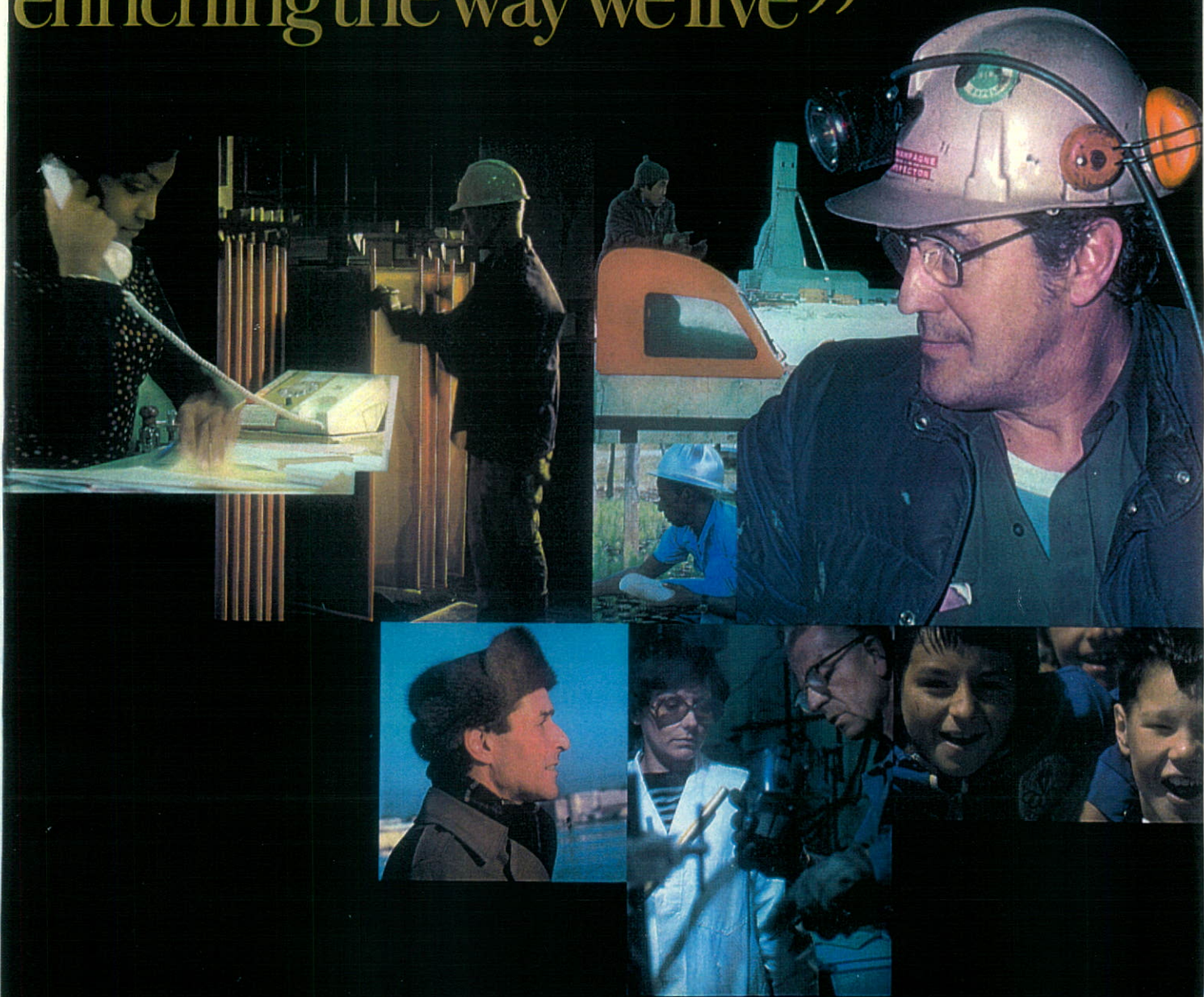


Falconbridge Nickel Mines Limited Annual Report 1981

“Falconbridge and its employees,
enriching the way we live”





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Annual and general meeting of shareholders

Tuesday, April 20, 1982*

10:00 a.m. (Toronto time)

Commerce Hall

Concourse Level, Commerce Court

Toronto, Ontario



Highlights

| | 1981 | 1980 | 1979 |
|--|----------------|---------------|---------------|
| Earnings (loss) for the year before extraordinary item | \$ (3,902,000) | \$ 71,422,000 | \$110,561,000 |
| — per share | (0.78) | 13.04 | 21.01 |
| Earnings (loss) for the year | (9,024,000) | 109,122,000 | 130,561,000 |
| — per share | (1.81) | 20.61 | 25.03 |
| Dividends per share | 1.50 | 3.50 | 3.00 |
| Working capital | 473,170,000 | 362,119,000 | 380,883,000 |
| Long-term debt (and preference shares in 1979) | 465,386,000 | 285,801,000 | 362,170,000 |

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Report of the Directors to the Shareholders

The weakness in international metal markets that began to appear in the spring of 1980 continued for the balance of that year and throughout 1981. As a consequence Falconbridge Nickel Mines Limited has experienced a very difficult period, recording a consolidated loss in the past year of \$9,024,000 or \$1.81 per common share. Included in the loss was an extraordinary charge of \$5,122,000 or \$1.03 per common share resulting from the write-off by United Keno Hill Mines Limited of its Venus Mine project costs. Due to depressed metal prices and increased operating expenses, United Keno now considers these costs to be unrecoverable. Because of the substantial decline in consolidated results, no dividend was paid for the fourth quarter of 1981.

In 1980 consolidated earnings were \$109,122,000 or \$20.61 per common share, after providing for preference share dividends. These earnings included an extraordinary credit of \$37,700,000 or \$7.57 per common share resulting from the acceptance of a public offer by The Superior Oil Company to purchase all of the capital stock of Canadian Superior Oil Ltd.

The loss in 1981 was due primarily to weak market demand and lower nickel, copper and cobalt prices — reflecting the downturn in the business cycle in Europe and North America — and to higher operating costs. Depressed prices also extended to other metals produced by the Company and its subsidiaries, such as gold, silver and the platinum group metals. The world economy is not expected to show significant improvement before the second half of 1982. Until that improvement occurs, market demand for nickel and prices for the Company's products will likely remain weak.

During 1982 the Company plans to reduce its exploration and development expenditures, as well as capital and operating costs, in order to maintain an adequate cash balance. To maintain liquidity, the Company borrowed \$171,403,000 from a Canadian chartered bank during November. These measures should place Falconbridge in an advantageous position to overcome the problems arising from present economic conditions.

In January, 1982, Falconbridge Dominicana, C. por A. announced the temporary suspension of production operations in the Dominican Republic, until there is an improvement in world prices of, and demand for, ferronickel. Product inventory is adequate to meet current market demand. This temporary cessation of operations will reduce the amount of supplementary financing the Company is required to make to Falconbridge Dominicana in accordance with financing agreements.

There were several positive developments during the past year. Even though nickel consumption in the non-Communist world was about 4 per cent lower than in 1980, Falconbridge's sales volume of nickel and ferronickel in all forms was 16 per cent higher. Other favourable features were the official opening of the Fraser Mine at the Sudbury Operations in September; the commencement of mine production, on schedule and within budget, by Kiama Gold

Mines Limited in Dubuisson Township, Quebec; encouraging results from the diamond drilling program undertaken by Corporation Falconbridge Copper at its Ansil property in northwestern Quebec; and the start of underground exploration at the Lac Shortt gold deposit in Gand Township, Quebec.

The Company has reaffirmed its commitment to reduce emissions that contribute to environmental problems. Technology developed and implemented by the Company enables the Sudbury Operations to contain 82 per cent of the sulphur in the ore treated. Continuing efforts are being made to effect further improvements.

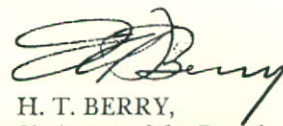
A more detailed presentation of the operations and financial results of the Company and its major subsidiary and associated companies appears elsewhere in this report.

At December 31, 1981, there were 5,542 shareholders of whom 3,996 were of Canadian registry holding 4,370,788 common shares. This represents 88 per cent of the 5,024,755 common shares outstanding after deducting 45,483 shares held by subsidiaries. At the end of 1980 there were 5,908 shareholders of whom 4,230 were of Canadian registry holding 4,009,743 common shares and representing 80 per cent ownership.

Several organizational changes took effect during the past year. Mr. H. R. Hirsch and Mr. J. E. Reid resigned as directors of the Company. Mr. H. T. Berry, President and Chief Executive Officer, was elected Chairman of the Board of the Company on September 14, 1981. On the same day Mr. F. C. Ackman was elected a director of the Company and was subsequently appointed Chairman of the Executive Committee. Mr. L. G. Bonar was appointed Vice-President Marketing and Sales; Mr. M. O. Pearce was appointed Assistant Vice-President Marketing; Mr. J. M. Donovan, formerly Controller of the Company, was appointed Vice-President Finance; Mr. J. F. Gillies was appointed Controller; Mr. E. L. Shiller was appointed Director Public Affairs; Mr. P. D. Barber was appointed Director Human Resources; and Mr. R. G. Smith was appointed Director Corporate Planning. Early in 1982, Mr. Michael Walker was appointed Vice-President Sales, and Mr. T. J. Desanti was appointed Assistant Vice-President Commodity Marketing.


The directors of the Company express their sincere thanks for the fine performance of management and employees at all locations. Despite the past year's unsettled economic climate, commendable progress was made on several projects important to the Company's long-term future. The continuing support of shareholders, customers, contractors and suppliers is also gratefully acknowledged.

On behalf of the Board of Directors:

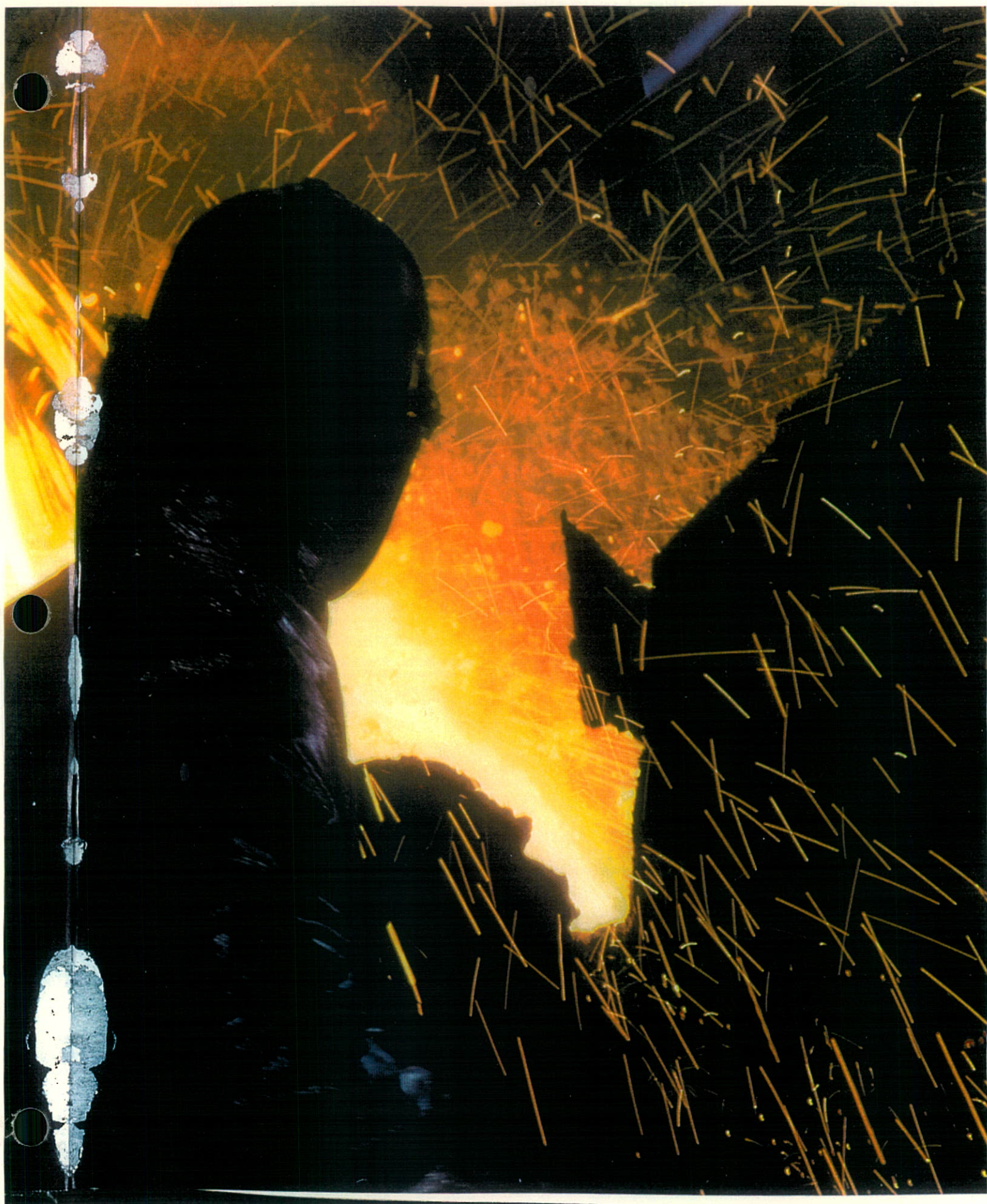


Toronto, Ontario.
February 25, 1982.

H. T. BERRY,
Chairman of the Board,
President and Chief Executive Officer.



“Falconbridge products include eight forms of nickel as well as copper, cobalt, silver, gold and platinum.”





