Brascade Resources Inc.

1986 Annual Report

Brascade Resources Inc.

Brascade's principal operating companies include a 46% interest in Noranda Inc., a 58% interest in Westmin Resources Limited and an option to acquire a 41% interest in Norcen Energy Resources Limited.

Corporate Information

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Tel. (416) 363-9491

Registrar and Transfer Agent
The Royal Trust Company
Toronto, St. John's, Halifax, Charlottetown, Saint John, Montreal, Winnipeg, Regina, Calgary and Vancouver

Rapport Annuel
Si vous désirez recevoir un exemplaire en français de ce rapport veuillez vous adresser au Secrétaire, Ressources Brascade Inc.

Financial Highlights

millions	**1986**	1985
		restated
Total assets	**$2,503**	$2,497
Shareholders' equity	**1,325**	1,500
Net loss	**131**	141
Number of preferred shares outstanding	**12.1**	12.1
Number of common shares outstanding	**51.4**	51.4
Registered shareholders	**6,684**	9,423

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Brascade reported a loss of $131 million in 1986 compared to a loss of $141 million in 1985. The 1986 loss included a $100 million adjustment to cover the cost of restructuring the company's natural resource interests. The reduced operating loss reflects the ongoing improvements in efficiency and unit production costs achieved by Noranda and its affiliates as well as higher earnings from the forest products and gold operations.

During the last quarter Brascade purchased 6.3 million common shares of Noranda from Brascan. These shares were acquired by Brascan in February 1986 and represented Brascade's proportionate share of a Noranda issue of treasury shares.

Noranda

Noranda reported a profit of $43 million compared to a loss of $254 million in 1985. In the absence of strikes, earnings would have been $69 million higher. During 1986 unusual items comprising non-strategic asset sales generated a gain of $29 million compared to a loss of $183 million in 1985.

Noranda continued its progress in completing major capital projects and expanding its operating base during 1986. The achievements in this respect included:

- expanding ore output at the Hemlo Golden Giant mine from approximately 2,000 tons per day at the beginning of 1986 to 2,700 tons per day by year end;
- completing a new low cost copper mine at Mines Gaspé at a cost 16% below budget;
- Kerr Addison Mines Limited acquiring an approximate 50% interest in Corporation Falconbridge Copper with the intention of developing two high grade mineral properties acquired;
- Canadian Hunter and its partners expending a record $147 million on exploration and land acquisitions in 1986 thereby taking advantage of the lower oil and gas prices and the consequent reduction in land costs; and
- Canadian Hunter's Elmworth gas liquids plant recovering its development costs in thirteen months.

In addition to these operating achievements, Noranda continued to emphasize the rebuilding of its financial strength and the organizational restructuring commenced in the previous year. As a result of common and preferred equity issues $713 million was added to the company's permanent equity base. The sale of non-core assets has realized an additional $800 million over the past two years. The success of Noranda's financial restructuring can best be measured by the ratio of long term debt to each dollar of equity, which declined from $1.10 in the middle of 1985 to $0.64 in February 1987. A further reduction of this ratio is likely in 1987.

The transformation of Noranda's operations into four free-standing divisions continued in 1986 with the physical separation of divisional staff from corporate staff. The new structure is designed to improve accountability and create an environment for encouraging entrepreneurship throughout the new organization.

The major emphasis in 1987 will be on increasing productivity; improving decision making and accountability; enhancing Noranda's financial flexibility; and implementing a rewards system for management and employees consistent with Noranda's productivity gains and financial results.

Throughout the Noranda organization emphasis is being placed on operating and administrative cost reductions as well as lowering inventory levels. Despite inflation of approximately 20% since 1982, Noranda has achieved reductions in unit costs over the last four years of 61%, 21%, 20%, 18%, 9% and 2% for gold, copper, zinc, pulp, lumber and newsprint respectively. The company is determined to achieve further cost reductions and productivity improvements throughout its operations.

Within Noranda accountability will be promoted by the measurement of results against targets which represent an appropriate return to shareholders. Where possible, the organization structure is being flattened and decision making is being pushed down to make better use of employees' experience and capabilities.

To enhance financial flexibility operating units which have demonstrated self-sufficiency and have a proven record of success are encouraged to seek a public market for their shares. Hemlo Gold Mines Inc. was the first to take this step in February 1987, and in so doing provided $208 million to Noranda from the sale of a 12% ownership position, while highlighting the current value of the company's remaining 50% ownership of Hemlo Gold at more than one billion dollars. A public issue of Noranda Forest is planned for 1987.

The development of employee rewards systems which are linked to productivity and financial results will be promoted in all areas of the company's operations. Senior management will be expected to derive a major portion of their rewards by acquiring important equity interests in the companies they manage. Instead of being compensated for special performance by means of traditional cash remuneration programs, management will be compensated in a manner consistent with the way shareholders receive their rewards.

Westmin

Westmin reported net earnings of $9 million compared to $30 million in 1985 as a result of lower energy prices. During the year the company issued 2.8 million preferred shares for $36 million including $9 million in respect of investment tax credits. Subsequent to the year end Westmin sold its 28% interest in Lacana Mining Corporation for $35 million.

Several significant achievements were recorded by Westmin in 1986. The new H-W precious and base metal mine operated at approximately 10% above rated capacity during most of 1986, despite the fact that the mine was officially opened only in September 1985. Encouraged by the performance to date, a decision was reached to increase capacity by 33%. In addition, as a result of a successful precious metals exploration program, a detailed feasibility study of Westmin's properties near Stewart, British Columbia is underway.

Westmin's current cash flow can support a satisfactory level of petroleum exploration and development until oil prices improve further. In the meantime, the company has a strong balance sheet and a diversified asset base which will contribute to improved performance in 1987.

Norcen

In 1986, Brascan acquired a two year option to purchase a 41% interest in Norcen Energy Resources Limited. Brascan intends to make this option available to Brascade.

Due to the collapse in oil prices, Norcen's earnings in 1986 declined to $50 million compared to $120 million in 1985. As a result of a preferred share issue in the first quarter and a convertible debenture issue in the fourth quarter, Norcen raised $250 million in equity related financing.

In 1987 Norcen will benefit from more favourable tax and royalty regimes, higher production volumes and organizational efficiencies introduced in 1986. These benefits, coupled with current oil prices, should be reflected in a substantial recovery in Norcen's earnings in 1987.

Financial Restructuring

In July 1986, pending the restructuring of Brascade, the preferred shareholders of the company were offered an extension of the retraction privilege until September 30, 1987. It is also proposed to offer shareholders the further option of converting their shares into new Series B preferred shares of Brascade effective July 1, 1987.

In addition, it is proposed to reduce the stated common share capital of Brascade by $724.6 million effective December 31, 1986. This would have the effect of eliminating the company's deficit of $524.6 million at December 31, 1986 while simultaneously recognizing a $200 million reduction in the carrying value of Brascade's investment in Noranda. This proposed reduction in the carrying value of the Noranda investment conforms Brascade's carrying value of Noranda to that of Brascan.

