisting of one common share and one half common share purchase warrant, plus an additional 250,000 warrants, for aggregate net cash proceeds of $114 million. Each whole warrant enables the holder to purchase one common share of the Company up to December 15, 1986 for $3.80. As partial consideration for rescheduling its debt, the Company issued 12,223,757 common shares having a value of $27 million and charged this amount to operations in 1984.

At December 31, 1985, 41,910,645 common shares (1984 — 19,761,707) of the Company were reserved for issue as follows:

(a) 9,486,262 (1984 — 5,730,262) for issue to the Employee Profit Sharing Plan at prevailing market prices,
(b) 7,824,245 (1984 — 8,173,620) for Employee Share Bonus Plans and stock options,
(c) 4,500,000 (1984 — 3,000,000) under options granted to Mr. J.H. Macdonald, Chairman and Chief Executive Officer of the Company,
(d) 2,750,000 (1984 — 2,750,000) for an option granted to Morgan Stanley & Co. Incorporated,
(e) 17,250,000 for exercise of common share warrants,
(f) 100,138 (1984 — 107,825) for shares of a subsidiary not yet presented for exchange.

The change in the number of shares issuable under outstanding options during the year ended December 31, 1985 is as follows:

Options outstanding, beginning of year	12,866,570
Granted (1)	4,182,725
Exercised (2)	(349,375)
Cancelled (1)	(3,194,590)
Options outstanding, end of year (3)	13,505,330

(1) During the year 1,965,750 of the options cancelled that were exercisable at prices ranging from $2.75 to $5.625 per share, were replaced with options exercisable at $2.75 per share.

(2) All options exercised during the year were at an exercise price of $2.75 per share. Of the 179,337 shares issued on the exercise of options, 144,850 were issued for cash and 34,487 were issued in respect of stock appreciation rights on 204,525 options.

(3) At December 31, 1985, 11,294,505 options were then exercisable at prices ranging from $2.75 to $5.875 per share. The remaining 2,210,825 options, 1,500,000 of which were granted to Mr. J.H. Macdonald subject to shareholder approval, will be exercisable on varying dates to 1995 at $2.75 per share.

The Company has made interest-free loans to trustees to enable certain present and past officers to purchase shares from the Company under share purchase plans. At December 31, 1985, $5 million (1984 — $5 million) was receivable under the above arrangements.

12. Contributed Surplus

	1985	1984	1983
Contributed surplus, beginning of year	$46	$ 8	$ 5
Gain on purchase and cancellation of preferred shares	4	2	3
Gain on expiry of common share warrants, net of deferred income taxes of $11 million	—	36	—
Contributed surplus, end of year	$50	$46	$ 8

13. Write-Down of Assets

In 1983, the Company wrote down the carrying values of non strategic assets in the amount of $1,099 million before deferred income taxes of $202 million. This write-down was comprised of frontier oil and gas properties, mining assets, United States oil and gas properties, and costs of certain deferred or terminated projects and other costs related to the Company's refinancing activities.

14. Disposal of Assets

During 1985, the Company sold rights in the Primrose area of Alberta, the Producers/Westspur Pipe Line system and certain other assets including the mining assets of Cyprus. Total cash proceeds amounted to $142 million and resulted in a gain of $66 million before deferred income taxes of $5 million. The sale of these assets, along with the disposition of 10 million common shares of Dome Mines in February, 1986 which fulfilled an undertaking with the Company's lenders, satisfied a covenant in the Debt Rescheduling Agreement to sell assets for aggregate cash proceeds of at least $150 million.

The company sold assets during 1984, including its 22.9% interest in Sovereign Oil & Gas PLC, for total proceeds of $139 million which resulted in a gain of $40 million before deferred income taxes of $10 million.

During 1983, the Company sold assets, including virtually all of its producing and exploratory lands in the United States, and its interest in TransCanada Pipelines Limited, for total proceeds of $563 million. These disposals resulted in a loss of $65 million before deferred income tax charges of $12 million.

15. Interest and Financing

Interest and financing included in the statement of operations is comprised of the following:

	1985	1984	1983
Interest on long term debt	$650	$711	$679
Other interest and financing charges	14	164	71
Preferred share dividends of subsidiaries	14	16	34
Less interest capitalized	(23)	(52)	(137)
Interest and financing	$655	$839	$647

16. Cash Flows

The consolidated statement of cash flows has been prepared on the basis of changes in the Company's cash resources which are comprised of cash and short term deposits, net of short term bank loans. See also note 2 — Interim Plan.

(a) Operating Activities

(i) Cash operating income is derived from the consolidated statement of operations as follows:

	1985	1984	1983
Revenue	$2,436	$2,448	$2,595
Cash operating expense			
Crude oil and natural gas	309	268	249
Natural gas liquids	802	834	895
Contract drilling	102	171	221
Other	—	12	119
	1,213	1,285	1,484
Cash operating income	$1,223	$1,163	$1,111

(ii) Interest and financing (comprised of interest on long term debt, other interest and financing charges and preferred share dividends of subsidiaries) and general and administrative expense are before deduction of capitalized amounts of $47 million, $81 million and $166 million in 1985, 1984 and 1983 respectively.

(b) Investment Activities

Expenditures on property, plant and equipment are before capitalized items as follows:

	1985	1984	1983
Capital expenditures	$186	$210	$453
Deduct:			
Capitalized interest	(23)	(52)	(137)
Capitalized general and administrative expense	(24)	(29)	(29)
	$139	$129	$287

(c) Changes in Working Capital

	1985	1984	1983
(i) Changes in cash:			
Cash and short term deposits			
Restricted	$ (83)	$ (25)	$108
Unrestricted	311	83	70
Short term bank loans	15	80	129
Increase in cash	$243	$138	$307
(ii) Cash effect of changes in other working capital items:			
Accounts receivable	$(134)	$ 106	$228
Inventories			
Product	38	(10)	32
Material and supplies	12	23	108
Accounts payable and accrued liabilities	(68)	(163)	(121)
Income and other taxes payable	(28)	(447)	220
Long term debt due within one year	164	(2,031)	8
	(16)	(2,522)	475
Add (deduct):			
Long term debt due within one year	(164)	2,031	(8)
Other items related to the Debt Rescheduling Agreement	—	648	(134)
Net cash effect	$(180)	$ 157	$333

The net cash effect relates to the following activities and is included in Other — net.

	1985	1984	1983
Operating	$ 23	$ —	$ —
Investing	4	10	138
Financing	(207)	147	195
	$(180)	$157	$333

17. **Related Party Transactions**

(a) Dome Canada

The Company is party to certain agreements with Dome Canada including the Dome Exploratory Lands Agreement (DELA), which enables Dome Canada to earn interests in certain exploratory and development lands in return for the obligation to fund related exploration and development and an agreement with respect to the majority of Dome Canada's administration, which is carried out by the Company on behalf of Dome Canada. The DELA will terminate on July 6, 1986.