Review of Operations

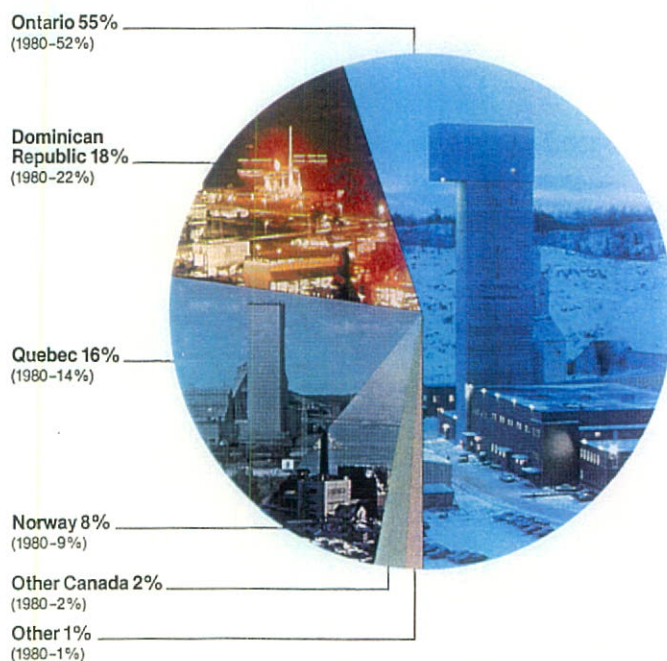
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Subsidiary and Associated Companies

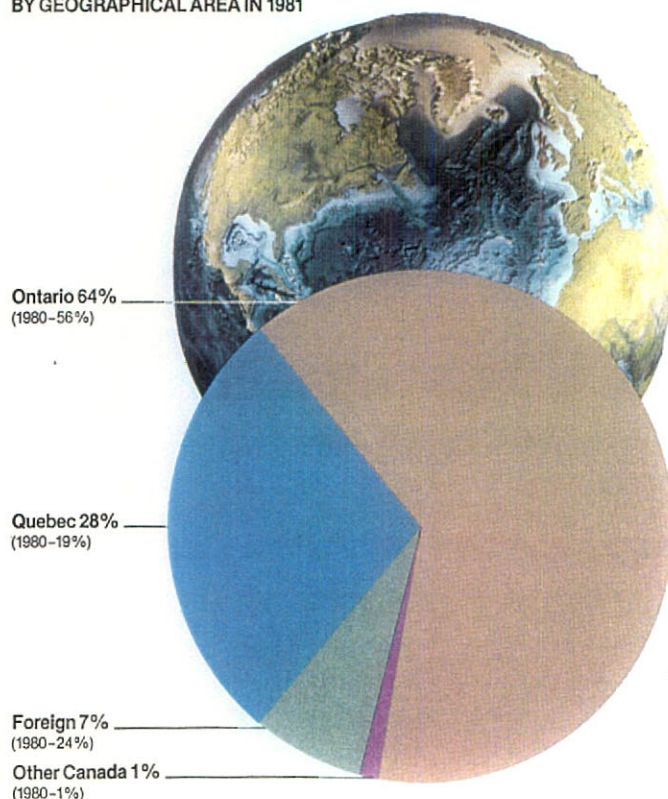
| | |
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| * Corporation Falconbridge Copper (a) | 15 |
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| Blanket Mine (Private) Limited (c) | 21 |
| Western Platinum Limited (c) | 21 |
| (a) Consolidated subsidiary. | |
| (b) Accounted for on an equity basis. | |
| (c) Accounted for on a cost basis. | |

* These public companies are subject to corporate and securities legislation of various jurisdictions. Their annual reports, from which this information has been extracted, are available for public inspection at the offices of the regulatory authorities which administer such legislation.

THE GEOGRAPHICAL LOCATION OF PROPERTY, PLANT AND EQUIPMENT AT DECEMBER 31, 1981



CONSOLIDATED CAPITAL EXPENDITURES BY GEOGRAPHICAL AREA IN 1981



Integrated Nickel Operations

The Integrated Nickel Operations include the Canadian Nickel Division, Sudbury, Ontario, the Refinery in Norway and the Company's Marketing Group.

Operating Results

The Integrated Nickel Operations contributed a profit of \$31,059,000 in 1981 compared with \$57,372,000 in 1980. The decrease in earnings mainly reflected lower average metal selling prices, higher production costs, increased mine development expenses and depreciation, and higher corporate expenditures. These factors were partially offset by a more favourable exchange rate for the U.S. dollar and higher metal sales.



Integrated Nickel Operations

| Year ended December 31 | 1981 | 1980 | 1979 |
|---|---------------|---------------|---------------|
| Revenue from metal shipments | \$367,360,000 | \$350,496,000 | \$348,973,000 |
| Earnings before amortization and depreciation | 62,781,000 | 84,531,000 | 81,719,000 |
| Income and mining taxes | 12,472,000 | 47,189,000 | 33,145,000 |
| Earnings for the year | 31,059,000 | 57,372,000 | 62,213,000 |
| — per share of Falconbridge | 6.18 | 11.42 | 12.38 |

Sudbury Operations

Operating Review

Nickel production from Sudbury Operations during 1981 was 62,728,000 pounds compared with 66,495,000 pounds in 1980. The lower production reflected adjustments during the second half of the year to bring production levels and sales into closer balance. Ore delivered to treatment plants from the Company's seven mines in the Sudbury area totalled 3,042,000 tons compared with 3,262,000 tons in 1980. The Falconbridge, East, Lockerby, Onaping, North and Strathcona Mines operated throughout the year. The Fraser Mine was officially opened in September.

The operation of the two roaster-electric furnace smelting lines was adjusted to meet 1981 production requirements, with only one line operating during the vacation period in July and August. Research and development programs were continued in the smelter and in the Metallurgical Laboratories to assess alternative methods of reducing sulphur dioxide emissions beyond the present level. Some 13,000 tons of high-grade copper concentrate were produced for treatment and refining in Ontario.

The number of employees at Sudbury Operations increased by 148 in 1981 to a total of 4,034 at year end. During the summer 299 students were employed for vacation relief. In order to limit the build-up of nickel

inventory, the operations were shut down for 11 days during the Christmas season.

Capital Program

The development of the Fraser Mine was the major capital program in 1981, involving expenditures of \$24,468,000 for preproduction and capital items.

Expenditures on mines and plants for 1981, with comparative figures for 1980, are set out in the table below:

| | 1981 | 1980 |
|---------------------------------------|--------------|--------------|
| Property, Plant and Equipment | \$22,710,000 | \$17,762,000 |
| Development and Preproduction | 40,581,000 | 27,962,000 |
| | \$63,291,000 | \$45,724,000 |



Falconbridge Nickel Mines Limited

Ore Reserves

The total tonnage of proven and probable reserves at the Company's Sudbury Operations increased during the year. Only a minor change occurred in the tonnage of contained nickel. Contained copper, however, increased significantly as a result of additional exploratory drilling of the new Strathcona copper zone.

The figures in the table below include appropriate allowances for mining dilution.

Sudbury Ore Reserves (proven and probable)

| At December 31 | Tons of Contained Metal | | Average Grade % | |
|----------------|-------------------------|-----------|-----------------|---------------|
| | Tons of Ore | Nickel | Copper | Nickel Copper |
| 1981 | 79,161,000 | 1,178,000 | 734,000 | 1.49 0.93 |
| 1980 | 78,649,000 | 1,180,000 | 613,000 | 1.50 0.78 |
| 1979 | 75,771,000 | 1,117,000 | 605,000 | 1.47 0.80 |

Labour Relations

Collective agreements with the Office, Clerical and Technical Workers' Union and with the Canadian Guards Association will expire on March 1, 1982. The agreement with the Sudbury Mine, Mill and Smelter Workers' Union will expire on August 21, 1982.

Occupational Health and Safety

The Joint Federal-Provincial Commission of Inquiry into Safety in Mines and Mining Plants in Ontario (The Burkett Commission) issued a comprehensive report containing 83 recommendations. The Company has been operating in accordance with the majority of those that are applicable. In a letter to Ontario's Minister of Labour, the Company offered constructive criticism regarding a number of the Commission's recommendations. Objections were raised by Falconbridge to a proposal which advocated the abolition of individual production incentive plans, at least until an acceptable alternative is devised and agreed upon.

Safety Performance

The total medical aid accident frequency at Sudbury Operations in 1981 was reduced by 8 per cent from the 1980 level; however, the compensable accident frequency increased by 8 per cent.

Production of metals contained in matte at Sudbury Operations:

| Production | 1981 | 1980 | 1979 |
|--------------------------|------------|------------|------------|
| Nickel, pounds | 62,728,000 | 66,495,000 | 56,122,000 |
| Copper, pounds | 55,754,000 | 53,339,000 | 43,387,000 |
| Cobalt, pounds | 1,372,000 | 1,394,000 | 1,336,000 |

Management

| | |
|---|-----------------|
| President, Canadian Nickel Division | A. G. Slade |
| Vice-President, Canadian Nickel Division | J. E. Finlay |
| General Manager, Sudbury Operations | G. B. Reed |
| Manager, Human Resources and Public Affairs | R. J. Brailey |
| Manager, Maintenance and Services | A. A. Kramarich |
| Director, Geology | M. E. Penstone |
| Manager, Mineral Processing | F. Petkovich |
| Manager, Mines | Justin Pryor |
| Manager, Administrative Services | W. L. W. Taylor |



Falconbridge Nikkelverk Aktieselskap

The Refinery operated at 80 per cent of installed nickel refining capacity during 1981. Production of nickel declined and copper increased slightly from the previous year's levels, while annual production of refined cobalt was the highest on record. This reflected treatment of custom cobalt-bearing materials received from sources other than Sudbury Operations and the start-up in June of a new solvent extraction plant for cobalt.

On October 27, 1981, the matte leach plant used to produce granular and active nickel was damaged by fire. The remainder of the Refinery was not affected. Insurance is adequate to repair the damage and production is expected to resume in March, 1982. During the reconstruction period customers are being supplied with granular and active nickel from inventory.

The present labour agreement will expire on March 31, 1982, and negotiations are under way on a new contract.



Production of metals at the Refinery:

| Production | 1981 | 1980 | 1979 |
|--------------------------|------------|------------|------------|
| Nickel, pounds | 81,466,000 | 81,843,000 | 67,652,000 |
| Copper, pounds | 57,487,000 | 56,846,000 | 46,219,000 |
| Cobalt, pounds | 3,184,000 | 2,811,000 | 2,102,000 |

Management

| | |
|------------------------------------|-----------------|
| Managing Director | Eivind Wigstol |
| Director, Research and Development | L. R. Hougen |
| Technical Director | E. O. Stensholt |
| Director Personnel | G. O. Auestad |
| Manager, Office Administration | W. Torjussen |
| Controller | O. Hushovd |

Marketing and Sales

The Falconbridge group of marketing and sales companies includes Falconbridge U.S. Incorporated in Pittsburgh; Falconbridge Europe S.A. in Brussels; and Falconbridge International Limited in Hamilton, Bermuda. Sales in Canada, South America and the Far East are handled through the Company's Marketing and Sales Department in Toronto. Falconbridge products, which include eight forms of nickel as well as copper, cobalt, silver, gold and platinum, are marketed through this group. In addition, the group markets copper, lead and zinc concentrates, gold, silver, platinum group metals, iron ore and arsenic trioxide for subsidiary and associated companies.

Company sales of metals from all sources were as follows:

| | 1981 | 1980 |
|---|-------------|-------------|
| | (Pounds) | |
| Refined nickel (in all forms) | 65,629,000* | 59,771,000* |
| Ferronickel (in all forms) | 43,776,000 | 34,567,000 |
| Copper | 59,412,000* | 57,352,000* |
| Cobalt | 2,272,000* | 1,777,000* |

*Includes metal refined and sold as agent

Sales of copper by subsidiary companies in 1981 amounted to 73,171,000 pounds, 16 per cent lower than the 86,971,000 pounds sold in 1980. Sales of zinc in concentrate totalled 7,591,000 pounds in 1981, 85 per cent below 1980 sales of 50,984,000 pounds. The lower sales levels mainly reflected the closure of Corporation Falconbridge Copper's Sturgeon Lake Mine in late 1980.

Metals Review

Nickel

Persistently high interest rates dampened the world economy in 1981 and adversely affected all major end-use markets for nickel. As a result, non-Communist world consumption declined to about 1.1 billion pounds from 1.2 billion pounds in 1980. This was the second consecutive year in which nickel consumption declined, a situation that has not occurred in more than thirty years. Sales by non-Communist world producers in 1981 were about 1.02 billion pounds, or 6 per cent below the 1980 level. Most major non-Communist world producers exercised production restraint during 1981, endeavouring to keep deliveries and production in relative balance. Consequently, non-Communist world production decreased by about



Falconbridge holds hundreds of patents, most for metallurgical and refining processes. The results are purer metals and new products, like these Nickel Crowns.

12 per cent to approximately 1.05 billion pounds. Nickel inventories of non-Communist world producers increased during 1981 by about 35 million pounds to approximately 440 million pounds at year end.

Nickel demand in the United States remained relatively strong through the first half of 1981. An abrupt drop occurred, however, during the third quarter as the United States economy slipped once more into a period of recession. Stainless steel, the sector most severely affected, initiated production cutbacks as early as July. By year end, monthly stainless steel output was approximately 50 per cent of installed capacity. Consumer nickel inventories, which had increased marginally during the first half of the year, were reduced through the latter months of 1981, reaching their lowest levels in more than ten years.

The U.S. economy is not expected to recover until at least the second half of 1982; consequently, no marked improvement in the U.S. nickel market is expected before that time.

In Europe, general economic conditions remained depressed throughout 1981, with adverse impact on nickel demand and producer deliveries. The steeper U.S. recession is expected to slow the European recovery, and no major improvement in European nickel markets is anticipated before the second half of 1982.

Certain other countries of the Export Market — Japan, India, Brazil, South Africa, Australia, Korea, Taiwan and Hong Kong — now account for approximately 30 per cent of non-Communist world nickel consumption. Falconbridge has placed increased emphasis on the development of sales in these countries.

Although the Japanese economy as a whole improved during 1981, the Japanese stainless steel industry was adversely affected by declining export markets. The economies of Brazil, Taiwan and Korea, also highly export-oriented, were similarly affected. Strong domestic stainless steel demand in India, however, allowed mills in that country to operate at capacity throughout 1981. Markets in these countries are expected to improve during 1982 in line with the U.S. and European economies.

Falconbridge sales of nickel and ferronickel in all forms, including nickel refined and sold as agent, totalled 109,405,000 pounds in 1981, 16 per cent higher than the 94,338,000 pounds sold in 1980. This increase was achieved even though nickel consumption in the non-Communist world during 1981 was about 4 per cent lower than in 1980.

Inventory of nickel in all forms held by the Company at year end increased to 48,778,000 pounds from 45,833,000 pounds at the end of 1980.

Between November, 1980, and February 28, 1981, there was a temporary 6 per cent discount from the published producer price, effectively lowering such price for melting grade nickel to U.S. \$3.24 per pound. However, the nickel price realized by the major producers remained at the

discounted levels or lower for the balance of 1981. At the end of November, 1981, the published producer price for melting grade nickel was decreased to U.S. \$3.20 per pound from U.S. \$3.45 per pound. The average selling price received by Falconbridge in 1981 was U.S. \$3.09 for refined nickel products and U.S. \$2.97 for ferronickel products. The average prices per pound received in 1980 were U.S. \$3.25 and U.S. \$3.18, respectively.