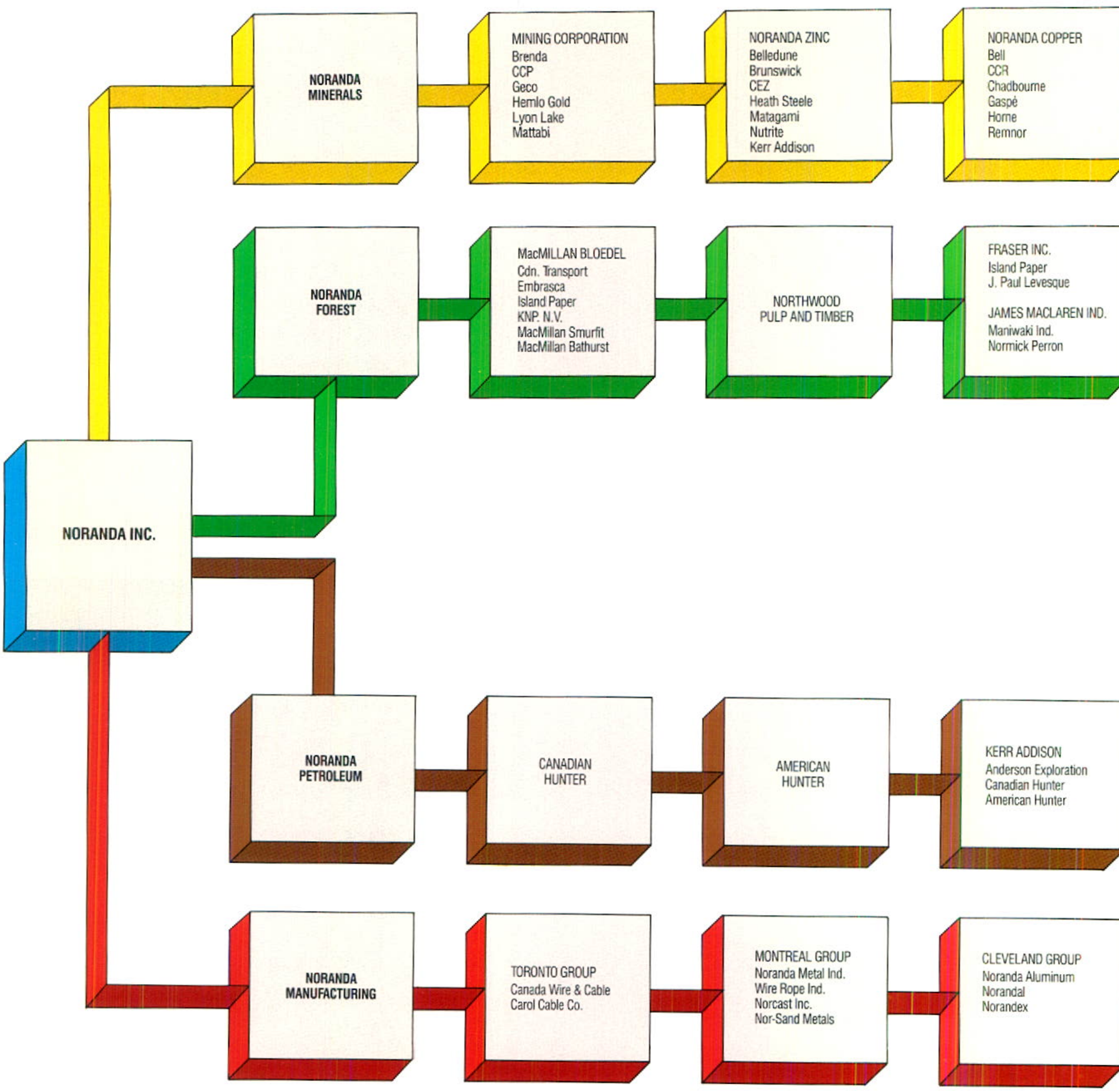
Outlook

Efforts in 1987 will be concentrated on improving productivity and accountability, and further enhancing the company's financial flexibility. These steps, coupled with an improvement in commodity prices, should result in Brascade making substantial progress in 1987 towards achieving a satisfactory level of profitability.

On behalf of the Board

J. Trevor Eyton Chairman and Chief Executive Officer	Paul M. Marshall President

April 10, 1987


NORANDA INC.
NORANDA MINERALS
MINING CORPORATION
Brenda
CCP
Geco
Hemlo Gold
Lyon Lake
Mattabi
NORANDA ZINC
Belledune
Brunswick
CEZ
Heath Steele
Matagami
Nutrite
Kerr Addison
NORANDA COPPER
Bell
CCR
Chadbourne
Gaspé
Horne
Remnor
NORANDA FOREST
MacMILLAN BLOEDEL
Cdn. Transport
Embrasca
Island Paper
KNP. N.V.
MacMillan Smurfit
MacMillan Bathurst
NORTHWOOD PULP AND TIMBER
FRASER INC.
Island Paper
J. Paul Levesque
JAMES MACLAREN IND.
Maniwaki Ind.
Normick Perron
NORANDA PETROLEUM
CANADIAN HUNTER
AMERICAN HUNTER
KERR ADDISON
Anderson Exploration
Canadian Hunter
American Hunter
NORANDA MANUFACTURING
TORONTO GROUP
Canada Wire & Cable
Carol Cable Co.
MONTREAL GROUP
Noranda Metal Ind.
Wire Rope Ind.
Norcast Inc.
Nor-Sand Metals
CLEVELAND GROUP
Noranda Aluminum
Norandal
Norandex

Noranda Inc.: 46%

Noranda is a major natural resources company with significant operations in the forest products, minerals, petroleum and manufacturing sectors.

Summarized Financial Information

millions	1986	1985	1984
Total assets	**$5,949**	$6,241	$6,306
Shareholders' equity	**2,671**	2,359	2,604
Gross revenues	**3,547**	3,462	3,400
Cash flow from operations	**180**	139	232
Net income (loss)	**43**	(254)	(4)
Earnings (loss) per share	**$0.02**	$(2.38)	$(0.32)

Noranda recorded net income of $43 million in 1986 compared to a loss of $254 million in 1985 mainly due to higher earnings from forest products. During 1986 unusual items comprising non-strategic asset sales generated a gain of $29 million, compared to a loss of $183 million in 1985.

Strategic Initiatives

Hemlo Gold Mines Inc. was formed to consolidate Noranda's interests in the Golden Giant gold mine enabling Noranda to sell 12.3% to the public in February 1987, thereby realizing $208 million while retaining a 50.1% interest.

During the year Noranda continued its non-strategic asset divestment program. Since the non-strategic asset divestment program was announced in August 1985, Noranda has realized approximately $800 million from this program.

Capital Restructuring

In the first quarter of 1986 Noranda raised $242 million from a common equity issue with tax credits. In July the company issued a new series of convertible preferred shares and simultaneously offered to exchange this same series with the existing Series A preferred shareholders whose shares were retractable on September 15, 1986.

As a result of these initiatives, Noranda raised a total of $406 million in new capital during 1986 and, in addition, converted $307 million of retractable preferred shares to permanent capital.

Productivity Improvements

Since 1982 Noranda's productivity program has achieved the following results:

Commodity	Labour Productivity	Cash Costs
Pulp	+ 47%	−18%
Lumber	+ 54	− 9
Gold	+414	−61
Newsprint	+ 20	− 2
Zinc	+ 2	−20
Copper	− 13	−21
Aluminum	+ 35	0

The reduction in cash costs per unit produced is all the more noteworthy in that inflation since 1982 has been approximately 20%.

Corporate Reorganization

In January 1986 Noranda revised its management structure resulting in the formation of four strategic business divisions. The new structure is designed to establish clearer responsibility and accountability for achieving results from the principal strategic business areas.

The new emphasis on accountability is being applied at all levels of the organization with every effort being made to simplify the management and decision making structure. Business units which can clearly demonstrate self sufficiency and performance are encouraged to seek employee and public ownership of their shares.

Outlook

Noranda's recent strategic initiatives, capital restructuring and productivity improvements are all designed to lower the company's break even point. The recent correction in the value of the North American currencies, allied to the outlook for extended world economic recovery, should result in generally higher commodity prices during 1987 and improved operating results for Noranda.

Left to right: A. Powis, Chairman and Chief Executive Officer; and D.W. Kerr, President.


DANGER
HIGH VOLTAGE

Noranda Minerals

Noranda is a leading Canadian mine producer of zinc, gold, silver, copper, lead, molybdenum and potash. In addition, the group operates zinc, copper and lead metallurgical facilities and fertilizer plants. Noranda's sales organization is responsible for marketing the group's mineral production as well as that of other companies.

Summarized Financial Information

millions	**1986**	1985	1984
Total assets	**$1,932**	$2,305	$2,162
Capital expenditures	**126**	160	256
Gross revenues	**984**	1,022	1,014
Earnings before interest and taxes	**47**	51	93

Noranda Minerals recorded an operating profit of $47 million in 1986 compared to $51 million in 1985. Higher gold prices and volumes coupled with continuing productivity improvements partially offset the effects of lower zinc prices and strikes.

Mining Corporation

Average mill throughput at the new Hemlo Golden Giant mine during January 1987 was 2,700 tons per day. Operations are expected to reach full capacity of 3,300 tons per day by the end of 1988 with the prospect of enlarging existing capacity in due course. At full production the mine is expected to produce gold at cash operating costs of US$110 per ounce in terms of 1986 dollars.