With respect to these agreements, the Company charged Dome Canada $105 million in 1985 (1984 — $206 million; 1983 — $303 million).

Dome Canada holds a secured promissory note of the Company in the amount of $112 million which bears interest at prime plus 5% and is repayable on January 2 in each of the following years (in millions): 1986 — $11; 1987 — $17; 1988 — $22; 1989 — $28; and 1990 — $34. During 1985 the Company paid interest to Dome Canada of $18 million (1984 — $15 million; 1983 — $12 million) in respect of this note. The Company plans to suspend payment of principal and interest on this liability effective May 1, 1986 (See Note 2 — Interim Plan).

At December 31, 1985, the Company's accounts receivable include $57 million from Dome Canada (1984 — $48 million).

(b) Dome Mines

During 1985, the Company paid Dome Mines $11 million (1984 — $11 million; 1983 — $12 million) with respect to a $225 million guarantee of certain term bank loans and received dividends of $4 million (1984 — $4 million; 1983 — $3 million). The status of this fee after April 30, 1986 is uncertain at this time, and future payment will be dependent upon the final terms of the interim plan. (See Note 2 — Interim Plan.)

18. **Information by Business Segment and Geographic Area**

The principal business segments of the Company are:

Crude oil and natural gas	Exploration, development and production activities for crude oil, natural gas, field liquids, sulphur, and oil sands.
Natural gas liquids	The extraction, purchase, transportation and marketing of natural gas liquids.
Contract drilling	Drilling and dredging contracting in the Beaufort Sea.

BUSINESS SEGMENTS

	1985	1984	1983
Revenue			
Crude oil and natural gas	$1,181	$1,090	$ 953
Natural gas liquids	1,011	1,013	1,135
Contract drilling	244	336	409
Other operating	—	9	98
	$2,436	$2,448	$2,595
Transfers between business segments (not included above)			
Crude oil and natural gas	$ 78	$ 43	$ 31
Contract drilling	44	1	2
Eliminations	(122)	(44)	(33)
	$ —	$ —	$ —

BUSINESS SEGMENTS

	1985	1984	1983
Operating income			
Crude oil and natural gas	$ 561	$ 534	$ 443
Natural gas liquids	187	159	219
Contract drilling	99	113	145
Other operating	—	(11)	(31)
	847	795	776
Gain (loss) on write-down and disposal of assets			
Crude oil and natural gas	76	1	(667)
Natural gas liquids	12	1	—
Contract drilling	1	2	(12)
Other operating	—	6	(460)
	89	10	(1,139)
Income (loss) before corporate revenue and expense	936	805	(363)
Corporate (revenue) expense			
General and administrative	62	83	111
Interest and financing	655	839	647
Loss (gain) on disposal of investments and corporate assets	23	(30)	(21)
Write-down of corporate assets	—	—	46
Foreign exchange	28	123	27
Other corporate expense (revenue)	(38)	(23)	2
Income taxes	240	38	(26)
Equity in earnings of associated companies	(19)	(28)	(44)
	951	1,002	742
Income (loss) before extraordinary item	(15)	(197)	(1,105)
Reduction of current income taxes on utilization of loss carry forward	22	—	—
Net income (loss)	$ 7	$ (197)	$(1,105)

BUSINESS SEGMENTS

	1985	1984	1983
Identifiable assets			
Crude oil and natural gas	$5,273	$5,534	$5,672
Natural gas liquids	872	758	818
Contract drilling	444	448	577
Other operating	—	12	99
	6,589	6,752	7,166
Deferred foreign exchange	286	141	73
Investments	576	550	551
Other corporate	728	473	388
	$8,179	$7,916	$8,178
Capital expenditures			
Crude oil and natural gas	$161	$178	$359
Natural gas liquids	18	14	12
Contract drilling	4	10	17
Other operating	—	—	20
	183	202	408
Other corporate	3	8	45
	$186	$210	$453
Depletion, depreciation and amortization			
Crude oil and natural gas	$311	$288	$261
Natural gas liquids	22	20	21
Contract drilling	43	52	43
Other operating	—	8	10
	376	368	335
Other corporate	15	14	17
	$391	$382	$352

GEOGRAPHIC AREAS

	1985	1984	1983
Revenue			
Canada	$2,165	$2,121	$2,166
United States	271	327	429
	$2,436	$2,448	$2,595
Transfers between geographic areas			
Canada	$ 150	$ 253	$ 306
United States	—	31	16
Eliminations	(150)	(284)	(322)
	$ —	$ —	$ —
Operating income			
Canada	$ 794	$ 761	$ 754
United States	53	34	22
	847	795	776
Gain (loss) on write-down and disposal of assets			
Canada	89	10	(968)
United States	—	—	(171)
	89	10	(1,139)
Income (loss) before corporate expense	936	805	(363)
Corporate expense (as detailed in Business Segments)	951	1,002	742
Income (loss) before extraordinary item	(15)	(197)	(1,105)
Reduction of current income taxes on utilization of loss carry forward	22	—	—
Net income (loss)	$ 7	$(197)	$(1,105)
Identifiable assets			
Canada	$7,179	$7,053	$ 7,332
United States	138	172	222
	7,317	7,225	7,554
Deferred foreign exchange	286	141	73
Investments	576	550	551
	$8,179	$7,916	$ 8,178

Transfers are accounted for at prices comparable to open market prices for similar products and services. Natural gas that is ultimately exported cannot be readily identified.

Effective with deregulation of crude oil prices on June 1, 1985, the Company began marketing all of its domestic production, approximately 20% of which was exported. Prior to deregulation, approximately 81% of the Company's domestic crude oil production was sold to the Alberta Petroleum Marketing Commission, a provincial government agency.

19. Pension and Savings Plans

The Company's voluntary contributory pension plan and Employee Profit Sharing Plan are available to substantially all of its permanent employees. Employee and Company contributions made under the pension plan are paid to, and invested by, an insurance company. Similar contributions made under the Employee Profit Sharing Plan are invested by the trustees in the common shares of the Company on behalf of the employees. Pension costs are funded in accordance with actuarial requirements. Amounts charged to income to fund the plans (in millions) were: 1985 — \$18; 1984 — \$30; 1983 — \$38.