Copper

Non-Communist world refined copper consumption in 1981 amounted to about 7,900,000 tons, a 1.3 per cent decrease from 8,000,000 tons in 1980. Refined copper production rose by 1.3 per cent in 1981, to 7,900,000 tons from 7,800,000 tons in 1980. This increase reflected a return to full production in the United States in 1981, following the major strike in the U.S. copper industry in 1980. Several North American mines announced production cutbacks in the latter part of 1981 in response to low copper prices. Production is expected to exceed consumption in 1982 by a small margin. This should result in a modest rise in producer inventories, which are currently near normal operating levels.

The London Metal Exchange cash settlement price for copper wirebar in 1981 averaged U.S. 79 cents per pound, down sharply from U.S. 99 cents per pound in 1980. Prices remained weak throughout the year as the anticipated economic upturn during the second half of 1981 failed to materialize. Effective December 1, 1981, the London Metal Exchange contract for copper wirebar was replaced by a new contract, Copper - Higher Grade, against which wirebars and selected high-grade cathodes are deliverable. This move reflects the continued worldwide move towards continuous-cast copper rod production.

Cobalt

Consumption of cobalt in the non-Communist world in 1981 amounted to about 40 million pounds, a decrease of 10 per cent from 1980 levels. While consumption was down in all major end-use markets, the magnetic alloy and superalloy sectors were the most severely affected. Non-Communist world production continued to outstrip consumption during 1981, totalling some 56 million pounds. As a result, producer inventories increased by year end to approximately 42 million pounds, an amount higher than the total consumption in 1981.

The published producer price for cobalt was reduced in March, 1981, to U.S. \$20.00 per pound from U.S. \$25.00 per pound. In August, the producer price was further reduced to U.S. \$17.50 per pound. Massive oversupply of cobalt, however, led to the widespread discounting of the price by both producers and dealers. As a result, average

prices realized by most producers for the year were well below posted levels. The average cobalt price per pound received by Falconbridge in 1981 was U.S. \$14.00 compared with U.S. \$24.36 a year earlier. Early in 1982 the published producer price of cobalt was reduced to U.S. \$12.50 per pound.

Precious Metals

Precious metal prices continued to weaken during 1981. High interest rates and low economic activity materially reduced speculation in precious metals and had a negative effect on metal consumption. Gold prices, near U.S. \$590 per ounce at the beginning of the year, closed at U.S. \$400 per ounce at year end. Gold averaged U.S. \$460 per ounce in 1981, compared with U.S. \$613 in 1980. The price of

silver, which was about U.S. \$16.00 per ounce at the beginning of the year, dropped to U.S. \$8.25 per ounce by year end. Silver averaged U.S. \$10.52 per ounce in 1981, compared with U.S. \$20.63 per ounce in 1980. Non-Communist world platinum prices declined from U.S. \$578 per ounce at the beginning of the year to U.S. \$379 per ounce at year end. Palladium prices declined from U.S. \$145 per ounce to U.S. \$69 per ounce.

Management

Vice-President Marketing and Sales
Vice-President Sales
Assistant Vice-President Marketing
Assistant Vice-President Commodity Marketing
President, Falconbridge International Limited
President, Falconbridge U.S. Incorporated
General Manager, Falconbridge Europe S.A.

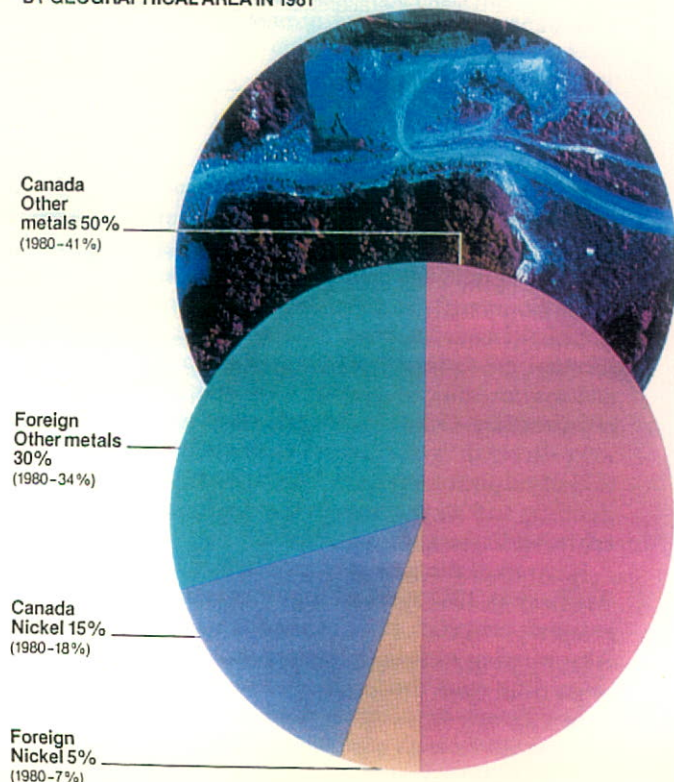
L. G. Bonar
Michael Walker
M. O. Pearce
T. J. Desanti
J. A. Vermeulen
R. W. Bain
J. H. Lilly

Corporate Operations

Exploration

Consolidated exploration expenditures by Falconbridge were \$37,964,000 in 1981 compared with \$28,284,000 in 1980 and \$14,297,000 in 1979.

CONSOLIDATED EXPLORATION EXPENDITURES
BY GEOGRAPHICAL AREA IN 1981



In the Sudbury area, the Company's exploration efforts continue to be directed towards the maintenance of ore reserve levels at existing mines and the search for new nickel sulphide orebodies. Expenditures in 1981 were \$5,540,000, compared with \$5,127,000 in 1980 and \$2,390,000 in 1979. Exploration at the Craig Mine in the Onaping area resulted in the discovery of an additional 1.1 million tons of ore. Exploration continued on the new high-grade copper zone at the Strathcona Mine and resulted in an increase of about 20 per cent in the Company's reserves of copper in the Sudbury area.

Regional exploration offices in Canada are located in Vancouver, Winnipeg, Sudbury, Timmins, Quebec City and St. John's. In the Yukon Territory, the Company participates in joint-venture exploration projects managed by United Keno Hill Mines Limited.

Exploration of a gold deposit in Gand Township, Quebec (the Lac Shortt Project) continued throughout 1981 under a joint-venture agreement with Corporation Falconbridge Copper. Surface diamond drilling was discontinued in September, 1980, when a decision was made to proceed with an underground exploration program. Preparations for the program were completed early in October, 1981, and shaft sinking started later in the month. Plans for 1982 include sinking of the shaft to a depth of 1,168 feet, drifting on three levels, and underground exploratory diamond drilling.

A major surface exploration program was undertaken during 1981 on the properties of Société Minière Raglan du Québec Limitée, a subsidiary in the Ungava area of Quebec. The program involved detailed geological mapping of the company's concessions and drilling which increased the reserves at the Donaldson Mine.

Exploration projects in southern Africa are conducted under the terms of a joint-venture agreement with

The Superior Oil Company. Falconbridge manages the exploration programs and has a 50 per cent interest in the operations. Emphasis during 1981 was again placed on the evaluation of the diamond potential of 57 kimberlite pipes discovered in Botswana. Treatment of bulk samples from two pipes in southern Botswana has failed to yield results that indicate economically viable diamond concentrations. Preliminary sampling of a number of other kimberlite pipes located in the central Kalahari area has shown promising results which will be checked by bulk sampling.

On the Bushman Mine property, 87 miles northwest of Francistown, Botswana, surface diamond drilling has indicated a mineralized zone some 2.2 miles in length, with a potential of 9 million to 11 million tons grading 2.5 per cent to 3 per cent copper. A program of underground exploration on this property will be required to adequately define the mineable ore reserve and prove the continuity of the ore-bearing structures.

Blanket Mine (Private) Limited, a wholly-owned subsidiary in Zimbabwe, is developing the Golden Kopje gold deposit, some 60 miles northwest of Salisbury. Production at a rate of 80,000 tons per year is expected to commence by the third quarter of 1982.

The Company holds a 49 per cent joint-venture interest in an important diamond prospect in Colorado, U.S.A. A bulk sampling plant was erected on the property early in 1981 to treat large samples of kimberlite host rock taken from a number of pits on the property. The project is managed by The Superior Oil Company.

In Chile, the Company has maintained its minority interest in a joint venture, managed by The Superior Oil Company, which was established to evaluate the Quebrada Blanca porphyry copper deposit, 211 miles northeast of Antofagasta. Exploration work and metallurgical tests continued during 1981 and a major engineering firm was retained to prepare a preliminary study of all factors relating to development of the property for production. Based on the encouraging results of this initial study, a formal feasibility study has been commissioned.



During 1981 a study of nickel laterite deposits continued in Ivory Coast and in the Republic of the Philippines. Exploitation of these deposits will require the development of new energy-efficient metallurgical processes, and appropriate research projects are now in progress.

Mining Research

Mining research and development expenditures amounted to \$5,462,000 in 1981, compared with \$2,161,000 in 1980 and \$610,000 in 1979.

Continuing attention is being directed to the development of improved productivity through safer mining methods and better ground control techniques, mechanization and material handling systems.

Installation of the hydraulic hoisting project by Sudbury Operations will be completed early in 1982. Test hoisting of production ore from the 2,300-foot level of the Onaping Mine is planned at that time.

Falconbridge has continued its support of research and development activities undertaken by the Mining Industry Research Organization of Canada (MIROC). Major programs are being directed to miners' protective clothing, lighting and other environmental improvements for the safety, health and comfort of underground miners.

Management

Vice-President Exploration, Development
and Western Canadian Operations
Assistant Vice-President Development
Assistant Vice-President Exploration
Assistant Vice-President Mining

L. C. Kilburn
A. M. Clarke
C. M. H. Jennings
A. R. Pasioka

Metallurgical Research

Metallurgical research and development expenditures amounted to \$5,643,000 in 1981, compared with \$4,475,000 in 1980 and \$3,350,000 in 1979. Research projects under way throughout the year included continued development of the Company's hydrometallurgical process for treatment of nickeliferous laterites. This work was expanded to increase the scale of leaching and metal recovery steps, and to simulate commercial scale operation by running continuously. Other investigations in extractive metallurgy were directed to an increase in metal recovery, the reduction of sulphur emissions from the smelting system by slag cleaning and an increase in the degree of desulphurization achieved in the roasting system.

Start-up of the new solvent extraction circuit at the Refinery in 1981 marked the culmination of an intensive research program. It was aimed at overcoming the problems relating to the separation of cobalt and various impurities from the leach solutions. In the field of product development, emphasis was placed on projects directed to an expanded range of nickel products for use in the chemical, electroplating and superalloy industries.



Research in Falconbridge Crown production resulted in development of a new method of producing depolarized Crowns (D-Crowns). By the end of 1981, pilot plant quantities of D-Crowns were ready for customer evaluation. Another electrolytic nickel product, Falconbridge Superelectro, was brought into production during 1981 after several years' development work in the laboratory and pilot plant.

Research projects related to utilization of the Company's products included development of new welding techniques and improvements in the properties of high temperature nickel-bearing alloys.

Management

| | |
|--|------------------|
| Director Metallurgy and Engineering | F. G. T. Pickard |
| Director Metallurgical Research | P. G. Thornhill |
| General Manager, Falconbridge Metallurgical Laboratories | R. A. Bergman |

Environmental Control

A report outlining ongoing studies and preliminary plans for further reduction of sulphur dioxide emissions from the Falconbridge smelter was submitted to the Ontario Ministry of Environment in January, 1981, as required by

the 1977 Amending Control Order. The report said that existing technology would not enable the Company to meet the Government standard for sulphur dioxide emissions in a reasonable manner. Falconbridge has therefore undertaken research into alternative methods of abatement. This research has been closely monitored during the year through meetings of Ministry and Company personnel. Pending the results of further investigations, it is not possible to estimate the cost of compliance with the Control Order or to establish a time-table for expenditures.

The conservation area developed by Sudbury Operations, as part of the treatment of mine and plant effluent water, is expanding. This is the result of natural rehabilitation as the alkali-treated water works its way through the area, improving conditions for the growth of vegetation. Red Pine Lake in Happy Valley has been stocked with speckled trout, and the fish are being studied to determine if spawning is taking place.

Giant Yellowknife Mines Limited, an associated company, has constructed a new waste water treatment plant. It is based on recent technology developed in a joint program involving Environment Canada and Giant. The plant, built during the summer of 1981 for the removal of cyanide, arsenic and heavy metals, was tested before freeze-up and is ready for operation in the spring of 1982.

Management

| | |
|------------------------------|---------------|
| Director General Engineering | Peter Zaharuk |
|------------------------------|---------------|

Wesfrob Mining Division

The Wesfrob Mining Division recorded a loss for the year of \$1,089,000 compared with earnings of \$1,503,000 in 1980. This significant decrease was due to a substantial decline in the prices of copper and precious metals as well as to increased operating costs. Accelerated charges for depreciation and amortization, reflecting the shortened life of the

producing assets, also contributed to the loss.