Earnings improvements were recorded at the Geco mine as a result of higher zinc grades and satisfactory metallurgical recoveries.

Noranda Copper

Noranda Copper's operations were adversely affected by strikes at Canadian Copper Refineries and the Horne smelter.

At Murdochville in the Gaspé region of Quebec, the new high-grade copper mine was completed in the fourth quarter at a cost 16% below budget. Satisfactory productivity improvements were achieved at Mines Gaspé and the Babine mining operations in Western Canada.

In August Kerr Addison Mines Limited acquired an approximate 50% interest in Corporation Falconbridge Copper for a cash consideration of $120.1 million and plans to proceed with the development of two of the high grade properties acquired.

Hemlo Gold Mines' Golden Giant mine became one of the world's lowest cost gold mines in 1986.

Noranda Zinc

An eighteen week strike at Canadian Electrolytic Zinc which ended on November 1 contributed to a loss at Noranda Zinc.

Despite a strong fourth quarter, a loss was recorded at Brunswick Mining and Smelting, mainly due to reduced zinc and silver prices and an asset writedown. A decision was reached to develop the Isle Dieu zinc, copper and silver deposit at Mattagami, Quebec at an expected cost of $35 million.

Exploration

Noranda maintained a $30.5 million exploration budget in 1986 of which 76% was spent in Canada, 23% in the United States and 1% in Australia and elsewhere. About 71% of total exploration expenditures during the year related to gold.

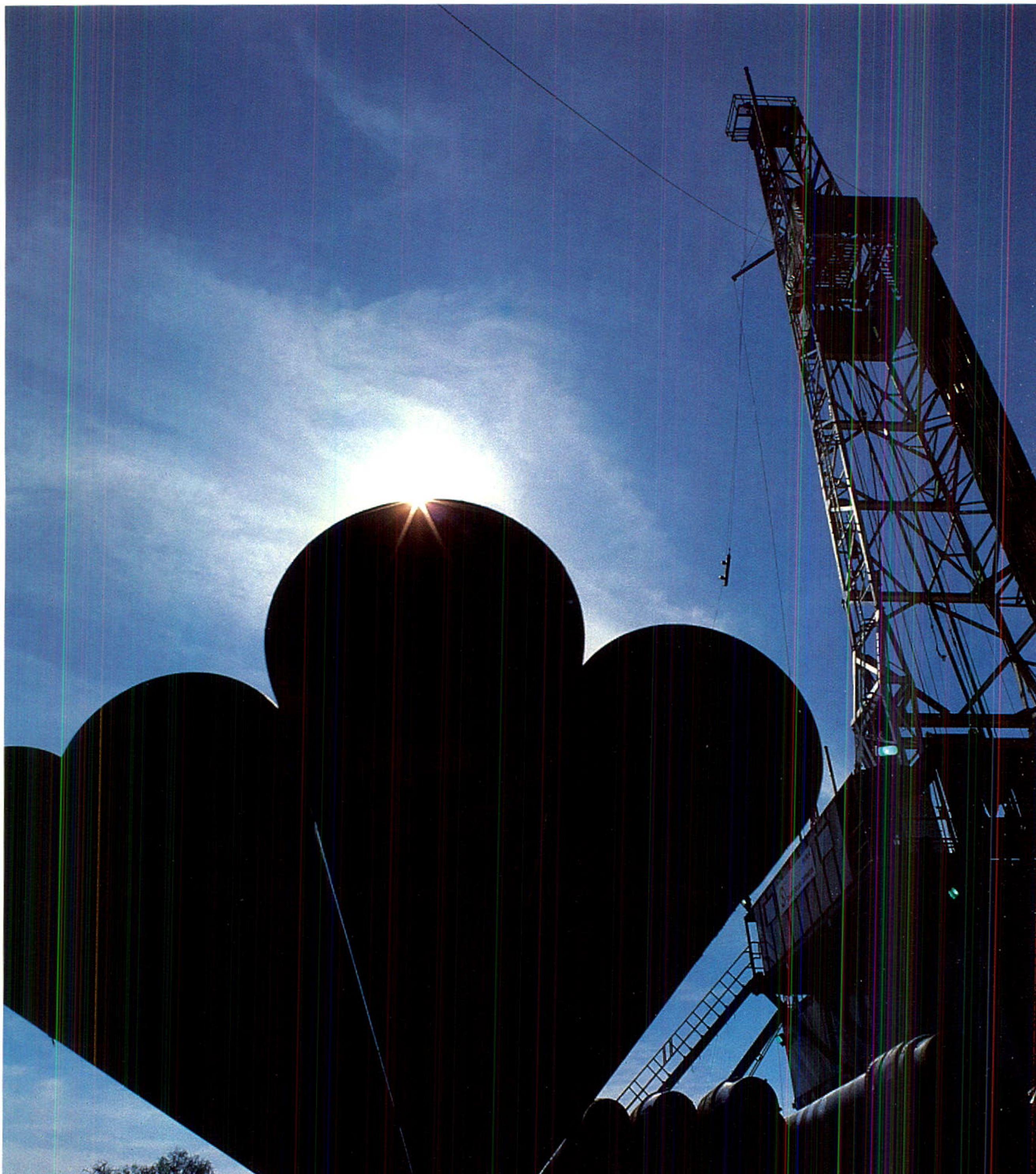
Encouraging gold mineralization was encountered at the Ribago-Silidor project near Noranda, Quebec. Winter drilling on the Tundra gold project in the Northwest Territories also yielded good results. Subsequent to year end, Noranda issued $20 million of flow through shares for exploration purposes.

Outlook

Increased minerals earnings in 1987 are expected in the context of higher gold prices and volumes, continued productivity improvements at the base metals operations and a reduction in the frequency of strikes stemming from a reduced level of collective bargaining.

Earnings should also be enhanced by reduced interest costs stemming from the conversion of the Hemlo Gold Mines' former bank loan to a lower cost gold loan facility.

K.C. Hendrick, President.



Noranda Petroleum

Noranda's principal oil and gas interests are held through Canadian Hunter which is owned 87% by Noranda and 13% by Kerr Addison. In addition, Kerr Addison has a 33% interest in Anderson Exploration Ltd.

Summarized Financial Information

millions	**1986**	1985	1984
Total assets	**$489**	$514	$537
Capital expenditures	**72**	81	90
Gross revenues	**94**	128	118
Earnings before interest and taxes	**43**	55	60

In 1986 Canadian Hunter's operating profit was $43 million, before a $26 million asset writedown, compared to $55 million in 1985. As approximately 95% of Canadian Hunter's sales relate to gas, the sharply lower oil price did not materially impact the company during most of 1986. Lower gas prices did not take effect until the commencement of the new contract year on November 1.

Oil and Gas Production

During the 1985-86 contract year purchases by TransCanada PipeLines Limited, Hunter's major customer, averaged 46% of maximum contracted quantities compared to 54% in the prior year. Overall, Noranda's share of Canadian Hunter's 1986 gas sales volumes, before royalties, was 32.2 bcf. compared with 35.8 bcf. in the prior year.

While oil and gas liquids production is still relatively small, it increased to 1.7 million barrels in 1986 from 1.2 million in 1985, before royalties, mainly due to a full year of operations from the gas liquids plants at Wapiti and Elmworth.

The Elmworth gas liquids plant recovered its development costs in thirteen months. In the last quarter of 1986 Canadian Hunter executed a sale and lease-back agreement with respect to its gas liquids plants realizing $24 million.

Exploration and Development

Despite the lower energy prices, Canadian Hunter and its partners expended a record $147 million on exploration and land acquisitions in 1986. During the year Canadian Hunter drilled 88 wells of which 66 were successful for a 75% success ratio. In 1985 91 wells were drilled.

During 1986 Canadian Hunter entered into two major joint venture exploration agreements designed to significantly reduce Noranda's cash outlays on exploration. In the Deep Basin area of British Columbia, Canadian Hunter's partner, Standard Oil of Ohio, spent $35 million on land acquisition and exploration. In the other joint venture Hunter's partners, Inland Natural Gas Co. and TransMountain Petroleum Ltd., spent $29 million on exploration activities.