20. **Contingencies and Commitments**

In addition to the contingencies described in Notes 2 and 8 the Company has the following contingent liabilities and commitments:

(a) In 1983, Revenue Canada-Taxation issued reassessments to the Company disallowing the frontier exploration allowance claimed in 1980. Management believes that these amounts were validly claimed and intends to contest the issue. If the Company is not successful, a prior period adjustment will be made relating to 1980 which will increase the deficit and deferred income taxes by \$44 million. Revenue Canada-Taxation has notified the Company that a capital loss incurred by the Company in 1981 is under review and may be adjusted. The Company believes that the capital loss, deducted in 1982, is valid and would contest the issue if Revenue Canada-Taxation issued a Notice of Reassessment adjusting the amount of the capital loss. The Company is presently unable to estimate the effect, if any, on the consolidated financial statements of an ultimate resolution of this matter; and

(b) The Company's future minimum operating lease payments are estimated at \$117 million, comprised of (in millions): 1986 — \$22; 1987 — \$19; 1988 — \$14; 1989 — \$12; 1990 — \$11; and thereafter — \$39.

There are no pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of their properties is the subject, that in management's view would have a material effect on the Company's consolidated financial position or results of operations.

21. **Differences Between Canadian and United States Generally Accepted Accounting Principles**

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada (Canadian basis). These principles differ in some respects from those applicable in the United States (U.S. basis) as disclosed below.

Statement of Operations

	1985	1984	1983
Income (loss) before extraordinary item in accordance with the Canadian basis as reported	\$ (15)	\$ (197)	\$(1,105)
Add (deduct) adjustments for			
Full cost accounting (a)	4	—	341
Foreign currency translation (b)	(145)	(67)	(2)
Investment tax credits (c)	(33)	(6)	6
Other	—	—	3
Income (loss) before extraordinary item in accordance with the U.S. basis	(189)	(270)	(757)
Reduction of current income taxes on utilization of loss carry forward	22	—	—
Net income (loss) in accordance with the U.S. basis	\$(167)	\$ (270)	\$ (757)
Per common share (after deduction of preferred share dividends)			
Before extraordinary item	\$(0.69)	\$(1.14)	\$(3.24)
Net income (loss)	(0.62)	(1.14)	(3.24)

Balance Sheet

	1985		1984	
	Canadian basis	U.S. basis	Canadian basis	U.S. basis
Investment in Dome Canada (a)	$ 429	$ 459	$ 413	$ 437
Property, plant and equipment (a)	5,843	6,292	6,095	6,548
Deferred foreign exchange (b)	286	—	141	—
Deferred income taxes (a)(c)	805	887	668	719
Redeemable preferred shares issued by the Company	96	201	98	207
Preferred shares	105	—	109	—
Deficit (d)	719	607	711	425

Notes to Statement of Operations and Balance Sheet

(a) Under U.S. full cost accounting rules, the Company would be permitted only one cost centre for the capitalization of Canadian exploration and development costs. Accordingly, the 1983 adjustment reverses the write-down of frontier costs, net of deferred income taxes, by the Company and its equity accounted associate Dome Canada. The write-down, before deferred income taxes, is then added to the single cost centre and depleted for U.S. purposes. The adjustment in 1985 therefore represents the difference, net of deferred income taxes, between the amortization of frontier costs for Canadian purposes and depletion expense on the write-down reversal for U.S. purposes. There was no effect on the results of operations in 1984.

Under U.S. rules the carrying value of the Company's oil and gas properties is limited, at the end of each reporting period, to an amount (the ceiling amount) equal to the present value of future net revenues, discounted at 10% and based on period end prices and costs, plus the cost of properties not being depleted and unproved properties at the lower of cost or net realizable value, all adjusted for related income tax effects. In addition, U.S. rules require that if a price decline occurs subsequent to the reporting period, which would have resulted in the carrying value of oil and gas properties exceeding the ceiling amount at the reporting period end if such prices had been used, disclosure of the amount of the excess is required.

Had the Company used crude oil prices of U.S. $14 per barrel, which is representative of the trading price of crude oil on March 21, 1986, in calculating the ceiling amount at December 31, 1985 the carrying value of its oil and gas properties would have exceeded the ceiling amount and net loss reported for U.S. purposes would have been increased by approximately one billion dollars ($3.45 per common share), net of related deferred income taxes.

At the present time the Company is unable to estimate the impact that the recent international crude oil price declines will have on its March 31, 1986 accounts for U.S. purposes.

(b) Under U.S. rules, exchange gains and losses arising on translation of long term liabilities at year end are included in income immediately instead of being deferred and amortized over the life of such liabilities.

(c) The 1985 and 1984 adjustments reverse investment tax credits previously recognized only under U.S. rules which will expire without being realized.

(d) At December 31, 1985, the deficit of the Company included $136 million representing the Company's proportionate share of the cumulative undistributed earnings of equity accounted associates. The Company has not provided for income taxes on this amount as dividends flow tax free between these Canadian companies.

22. Subsequent Event

The carrying value of the Company's oil and gas properties for each of its cost centres is limited to an amount determined by estimating the present value of future net revenues from proved properties together with the value of unproved properties at the lower of cost or net realizable value, all adjusted for related income tax effects. The determination of the present value of future net revenues is based on prices, costs, production levels, and existing economic factors as determined by Coles Nikiforuk Pennell Associates Ltd., consulting petroleum engineers, of Calgary, Alberta. At December 31, 1985, based on conditions existing at that date, there was no impairment of the carrying value of the Company's oil and gas properties.

In early 1986, the international price of crude oil declined significantly. If such price declines, without compensating changes in other factors used in the determination of future net revenues from proved properties, are determined by the Company in consultation with its petroleum consulting engineers to be other than temporary, a write-down of the carrying value of the Company's oil and gas properties could result. The Company is unable to determine the future impact, if any, of these crude oil price declines on the carrying value of its oil and gas properties.

Quarterly Financial Information

Summarized quarterly financial data for 1985 and 1984 are as follows:

(thousands of Canadian dollars, except per share)	Quarters Ended				Full Year
	March 31	June 30	Sept. 30	Dec. 31	
1985					
Revenue	$52,059	$63,337	$76,979	$68,180	$260,555
Operating income	$12,594	$19,274	$12,948	$6,989	$51,805
Income (losses) related to —					
Falconbridge	—	$840	$1,399	$2,086	$4,325
Dome Petroleum	$(412)	$(1,668)	$3,051	$(2,676)	$(1,705)
Extraordinary item	—	—	—	$4,929	$4,929
Net income (loss)	$3,936	$4,126	$6,880	$(2,732)	$12,210
Net income (loss) per share	$0.05	$0.05	$0.08	$(0.03)(1)	$0.15
1984					
Revenue	$54,035	$56,839	$51,615	$52,605	$215,094
Operating income	$20,448	$19,375	$15,613	$9,458	$64,894
Losses related to Dome Petroleum	$(8,905)	$(15,626)	$(2,020)	$(29,146)	$(55,697)
Net income (loss)	$(1,473)	$(9,357)	$4,874	$(19,718)	$(25,674)
Net income (loss) per share	$(0.02)	$(0.13)	$0.07	$(0.28)	$(0.36)

(1) Loss per share after extraordinary item ($0.06 per share), representing the Company's share of the recovery of income taxes by Dome Petroleum.