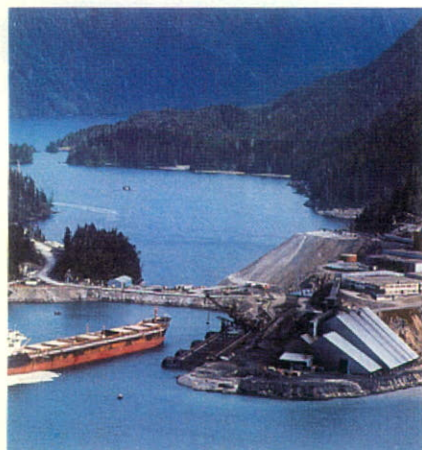
In view of present economic conditions, ore reserves have been adjusted from 7,150,000 tons in 1980 to 3,047,000 tons at year-end 1981. The reserves are sufficient to sustain operations for approximately three years at current production rates.

| Production Year ended December 31 | 1981 | 1980 | 1979 |
|---|--------------|--------------|--------------|
| Ore milled — tons | 1,112,000 | 1,098,000 | 1,116,000 |
| Iron concentrates — tons | 606,000 | 677,000 | 638,000 |
| Copper concentrates — tons | 15,000 | 12,000 | 18,000 |
| Copper in concentrates — pounds | 6,206,000 | 4,904,000 | 7,174,000 |
| Financial | | | |
| Revenue from metals produced | \$18,104,000 | \$18,473,000 | \$21,069,000 |
| Earnings before amortization and depreciation | 344,000 | 2,186,000 | 5,545,000 |
| Earnings (loss) for the year* | (1,089,000) | 1,503,000 | 4,674,000 |
| — per share of Falconbridge | (0.22) | 0.30 | 0.93 |

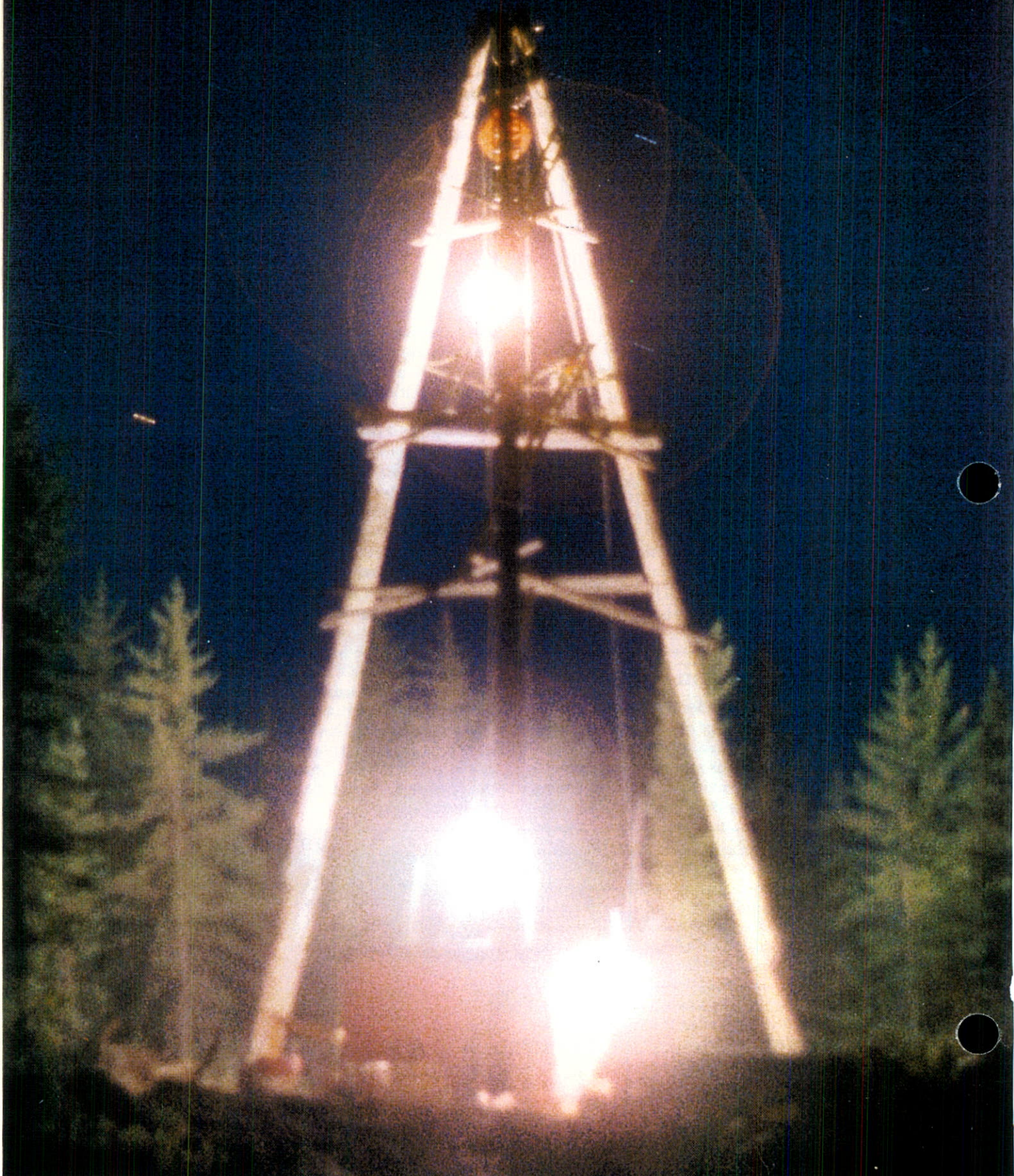
*Before consolidation adjustments.

Management

| | |
|------------------------------------|----------------|
| President | J. C. Cowan |
| Vice-President and General Manager | C. L. Stafford |
| Mine Manager | W. H. Muise |



“Significant ore-grade
material was discovered
in early 1981.”



Corporation Falconbridge Copper

A loss of \$122,000 in 1981 represented a sharp drop from the previous year's earnings of \$30,333,000. This result reflected lower metal production due to the closure in 1980 of the Sturgeon Lake Mine and one-month strikes during 1981 at the Opemiska and the Lake Dufault Divisions. Metal prices were lower with the exception of the price for zinc. Increased exploration expenditures were partly offset by increased income from investments. Working capital decreased by \$3,905,000 after payment of dividends of \$5,170,000, expenditures on plant and equipment of \$1,443,000 and exploration and development expenditures of \$19,119,000.

Metal production in 1981 from the Lake Dufault and Opemiska Divisions totalled 56,324,000 pounds of copper, 7,591,000 pounds of zinc, 36,000 ounces of gold and 434,000 ounces of silver. Zinc production decreased by 43,393,000 pounds, copper by 12,848,000 pounds, silver by 1,348,000 ounces and gold by 8,000 ounces compared with 1980 production levels.

After mining 499,000 tons of ore at Lake Dufault Division and 937,000 tons at Opemiska Division, the proven and probable ore reserves at year end were as shown in the tables below. The figures include appropriate allowances for mining dilution.

Lake Dufault Ore Reserves (proven and probable)

| At December 31 | Contained Metal | | | Average Grade | | |
|----------------|-----------------|----------------|--------------|-----------------|---------------|--------------|
| | Tons of Ore | Tons of Copper | Oz./ton Zinc | Per cent Copper | Per cent Zinc | Oz./ton Gold |
| 1981 | 2,277,000 | 70,132 | 45,995 | 66,033 | 3.08 | 2.02 |
| 1980 | 2,970,000 | 88,500 | 60,900 | 80,190 | 2.98 | 2.05 |
| 1979 | 3,572,000 | 106,800 | 76,100 | 96,444 | 2.99 | 2.13 |

Opemiska Ore Reserves (proven and probable)

| At December 31 | Contained Metal | | | Average Grade | |
|----------------|-----------------|----------------|-------------|-----------------|--------------|
| | Tons of Ore | Tons of Copper | Oz. of Gold | Per cent Copper | Oz./ton Gold |
| 1981 | 3,377,000 | 60,100 | 87,802 | 1.78 | 0.026 |
| 1980 | 3,755,000 | 64,550 | 101,385 | 1.71 | 0.027 |
| 1979 | 4,675,000 | 88,350 | 102,850 | 1.89 | 0.022 |

The Millenbach Mine, which operated on lower grade ores in 1980 and 1981, was closed in August 1981 due to the exhaustion of its reserves.

The orebodies at Sturgeon Lake were depleted in December, 1980, and operations were terminated. The final environmental restoration plan for this property, which was approved by the Ontario Ministry of Environment, was put into effect in 1981. The covering and revegetation of 20 acres of tailings were completed. The remaining 22 acres will be covered with sand in 1982 during the winter months, followed by revegetation in early summer. Liquidation of the Sturgeon Lake assets continued during the year. Some of the camp facilities and operating equipment, and all but two of the corporation-owned houses in Ignace, Ontario, have been sold. The mill remains intact.

Significant ore-grade material was discovered in early 1981 on the Ansil property, three miles west of the former Norbec Mine. Surface exploration activity was accelerated during the year, with the diamond drilling program indicating the presence of a deep deposit of higher-than-average grade copper mineralization. The potential tonnage is such that an underground evaluation program is under active consideration. Before a production decision can be made, however, the Ansil project will require a significant expenditure for a 5,000-foot shaft and lateral development on three levels.

Capitalization As at December 31, 1981

| | Outstanding | Held by Falconbridge |
|---------------|-------------|----------------------|
| Common shares | 12,970,125 | 6,509,696 50.2% |

| Financial Year ended December 31 | 1981 | 1980 | 1979 |
|--|---------------|---------------|---------------|
| Revenue from metal shipments | \$ 76,939,000 | \$171,428,000 | \$204,818,000 |
| Earnings before amortization and depreciation | 4,422,000 | 35,708,000 | 54,651,000 |
| Income and mining taxes** | (1,050,000) | 34,845,000 | 47,500,000 |
| Earnings (loss) for the year** | (122,000) | 30,333,000 | 46,549,000 |
| Dividends paid | 5,170,000 | 12,970,000 | 7,782,000 |
| Dividends paid per share | 0.40 | 1.00 | 0.60 |
| Working capital** | 103,703,000 | 107,608,000 | 85,819,000 |
| Falconbridge interest* in earnings (loss) for the year | \$ (61,000) | \$ 15,227,000 | \$ 23,368,000 |
| — per share of Falconbridge | (0.01) | 3.03 | 4.65 |
| Falconbridge interest in dividends paid | 2,595,000 | 6,510,000 | 3,906,000 |
| — per share of Falconbridge | 0.52 | 1.30 | 0.78 |

*Before consolidation adjustments

**A tax reassessment of \$625,000 received in 1981 resulted in restatement of certain prior years' data. Falconbridge Nickel Mines Limited included the reassessment in its 1981 consolidated accounts and did not restate prior years.

Management

| | | | |
|---------------------------------------|---------------|--------------------------------------|-------------------|
| Chairman of the Board | A. G. Slade | Manager, Opemiska Division | P. P. Dessureault |
| President and Chief Executive Officer | C. Carbonneau | Manager, Lake Dufault Division | W. R. Wright |
| Vice-President Operations | Roger Plasse | Manager, Sturgeon Lake Joint Venture | H. R. Graham |

New Quebec Raglan Mines Limited

In the Ungava region of Quebec, the company's wholly-owned subsidiary, Société Minière Raglan du Québec Limitée, holds three exploration permits covering 265 square miles and 821 mineral claims. During 1981, 735 claims were staked on property withdrawn from exploration permits.

During the year, 51,000 feet of surface exploration diamond drilling were completed at the Donaldson property and 170 square miles of the exploration permit areas were mapped. As part of a feasibility study, several

programs were completed: an environmental baseline study, a geotechnical drilling program at Donaldson and the Douglas Harbour dock site, a marine transport study and further evaluation of power generation alternatives.

The development of the properties to production depends on the emergence of strong markets for nickel and the availability of electric power at acceptable cost. Net expenditures on the property to date have amounted to \$40,726,000.

Proven and probable ore reserves are 12,037,000 tons grading 3.11 per cent nickel and 0.79 per cent copper.

Capitalization As at December 31, 1981

| | Outstanding | Held by Falconbridge |
|--|-------------|----------------------|
| New Quebec Raglan Mines Limited | | |
| Common shares | 7,833,332 | 5,369,528 68.6% |
| Société Minière Raglan du Québec Limitée (formerly Raglan Québec Mines Limited) | | |
| Preferred shares — 6% | 7,500,000 | 7,500,000 100% |
| — 8% | 7,500,000 | 7,500,000 100% |
| — 6 3/4% | 5,000,000 | 5,000,000 100% |
| Common shares | 4,005* | |

*Wholly-owned by New Quebec Raglan Mines Limited.

Management

| | |
|---------------------------------------|---------------|
| Chairman and Chief Executive Officer | L. C. Kilburn |
| President and Chief Operating Officer | T. F. Pugsley |
| Vice-President | J. C. Cowan |

Indusmin Limited

Consolidated results of Indusmin Limited include the operations of its subsidiary companies, Fahramet Limited and Lawson-United Feldspar and Mineral Company.

Sales revenue established a record at \$70,003,000, an increase of 9 per cent over 1980; however, consolidated earnings declined by 13 per cent to \$3,051,000. High interest rates were a major factor in the reduction of earnings. In addition, profit contributions from the Construction Aggregates Division, Lawson-United, and Fahramet were below expectations. Construction Aggregates sales volume and revenue were reduced because of lower activity in the construction industry and poor weather in the second half of the year. Centrifugal casting, silica and nepheline syenite operations posted sales gains over the previous year, while sales of shell and sand castings were affected by weak economic conditions.

The new foundry facilities installed at Fahramet in 1979 produced at a higher rate in 1981 than in the previous year; however, they were still underutilized. New markets have been penetrated, but a considerable amount of development time is required to provide sufficient volume to reach desired operating capacity.

The new electric shovel, which replaced an 18-year-old machine at the Construction Aggregates quarry in Acton, commenced operation at the end of the first quarter of 1981. It has a higher operating capacity and a lower operating cost than the previous machine. No major difficulties were encountered and the equipment is providing the anticipated cost savings.

Projections for the first half of 1982 are clouded by the continuing economic recession; however, all operations are in a position to respond quickly to any improvement in business activity.

Capitalization As at December 31, 1981

| | Outstanding | Held by Falconbridge |
|-------------------------|-------------|----------------------|
| Common shares | 1,167,901 | 827,330 70.84% |

Financial (Consolidated)

| Year ended December 31, | 1981 | 1980 | 1979 |
|---|--------------|--------------|--------------|
| Sales | \$70,003,000 | \$63,945,000 | \$56,038,000 |
| Earnings before amortization and depreciation** | 6,407,000 | 6,568,000 | 6,990,000 |
| Earnings for the year** | 3,051,000 | 3,521,000 | 4,109,000 |
| Dividends paid — 90¢ per share | 1,051,000 | 1,051,000 | 1,051,000 |
| Working capital** | 15,379,000 | 13,129,000 | 11,210,000 |
| Falconbridge interest* in earnings for the year | \$2,124,000 | \$2,429,000 | \$2,836,000 |
| — per share of Falconbridge | 0.42 | 0.48 | 0.56 |
| Falconbridge interest in dividends paid | 736,000 | 725,000 | 725,000 |
| — per share of Falconbridge | 0.15 | 0.14 | 0.14 |

Management

| | |
|----------------------------------|----------------|
| Chairman of the Board | H. T. Berry |
| President and Managing Director | I. H. Keith |
| Executive Vice-President | C. M. Woodruff |
| Senior Vice-President | |
| Minerals Division | R. Lavertu |
| Senior Vice-President | |
| Castings Division | J. L. Caylor |
| Vice-President Corporate Affairs | S. B. Goss |

*Before consolidation adjustments.

**A tax reassessment of \$143,000 received in 1980 resulted in the restatement of certain prior years' data. Falconbridge Nickel Mines Limited included the reassessment in its 1980 consolidated accounts and did not restate prior years.