Canadian Hunter and its partners spent a record $147 million on exploration and land acquisitions in 1986.

Canadian Hunter also continued to add substantially to its land inventory which was as follows at year end:

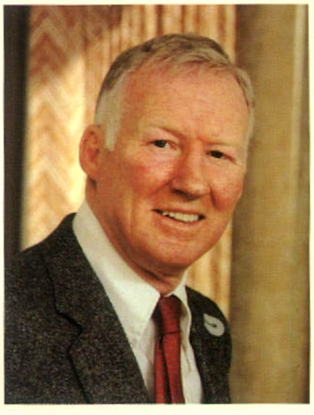
Category – thousands	Gross Acres	Joint Venture Net Acres	Noranda Net Acres
Canada			
Leases	3,936	1,210	1,052
Licences and permits	711	416	362
United States			
Fee/Federal/State	986	550	507
Total	5,633	2,176	1,921

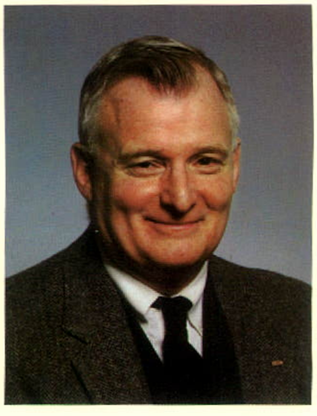
Oil and Gas Reserves

Noranda's share of Canadian Hunter's proven and probable reserves, before royalties, was 104.2 million barrels of oil and natural gas liquids at year end, while gas reserves totalled 1,108.4 bcf.

Outlook

Canadian Hunter expects to maintain its favourable finding costs which have declined significantly over the last year as a result of improved exploration results and lower land acquisition and exploration costs. It is anticipated that a record number of wells will be drilled to capitalize on the 1986 land acquisition program and that the reduced government taxes and crown royalties will cushion the impact of lower gas prices in 1987.





Left to right: J.A. Masters, President; and J.K. Gray, Executive Vice-President.

Noranda Forest

Noranda Forest and its associated companies are the largest producers of forest products in Canada. The group's product line includes market pulp, newsprint, fine and groundwood papers, lumber, containerboard and panelboard. In addition, these companies own over 1.5 million acres of timberlands and have cutting rights on a further 8.5 million acres for a total timber management area of about 10 million acres.

Summarized Financial Information

millions	**1986**	1985	1984
Total assets	**$1,842**	$1,754	$1,726
Capital expenditures	**44**	80	109
Gross revenues	**965**	846	822
Earnings before interest and taxes	**226**	100	95

Despite a five month strike in the British Columbia lumber industry, the Noranda Forest Group's operating profit rose to $226 million from $100 million in 1985. While all of Noranda Forest's companies recorded increased earnings, the higher contributions of MacMillan Bloedel and Northwood Pulp to division profitability were particularly noteworthy.

MacMillan Bloedel

Improved net prices for pulp, containerboard, panelboard and lumber, coupled with higher pulp and containerboard sales volumes, overcame the adverse effects of the British Columbia lumber strike and provided the highest level of earnings for the company since 1979. The company also continued to benefit from improved productivity and the emphasis on higher value-added products.

During 1986 MacMillan Bloedel contributed $69 million to Noranda's after-tax operating earnings compared to $35 million in the prior year. In February 1986 the company realized cash proceeds of $88 million from the reduction of its interest in KNP N.V. from 40% to 25%.

James Maclaren Industries

Higher pulp and newsprint volumes and sharply higher pulp prices allowed James Maclaren to increase its after-tax operating profit contribution to Noranda to $21 million in 1986 from $12 million in 1985. The new newsprint machine made significant progress in efficiency and quality.

Pulp production volumes increased by 34% to record levels as the buoyant pulp markets led to higher utilization rates. Earnings of Maclaren's electric power and solid wood operations were satisfactory.

Public participation in Noranda's extensive forest products holdings is planned for 1987.

Northwood Pulp and Timber

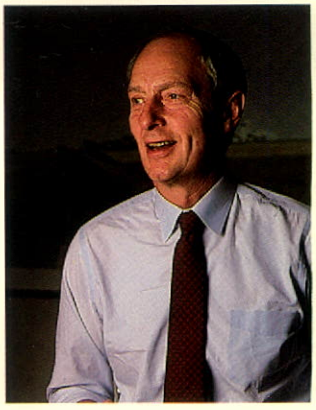
During 1986 Northwood Pulp's after-tax operating profit contribution to Noranda rose to $24 million from $4 million as the company benefited from significantly higher pulp prices and volumes. The lumber dispute resulted in both reduced lumber output and the loss of by-product chips for the pulp operations, necessitating outside purchases of stockpiled chips. The plywood and waferboard operations continued throughout the strike and produced satisfactory earnings.

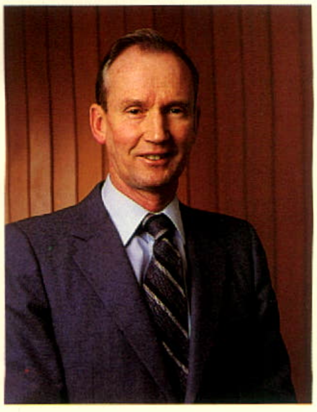
Fraser Inc.

As a result of the good markets for fine and uncoated groundwood papers, Fraser's after-tax operating profit contribution to Noranda rose to $31 million from $11 million in 1985. Fraser's cash flow also rose to $48 million in 1986 from $19 million. Island Paper Mills and J.P. Levesque and Sons Limited made positive contributions to Fraser's earnings during the year. In October Island Paper received the Gold Medal for Excellence in Marketing from the Federal Department of Regional Industrial Expansion. Fraser and MacMillan Bloedel are joint owners of Island Paper.

Outlook

The good performance of Noranda Forest in 1986 is expected to be even better in 1987 as prices for many key forest products at the beginning of 1987 were significantly above average 1986 prices. Thus far in 1987 the United States dollar has continued to weaken, further increasing the competitiveness of North American forest products in the export markets. While Noranda's eastern collective agreements expire in 1987, no major agreements are due to expire this year in British Columbia.





Left to right: A.H. Zimmerman, Chairman; and R.T. Kenny, President.


ALABAMA

Noranda Manufacturing

Noranda's manufacturing operations comprise aluminum smelting and fabrication, including sheet and foil, copper wire and cable production, iron foundry and brass mill products, grinding media and fibre optics. The manufacturing activities provide a degree of integration to Noranda's minerals operations and partly offset the earnings cyclicality associated with the production of minerals and forest products.

Summarized Financial Information

millions	**1986**	1985	1984
Total assets	**$1,588**	$1,557	$1,719
Capital expenditures	**41**	60	59
Gross revenues	**1,600**	1,547	1,567
Earnings before interest and taxes	**(2)**	11	42

Noranda's manufacturing operations registered an operating loss of $2 million compared to a profit of $11 million in 1985. Strikes and soft Canadian wire and cable markets mainly accounted for the 1986 results.

Noranda Aluminum

Improved aluminum ingot prices coupled with an increase of 7% in ingot volume, resulted in a lower operating loss for Noranda Aluminum of $9 million compared to a loss of $28 million in 1985.

These improved results were achieved despite a six week strike at the smelter, the effects of which lasted an additional four weeks until a potline, closed because of the strike, could be restarted. Important cost reductions were realized at the smelter during the year.

Satisfactory earnings were recorded by Noranda's aluminum fabricating operations, Norandal and Norandex, despite a work stoppage at the Norandal rolling mill in Scottsboro, Alabama in June 1986.

Wire and Cable

Wire and cable operations in Canada recorded a small operating loss in 1986. Markets for Canada Wire's products were soft, precluding price increases throughout much of the year. Carol Cable's earnings increased in 1986 as a result of better markets in the United States and strong sales emphasis on the United States company's most profitable products.

Noranda's recently acquired aluminum rolling mill in Scottsboro, Alabama exceeded its acquisition criteria in 1986.

Noranda Metals

Noranda Metals which includes Norcast Inc., Noranda Metal Industries and Wire Rope Industries recorded an operating loss of $2 million compared to earnings of $7 million in 1985.