Effects of Changing Prices

Supplementary information on the effects of changing prices has been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA"). Although there are differences in format and detail of disclosure, the objectives of the CICA recommendations are similar to those of FASB Statement No. 33.

The information presented herein is based on assumptions and estimates that are subjective. The Company's existing mining and oil and gas properties are non-renewable resources and each is unique. Discovery and development of such properties are dependent upon factors which are impossible to fully anticipate. The CICA has recognized this problem and permits current costs to be calculated by indexing capitalized historical costs. However, under the Company's accounting policies, significant costs to discover certain properties were expensed as incurred.

Specific price indices from Statistics Canada and other internally generated indices have been applied to the capitalized historical costs of mine property, plant and equipment to calculate current costs. Capitalized interest has been adjusted to reflect current interest rates. Costs of developing certain mine properties have been either fully depreciated or have been incurred recently. As a result, the calculation of current cost by reference to capitalized historical costs has not resulted in significant current cost adjustments. No consideration has been given to the effects of technological change on the cost of replacing assets.

With respect to oil and gas properties, it has been estimated by management that their historical costs approximate current costs and, accordingly, no adjustments have been made. No current cost adjustments have been made to reflect the impact of changing prices on the Company's investment in Dome Petroleum.

This information should not be construed as an indication that the current costs presented represent costs that would actually be incurred if the properties or assets were, or were able to be, replaced.

The comparative figures for 1984, both on an historical cost and a current cost basis have been restated to 1985 dollars to reflect the change in price levels as measured by the Canadian Consumer Price Index.

Balance sheet items

(thousands of Canadian dollars)	As at December 31			
	Current cost basis		Historical cost basis	
	1985	1984	1985	1984
Property, plant and equipment (net)	$433,486	$464,433	$396,425	$411,632
Net assets (shareholders' equity)	$306,992	$219,324	$272,666	$166,532

Consolidated Statement of Operations on a current cost basis

(thousands of Canadian dollars)	Year ended December 31 1985	1984
Income before income taxes on an historical cost basis	$ 52,188	$ 19,752
Income taxes	(39,978)	(46,453)
Current cost adjustment for depreciation, depletion and amortization	(2,425)	(1,351)
Income (loss) on a current cost basis	$ 9,785	$(28,052)

The current costs of property, plant and equipment increased by $3,424,000 (1984 — $25,963,000) based upon specific price changes. This current cost increase is less than the average rate of inflation during the year; if current costs had increased by the average general rate of inflation, as measured by the Canadian Consumer Price Index, the increase would have been $18,593,000 (1984 — $15,199,000).

During the year, the Company's monetary assets exceeded its monetary liabilities resulting in a loss in general purchasing power of $830,000 (1984 — $607,000) from the effect of general inflation on this net monetary asset position.

For information on mineral reserves, refer to the discussion of mineral exploration and each mine's operations under "Review of Operations — Mining". For information on oil and gas reserves, refer to "Oil and Gas — Reserve quantity information".

Oil and Gas

The following unaudited supplementary information of Dome Mines, Campbell, Sigma and their equity accounted investee, Dome Petroleum, is disclosed in accordance with FASB Statement No. 69, Disclosures about Oil and Gas Producing Activities.

Capitalized costs relating to oil and gas producing activities

(thousands of Canadian dollars)	December 31 **1985**	1984
Oil and gas properties		
Proved properties	**$115,769**	$108,027
Unproved properties	**70,626**	71,940
	186,395	179,967
Accumulated depletion and depreciation	**25,562**	16,806
Net capitalized costs	**$160,833**	$163,161
Proportionate share of capitalized costs of Dome Petroleum	**$1,030,123**	$1,163,180

Reserve quantity information

In the following table, oil, which includes natural gas liquids, is stated in thousands of barrels and gas is measured in billions of cubic feet. Campbell's and Sigma's proved reserves, all of which are in Canada, are summarized as follows:

	Canada					
	1985		1984		1983	
	Oil	Gas	Oil	Gas	Oil	Gas
Proved reserves, beginning of year	6,258	66.8	5,984	61.8	6,425	66.5
Revisions to previous estimates	419	3.0	342	3.8	(309)	(6.1)
Extensions and discoveries	219	3.0	406	2.8	298	2.7
Production	(490)	(1.6)	(467)	(1.6)	(430)	(1.3)
Sales of minerals in place	—	—	(7)	—	—	—
Proved reserves, end of year	6,406	71.2	6,258	66.8	5,984	61.8
Interest of minority shareholders of Campbell and Sigma in proved reserves	2,660	28.0	2,594	27.7	2,482	25.6
Proved developed reserves —						
Beginning of year	5,135	33.1	4,939	29.0	5,535	28.4
End of year	5,315	38.3	5,135	33.1	4,939	29.0

The Company's proportionate interest in the proved reserves of Dome Petroleum, all of which are in Canada, is as follows:

	1985		1984		1983	
	Oil	Gas	Oil	Gas	Oil	Gas
Share of proved reserves	64,286	964	81,113	1,120	79,300	1,186

All reserve figures are stated after overriding royalties and freehold royalties but before deduction of Crown royalties.

Costs incurred for property acquisition, exploration and development activities

(thousands of Canadian dollars)	1985	1984	1983
Property acquisitions —			
Unproved	$ 1,320	$ 388	$ (17)
Exploration	2,911	5,851	2,497
Development	2,241	1,528	691
	$6,472	$7,767	$3,171
Proportionate share of costs incurred by Dome Petroleum —			
Canada	$32,584	$41,330	$82,164
Foreign	—	—	6,182
	$32,584	$41,330	$88,346

Results of operations for oil and gas producing activities

The following information summarizes the Company's results of operations for oil and gas producing activities, all of which are in Canada, and the Company's proportionate share of its equity accounted investment in Dome Petroleum:

(thousands of Canadian dollars)	1985	1984	1983
Campbell and Sigma —			
Revenue	$17,522	$15,667	$12,962
Production costs	5,438	4,690	4,139
Depreciation and depletion	8,756	7,516	4,277
	14,194	12,206	8,416
Income before income taxes	3,328	3,461	4,546
Income taxes	1,410	1,318	1,819
Results of operations for producing activities	$ 1,918	$ 2,143	$ 2,727
Proportionate share of Dome Petroleum —			
Canadian	$34,785	$48,905	$(41,331)
Foreign	—	—	(47,364)
	$34,785	$48,905	$(88,695)

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

Future net cash flows are based on year end prices, as determined in accordance with existing regulations, applied to the Company's proved oil and gas reserves after deducting future expenditures to be incurred in developing and producing these reserves. Future income tax expense is computed by applying the statutory tax rates in effect at year end to the future pre-tax net cash flows less the tax basis of the properties involved. A 10% discount factor has been applied in determining the standardized measure of discounted future net cash flow.

The standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves disclosed in the following tables may be useful for certain comparison purposes, but should not be construed as representing the fair market value nor the future cash flow of the Company's oil and gas properties. Management does not rely upon this information in making investment and operating decisions; rather those decisions are based upon a wide range of factors, including estimates of probable reserves as well as proved reserves, and price and cost assumptions different from those reflected herein.

	December 31		
(thousands of Canadian dollars)	1985	1984	1983
Cash inflows	$ 363,300	$322,800	$ 296,500
Production and development costs	(103,000)	(73,300)	(103,900)
Income taxes	(75,300)	(95,900)	(78,841)
Net cash flows	185,000	153,600	113,759
10% annual discount for estimated timing of cash flows	(97,100)	(74,900)	(51,416)
Standardized measure of discounted future net cash flows	$ 87,900	$ 78,700	$ 62,343
Proportionate interest of minority shareholders of Campbell and Sigma	$36,513	$32,317	$25,844
Company's proportionate interest in standardized measure of discounted future net cash flows of Dome Petroleum	$686,675	$779,365	$819,645

Principal sources of change in the standardized measure of future net cash flows for the three years ended December 31, 1985:

(thousands of Canadian dollars)	Years ended December 31 1985	 1984	 1983
Sales, net of production costs	$(12,700)	$(11,100)	$ (9,548)
Net changes in prices and production costs	(17,000)	(2,243)	158
Extensions, discoveries and improved recovery, less related costs	4,700	5,900	3,500
Development costs incurred during the year	2,200	1,500	718
Revisions of previous quantity estimates[1]	5,000	6,300	(6,400)
Accretion of discount	11,900	9,000	7,680
Net changes in income taxes	9,400	(12,900)	2,800
Reduction in future crown royalty payments	—	1,600	—
Petroleum and gas revenue tax allowance	8,800	9,400	—
Change in production schedule	(3,600)	8,900	—
Other adjustments and changes	500	—	2,892
Net increase	9,200	16,357	1,800
Standardized measure —			
Beginning of year, as previously reported	—	—	28,900
Reduction in future crown royalties	—	—	12,886[2]
Net changes in income taxes	—	—	18,757[3]
Beginning of year, as restated	78,700	62,343	60,543
End of year	$ 87,900	$ 78,700	$62,343

(1) Revisions of previous quantity estimates represent the dollar value of changes to proven reserves over and above those due to production, extensions, discoveries and improved recovery results.

(2) Represents estimated future crown royalty rebates not previously included in net sales price.

(3) Includes an adjustment for tax pools not previously included in the prior years' computation of income taxes.

CONSOLIDATION SCHEDULE

(thousands of Canadian dollars, except per share)

	1985							
	Dome Mines Limited (2)(3)	Campbell Red Lake Mines Limited	Sigma Mines (Quebec) Limited	Consoli-dating adjust-ments	Subtotal	McIntyre Mines Limited (4)	Consoli-dating adjust-ments	Consolidated Dome Mines Limited
Dome Mines' ownership[1]		56.9%	64.7%			52.9%		
Revenue:								
Mining	$ 57,844	$120,697	$26,754	$ —	$205,295	$ 37,738	$ —	$243,033
Oil and gas	—	14,018	3,504	—	17,522	—	—	17,522
	57,844	134,715	30,258	—	222,817	37,738	—	260,555
Operating costs:								
Mining	58,800	61,412	24,281	677	145,170	69,329	(25,796)	188,703
Oil and gas	—	10,992	2,813	389	14,194	—	—	14,194
General corporate costs	2,984	2,103	766	—	5,853	—	—	5,853
	61,784	74,507	27,860	1,066	165,217	69,329	(25,796)	208,750
Operating income (loss)	(3,940)	60,208	2,398	(1,066)	57,600	(31,591)	25,796	51,805
Interest on long-term debt	(4,907)	—	—	—	(4,907)	(429)	—	(5,336)
Less interest capitalized	—	—	—	—	—	—	—	—
Other income	21,821	1,790	1,373	(11,299)	13,685	—	—	13,685
Income and mining taxes	(1,866)	(36,216)	(1,896)	—	(39,978)	—	—	(39,978)
Income (loss) after taxes, before other items	11,108	25,782	1,875	(12,365)	26,400	(32,020)	25,796	20,176
Share of income (losses) of:								
Falconbridge	1,142	—	—	—	1,142	4,539	(1,134)	4,547
Canada Tungsten	(5,821)	—	—	—	(5,821)	—	—	(5,821)
Dome Petroleum	(14,302)	—	—	—	(14,302)	—	—	(14,302)
Gain on share issues by associated companies	12,537	—	—	—	12,537	—	(162)	12,375
Minority interest	—	(11,161)	(661)	—	(11,822)	12,674	(10,548)	(9,694)
Extraordinary item	4,929	—	—	—	4,929	—	—	4,929
Dome Mine's share of net income (loss)	$ 9,593	$ 14,621	$ 1,214	$(12,365)	$ 13,063	$(14,807)	$13,954	$ 12,210
Amount per share of Dome Mines	$0.12	$0.18	$0.02	$(0.16)	$0.16	$(0.19)	$0.18	$0.15
Working capital								
Current assets	$17,994	$77,562	$17,986	$(4,102)	$109,440	$33,538	$ —	$142,978
Current liabilities	7,798	34,444	4,320	(6,457)	40,105	7,222	9,927	57,254
	$10,196	$43,118	$13,666	$ 2,355	$ 69,335	$26,316	$(9,927)	$ 85,724
Property, plant and equipment								
Mining	$122,678	$ 77,832	$ 4,033	$17,845	$222,388	$28,619	$(15,415)	$235,592
Oil and gas	—	121,438	31,314	8,081	160,833	—	—	160,833
	$122,678	$199,270	$35,347	$25,926	$383,221	$28,619	$(15,415)	$396,425
Long-term obligations	$71,000	$—	$—	$—	$71,000	$20,595	$—	$91,595

(1) Percentages are as at December 31 of the years indicated.

(2) The figures presented include Dome Mines' shares of income (losses) of associated companies and exclude the results of Dome Mines' principal operating subsidiaries.

(3) Other income of Dome Mines consists principally of dividends from Campbell and Sigma and a guarantee fee from Dome Petroleum.