Falconbridge Dominicana, C. por A.

The company incurred a net loss of RD\$28,059,000 in 1981, compared with a net loss of RD\$8,578,000 in 1980. The recovery of ferronickel markets in the first half of 1981 was not sustained and prices weakened throughout the year. From June 22, 1981, the company reduced its production rate by shutting down one electric furnace line. Total shipments in 1981 were 41,180,000 pounds of contained nickel, compared with 36,491,000 pounds in 1980.

The lower realized price, coupled with the significantly higher cost of metal shipped and greater interest charges, required the company to call upon Falconbridge Nickel Mines Limited and the other project sponsor to provide additional funding, in accordance with the terms of the project financing agreements. This additional funding, in the form of subordinated notes, bears interest at a rate of 1 per cent above the New York prime rate in effect the date the notes are issued. During the year, notes amounting to U.S.\$24,965,000 were issued, bringing the total of such notes to U.S. \$39,188,000. Additional notes have been issued in 1982 and further funding will be necessary.

On January 11, 1982, the company announced that it was temporarily suspending production operations due to the unsatisfactory prices and forecast demand for ferro-

nickel. There is sufficient inventory to meet current demand, and production will resume as soon as economic conditions warrant.

The total debt at December 31, 1981, including the additional funding provided by the sponsors, was RD\$137,844,000. This includes unrealized losses of RD\$4,206,000 resulting from the conversion of the non-U.S. portion of the I.B.R.D. (World Bank) loan at current rates of exchange. RD\$14,196,000 of the debt matures in 1982.

Proven and probable reserves of laterite ore at the end of 1981 were 63,800,000 dry tons grading 1.64 per cent nickel.

The total work force at December 31, 1981, was 1,975 employees, of whom 1,937 were Dominican and 38 were expatriate personnel. At the end of the previous year there were 2,112 employees: 2,073 Dominicans and 39 expatriates. As a result of the temporary suspension of operations previously referred to, the labour force is being reduced.

In the course of its exploration program in the Concession Area, the company encountered an interesting occurrence of base metal mineralization. Detailed geological work, including diamond drilling, is being undertaken to evaluate the potential of the area.

| Capitalization As at December 31, 1981 | | Outstanding | Held by Falconbridge |
|---|--------------------|-------------------|----------------------|
| Common shares | | 3,000,000 | 1,971,524 65.7% |
| Production Year ended December 31 | | 1981 | 1980 1979 |
| Shipments of ferronickel (nickel content in pounds) | 41,180,000 | 36,491,000 | 54,130,000 |
| Financial (RD\$1.00 equals U.S.\$1.00) | | | |
| Revenue from metal shipments | RD\$120,521,000 | RD\$117,684,000 | RD\$137,165,000 |
| Earnings (loss) before interest on debt, depreciation and amortization | (4,815,000) | 11,738,000 | 29,914,000 |
| Earnings (loss) for the year | (28,059,000) | (8,578,000) | 8,572,000 |
| Working capital | 33,340,000 | 43,679,000 | 48,028,000 |
| Long-term debt (1981 excludes RD\$14,196,000 in current liabilities, 1980 and 1979 exclude RD\$14,264,000 and RD\$11,144,000 respectively) | 123,648,000 | 113,116,000 | 110,534,000 |
| Falconbridge interest* in earnings (loss) for the year | Cdn.\$(21,983,000) | Cdn.\$(6,274,000) | Cdn.\$6,493,000 |
| — per share of Falconbridge | (4.37) | (1.25) | 1.29 |
| *Before consolidation adjustments | | | |
| Management | | | |
| President | H. T. Berry | | |
| Executive Vice-President | Ian H. Keith | | |
| Vice-President and General Manager | J. T. H. Clelland | | |
| Assistant Vice-President | H. T. Evans | | |
| Manager of Operations | R. J. McAllister | | |

Falconbridge Nickel Mines Limited

Kiena Gold Mines Limited

The Kiena Mine in Dubuissou Township, Quebec, went into commercial production during the fourth quarter of 1981 on schedule and within budget. Total project expenditures from March, 1979 to December 31, 1981, for bringing the mine into production amounted to \$19,598,000, excluding financing charges of \$2,392,000 and exploration expenditures of \$387,000.

Extraction of ore during stope preparation began in March, 1981. Ore produced and milled during the year amounted to 111,600 tons, from which 15,000 ounces of gold were recovered. Five production stopes have been developed in the main ore zone and regular stoping cycles have been established. Ground conditions in the stopes have been good.

Kiena has been developed as a completely trackless operation. Since the production decision was made in June 1980, a total of 15,200 feet of lateral development, raising and inclined ramps has been completed, mainly in waste rock. Some 262,000 cubic feet of slashing and enlargement of service areas and 258,000 cubic feet of excavation in ore for stope preparation were also achieved.

All major installations and service facilities have been completed both underground and on surface, except for the permanent underground crusher, which will be opera-

tional early in 1982. Until that time, a temporary facility will continue in operation.

On November 1, 1981, the custom milling contract with the Lamaque Division of Teck Corporation for the treatment of the company's ore went into effect. A feasibility study for construction of a company-owned mill, to be operational by 1985, as well as an expansion of the mine production rate, is now in preparation.

Recruitment of employees proceeded during the year and personnel strength reached the full complement of 135 in December.

A re-evaluation of the mine's ore reserves was made in 1981 and a program of deep drilling was conducted on the downward extension of the main orebody below the existing shaft. As a result, 3,430,000 tons were added to the proven and probable reserves which, at December 31, 1981, stood at 5,812,000 tons grading 0.18 ounce of gold per ton, including an allowance for mining dilution.

As of December 31, 1981, the amount drawn down under the revolving term loan with a Canadian chartered bank was \$21,796,000. In 1982, it is expected that Kiena will redeem the preference shares and income debentures held by Falconbridge Nickel Mines Limited since 1962. They are valued at \$2,943,000, including accumulated dividends and interest.

| Capitalization As at December 31, 1981 | Outstanding | Held by Falconbridge |
|--|-------------|----------------------|
| Common shares | 4,876,848 | 3,331,203 68.3% |
| Preference shares | 2,467,459 | 2,467,459 100% |

Production* Year ended December 31, 1981

| | |
|----------------------------------|---------|
| Ore milled — tons | 111,600 |
| Gold produced — ounces | 15,000 |

*Including 13,600 tons of ore and 1,300 ounces of gold produced during development of the mine: proceeds from the sale of this gold were credited to preproduction and development expenditures.

Financial

| | |
|---|--------------|
| Revenue from metal produced | \$ 7,040,000 |
| Earnings before depreciation and amortization | 382,000 |
| Loss for the year | 58,000 |
| Working capital deficit | 1,213,000 |
| Long-term debt | 21,796,000 |

Management

| | |
|--------------------------------------|----------------|
| President | G. P. Mitchell |
| Vice-President, Operations | B. A. Ferguson |
| Mine Manager | R. O. Vezina |

Oamites Mining Company (Proprietary) Limited

The Company experienced a loss in 1981 of \$905,000 compared with earnings of \$1,387,000 in 1980. Operations at the Swartmodder Mine were suspended in March because of the decline in the price of copper and unexpectedly difficult geological and mining conditions. At the same time, production at the Oamites Mine was reduced from 45,000 tons per month to 35,000 tons. As a result, copper production in 1981 decreased by 17 per cent from

that of 1980. The copper price averaged \$1.01 per pound during 1981, three cents per pound below that of the previous year. Silver production decreased by 13,000 ounces to 216,000 ounces, while the average price received decreased by 32 per cent.

At December 31, 1981, proven and probable ore reserves at the Oamites Mine amounted to 2,027,000 tons grading 1.13 per cent copper, an increase of 100,000 tons from 1980. No ore reserves are reported for the Swartmodder Mine.

| Capitalization | | | |
|--|--------------|----------------------|------------------------------------|
| As at December 31, 1981 | Outstanding | Held by Falconbridge | |
| Common shares | 253,680 | 190,000 | 74.9% |
| Production Year ended December 31 | | | |
| | 1981 | 1980 | 1979 |
| Ore milled — tons | 530,000 | 628,000 | 634,000 |
| Recoverable copper — pounds | 10,641,000 | 12,892,000 | 13,738,000 |
| Financial | | | |
| Revenue from sale of concentrates | \$13,590,000 | \$20,003,000 | \$18,495,000 |
| Earnings before amortization and depreciation | 1,304,000 | 2,708,000 | 3,285,000 |
| Earnings (loss) for the year | (905,000) | 1,387,000 | 2,090,000 |
| Dividends paid | | 1,069,000 | 1,071,000 |
| Dividends per share | | 4.21 | 4.22 |
| Working capital | 3,295,000 | 3,917,000 | 3,460,000 |
| Management | | | |
| Falconbridge interest* in earnings (loss) for the year | \$ (678,000) | \$ 1,039,000 | \$ 1,565,000 |
| — per share of Falconbridge | (0.13) | 0.21 | 0.31 |
| Falconbridge interest in dividends paid | | 801,000 | 802,000 |
| — per share of Falconbridge | | 0.16 | 0.16 |
| | | | *Before consolidation adjustments. |

Giant Yellowknife Mines Limited

The corporation's consolidated results include the operations of its subsidiary companies, Lolor Mines Limited and Supercrest Mines Limited. A consolidated loss of \$199,000 was recorded in 1981 compared with earnings of \$6,292,000 in 1980. The major reasons for the decline in consolidated results were a decrease in the average price of gold received in 1981 compared with 1980 and a \$3,758,000 increase in exploration expenditures. The major area of exploration was the Salmita property, 150 miles north of Yellowknife, where \$3,261,000 was spent during the year. Exploration at Salmita will concentrate on underground development and diamond drilling in 1982.

Production for 1981 totalled 395,000 tons grading 0.18 ounce of gold per ton compared with 227,000 tons grading 0.196 ounce of gold per ton in 1980. Gold output increased

in 1981 to 59,000 ounces compared with 38,000 ounces a year earlier. (The lower production in 1980 resulted from a strike by employees). This favourable volume increase was offset by a softening in the average gold price received, from \$730 per ounce in 1980 to \$524 per ounce in 1981, resulting in a net increase in revenue of only \$3,000,000. Costs for electrical power, oil, supplies and labour continued to escalate. The higher labour costs reflected the new collective agreement signed in late 1980.

The lower gold price in 1981 required the deletion of 402,000 tons of low-grade ore from the ore reserves. After mining 395,000 tons, developed ore reserves at December 31, 1981, were 1,208,000 tons grading 0.24 ounce of gold per ton, compared with 2,005,000 tons grading 0.21 ounce of gold per ton at December 31, 1980.

| Capitalization As at December 31, 1981 | | | |
|--|--------------|----------------------|--|
| | Outstanding | Held by Falconbridge | |
| Common shares | 4,303,050 | 824,413 | 19.2% |
| Production (Consolidated) | | | |
| Year ended December 31 | 1981 | 1980 | 1979 |
| Ore milled — tons | 395,000 | 227,000 | 416,000 |
| Gold produced — ounces | 59,000 | 38,000 | 75,000 |
| Financial (Consolidated) | | | |
| Revenue from metals produced | \$31,204,000 | \$28,142,000 | \$31,129,000 |
| Earnings before amortization and depreciation | 1,414,000 | 6,790,000 | 8,739,000 |
| Earnings (loss) for the year | (199,000) | 6,292,000 | 8,315,000 |
| Dividends paid | 1,076,000 | 4,303,000 | 2,582,000 |
| Dividends paid per share | 0.25 | 1.00 | 0.60 |
| Working capital | 13,053,000 | 15,977,000 | 15,765,000 |
| Management | | | |
| Falconbridge interest* in earnings (loss) for the year | \$(38,000) | \$1,206,000 | \$1,596,000 |
| — per share of Falconbridge | (0.01) | 0.24 | 0.32 |
| Falconbridge interest in dividends paid | 206,000 | 825,000 | 495,000 |
| — per share of Falconbridge | 0.04 | 0.16 | 0.10 |
| | | | *Before consolidation adjustments, accounted for on an equity basis. |

United Keno Hill Mines Limited

The company incurred a loss of \$13,649,000 in 1981, including an extraordinary charge of \$10,577,000 resulting from the write-off of the Venus Mine project costs, compared with earnings of \$7,679,000 in 1980.

The loss before the extraordinary item was due to a significant drop in average silver prices to \$9.99 per ounce in 1981 from the average price of \$17.91 per ounce in 1980. Results were also adversely affected by the loss of production caused by the legal strike at the Elsa Mining Division. The strike started in September, 1980, and continued until May 28, 1981, when an agreement was reached.

In October, the Directors decided not to bring the Venus Mine into production due to the decline in metal prices and sharply increased operating costs, and all operations were suspended. The plant, 60 miles south of Whitehorse, will be maintained on a care-and-maintenance basis until gold and silver prices improve sufficiently to justify production. At the present time, the costs incurred

on the Venus project are considered not recoverable.

Production during the year at 1,158,000 ounces of silver was lower than the 1980 production level of 1,665,000 ounces. Mill through-put at 67,000 tons of ore also compared unfavourably with the 1980 production level of 88,000 tons. The lower mill through-put and silver yield were due mainly to five months of lost production during the year and production start-up problems experienced in the mill following the strike.

Proven and probable ore reserves at the Elsa Mining Division at year-end 1981 totalled 267,000 tons grading 27.0 ounces of silver per ton, including 40,000 tons grading 22.4 ounces per ton in stockpile. This compares with 480,000 tons grading 24.7 ounces of silver per ton at year-end 1980. During 1981, a total of 175,000 tons grading 19.7 ounces per ton was reclassified in view of increased operating costs and low silver prices, and is not included in ore reserves at year-end 1981.