The brass mills operations of Noranda Metal Industries were adversely affected by a ten week strike at the Fergus, Ontario plant. In addition, duties were levied by the United States on Canadian imports of brass sheet and strip.

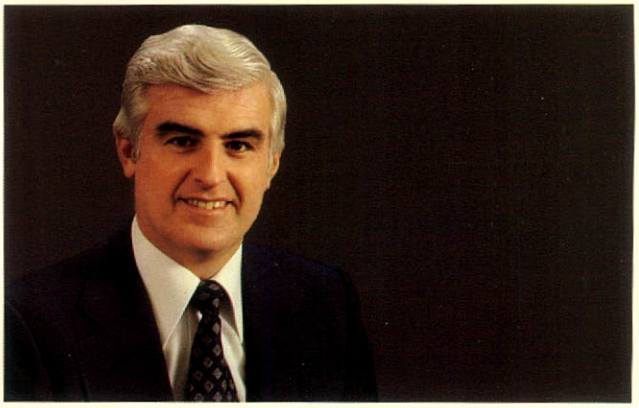
Noranda Metal Industries' stainless steel tubing business operated in a more competitive market because Canadian anti-dumping duties levied on imports from six countries were removed in April. However, a new marketing arrangement is expected to boost tubing exports to the United States.

Norcast Inc. was profitable with both the grinding media plant and the fabricating shop operating near capacity throughout most of the year.

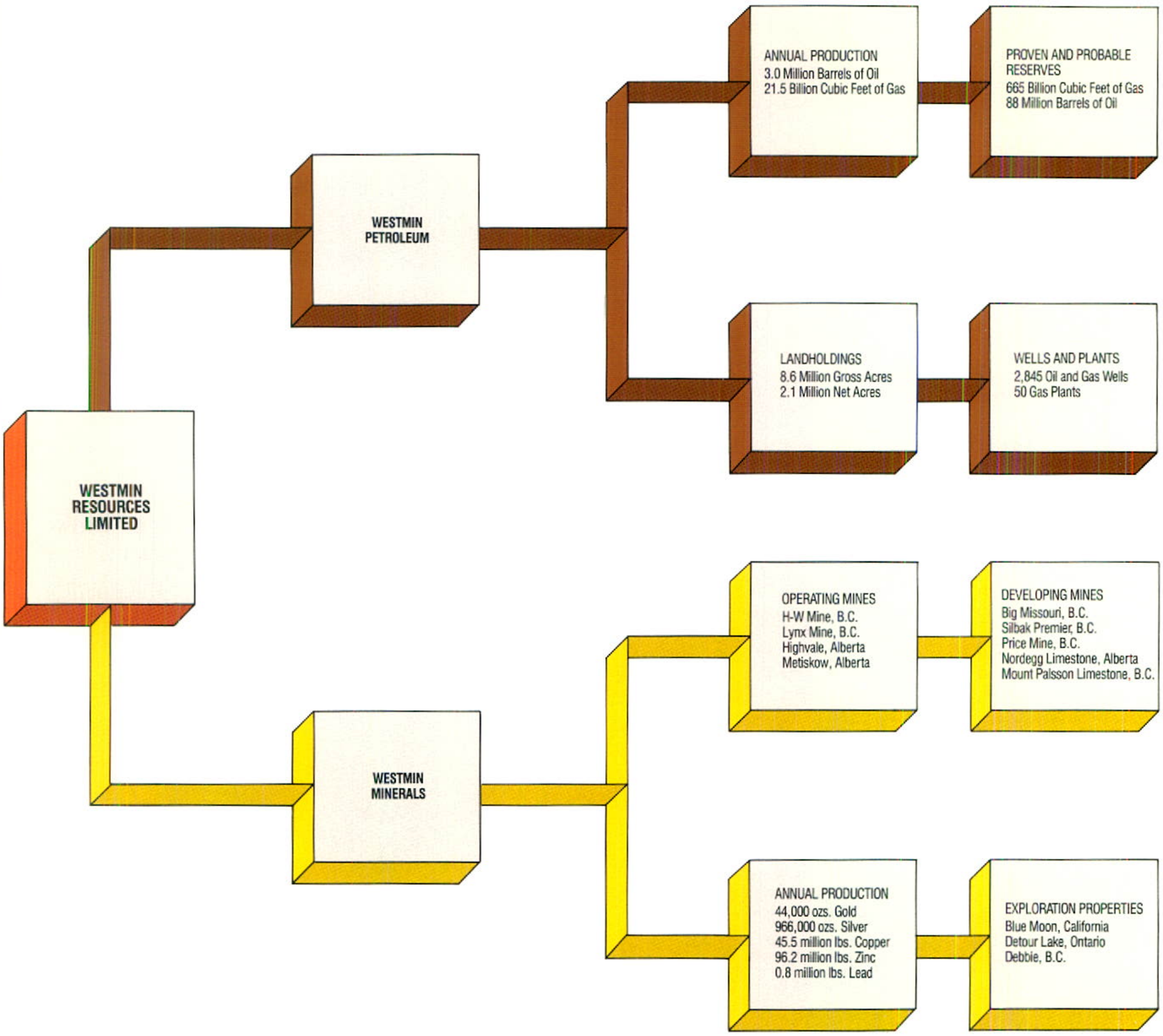
Wire Rope Industries experienced a nineteen week strike as well as lower sales volumes due to the depressed petroleum industry and the British Columbia lumber strike.

Outlook

The outlook for higher aluminum prices and the continuation of a satisfactory level of economic activity should lead to improved performance by Noranda Manufacturing in the current year. The emphasis currently being placed on productivity and labour relations should also lead to increased earnings.



Hon. E.C. Lumley, Chairman.


WESTMIN RESOURCES LIMITED
WESTMIN PETROLEUM
ANNUAL PRODUCTION
3.0 Million Barrels of Oil
21.5 Billion Cubic Feet of Gas
PROVEN AND PROBABLE RESERVES
665 Billion Cubic Feet of Gas
88 Million Barrels of Oil
LANDHOLDINGS
8.6 Million Gross Acres
2.1 Million Net Acres
WELLS AND PLANTS
2,845 Oil and Gas Wells
50 Gas Plants
WESTMIN MINERALS
OPERATING MINES
H-W Mine, B.C.
Lynx Mine, B.C.
Highvale, Alberta
Metiskow, Alberta
DEVELOPING MINES
Big Missouri, B.C.
Silbak Premier, B.C.
Price Mine, B.C.
Nordegg Limestone, Alberta
Mount Palsson Limestone, B.C.
ANNUAL PRODUCTION
44,000 ozs. Gold
966,000 ozs. Silver
45.5 million lbs. Copper
96.2 million lbs. Zinc
0.8 million lbs. Lead
EXPLORATION PROPERTIES
Blue Moon, California
Detour Lake, Ontario
Debbie, B.C.

Westmin Resources Limited: 58%

Westmin is a natural resources exploration and production company with interests in oil and gas, base and precious metals, coal and industrial minerals.

Summarized Financial Information

millions	1986	1985	1984
Total assets	**$ 889**	$ 895	$ 672
Shareholders' equity	**397**	384	388
Gross revenues	**190**	170	133
Cash flow from operations	**52**	80	67
Net income	**9**	30	34
Earnings (loss) per share	**$(0.21)**	$0.40	$0.47

Lower petroleum prices resulted in net income of $9 million at Westmin compared to net income of $30 million in 1985. Cash flow from operations declined to $52 million in 1986 from $80 million in the prior year. Despite the reduced cash flow, Westmin's balance sheet at year end remained in satisfactory condition. In April 1986 Westmin issued $36 million of convertible preferred shares with accompanying tax credits.

Westmin Petroleum

Operating profit from oil and gas decreased to $20 million from $63 million in 1985 because of lower prices. Oil production however, increased by 26% to 3.0 million barrels in 1986 resulting from higher output of low gravity oil and production from the recently acquired Sundance properties. Westmin's gas production increased by 3% to 21.5 bcf.

During the year Westmin drilled 86 wells, resulting in 64 oil and 13 gas wells for a success ratio of 90%. Gross proven and probable oil and natural gas liquids reserves were 88 million barrels at the end of 1986 while proven and probable gas reserves totalled 665 bcf.