(4) The results presented for McIntyre are for the period May 29, 1985 to December 31, 1985 (see note 1 to the Consolidated Financial Statements of Dome Mines).

1984					1983				
Dome Mines Limited (2)(3)	Campbell Red Lake Mines Limited 56.9%	Sigma Mines (Quebec) Limited 65.2%	Consolidating adjustments	Consolidated Dome Mines Limited	Dome Mines Limited (2)(3)	Campbell Red Lake Mines Limited 56.9%	Sigma Mines (Quebec) Limited 65.2%	Consolidating adjustments	Consolidated Dome Mines Limited
$ 55,195	$117,686	$26,546	$ —	$199,427	$ 72,880	$116,729	$32,184	$ —	$221,793
—	12,534	3,133	—	15,667	—	10,367	2,595	—	12,962
55,195	130,220	29,679	—	215,094	72,880	127,096	34,779	—	234,755
47,520	59,418	23,737	898	131,573	41,205	34,270	21,560	542	97,577
—	9,536	2,386	284	12,206	—	6,647	1,676	93	8,416
3,787	2,052	731	(149)	6,421	3,491	1,959	674	—	6,124
51,307	71,006	26,854	1,033	150,200	44,696	42,876	23,910	635	112,117
3,888	59,214	2,825	(1,033)	64,894	28,184	84,220	10,869	(635)	122,638
(3,147)	(1,942)	—	1,942	(3,147)	(6,768)	(2,153)	—	2,085	(6,836)
3,147	—	—	—	3,147	6,768	1,872	—	(1,804)	6,836
27,044	2,942	1,118	(15,274)	15,830	53,480	10,759	3,366	(16,895)	50,710
(7,993)	(34,875)	(1,658)	—	(44,526)	(26,167)	(46,830)	(5,680)	—	(78,677)
22,939	25,339	2,285	(14,365)	36,198	55,497	47,868	8,555	(17,249)	94,671
—	—	—	—	—	—	—	—	—	—
(1,173)	—	—	—	(1,173)	(2,480)	—	—	—	(2,480)
(55,697)	—	—	—	(55,697)	(276,394)	(10,347)	(4,206)	—	(290,947)
6,724	—	—	—	6,724	—	—	—	—	—
—	(10,930)	(796)	—	(11,726)	—	(16,185)	(1,494)	—	(17,679)
—	—	—	—	—	—	—	—	—	—
$ 27,207	$14,409	$ 1,489	$(14,365)	$ (25,674)	$(223,377)	$21,336	$ 2,855	$(17,249)	$(216,435)
$0.38	$0.20	$0.02	$(0.20)	$(0.36)	$(3.19)	$0.31	$0.04	$(0.25)	$(3.09)
$24,581	$57,353	$13,351	$(3,546)	$ 91,739	$11,453	$55,754	$17,638	$(3,885)	$80,960
7,074	30,885	2,061	(5,701)	34,319	8,330	36,274	6,601	(6,735)	44,470
$17,507	$26,468	$11,290	$ 2,155	$ 57,420	$ 3,123	$19,480	$11,037	$ 2,850	$36,490
$127,385	$ 80,789	$ 4,429	$18,520	$231,123	$114,497	$ 77,862	$ 3,555	$17,285	$213,199
—	122,936	31,754	8,471	163,161	—	123,257	31,837	8,060	163,154
$127,385	$203,725	$36,183	$26,991	$394,284	$114,497	$201,119	$35,392	$25,345	$376,353
$—	$—	$—	$—	$—	$29,000	$—	$—	$—	$29,000

	1985	1984	1983	1982	1981
Mining					
Dome Mine					
Ounces of gold produced	125,797	118,472	138,020	85,201	73,131
Tons milled (000's)	1,028	860	762	708	557
Operating cost per ton	$50.87	$49.30	$49.84	$44.30	$45.09
Operating cost per ounce	$416	$358	$275(1)	$368	$343
Total reserves (000's of tons)	2,538	2,629	2,600	2,142	2,147
Grade (ounces per ton)	0.170	0.170	0.182	0.197	0.207
Number of employees	812	810	835	756	803
Campbell Mine					
Ounces of gold produced	226,152	213,946	219,200	217,158	200,528
Tons milled (000's)	392	395	390	392	370
Operating cost per ton	$85.44	$75.78	$70.62	$67.56	$63.10
Operating cost per ounce	$148	$140	$126	$122	$116
Total reserves (000's of tons)	2,022	2,291	2,329	2,310	2,316
Grade (ounces per ton)	0.616	0.622	0.622	0.622	0.620
Number of employees	444	447	437	427	426
Detour Lake Mine (50% share)					
Ounces of gold produced	40,884	39,479	5,937(2)		
Tons milled (000's)	448	438	124		
Operating cost per ton	$44.90	$51.93	$66.76		
Operating cost per ounce	$492	$576	$697		
Proven and probable ore reserves (000's of tons)	4,636	5,450	15,100		
Grade (ounces per ton)	0.131	0.128	0.113		
Number of employees	241	303	284		
Sigma Mine					
Ounces of gold produced	59,465	56,980	61,529	64,724	56,113
Tons milled (000's)	479	478	481	486	488
Operating cost per ton	$46.56	$45.92	$42.85	$39.56	$34.27
Operating cost per ounce	$375	$385	$335	$297	$298
Total reserves (000's of tons)	978	1,215	1,170	1,188	1,194
Grade (ounces per ton)	0.194	0.198	0.196	0.196	0.197
Number of employees	402	420	431	434	445
Dee Gold Mine (29⅓% share)					
Ounces of gold produced	13,976	1,799			
Oil and gas					
Production volumes					
Oil and natural gas liquids (000 bbls.)	512	467	430	366	438
Gas (mmcf)	1,719	1,623	1,330	1,299	1,192
Wells drilled (net)					
Oil	10	9	5	2	4
Gas	2	4	2	3	7
Dry	4	2	2	1	4
Total	16	15	9	6	15
Net proved reserves					
Oil and natural gas liquids (000 bbls.)	6,406	6,258	5,984	6,425	6,189
Gas (bcf)	71.2	66.8	61.8	66.5	66.7

(1) Excluding ounces of gold recovered from plant and equipment replaced as part of the mill expansion, operating cost in 1983 was $378 per ounce.

(2) Includes in 1983, two months operations of the Detour Lake Mine which began commercial production in November, 1983.