Capitalization As at December 31, 1981

| | Outstanding | Held by Falconbridge | |
|---------------|-------------|----------------------|-------|
| Common shares | 2,470,000 | 1,195,989 | 48.4% |

Production Year ended December 31

| | 1981 | 1980 | 1979 |
|--------------------------|-----------|-----------|-----------|
| Ore milled — tons | 67,000 | 88,000 | 124,000 |
| Silver produced — ounces | 1,158,000 | 1,665,000 | 2,481,000 |
| Lead produced — pounds | 2,243,000 | 3,296,000 | 5,620,000 |

Financial

| | | | |
|--|---------------|--------------|--------------|
| Revenue from metal shipments | \$12,561,000 | \$31,742,000 | \$53,226,000 |
| Earnings (loss) before depreciation and extraordinary item | (1,881,000) | 8,705,000 | 21,573,000 |
| Earnings (loss) before extraordinary item | (3,072,000) | 7,679,000 | 20,726,000 |
| Earnings (loss) for the year | (13,649,000) | 7,679,000 | 20,726,000 |
| Dividends paid | 1,235,000 | 5,434,000 | 4,940,000 |
| Dividends paid per share | 0.50 | 2.20 | 2.00 |
| Working capital | 16,490,000 | 30,912,000 | 31,313,000 |
| Falconbridge interest* in earnings (loss) for the year before extraordinary item | \$(1,488,000) | \$3,718,000 | \$10,035,000 |
| — per share of Falconbridge | (0.30) | 0.74 | 1.99 |
| Falconbridge interest* in earnings (loss) for the year | (6,610,000) | 3,718,000 | 10,035,000 |
| — per share of Falconbridge | (1.32) | 0.74 | 1.99 |
| Falconbridge interest in dividends paid | 598,000 | 2,631,000 | 2,392,000 |
| — per share of Falconbridge | 0.12 | 0.52 | 0.47 |

*Accounted for on an equity basis.

Management

President and Chief Executive Officer J. C. Cowan
 Mine Manager V. E. Smith

Blanket Mine (Private) Limited

Consolidated earnings in 1981 were \$4,495,000 compared with \$3,797,000 in 1980. Ore milled increased marginally to 168,000 tons while gold production increased by 2,000 ounces to 17,000 ounces in 1981. The average price received decreased from U.S. \$606 per ounce in 1980 to U.S. \$460 in 1981. The cost per ton of ore milled increased by 22 per cent over that of 1980 due to the higher cost of labour and materials.

During the year satisfactory progress was made on preproduction and development work by Golden Kopje Mine (Private) Limited, a wholly-owned subsidiary. The old mine workings were dewatered, a new head frame was erected and shaft sinking progressed. In addition, surface plant and facilities and a portion of the mill were under construction. Production from these facilities is scheduled to commence during the third quarter of 1982.

| Capitalization As at December 31, 1981 | | | |
|--|-------------|----------------------|-------------|
| | Outstanding | Held by Falconbridge | |
| Common shares | 9,208 | 9,208 | 100% |
| Production Year ended December 31 | | | |
| | 1981 | 1980 | 1979 |
| Ore milled — tons | 168,000 | 166,000 | 165,000 |
| Gold produced — ounces | 17,000 | 15,000 | 15,000 |
| Financial | | | |
| Net revenue from metal produced .. | \$9,401,000 | \$10,922,000 | \$5,382,000 |
| Earnings before depreciation | 4,790,000 | 4,056,000 | 1,555,000 |
| Earnings for the year* | 4,495,000 | 3,797,000 | 1,301,000 |
| Dividends paid* | 1,708,000 | 1,637,000 | 1,189,000 |
| — per share of Falconbridge | 0.34 | 0.33 | 0.24 |
| Working capital | 1,634,000 | 1,758,000 | 916,000 |
| Long-term debt | 3,960,000 | | |
| *Only dividends received by Falconbridge are reflected in consolidated earnings. | | | |
| | | Management | |
| | | Managing Director | A. Ryan |
| | | General Manager | D. J. Shand |

Western Platinum Limited

Earnings for the fiscal year ended September 30, 1981, amounted to R20,524,000 compared with R25,144,000 a year earlier. Total metal revenues declined to R51,732,000 in 1981 from R57,783,000 in 1980. Platinum sales increased 7 per cent to 80,000 ounces from 75,000 ounces, while the average price realized decreased to U.S.\$491 per ounce from U.S.\$613 in 1980.

During 1980 the company commenced a R25,000,000 expansion program to increase the annual production of platinum group metals to approximately 245,000 ounces. Capital expenditures during 1981 totalled R18,400,000, of

which R13,800,000 was incurred on the UG2 Project. Production from this orebody is expected to commence in the second quarter of 1982. During the year, the company purchased all the shares of a precious metals refining company that treats the company's production. As part of the financing of these various activities, the authorized share capital of the company was increased in December, 1980, to R30,000,000. Subsequently, 1,000,000 shares valued at R7.00 per share were issued in February, 1981 and an additional 1,100,000 shares valued at R6.50 per share were issued in June. They were issued to the shareholders on a pro rata basis.

| Capitalization As at September 30, 1981 | | | |
|--|-------------|--------------------------|------------------------------|
| | Outstanding | Held by Falconbridge | |
| Ordinary shares | 12,100,000 | 3,025,001 | 25% |
| Production Year ended September 30 | | | |
| | 1981 | 1980 | 1979 |
| Ore milled — tons | 1,451,000 | 1,444,000 | 1,354,000 |
| Platinum group metals — ounces | 155,000 | 150,000 | 132,000 |
| Nickel — pounds | 3,851,000 | 3,761,000 | 3,466,000 |
| Financial | | | |
| 1 Rand = Canadian | \$ 1.28 | \$ 1.56 | \$ 1.41 |
| Revenue from metal sales | R51,732,000 | R57,783,000 | R42,496,000 |
| Earnings for the year* | 20,524,000 | 25,144,000 | 6,813,000 |
| Dividends paid | 8,910,000 | 4,800,000 | |
| Working capital | 15,088,000 | 13,530,000 | 15,400,000 |
| *Accounted by Falconbridge on a cost basis. | | | |
| | | Management | |
| | | Joint Managing Directors | C. P. Beatty S. C. Newman |
| | | General Manager | A. A. Saffy |



Financial Report

Accounting Responsibilities, Procedures and Policies

The Board of Directors which, among other things, is responsible for the consolidated financial statements of the Company, delegates to management the responsibility for the preparation of the statements. Responsibility for their detailed review is delegated by the Board to the Company's audit committee. Each year the shareholders appoint independent auditors to examine and report directly to them on the financial statements.

In preparing the financial statements great care is taken to use the appropriate generally accepted accounting principles and estimates considered necessary by management to present fairly and consistently the consolidated financial position and the results of operations. The significant accounting policies followed by Falconbridge are summarized on pages 24 and 25.

The accounting systems employed by Falconbridge include appropriate controls, checks and balances to provide reasonable assurance that Falconbridge's assets are safeguarded from loss or unauthorized use as well as facilitating the preparation of comprehensive, timely and accurate financial information. The internal auditors, who are employed by the Company as part of management, play an integral part in the effective operation of the systems of internal accounting control. There are limits inherent in all systems based on the recognition that the cost of such systems should not exceed the benefits to be derived. Falconbridge believes its systems provide the appropriate balance in this respect.

The Company's audit committee is appointed by the Board of Directors annually and is comprised of four non-management directors. The committee meets with management and with the independent auditors (who have free access to the audit committee) to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements and the independent auditors' report. The audit committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.

E. Lewis, Q.C.
Chairman of the Audit Committee

H. T. Berry
Chairman of the Board,
President and Chief Executive Officer

J. D. Krane
Vice President Corporate Affairs
and Secretary

Auditors' Report

To the Shareholders of Falconbridge Nickel Mines Limited:

We have examined the following financial statements of Falconbridge Nickel Mines Limited:

Consolidated financial position as at December 31, 1981 and 1980;

Consolidated earnings, consolidated retained earnings and changes in consolidated financial position for the three years ended December 31, 1981;

Segmented information as at December 31, 1981, 1980 and 1979 and for the three years ended December 31, 1981; and

Investment in associated and other companies as at December 31, 1981, 1980 and 1979 and for the three years ended December 31, 1981.

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, the above-mentioned financial statements present fairly the financial position of the company, the results of its operations and the changes in its financial position at the dates and for the periods indicated in accordance with accounting principles generally accepted in Canada, consistently applied.

Toronto, Canada, January 29, 1982.

Chartered Accountants

Comment on Differences in Canadian — United States Reporting Standards for Auditors

In the United States, reporting standards for auditors require the expression of an opinion qualified as being subject to the outcome of significant uncertainties affecting the financial statements such as the uncertainty referred to in the attached statement of consolidated financial position as at December 31, 1981 and as described in note 7(b) relating to Falconbridge Dominicana, C. por A., page 33, of the notes to consolidated financial statements. The opinion in our above report is expressed in accordance with Canadian standards and is not qualified with respect to, and provides no reference to, this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements. A Canadian-United States reporting conflict did not exist in 1980.

Toronto, Canada, January 29, 1982.

Chartered Accountants

Accounting Policies

The consolidated financial statements of Falconbridge Nickel Mines Limited have been prepared in accordance with accounting principles generally accepted in Canada, consistently applied. In these statements, references to the Company mean only Falconbridge Nickel Mines Limited, the parent company, and references to Falconbridge include the Company, its consolidated subsidiaries and significantly influenced companies. The principal accounting policies followed by Falconbridge are summarized hereunder to facilitate review of the consolidated financial statements.

A. Basis of consolidation and accounting standards

Investments in subsidiary companies (owned more than 50%) and significantly influenced companies are accounted for as follows:

- (i) Falconbridge generally consolidates the financial statements of subsidiary companies and accounts on an equity basis for those companies over which it exercises significant influence. Those companies incorporated in foreign countries in which there are significant restrictions on the transfer of funds are accounted for on a cost basis;
- (ii) The differences between the interest in the book value of the net assets of consolidated subsidiaries and the carrying value of the investments are allocated to the subsidiary's asset accounts based on their fair values at the date of acquisition. For consolidated operating subsidiaries, the differences are depreciated, depleted or amortized in accordance with the Company's accounting policy for the related asset; and
- (iii) For consolidation purposes foreign subsidiaries' foreign currency financial statements are restated to accord with the Company's accounting policies.

B. Translation of foreign currencies

Foreign currency transactions and account balances have been translated into Canadian dollars as follows:

- (i) Current assets and current liabilities are translated into Canadian dollars at approximate quoted rates of exchange at year end;
- (ii) Items included in property, plant and equipment, other assets, and non-current liabilities are translated into Canadian dollars at rates of exchange prevailing when they were acquired or incurred;
- (iii) Revenues and expenses are translated into Canadian dollars at the approximate average monthly quoted rates of exchange, except that provisions for depreciation, depletion and amortization are translated at the rates used to translate the related assets;
- (iv) Realized foreign exchange gains and losses are included in earnings; and
- (v) On translation of foreign subsidiaries' financial statements for consolidation purposes, net unrealized gains are deferred and losses are reflected in earnings.

C. Revenue recognition

Revenues from the sale of refined metals, ferronickel, industrial minerals and metal castings are recorded in the accounts when legal title passes to the buyer.

Estimated revenues are recorded in the accounts during the month when bullion, and metals contained in concentrates which are sold under contracts, are produced. The estimated revenues may be subject to adjustment on or before final settlement, usually three or four months after the date of production, to reflect changes in metal market prices and weights and assays.

D. Valuation of inventories

Inventories are valued as follows:

- (i) Metals inventories are valued at the lower of cost and net realizable value. Cost includes direct labour and material costs as well as administrative expenses at the operating properties but excludes development and preproduction expenditures and depreciation. The cost of inventories derived from the Company's ore is determined monthly on a "last-in, first-out" basis, the cost of inventories derived from the subsidiaries' ore and other sources is determined monthly on a "first-in, first-out" basis; and
- (ii) Supplies inventories are valued at the lower of average cost of acquisition and replacement cost.

E. Property, plant and equipment

Property, plant and equipment and related expenditures are accounted for as follows:

- (i) All property, plant and equipment and related capitalized development and preproduction expenditures are generally recorded at cost and include, where appropriate, the fair value adjustments referred to in policy A(ii) above. Investment tax credits related to plant and equipment expenditures are recorded as a reduction of the cost of the related asset;
- (ii) The Company depreciates plant and equipment on a straight-line basis over the lesser of their useful lives or the lives of the producing mines to which they relate, limited to a maximum of twenty-five years. Generally the subsidiary companies calculate depreciation on a straight-line basis at rates varying from 5% to 25%. Depreciation is provided on the unit of production basis by the Company's Wesfrob Mining Division, Kiena Gold Mines Limited, and by Corporation Falconbridge Copper for certain of its properties;
- (iii) Idle plant and equipment resulting from temporary curtailments of operations continue to be depreciated. Care and maintenance costs during standby periods are expensed as incurred;
- (iv) Idle plant and equipment resulting from the termination of operations are carried at estimated salvage value. Upon sale or abandonment, the cost of fixed assets and the related accumulated depreciation are removed from the accounts and any gains or losses thereon are taken into earnings;
- (v) Depletion of properties is provided over a period equal to the lesser of the estimated life of the resources recoverable from the properties, or twenty-five years;

- (vi) Development and preproduction expenditures are capitalized until the commencement of commercial production. These, together with certain subsequent development expenditures which are also capitalized are amortized over periods not longer than the lives of the producing mines or properties, limited to a maximum of twenty-five years; and
- (vii) Repairs and maintenance expenditures are charged to operations or development and preproduction; major betterments and replacements are capitalized.

F. Exploration

Exploration costs incurred to the date of establishing that a property has reserves which have the potential of being economically recoverable are charged against earnings; further costs are generally capitalized and then amortized as appropriate under policy E above.

G. Research and process development

Research and process development costs are charged against earnings as incurred.

H. Retirement plans

The costs of retirement plans are charged against earnings in the year required fundings are payable and include amounts for current service and amortization of past service costs. Past service costs are generally being amortized and funded over periods of up to fifteen years.

I. Income and mining taxes

All companies follow the deferral method of applying the tax allocation basis of accounting for income and mining taxes. Under this method timing differences between the period when income or expenses are reported for tax purposes and the period when they are recorded in the accounts result in deferred taxes.

Where appropriate, income taxes and withholding taxes are provided on the portion of any interest in consolidated foreign subsidiaries' undistributed net income since acquisition which it is reasonable to assume will be transferred in a taxable distribution.

J. Stock option plan

The cost to the Company of shares optioned under the plan is allocated over a period of four years from the date options are granted, according to the terms of the plan, and is measured as the amount by which the quoted market value of the Company's shares covered by the grant exceeds the option price specified under the plan throughout the period that options remain outstanding.

Stock option plan costs expensed are included in the accounts payable and accrued charges classification of the statement of financial position until the options are exercised.

K. Interest costs

Interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt are capitalized. Interest costs incurred after the commencement of commercial production are expensed, as are interest costs not identified with specific projects.

L. Earnings per common share

Earnings per common share are computed using the weighted average number of shares outstanding during the year, after deducting shares held by subsidiary companies.

The preference shareholder's prior claim is deducted from earnings for purposes of this calculation.