Westmin Minerals

Operating profit from metal mining in 1986 was $11 million compared to a loss of $2 million in the prior year. This significant improvement stemmed from an 82% increase in ore milled as the new H-W mine on Vancouver Island operated for a full year with substantially lower operating costs per ton.

Despite the fact that the H-W mine was only officially opened in September 1985, the mine operated approximately 10% above capacity throughout most of 1986. Encouraged by this performance, a decision was reached to increase total capacity from 3,000 tonnes per day to 4,000 tonnes. The incremental cash outlays of $24 million to achieve this higher capacity have a short pay back period. Ore reserves delineated to date at the H-W mine exceed 15 million tons of precious and base metals.

During 1986 Westmin's precious metal exploration activities were very successful and a detailed feasibility study is underway with respect to the company's properties near Stewart, British Columbia. On the Blue Moon deposit in California, a significant increase in reserves and average grade was also recorded.

Operating profit from coal and industrial minerals increased to $7 million in 1986 compared to $6 million in 1985. Westmin continued to supply coal to Alberta's major power stations under escalating take-or-pay production royalty contracts. The recoverable thermal coal reserves on Westmin's freehold land in Western Canada approximate 400 million tons.

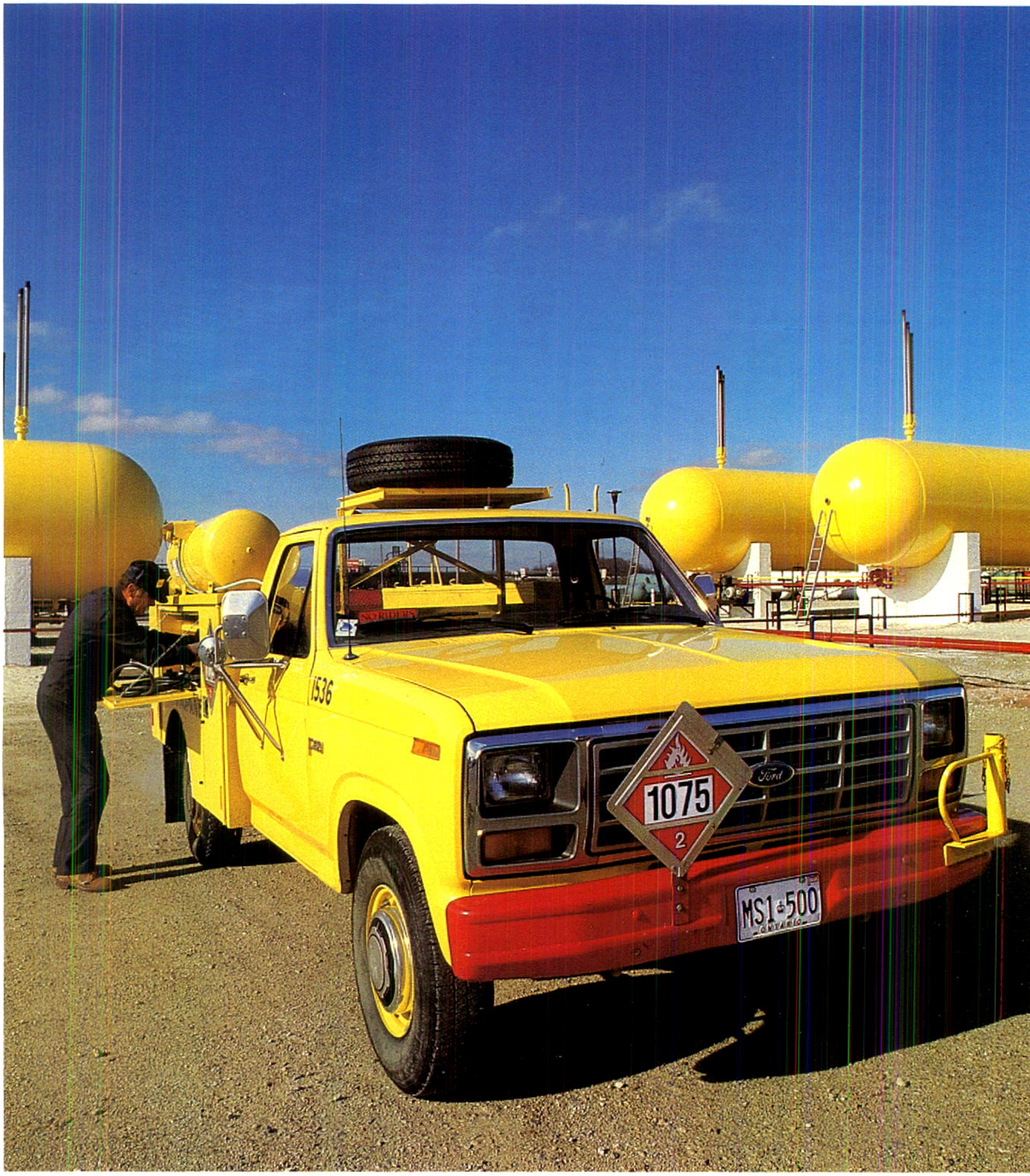
Given Westmin's increased gold production and recent exploration successes, the company sold its 28% interest in Lacana Mining for $34.7 million in February 1987.

Outlook

Currently, Westmin is benefiting from the recent improvement in both oil and gold prices. These improvements coupled with the elimination of the petroleum and gas revenue tax and the lowering of provincial royalties, should result in improved earnings for Westmin in 1987.

Because of its diversified asset base, strong balance sheet and important freehold land holdings, Westmin's cash flow will support a satisfactory level of exploration and development activity until oil and gas prices improve further.

Left to right: D.W. Miller, President Petroleum Division; D.D. Webster, Executive Vice-President, Finance and Administration; P.M. Marshall, President and Chief Executive Officer; and R.H. Ostrosser, President Mining Division.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Norcen Energy Resources Limited: 41% (option interest)

Norcen is a natural resources company whose principal operations include exploration, development and production of oil and gas and, through Superior Propane Inc., the distribution of propane. Norcen's mineral resources division includes an important direct and indirect interest in Iron Ore Company of Canada, a significant iron ore royalty and 28% of M.A. Hanna Company of Cleveland, Ohio.

In 1986 Brascan acquired a two-year option to purchase a 41% interest in Norcen.

Summarized Financial Information

millions	1986	1985	1984
Total assets	**$2,156**	$2,191	$1,849
Shareholders' equity	**856**	767	787
Gross revenues	**615**	666	570
Cash flow from operations	**205**	229	215
Net income	**50**	120	104
Earnings per share	**$0.64**	$2.03	$1.65

During 1986 Norcen's earnings declined to $50 million or $0.64 per share before extraordinary items, compared to $120 million or $2.03 per share in 1985. Extraordinary items relating to a writedown of certain resource properties reduced Norcen's earnings to $30 million in 1986.

Petroleum Division

Oil and gas operating income dropped to $68 million in 1986 from $219 million in 1985. Gross crude oil and natural gas liquids production was 14.2 million barrels in 1986, 16% above the level of 12.2 million barrels in 1985. Gross natural gas sales in 1986 were 49.7 bcf., approximately the same as in 1985.

Norcen drilled 384 gross wells in 1986 compared to 549 in 1985. Of the wells drilled in 1986, 228 were oil. At the end of 1986 Norcen's proven and probable reserves before royalties were 127.8 million barrels of oil and natural gas liquids, 1,148 bcf. of natural gas and 539,000 tons of sulphur.

In 1986 Gulf Canada reported that tests on the Amauligak structure in the Beaufort Sea indicated the presence of more than 700 million barrels of recoverable oil. Norcen has a 15% interest in this discovery. Summer testing at the Amauligak 1-65 B well reached production volumes of 14,000 barrels per day. In September 317,000 barrels of oil produced during the summer testing program were shipped to Japan by tanker.

Norcen's acquisition of Superior Propane in 1986 makes it the largest marketer of propane in Canada.

In August 1986 the Jabiru 1A well off the Australian coast was brought into production and by year end was producing about 16,500 barrels per day. Norcen holds a 12.5% interest in this project.