FIVE YEAR CONSOLIDATED FINANCIAL REVIEW

(thousands of Canadian dollars, except per share)

	1985	1984	1983	1982	1981
Revenue:					
Mining:					
Gold	$205,295	$199,427	$ 221,793	$171,204	$180,535
Coal	37,738	—	—	—	—
Oil and gas	17,522	15,667	12,962	11,408	6,886
	$260,555	$215,094	$ 234,755	$182,612	$187,421
Operating income (loss):					
Mining —					
Gold	$ 60,125	$ 67,854	$ 124,216	$ 86,877	$107,230
Coal	(5,795)	—	—	—	—
Oil and gas	3,328	3,461	4,546	5,385	3,811
	57,658	71,315	128,762	92,262	111,041
General corporate costs	(5,853)	(6,421)	(6,124)	(3,649)	(3,883)
Other income	8,349	15,830	50,710	16,433	18,834
Income and mining taxes	(39,978)	(44,526)	(78,677)	(50,376)	(60,592)
Share of earnings (losses) of:					
Falconbridge	4,547	—	—	—	—
Dome Petroleum(1)	(14,302)	(55,697)	(290,947)	(110,449)	48,383
Canada Tungsten	(5,821)	(1,173)	(2,480)	(1,741)	532
Gain on issue of shares by associated companies	12,375	6,724	—	—	—
Minority interest in net income of subsidiary companies	(9,694)	(11,726)	(17,679)	(17,108)	(22,968)
Extraordinary item	4,929	—	—	—	—
Net income (loss)(1)	$ 12,210	$ (25,674)	$(216,435)	$ (74,628)	$ 91,347
Per share:					
Income (loss) before extraordinary item	$0.09	$(0.36)	$(3.09)	$(1.07)	$1.31
Net income (loss)(1)	$0.15	$(0.36)	$(3.09)	$(1.07)	$1.31
Cash dividends — Cdn.$ equivalent	$0.12	$0.12	$0.115	$0.10	$0.1575
— U.S.$ equivalent	$0.088	0.093	$0.093	$0.08	$0.13
Cash provided by operating activities	$52,591	$59,214	$93,383	$90,432	$77,374
Revenue per ounce — Cdn $	$440	$463	$522	$466	$547
— U.S. $ equivalent	$318	$357	$423	$377	$456
Additions to property, plant and equipment:					
Mining	$7,925	$29,833	$62,217	$78,040	$57,188
Oil and gas	$6,428	$7,523	$3,171	$13,217	$90,782
Working capital(3)	$85,724	$57,420	$36,490	$22,047	$22,868
Total assets(3)	$744,816	$408,866	$413,978	$691,929	$718,605
Long-term obligations(3)	$91,595	$ —	$29,000	$87,100	$94,300
Shareholders' equity(3)	$272,666	$159,505	$140,198	$361,576	$446,821
Number of shareholders(3)	13,214	12,272	11,714	11,441	11,072
Shares outstanding(3)	89,837,253	80,606,053	77,606,053	77,592,248	77,592,248
Price of common shares — TSE					
High	$14	$21⅛	$27¼	$19¼	$30¾
Low	$8⅜	$8½	$13½	$6½	$18⅛
Exchange rates(2) —					
As at December 31	1.3985	1.3217	1.2445	1.2297	1.1863
Yearly average	1.3683	1.2971	1.2334	1.2364	1.1993
High for year	1.3202	1.3348	1.2194	1.1863	1.1766
Low for year	1.4025	1.2416	1.2511	1.3002	1.2426

(1) Equity in earnings (losses) of Dome Petroleum reflect certain changes in accounting policies adopted by Dome Petroleum in the five year period (see note 2(c) to the Company's consolidated financial statements).

(2) Exchange rates are expressed as the ratio of the amount of Canadian funds equivalent to one United States dollar.

(3) Amounts are at December 31 of the years indicated.

(4) Refer to notes 1(c), 2, 9(d) and 13 to the Consolidated Financial Statements of Dome Mines for information regarding certain contingencies and events subsequent to December 31, 1985.

Selected financial data prepared in accordance with United States accounting principles

Had the consolidated financial statements been prepared in accordance with generally accepted accounting principles in the United States, certain selected financial data would be disclosed as follows:

(thousands of Canadian dollars except per share)	Years ended December 31				
	1985	1984	1983	1982	1981
	(thousands of Canadian dollars except per share)				
Income (losses) related to associated companies	**$(40,328)**	$(68,715)	$(207,726)	$(122,182)	$53,815
Net income (loss)	**$(24,917)**	$(44,243)	$(130,734)	$(84,620)	$96,247
Net income (loss) per share	**$(0.32)**[1]	$(0.62)	$(1.87)	$(1.22)	$1.38
Working capital	**$86,753**	$57,420	$36,490	$22,047	$22,868
Total assets	**$765,673**	$466,929	$490,609	$682,859	$719,527
Shareholders' equity	**$293,601**	$217,567	$216,829	$352,506	$447,743

[1]Includes an extraordinary gain of $0.06 per share.

A discussion of differences between Canadian and United States generally accepted accounting principles is contained in Note 12 to the Consolidated Financial Statements of Dome Mines.

Principal Markets for the Company's Shares

The Common Shares of Dome Mines (the "Common Shares") are listed on the New York Stock Exchange in the United States, on The Toronto Stock Exchange and the Montreal Exchange in Canada and on the Paris Bourse in France.

Stock Symbol: DM

The New York Stock Exchange and The Toronto Stock Exchange are the principal exchanges on which the Common Shares are traded. Shown below are the high and low sale prices for the Common Shares on these exchanges for the periods indicated.

	1985		1984	
The Toronto Stock Exchange (Canadian dollars)	**High**	Low	High	Low
First quarter	$13¼	$ 8⅜	$21⅛	$15¼
Second quarter	13⅜	9½	19¾	14⅞
Third quarter	13¾	9¼	15	11⅛
Fourth quarter	14	11¼	13½	8½
New York Stock Exchange (United States dollars)	**High**	Low	High	Low
First quarter	$ 9¾	$ 6⅜	$16⅞	$12¼
Second quarter	9⅞	7	15½	11⅜
Third quarter	10⅛	6⅞	11⅜	8¼
Fourth quarter	10¼	8¼	10¼	6½

Shareholders

As at March 27, 1986, there were 89,871,897 Common Shares isued and outstanding, of which 20,861,184 or approximately 23.2% were owned by Dome Petroleum. Up to 4,500,000 (subject to adjustment) additional Common Shares may be issued pursuant to the terms of 4,500,000 currently outstanding Warrants. Each whole Warrant entitles the holder to purchase one Common Share at a price of $13.25 prior to the close of business on June 15, 1988.

Dome Mines has entered into an agreement for the private placement of flow-through Common Shares in consideration for the financing of up to a maximum of $3,000,000 of its 1986 mineral exploration program in Canada. Pursuant to this agreement, Dome Mines will, subject to regulatory approval, issue, during 1986, up to 82,135 Common Shares.