Consolidated Financial Position

| Assets | December 31, | |
|--|---------------------|---------------------|
| | 1981 (000's) | 1980 (000's) |
| Current: | | |
| Cash and temporary investments, at cost which approximates market value | \$ 290,363 | \$ 243,080 |
| Accounts and metals settlements receivable (note 11, page 35) | 126,986 | 108,938 |
| Inventories of metals (note 6, page 32) | 132,805 | 145,384 |
| Inventories of supplies | 51,006 | 50,923 |
| | 601,160 | 548,325 |
| Property, Plant and Equipment (note 7, page 32): | | |
| Producing assets — | | |
| Plant and equipment, at cost | 700,521 | 663,122 |
| Land and properties, at cost | 25,235 | 24,613 |
| | 725,756 | 687,735 |
| Less accumulated depreciation and depletion | 423,925 | 401,547 |
| | 301,831 | 286,188 |
| Development and preproduction expenditures, at cost less amounts written off | 119,661 | 104,323 |
| | 421,492 | 390,511 |
| Non-producing assets — | | |
| Properties and projects, at cost less amounts written off | 128,519 | 115,620 |
| | 550,011 | 506,131 |
| Other: | | |
| Investment in associated and other companies (Statement 5, page 44) | 96,965 | 100,442 |
| Deposits, long-term accounts receivable and other assets, at cost | 3,015 | 2,169 |
| Debt discount and issue expenses, at cost less amounts written off | 1,887 | 2,027 |
| | 101,867 | 104,638 |
| | \$ 1,253,038 | \$ 1,159,094 |


(See notes to consolidated financial statements)

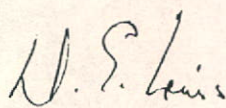
Liabilities and Shareholders' Equity

December 31,

| | 1981 (000's) | 1980 (000's) |
|---|-----------------|-----------------|
| Current: | | |
| Bank indebtedness (note 15, page 36) | \$ 6,410 | \$ 5,075 |
| Accounts payable and accrued charges (note 3, page 30) | 67,067 | 96,197 |
| Salaries and wages payable | 29,023 | 23,169 |
| Income and other taxes payable | 6,840 | 43,347 |
| Long-term debt maturing within one year | 18,650 | 18,418 |
| | 127,990 | 186,206 |
| Long-Term Debt (notes 3, 8 and 15, pages 30, 33 and 36): | | |
| Falconbridge Nickel Mines Limited | 334,321 | 167,678 |
| Falconbridge Dominicana, C. por A. | 102,602 | 103,850 |
| Other companies | 28,463 | 14,273 |
| | 465,386 | 285,801 |
| Deferred Income and Mining Taxes (note 5, page 30) | 87,375 | 85,284 |
| Minority Interest (Statement 4, page 38) | 82,639 | 95,662 |
| Commitments and Contingencies (notes 7 and 11, pages 32 and 35) | | |
| Shareholders' Equity: | | |
| Capital (note 9, page 35) — | | |
| Authorized: | | |
| 25,000,000 Common shares without par value | | |
| Issued: | | |
| 5,024,755 Common shares | 89,368 | 89,368 |
| Retained earnings (notes 8 and 10, pages 33 and 35) | 403,459 | 419,952 |
| | 492,827 | 509,320 |
| Less 45,483 Common shares held by subsidiary companies, at cost | (3,179) | (3,179) |
| | 489,648 | 506,141 |

On behalf of the Board:


 Director


 Director

\$ 1,253,038

\$ 1,159,094

Consolidated Earnings and Retained Earnings

Consolidated Earnings (See additional details — Statement 4, page 38)

Year ended December 31,

| | 1981 (000's) | 1980 (000's) | 1979 (000's) |
|--|-------------------|-------------------|-------------------|
| Revenues | \$ 712,952 | \$ 757,815 | \$ 789,418 |
| Operating expenses: | | | |
| Costs of metal and other product sales | 548,080 | 455,793 | 469,083 |
| Selling, general and administrative | 49,604 | 40,114 | 34,136 |
| Development and preproduction | 26,755 | 23,820 | 11,019 |
| Depreciation and depletion | 32,808 | 30,311 | 31,613 |
| Other charges (note 14, page 36) | 2,963 | 15,306 | |
| | 660,210 | 565,344 | 545,851 |
| Operating profit | 52,742 | 192,471 | 243,567 |
| Interest and other income | 32,575 | 37,466 | 21,815 |
| | 85,317 | 229,937 | 265,382 |
| Interest and debt expenses | 51,344 | 39,112 | 36,089 |
| Exploration (note 12, page 36) | 37,964 | 28,284 | 14,297 |
| Research and process development | 11,105 | 6,636 | 3,960 |
| | 100,413 | 74,032 | 54,346 |
| | (15,096) | 155,905 | 211,036 |
| Income from investment in associated and other companies (Statement 5, page 44) | 3,770 | 9,588 | 17,589 |
| Earnings (loss) before taxes and other items | (11,326) | 165,493 | 228,625 |
| Income and mining taxes (note 5, page 30): | | | |
| Current | 3,458 | 48,227 | 54,100 |
| Deferred | (1,246) | 31,873 | 36,898 |
| | 2,212 | 80,100 | 90,998 |
| Earnings (loss) before minority interest and extraordinary item | (13,538) | 85,393 | 137,627 |
| Minority shareholders' interest in earnings (losses) of subsidiary companies (Statement 4, page 38) | (9,636) | 13,971 | 27,066 |
| Earnings (loss) for the year before extraordinary item | (3,902) | 71,422 | 110,561 |
| Extraordinary item (note 2, page 30) | (5,122) | 37,700 | 20,000 |
| Earnings (loss) for the year | (9,024) | 109,122 | 130,561 |
| Dividend requirement on preference shares | | 6,475 | 5,911 |
| Earnings (loss) applicable to common shares | \$ (9,024) | \$ 102,647 | \$ 124,650 |
| Earnings (loss) per common share (note 13, page 36): | | | |
| Before extraordinary item | \$(0.78) | \$13.04 | \$21.01 |
| Extraordinary item | (1.03) | 7.57 | 4.02 |
| For the year | \$(1.81) | \$20.61 | \$25.03 |

Consolidated Retained Earnings

| | | | |
|--|-------------------|-------------------|-------------------|
| Retained earnings, beginning of year | \$ 419,952 | \$ 334,732 | \$ 225,020 |
| Earnings (loss) for the year | (9,024) | 109,122 | 130,561 |
| | 410,928 | 443,854 | 355,581 |
| Dividends: | | | |
| Common shares (per share: 1981 — \$1.50; 1980 — \$3.50; 1979 — \$3.00) | (7,469) | (17,427) | (14,938) |
| Preference shares (per share: 1980 — \$2.158; 1979 — \$1.970) | | (6,475) | (5,911) |
| Retained earnings, end of year | \$ 403,459 | \$ 419,952 | \$ 334,732 |

(See notes to consolidated financial statements)

Changes in Consolidated Financial Position

| | Year ended December 31, | | |
|---|-------------------------|--------------------|-------------------|
| | 1981 (000's) | 1980 (000's) | 1979 (000's) |
| Sources of working capital (funds): | | | |
| Operations — | | | |
| Earnings (loss) for the year before extraordinary item | \$ (3,902) | \$ 71,422 | \$ 110,561 |
| Charges (credits) not requiring outlay of funds: | | | |
| Depreciation and depletion | 32,808 | 30,311 | 31,613 |
| Development and preproduction | 26,755 | 23,820 | 11,019 |
| Amortization of debt expenses | 86 | 175 | 223 |
| Income and mining taxes deferred | 2,091 | 30,729 | 38,294 |
| Minority shareholders' interest in earnings (losses) of subsidiary companies, net | (9,636) | 13,971 | 27,066 |
| Gains on disposal of fixed assets, net | (386) | (449) | (107) |
| Gains on disposals and write-off of investments, net | | (631) | (1,666) |
| Dividends received from companies accounted for on an equity basis in excess of interest in earnings/losses | 2,152 | (1,357) | (8,669) |
| Total from operations | 49,968 | 167,991 | 208,334 |
| Increase (decrease) in long-term debt, net | 179,639 | (815) | (7,650) |
| Proceeds from disposal of fixed assets | 1,760 | 1,561 | 1,962 |
| Proceeds from disposal of investments | | 9,165 | 6,890 |
| | 231,367 | 177,902 | 209,536 |
| Applications of working capital: | | | |
| Property, plant and equipment expenditures | 44,241 | 50,116 | 34,072 |
| Development and preproduction expenditures | 60,576 | 40,879 | 24,280 |
| Dividend payments on the common shares | 7,469 | 17,427 | 14,938 |
| Dividend payments to the minority shareholders of subsidiary companies | 3,387 | 7,133 | 4,425 |
| Increase (decrease) in other assets | 4,643 | (364) | (189) |
| Redemption of preference shares | | 75,000 | |
| Dividend payments on the preference shares | | 6,475 | 5,911 |
| | 120,316 | 196,666 | 83,437 |
| Increase (decrease) in working capital during the year | \$ 111,051 | \$ (18,764) | \$ 126,099 |
| Changes in components of working capital: | | | |
| Increase (decrease) in current assets — | | | |
| Cash and temporary investments | \$ 47,283 | \$ (16,273) | \$ 155,827 |
| Accounts and metals settlements receivable | 18,048 | (47,042) | 25,301 |
| Inventories | (12,496) | 75,274 | 3,003 |
| | 52,835 | 11,959 | 184,131 |
| Increase (decrease) in current liabilities — | | | |
| Bank indebtedness | 1,335 | 890 | 105 |
| Long-term debt maturing within one year | 232 | 3,996 | 8,584 |
| Other current liabilities | (59,783) | 25,837 | 49,343 |
| | (58,216) | 30,723 | 58,032 |
| Increase (decrease) in working capital during the year | 111,051 | (18,764) | 126,099 |
| Working capital, beginning of year | 362,119 | 380,883 | 254,784 |
| Working capital, end of year | \$ 473,170 | \$ 362,119 | \$ 380,883 |

(See notes to consolidated financial statements)

Notes to Consolidated Financial Statements

1. Accounting policies

The principal accounting policies followed by Falconbridge are summarized on pages 24 and 25.

2. Extraordinary item

The \$5,122,000 extraordinary item in 1981 reflects the Company's share of costs associated with United Keno Hill Mines Limited's (United Keno) Venus Mine project, which are now considered not recoverable due to depressed metal prices and increased operating costs. United Keno is owned 48.4% by the Company and accounted for on an equity basis. As a result of this action, expenditures which have been written off in the accounts exceed those which have been claimed by United Keno for income tax purposes by approximately \$8,000,000, and this amount is available to reduce its taxable income of future years.

As a result of the public offer made by The Superior Oil Company, Houston, Texas (Superior), to purchase all of the capital stock of Canadian Superior Oil Ltd. (Canadian Superior), the Company received, in January 1980, 336,793 shares of Superior (with a quoted market value of \$59,214,000) and \$8,534,000 for its 294,143 Canadian Superior shares. The transaction resulted in a gain of \$37,700,000 (net of income taxes).

The extraordinary item for 1979 of \$20,000,000 reflects the reduction of deferred income taxes resulting from the carry-forward of prior years' losses.

3. Translation of foreign currencies

(a) If translated into Canadian dollars at the year end rates of exchange, long-term debt as at December 31, 1981 would increase by \$24,910,000 to \$490,296,000 (1980 — increase by \$29,235,000 to \$315,036,000). This change is not necessarily indicative of the amount repayable when the obligations are retired.

(b) Net realized exchange losses on foreign currency transactions amounting to \$683,000 in 1981 (1980 — losses, \$407,000; 1979 — gains, \$1,151,000) have been charged to earnings; net unrealized gains on translation of foreign subsidiaries' financial statements for consolidation purposes, before minority interest, amounting to \$8,192,000 at December 31, 1981 (1980 — \$12,144,000; 1979 — \$10,582,000), have been deferred and included in accounts payable and accrued charges.

(c) The average and year end rates of exchange for foreign currencies in which Falconbridge conducts a significant portion of its business were as follows:

| | U.S. \$1 = Cdn. \$ | | | Norwegian Kroner 1 = Cdn. \$ | | |
|--------------------------------|--------------------|--------|--------|------------------------------|--------|--------|
| | 1981 | 1980 | 1979 | 1981 | 1980 | 1979 |
| Average for the year | \$1.20 | \$1.17 | \$1.17 | \$0.21 | \$0.24 | \$0.23 |
| At year end | 1.19 | 1.19 | 1.17 | 0.20 | 0.23 | 0.24 |

4. Retirement plans

The Company and certain of its subsidiaries maintain retirement plans providing retirement, death and termination benefits for substantially all salaried and hourly rated employees.

Total pension expense for the year was \$15,662,000 (1980 — \$12,850,000; 1979 — \$8,798,000) including past service costs of \$7,401,000 (1980 — \$6,317,000; 1979 — \$3,238,000). Based on the most recent actuarial evaluation, the unfunded past service costs for all pension plans in effect at December 31, 1981 are estimated to amount to approximately \$50,000,000 (1980 — \$47,000,000; 1979 — \$52,500,000) including \$26,500,000 (1980 — \$24,000,000; 1979 — \$36,500,000) which is computed to have vested. The companies' present intention is to provide for the unfunded past service costs over periods of up to fifteen years.

5. Income and mining taxes

(a) Consolidated income and mining tax expense consists of the following:

| | 1981 (000's) | 1980 (000's) | 1979 (000's) |
|-----------------------|-----------------|-----------------|-----------------|
| Canadian taxes — | | | |
| Current | \$ 2,051 | \$ 45,844 | \$ 51,482 |
| Deferred | 2,328 | 35,296 | 32,985 |
| | 4,379 | 81,140 | 84,467 |
| Foreign taxes — | | | |
| Current | 1,407 | 2,383 | 2,618 |
| Deferred | (3,574) | (3,423) | 3,913 |
| | (2,167) | (1,040) | 6,531 |
| Total taxes | \$ 2,212 | \$ 80,100 | \$ 90,998 |

- (b) The provision for consolidated deferred tax expense results from timing differences between the period when income or expenses are reported for tax purposes and the period when they are recorded in the accounts. The sources and tax effects of these differences are as follows:

| | 1981 (000's) | 1980 (000's) | 1979 (000's) |
|---|-----------------|-----------------|-----------------|
| Depreciation claimed for tax purposes in excess of depreciation expensed in the accounts, net | \$ 637 | \$ 9,069 | \$ 3,543 |
| Exploration, preproduction and mine development costs claimed for tax purposes in excess of amounts expensed in the accounts, net | 7,932 | 7,970 | 12,282 |
| Inventories recorded in accounts on LIFO basis and on tax returns on FIFO basis | (3,349) | (9,229) | 4,262 |
| Non-capital loss | | 29,756 | 15,606 |
| Expenses (losses) carried forward | | (2,060) | 2,754 |
| Other | (6,466) | (3,633) | (1,549) |
| | \$ (1,246) | \$ 31,873 | \$ 36,898 |

At December 31, 1981 deferred taxes on the statement of consolidated financial position amount to \$87,375,000 (1980 - \$85,284,000). This amount will be reflected as a component of current tax expense in subsequent years as timing differences are reversed.