LPG Marketing and Transmission Division

The acquisition of Gulf Canada's propane business makes Norcen the largest retail marketer of propane in Canada with 107 branches accounting for approximately 40% of the Canadian commercial, industrial and retail propane market. During 1986 LPG marketing and transmission operating income rose to $43 million from $26 million in 1985.

Mineral Resources Division

Norcen's mineral operations generated $36 million in operating income in 1986 compared to $27 million in 1985. During 1986 Iron Ore Company sold 14.8 million tonnes of ore compared with 15.5 million tonnes in 1985. Very competitive world iron ore and steel markets prevailed throughout the year. M.A. Hanna Company reported income of US$31 million before unusual charges of US$135 million, arising mainly from asset writedowns. In October Norcen purchased US$20.2 million of a convertible preferred share issue of Hanna to maintain its 28% interest.

Outlook

Recent acquisitions, development drilling and increased pipeline capacity are expected to increase Norcen's oil and gas production in 1987. These additional volumes, coupled with the benefits of the petroleum and gas revenue tax elimination, changes in provincial royalty regimes and efficiencies resulting from reorganization in 1986 will increase cash flow and earnings over 1986 levels.

Left to right: Edward G. Battle, President and Chief Executive Officer; Donald D. Barkwell, Executive Vice-President and Chief Operating Officer; and Paul H. Palmer, Senior Vice-President and Chief Financial Officer.

Consolidated Balance Sheet

December 31

millions	note	1986	1985
			restated
Assets			
Cash and short-term investments		**$ 119.5**	$ 98.7
Receivables and other assets	2	**125.6**	131.1
Corporate investments	3	**1,566.8**	1,515.7
Property and equipment	4	**690.7**	751.1
		$2,502.6	$2,496.6
Liabilities			
Bank indebtedness		**$ 8.9**	$ 9.8
Accounts payable and other		**33.7**	56.7
Term debt	5	**477.4**	388.8
		520.0	455.3
Deferred Credits	7	**213.5**	122.2
Minority Interest		**443.7**	419.6
Shareholders' Equity	6	**1,325.4**	1,499.5
		$2,502.6	$2,496.6

On behalf of the Board:

J. Trevor Eyton, Director

Fernand Paré, Director

Consolidated Statement of Operations

Years ended December 31

millions	note	1986	1985
Income			
Operating revenues		**$180.2**	$161.9
Investment and other income		**12.3**	14.5
Dividends from corporate investments	3	**41.9**	42.9
		234.4	219.3
Expenses			
Operating		**109.0**	78.6
Depletion and depreciation		**45.2**	28.1
Interest		**41.2**	12.0
Income and resource taxes	7	**(5.5)**	28.4
Minority interest		**27.6**	32.1
		217.5	179.2
Operating results before the following		**16.9**	40.1
Share of loss and common share dividends from Noranda Inc.	9	**(147.5)**	(181.4)
Loss for year		**$130.6**	$141.3
Loss per common share		**$3.39**	$3.60

Consolidated Statement of Deficit

Years ended December 31

millions	note	1986	1985
Balance, beginning of year			
As previously reported		**$339.8**	$155.0
Prior period adjustment	4	**10.7**	10.7
As restated		**350.5**	165.7
Loss for year		**130.6**	141.3
		481.1	307.0
Preferred dividends		**43.5**	43.5
		524.6	350.5
Capital reduction	11	**524.6**	—
Balance, end of year		**$ —**	$350.5

Consolidated Statement of Changes in Financial Position

Years ended December 31

millions	note	1986	1985
Provided from operations	9	$ 86.5	$114.6
Provided from financing			
Term debt		88.6	248.8
Sale of equipment and investment tax credits		44.0	—
Minority interest		26.9	3.6
Corporate investments		30.2	—
		189.7	252.4
Used for investing			
Corporate investments		128.7	14.0
Property and equipment		36.9	289.0
Other		14.6	18.6
		180.2	321.6
Dividends			
Corporate		43.5	43.5
Minority interest		31.7	27.8
		75.2	71.3
Cash and other investments			
Increase (decrease)		20.8	(25.9)
Balance			
Beginning of year		98.7	124.6
End of year		$119.5	$ 98.7

Auditors' Report

To the Shareholders:

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

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1986 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting policies as described in note 4, on a basis consistent with that of the preceding year. The comparative figures have been restated to reflect the change in note 11(b).

Touche Ross & Co.

RAYMOND, CHABOT, MARTIN, PARÉ

Toronto, Canada
March 3, 1987

Chartered Accountants

1. Summary of Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Accounting for Investments

Consolidated Subsidiaries

The consolidated financial statements include the accounts of the company and all of its subsidiaries including a 74% (58% fully diluted) interest in Westmin Resources Limited.

The costs of acquiring each subsidiary are allocated to its identifiable net assets on the basis of estimated fair values at the date of purchase.

Corporate Investments

Investments in which significant influence exists are carried on the equity method.

Equity in the income of corporate investments is based on income as reported by the investee adjusted for the amortization of the difference between acquisition costs and underlying net book value of investee's assets. The accounting policies of investees are, in all material respects, in accordance with those of the company.

The realized and unrealized portions of the change in equity carrying values of corporate investments, other than shares acquired, are shown separately in the statement of operations in years in which losses are incurred by investees.

The unamortized excess of acquisition costs over underlying net book value of the assets acquired amounting to $443.9 million (1985 – $445.8 million) relates principally to property and equipment and is being amortized where appropriate over the estimated useful lives of the related assets.

Short Term Investments

Short term investments consist mainly of common and preferred shares and are carried at cost which approximates market value.

Joint Venture Accounting

Substantially all exploration activities and oil and gas production are conducted jointly with others and accordingly the accounts reflect only the proportionate interests in such activities.

Petroleum Properties and Equipment

The full cost method of accounting is used whereby all costs associated with exploration for and development of oil and gas, including plant and equipment costs, are capitalized by cost centre on a country-by-country basis until commencement of production and then amortized on the unit of production method over estimated proven reserves. The costs of unproved properties are excluded from costs to be depleted pending determination of reserves. Capitalized costs are generally limited to the value of future net revenues from estimated production of proved oil and gas reserves plus the costs of unproved properties with reductions for applicable administration, financing and income tax costs.

Mining and Mineral Exploration

Mineral exploration costs pertaining to individual mineral prospects are charged to income as incurred until an economic orebody is defined or brought into production. The costs of mine plant and equipment, together with mineral exploration costs and capitalized interest, are amortized based on the unit of production method over the estimated life of the ore reserves.

Concentrate Settlements Receivable and Concentrate Inventory

Concentrate settlements receivable and concentrate inventory are valued at current metal prices less provision for estimated market adjustments, treatment and marketing charges.

Interest Costs

Interest costs attributable to major capital expansion and development projects are capitalized until commercial production has commenced.

Income and Resource Taxes

The company follows the tax allocation method of accounting for corporate income and resource taxes, whereby deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowances, in excess of the related depletion and depreciation recorded in the accounts.

2. Receivables and Other Assets

millions	**1986**	1985
Receivables of which $22.7 million (1985 – $31.7 million) are due within one year	**$ 68.5**	$ 74.2
Investment in Lacana Mining Corporation	**31.9**	31.9
Concentrate settlements and inventory	**11.1**	9.2
Other	**14.1**	15.8
	$125.6	$131.1

Receivables due beyond one year include the present value of payments due under instalment sale and royalty agreements. Effective January 1, 1986 the company changed from the equity method to the cost basis of accounting for its investment in Lacana and the investment was included in

Other Assets in 1986 and in 1985 for comparative purposes. In February 1987 the investment in Lacana was sold for cash of $34.7 million.

3. Corporate Investments

At year end the company held 63,655,936 common shares of Noranda Inc. (1985 – 56,477,750) and 5,212,080 convertible preferred shares (1985 – 6,325,864) representing a 46% (1985 – 46%) interest. Details of changes in this investment are as follows:

Common shares

millions	1986	1985
		restated
Balance, January 1	**$1,344.4**	$1,511.8
Shares acquired	**128.7**	14.0
Share of loss	**(19.0)**	(153.6)
Dividends received	**(28.5)**	(27.8)
Balance, December 31	**$1,425.6**	$1,344.4

Convertible preferred shares

millions	1986	1985
Balance, January 1	**$171.3**	$171.3
Shares sold	**(30.1)**	—
Balance, December 31	**$141.2**	$171.3
Dividends received	**$ 13.4**	$ 15.1

In March 1986 Hees International Corporation granted Brascan Limited a two-year option to acquire a 41% interest in Norcen Energy Resources Limited. Brascan has indicated that it intends to assign this option to the company or one of its affiliates.