The Company's records indicate that there were 14,110 shareholders of record as at January 27, 1986.

The Company's articles and by-laws contain no restrictions on the right to hold or vote the Common Shares.

Dividends

Dividends declared in Canadian dollars on the Common Shares for each quarterly period during 1985 and 1984 are shown below.

	1985	1984
First quarter	**$0.03**	$0.03
Second quarter	**0.03**	0.03
Third quarter	**0.03**	0.03
Fourth quarter	**0.03**	0.03
	$0.12	$0.12

A regular quarterly dividend of $0.03 per Common Share was declared by the Board of Directors on March 31, 1986, payable May 26, 1986, to shareholders of record on April 21, 1986.

Dividends are declared in Canadian dollars. However, at the request of the shareholder, an equivalent amount will be paid in United States funds.

Cash dividends paid to non-residents of Canada are subject to Canadian withholding taxes. Under a reciprocal tax treaty, shareholders resident in the United States are subject to a Canadian withholding tax of 15%.

The Company has paid dividends since 1920; however, the decision to pay dividends and the amount thereof is at the discretion of the Board of Directors and is governed by such factors as earnings, capital requirements and the operating and financial condition of the Company.

DIRECTORS

‡°**Fraser M. Fell, Q.C.,**
Toronto, Ontario.
Chairman and Chief Executive Officer,
Dome Mines Limited,
Campbell Red Lake Mines Limited and Sigma Mines (Quebec) Limited (No personal liability)

C. Henry Brehaut,
Toronto, Ontario.
President and Chief Operating Officer,
Dome Mines Limited,
Campbell Red Lake Mines Limited and Sigma Mines (Quebec) Limited (No personal liability)
Chairman and Chief Executive Officer,
McIntyre Mines Limited,
Chairman of the Board,
President and Chief Executive Officer,
Kiena Gold Mines Limited

***Alex E. Barron,**
Toronto, Ontario.
Vice Chairman,
Canadian General Investments Limited

William James,
Toronto, Ontario.
Chairman of the Board,
President and Chief Executive Officer,
Falconbridge Limited

†***Maclean E. Jones, Q.C.,**
Calgary, Alberta.
Partner, Bennett Jones

‡†**Allen T. Lambert,**
Toronto, Ontario.
Chairman, Trilon Financial Corporation

‡**J. Howard Macdonald,**
Calgary, Alberta.
Chairman and Chief Executive Officer,
Dome Petroleum Limited

†°**A. Bruce Matthews,**
Toronto, Ontario.
President, Matthews and Company, Inc.
Retired Chairman,
Dome Mines Limited

***H. John McDonald,**
Toronto, Ontario.
Chairman, Black & McDonald Limited

‡***Clifford L. Michel,**
New York, New York.
Partner,
Cahill Gordon & Reindel

‡†°**J. Keith Reynolds,**
Toronto, Ontario.
Partner,
Alafin Consultants Limited

‡***Valentine N. Stock,**
Toronto, Ontario.
President and Chief Executive Officer,
Canada Packers Inc.

‡Executive Committee Member
†Management Resources and Compensation Committee Member
*Audit Committee Member
°Nominating Committee

DIRECTORS EMERITUS

William F. James,
Toronto, Ontario.
Partner, James & Buffam, Consulting Geologists.
A Director of the Company 1958-1983

James B. Redpath,
Toronto, Ontario.
President of the Company 1959-1978
and a Director 1956-1983

OFFICERS

Fraser M. Fell, Q.C.,
Chairman and
Chief Executive Officer

C. Henry Brehaut,
President and
Chief Operating Officer

G. S. Wallace Bruce,
Vice-President, Exploration

J. Scott Drever,
Vice-President,
Corporate Development

John W. W. Hick,
Vice-President,
General Counsel and Secretary

Kenneth J. Hill,
Vice-President

H. Douglas Scharf,
Vice-President, Finance,
Treasurer and
Chief Financial Officer

Victor A. Wells,
Controller

John H. Hough, Q.C.,
Assistant Secretary

OPERATING MANAGEMENT

Dome Mine

Harry V. Pyke,
General Manager

Robert J. Perry,
General Superintendent

Campbell Mine

Stewart M. Reid,
General Manager

Keith H. Newman,
General Superintendent

Detour Lake Mine

John S. Rogers,
General Manager

Kiena Mine

Raynald Vezina,
General Manager

Sigma Mine

J. André Carrier,
General Manager

Marc C. Tremblay,
General Superintendent

McIntyre Mines Limited

Michael L. Henson,
President and Chief
Operating Officer

Seated left to right: F. M. Fell, C. H. Brehaut, H. D. Scharf
Standing left to right: J. S. Drever, V. A. Wells, J. W. W. Hick, K. J. Hill, G. S. W. Bruce

CORPORATE

Executive Office
Box 350, Suite 3500,
IBM Tower,
Toronto-Dominion Centre,
Toronto, Ontario
M5K 1N3
(416) 868-6060

Mine Offices

Dome Mine
South Porcupine, Ontario
P0N 1H0
(705) 235-3221

Campbell Mine
Box 10,
Balmertown, Ontario
P0V 1C0
(807) 735-2075

Detour Lake Mine
130 Wilson Avenue,
Timmins, Ontario
P4N 2S9
(705) 268-3333

Kiena Mine
Box 87,
Val d'Or, Quebec
(819) 738-4031

Sigma Mine
Head Office and Mine
Val d'Or, Quebec
J9P 4N8
(819) 825-4182

McIntyre Mines Limited
Chief Operations Office
Three Calgary Place,
1400-355 Fourth Avenue S.W.,
Calgary, Alberta
T2P 0J3
(403) 267-4511

General Counsel
Fasken & Calvin,
Toronto, Ontario

Auditors
Clarkson Gordon,
Toronto, Ontario

Transfer Agents and Registrars
The Royal Trust Company,
Box 7500,
Toronto-Dominion Centre,
Toronto, Ontario
M5W 1P9

The Bank of New York,
48 Wall Street,
New York, N.Y. 10015

Share Listings
The Toronto Stock Exchange
The Montreal Exchange
New York Stock Exchange
Paris Bourse

Annual Report

Copies of the Annual Report of the Company are available by writing to The Royal Trust Company, Box 7500, Station A, Toronto-Dominion Centre, Toronto, Ontario, Canada M5W 1P9

Form 10-K

Copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission of the United States are available by writing to The Secretary, Box 350, Suite 3500, IBM Tower, Toronto-Dominion Centre Toronto, Ontario M5K 1N3

Annual Meeting

The Annual Meeting of Shareholders will be held in the Territories Room of the Royal York Hotel, Toronto, Ontario on May 30, 1986 at 11:00 a.m. (Toronto time).

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