4. Property and Equipment

	1986			1985
millions	Cost	Accumulated depreciation and depletion	Net	Net
				restated
Petroleum	**$569.7**	**$143.0**	**$426.7**	$470.9
Mining	**290.6**	**33.1**	**257.5**	273.9
Coal properties and other	**10.4**	**3.9**	**6.5**	6.3
	$870.7	**$180.0**	**$690.7**	$751.1

In 1986 the full cost method of accounting for petroleum properties was revised to redefine the cost centres on a country-by-country basis and to modify the ceiling test applicable thereto. The effect of this retroactive change in accounting policy was to reduce as of January 1, 1985 petroleum properties, deferred taxes, minority interest and retained earnings by $25.1 million, $10.7 million, $3.7 million and $10.7 million respectively. Unproved properties amounted to $38.5 million at December 31, 1986 (1985 – $38.9 million).

5. Term Debt

Westmin Resources Limited has a $189.7 million project financing facility for the H-W Mine/Mill Complex at Myra Falls, British Columbia. This facility bears interest at floating rates and is repayable over seven years subject to earlier repayment from available project cash flows. The loan is secured, on a non-recourse basis, by the project assets following completion.

Westmin Resources Limited has a $90.7 million project financing facility for the acquisition of the Sundance Properties. This facility bears interest at floating rates and repayments are made from the cash flows of the Sundance Properties with a final maturity date of January 1, 1993. The loan will be secured after all conditions have been met, on a non-recourse basis, by the acquired properties.

Westmin Resources Limited also has a $150.0 million credit facility. The unsecured loan bears interest at varying rates and may be drawn on a revolving basis and is convertible to a five-year term loan. At December 31, 1986, $85.3 million was outstanding.

The company has a $121.5 million unsecured credit facility bearing interest at prime rates which may be drawn down on a revolving basis until June 30, 1987 at which time it is convertible to term loans repayable in ten semi-annual instalments. At December 31, 1986, $6.6 million was outstanding.

Included in term debt is $105.2 million, due on demand to an associated company and bearing interest at prime rates.

6. Shareholders' Equity

Share capital consists of:

Authorized:

Unlimited Preferred shares issuable in series

Unlimited Common shares

Issued and outstanding:

millions	1986	1985
		restated
12,081,146 Convertible preferred shares (1985 – 12,081,252)	**$ 483.2**	$ 483.2
51,406,602 Common shares (1985 – 51,406,496)	**811.2**	1,335.8
	1,294.4	1,819.0
Contributed surplus	**31.0**	31.0
Deficit	**—**	(350.5)
	$1,325.4	$1,499.5

The following rights and privileges apply to the convertible preferred shares:

(i) entitlement to cumulative quarterly dividends calculated on the issue price of $40 per share at a variable rate, equal to 1½% plus ½ of the average daily prime lending rate of a specified Canadian chartered bank, subject to a minimum rate of 9% on an annual basis;

(ii) retractable by the holders on September 30, 1987 at $40 per share plus accrued and unpaid dividends thereon;

(iii) redeemable at any time at prices declining from $42 to $40 per share in 1991 plus accrued and unpaid dividends thereon;

(iv) fully voting on the basis of one vote per share; and

(v) convertible at the option of the holders into one common share for each preferred share on or prior to September 30, 1991.

7. Deferred Credits

Deferred credits comprise deferred taxes of $113.5 million (1985 – $122.2 million) and a $100.0 million provision to cover the cost of restructuring the company's natural resource interests.

Income and resource taxes are as follows:

millions	1986	1985
Income taxes –		
Deferred	$ (3.1)	$ 20.8
Other	(2.8)	(2.0)
	(5.9)	18.8
Resource taxes	.4	9.6
	$ (5.5)	$ 28.4

Reconciliation		
Approximate statutory rate	53.3%	52.0%
Non-taxable investment income	(61.1)	(24.6)
Resource and depletion allowances	(19.4)	(15.5)
Crown royalties	12.7	6.1
Other	(0.6)	0.3
Effective tax rate	(15.1)%	18.3%

The company has incurred non-capital tax losses of approximately $48 million which will expire between 1987 and 1993.

8. Commitments and Contingencies

Based on the latest actuarial valuations of the company's pension plan which covers all employees, there is no unfunded obligation for past service costs.

9. Other Information

(a) Segmented information for consolidated operations:

millions	1986	1985
Gross operating revenues		
Oil and gas	$ 90.8	$ 131.7
Mining	86.4	27.6
Income for the year		
Oil and gas	10.5	55.4
Mining	(0.7)	4.0
Identifiable assets		
Oil and gas	408.9	487.0
Mining	289.8	304.6
Capital expenditures		
Oil and gas	30.5	186.5
Mining	5.6	101.9

(b) Funds from operations

Net income (loss)	$(130.6)	$(141.3)
Add (deduct) non cash items		
Depletion and depreciation	45.2	28.1
Deferred income taxes	(3.1)	20.8
Minority interest	27.6	32.1
Share of loss and common share dividends from Noranda Inc.	147.5	181.4
Other	(0.1)	(6.5)
	$ 86.5	$ 114.6

The share of loss for Noranda Inc. includes a $100.0 million provision to cover the cost of the restructuring of the company's natural resource interests.

(c) The company and its associates arrange investment transactions amongst themselves without cost and all financing transactions are at normal market terms. At December 31, 1986, cash and short-term investments included $51.3 million (1985 – $34.9 million) of securities of associates.

10. Comparative Figures

Certain of the prior year's accounts have been reclassified to conform with the 1986 presentation.

11. Capital Restatement

The company's common shareholders will be asked at the Annual and Special Meeting to approve the following:

(a) a $524.6 million reduction in the stated common share capital effective December 31, 1986. This will eliminate the deficit at that date, and

(b) a $200.0 million retroactive reduction in the investment in Noranda Inc. reflecting a change in the valuation of the company's interest therein at the date of acquisition, from the quoted value of the investee to a value which approximates the carrying value of Noranda Inc. to the company's principal shareholders.

A majority of the company's common shareholders have indicated their intention to vote in favour of the capital reorganization and accordingly these changes have been incorporated in the company's 1986 financial statements.

Directors

Edward M. Bronfman
Toronto
Chairman
Hees International Corporation

Peter F. Bronfman
Toronto
Chairman
Edper Enterprises Ltd.

Wendy M. Cecil-Cockwell
Toronto
Vice-President
Edper Enterprises Ltd.

Jack L. Cockwell
Toronto
Executive Vice-President and
Chief Operating Officer
Brascan Limited

Gilles M. Dionne
Saint-Bruno
Consulting Geologist

Robert A. Dunford
Aurora
Executive Vice-President and
Chief Administrative Officer
Brascan Limited

J. Trevor Eyton, O.C., Q.C.
Toronto
President and Chief Executive Officer
Brascan Limited

Denis Giroux
Montreal
Vice-President, Corporate Investments
Caisse de dépôt et placement du Québec

Pierre Lamy
Montreal
Economics and Financial Consultant

Paul M. Marshall
Calgary
President and Chief Executive Officer
Westmin Resources Limited

Fernand Paré
Quebec City
President and General Manager
La Solidarité, Compagnie d'assurance
sur la vie

Harold M. Wright, C.C.
Vancouver
Chairman
Wright Engineers Limited

Robert G. Yeoman (director-elect)
Toronto
Vice-President, Corporate Development
Brascan Limited

Officers

J. Trevor Eyton
Chairman and Chief Executive Officer

Fernand Paré
Deputy Chairman

Paul M. Marshall
President

Jack L. Cockwell
Vice-President, Finance

Gilles M. Dionne
Vice-President

Denis Giroux
Vice-President and Secretary

Robert P. Simon
Vice-President and Treasurer

Robert G. Yeoman
Vice-President, Corporate Development

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Edward G. Battle
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