- (c) The difference between the amount of the reported consolidated provision for income and mining taxes and the amount computed by multiplying the earnings (loss) before taxes by the Company's statutory tax rates is as follows:

| | 1981 | | | | 1980 | | | | 1979 | | | |
|--|---|---------------------------------|-----------------------|---------------|---|---------------------------------|-----------------------|---------------|---|---------------------------------|-----------------------|---------------|
| | Federal and provincial income taxes (000's) | Provincial mining taxes (000's) | Foreign taxes (000's) | Total (000's) | Federal and provincial income taxes (000's) | Provincial mining taxes (000's) | Foreign taxes (000's) | Total (000's) | Federal and provincial income taxes (000's) | Provincial mining taxes (000's) | Foreign taxes (000's) | Total (000's) |
| Earnings (loss) before taxes | \$ 8,046 | \$ 8,046 | \$ (19,372) | \$ (11,326) | \$162,414 | \$162,414 | \$ 3,079 | \$165,493 | \$198,682 | \$198,682 | \$ 29,943 | \$228,625 |
| Statutory tax rates | 51% | 16.5%* | 51% | | 51% | 28%* | 51% | | 49% | 29%* | 49% | |
| Earnings (loss) before taxes multiplied by the statutory tax rates | \$ 4,103 | \$ 1,328 | \$ (9,880) | | \$ 82,831 | \$ 45,476 | \$ 1,570 | | \$ 97,354 | \$ 57,618 | \$ 14,672 | |
| Taxes reported in accounts | 2,825 | 1,554 | (2,167) | \$ 2,212 | 52,179 | 28,961 | (1,040) | \$ 80,100 | 55,756 | 28,711 | 6,531 | \$ 90,998 |
| Difference to be reconciled | \$ (1,278) | \$ 226 | \$ 7,713 | | \$ (30,652) | \$ (16,515) | \$ (2,610) | | \$ (41,598) | \$ (28,907) | \$ (8,141) | |
| Reconciliation, tax effect of - | | | | | | | | | | | | |
| (1) Non-claimable expenses | \$ 5,468 | \$ 8,444 | \$ 3,182 | | \$ 3,844 | \$ 12,106 | \$ 4,778 | | \$ 2,498 | \$ 14,339 | \$ 1,075 | |
| (2) Resource, depletion, processing and inventory allowances | (5,547) | (4,499) | (175) | | (30,723) | (11,352) | (844) | | (37,066) | (22,438) | (393) | |
| (3) Adjustments because of differences in companies' statutory tax rates | 152 | 158 | 6,875 | | 207 | (3,241) | 2,057 | | (739) | (5,353) | (1,395) | |
| (4) Unrecorded deferred tax debit | | | 8,071 | | | | | | | | | |
| (5) Non-taxable income | (1,351) | (3,877) | (10,240) | | (3,980) | (14,028) | (8,601) | | (6,291) | (15,455) | (7,428) | |
| | \$ (1,278) | \$ 226 | \$ 7,713 | | \$ (30,652) | \$ (16,515) | \$ (2,610) | | \$ (41,598) | \$ (28,907) | \$ (8,141) | |

*Average determined from the graduated scale which ranged from 0% to 40% from January 1, 1979 to April 10, 1979 and 0% to 30% from April 11, 1979 to December 31, 1981.

- (d) No taxes have been provided by the Company in respect of the earnings of its wholly-owned subsidiary, Falconbridge International Limited (Bermuda), as a result of the present intention not to transfer, to Canada, its earnings of U.S. \$52,225,000 accumulated to December 31, 1981 (U.S. \$35,592,000 to December 31, 1980).

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(e) Falconbridge Dominicana, C. por A. (Falcondo), a subsidiary company, has received income tax assessments from the Dominican Government for the 1972 and 1973 fiscal years approximating Cdn. \$5,800,000. Falcondo is presently appealing these assessments to a Superior Administrative Court. Management cannot reasonably predict the outcome of this appeal. As a result no provision has been made by the company or in the consolidated accounts.

(f) At December 31, 1981 Falconbridge Dominicana, C. por A. has losses, aggregating RD\$ 27,757,000, which can be carried forward to reduce its taxable income in future years. The loss carry forwards expire in 1983 — RD\$ 2,216,000; 1985 — RD\$ 4,709,000; and 1986 — RD\$ 20,832,000. In addition, depreciation and amortization charges of approximately RD\$ 2,663,000 which have been recorded in the accounts, but not claimed for tax purposes, are available to reduce taxable incomes of future years.

6. Inventories of metals

Consolidated metal inventories consist of the following:

| | 1981 | | 1980 | |
|---------------------|------------------------------|----------------------------|------------------------------|----------------------------|
| | Metals in process (000's) | Finished metals (000's) | Metals in process (000's) | Finished metals (000's) |
| Derived from: | | | | |
| Company's ore | \$ 19,949 | \$ 55,017 | \$ 20,267 | \$ 50,234 |
| Subsidiaries | 6,707 | 43,888 | 6,990 | 50,532 |
| Other sources | 1,655 | 5,589 | 10,693 | 6,668 |
| | <u>\$ 28,311</u> | <u>\$ 104,494</u> | <u>\$ 37,950</u> | <u>\$ 107,434</u> |

Total inventories of metals \$ 132,805 \$ 145,384

The December 31, 1981 inventory of ferronickel produced by Falconbridge Dominicana, C. por A. was written down by \$3,521,000, to an estimated net realizable value.

For information on the effect of general inflation on inventories and the current cost of inventories, see page 48, "Impact of inflation — financial reporting and changing prices".

7. Property, plant and equipment

(a) The following table details consolidated property, plant and equipment on a functional basis (See note 2(b) of the notes to statement of segmented information, page 40):

| | 1981 | | | 1980 | | |
|--|-------------------|---|---------------------------|-------------------|---|---------------------------|
| | Cost (000's) | Accumulated depreciation and depletion (000's) | Net book value (000's) | Cost (000's) | Accumulated depreciation and depletion (000's) | Net book value (000's) |
| Property, plant and equipment: | | | | | | |
| Producing assets — | | | | | | |
| Plant and equipment: | | | | | | |
| Mines, mining plants and ancillary mining assets | \$ 425,750 | \$ 271,937 | \$ 153,813 | \$ 400,409 | \$ 255,220 | \$ 145,189 |
| Smelter | 107,617 | 32,039 | 75,578 | 107,963 | 30,644 | 77,319 |
| Refinery | 107,471 | 64,158 | 43,313 | 97,876 | 62,233 | 35,643 |
| Townsites and other company housing .. | 16,419 | 11,190 | 5,229 | 16,972 | 11,394 | 5,578 |
| Transportation, including facilities | 10,790 | 9,987 | 803 | 10,314 | 9,918 | 396 |
| Other | 32,474 | 16,681 | 15,793 | 29,588 | 14,730 | 14,858 |
| | <u>700,521</u> | <u>405,992</u> | <u>294,529</u> | <u>663,122</u> | <u>384,139</u> | <u>278,983</u> |
| Properties | 23,484 | 17,933 | 5,551 | 22,887 | 17,408 | 5,479 |
| Land | 1,751 | | 1,751 | 1,726 | | 1,726 |
| | <u>25,235</u> | <u>17,933</u> | <u>7,302</u> | <u>24,613</u> | <u>17,408</u> | <u>7,205</u> |
| | <u>\$ 725,756</u> | <u>\$ 423,925</u> | <u>301,831</u> | <u>\$ 687,735</u> | <u>\$ 401,547</u> | <u>286,188</u> |
| Non-producing assets | | | 34,689 | | | 40,273 |
| | | | <u>336,520</u> | | | <u>326,461</u> |
| Development and preproduction expenditures: | | | | | | |
| Producing assets | | | 119,661 | | | 104,323 |
| Non-producing assets | | | 93,830 | | | 75,347 |
| | | | <u>213,491</u> | | | <u>179,670</u> |
| | | | <u>\$ 550,011</u> | | | <u>\$ 506,131</u> |

For information on the effect of general inflation on property, plant and equipment and the current cost of property, plant and equipment, see page 48, "Impact of inflation — financial reporting and changing prices".

- (b) As a measure designed to minimize supplementary financing by the project sponsors during a period of uncertain demand for ferronickel, Falconbridge Dominicana, C. por A.'s (Falcondo) production operations were temporarily shut down on January 13, 1982 (see note 17, page 37). The property, plant and equipment are being maintained on a standby basis on the expectation that production operations will be resumed at a later date. Under the present economic conditions Falcondo is dependent upon continued financial support from its sponsors, see note 8, below.

While it is difficult for management to determine when conditions will improve sufficiently to warrant the resumption of the production operations, it is their opinion that the \$101,270,000 net aggregate carrying value of the property, plant and equipment and preproduction and other deferred charges will be recovered over the long term.

- (c) Non-producing assets do not include the assets placed on a standby basis (referred to in note 7(b) above) but consist of the following:

| | 1981 (000's) | 1980 (000's) |
|--|-------------------|-------------------|
| Company and project | | |
| Falconbridge Nickel Mines Limited — | | |
| Fraser mine (i) | \$ 75,303 | \$ 50,835 |
| Other projects (ii) | 7,520 | 5,677 |
| Falconbridge Nikkelverk Aktieselskap — | | |
| Process revision program (i) | | 9,017 |
| Kiena Gold Mines Limited — | | |
| Dubuisson Township property (i) | | 8,916 |
| New Quebec Raglan Mines Limited — | | |
| Subsidiary's Cape Smith-Wakeham Bay properties (iii) | 40,726 | 35,185 |
| Other subsidiary companies' projects (ii) | 4,970 | 5,990 |
| | \$ 128,519 | \$ 115,620 |

(i) In the preproduction or construction stage. The Fraser mine was officially opened on September 12, 1981 but is not yet in commercial production. Falconbridge Nikkelverk Aktieselskap's process revision program was completed and Kiena Gold Mines Limited's property commenced commercial production in 1981.

(ii) Includes the costs related to certain projects upon which further work has been suspended pending more favourable economics. Falconbridge believes these costs will be recovered.

(iii) Exploration, development and other expenditures relating to New Quebec Raglan Mines Limited (a 68.55% owned subsidiary) and its wholly-owned subsidiary company, Société Minière Raglan du Québec Ltée (formerly Raglan Quebec Mines Limited) (Raglan), incurred in the development of the latter company's Cape Smith-Wakeham Bay properties.

These costs have been capitalized with the intention that they will be amortized by charges against income from future mining operations. In 1971 underground work on the properties was suspended. Studies recommenced in 1980 and have continued on the feasibility of bringing the properties into production. Profits commensurate with the risks of operating in such a remote northern location must be indicated before development to production. The exploration permits and development licences pertaining to these properties expire in 1982 and Raglan has retained the mineral rights on these deposits by the staking of mineral claims.

8. Long-term debt

A. Details of long-term debt are as follows:

| | 1981 (000's) | 1980 (000's) |
|---|-------------------|-------------------|
| (i) Falconbridge Nickel Mines Limited | | |
| 7.75% Sinking fund debentures maturing February, 1991 (a) | \$ 42,500 | \$ 43,750 |
| 8.85% Sinking fund debentures maturing May, 1996 (1981 — U.S. \$43,565,000; 1980 — U.S. \$47,000,000) (b) | 44,518 | 48,028 |
| Bank loans (c) — | | |
| Due December 31, 1986 (U.S. \$125,000,000 in 1981) | 147,204 | 75,900 |
| Due December 31, 1986 (U.S. \$40,000,000) | 47,105 | |
| Due December 31, 1988 (U.S. \$45,000,000) | 52,994 | |
| Total (1981 net of \$913,000 maturing within one year) | \$ 334,321 | \$ 167,678 |

(a) The Company is required to make sinking fund payments sufficient to retire \$1,250,000 principal amount of the 7.75% debentures in each of the years 1982 to 1990.

(b) The Company is required to make sinking fund payments sufficient to retire U.S. \$3,000,000 principal amount of the 8.85% debentures in each of the years 1982 to 1995.

(c) The bank loans reflect borrowings under lines of credit extended by a Canadian bank.

The Cdn. \$75,900,000 loan outstanding at December 31, 1980 was converted to a U.S. dollar loan and increased to U.S. \$125,000,000 on November 27, 1981 under a line of credit of Cdn. \$180,000,000 (or the U.S. dollar equivalent thereof) extended by the bank until December 31, 1986. Interest is payable monthly at the rate of ¼ of 1% over the bank's minimum commercial lending rate if the loan is taken in Canadian dollars, or based on the London Interbank Offered Rate (LIBOR) if taken in U.S. dollars. A fee of ¼ of 1% applies to any undrawn portion of the credit, payable monthly. Interest was payable at 13.52% as at December 31, 1981.

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Under a U.S. \$85,000,000 line of credit the Company borrowed, on November 27, 1981, U.S. \$40,000,000, due December 31, 1986, at 15.88%; and U.S. \$45,000,000, due December 31, 1988, at floating rates based on LIBOR, interest was payable at 13.94% as at December 31, 1981.

| | 1981 (000's) | 1980 (000's) |
|---|-----------------|-----------------|
| (ii) Falconbridge Dominicana, C. por A. (Falcondo) (RD\$1 equals U.S. \$1) | | |
| (a) Due to Loma Corporation (Loma)* (Payable in U.S. currency) — | | |
| 8.73% Series C demand mortgage notes RD\$ | 50,790 RD\$ | 60,950 |
| 8.5% Series D demand subordinated notes | 34,000 | 34,000 |
| | 84,790 | 94,950 |
| * Payment will only be demanded under certain specified circumstances, the most significant being to meet payments due on notes of Loma (a U.S. financing company) issued in the same principal amounts and at the same interest rates as the above demand notes, as follows: 8.73% Series C secured sinking fund notes, due in semi-annual payments of U.S. \$5,080,000 1982 to 1986 inclusive (this schedule of repayments reflects the 1978 deferment of principal repayments aggregating U.S. \$15,240,000); and 8.5% Series D guaranteed sinking fund notes, due in semi-annual payments of U.S. \$3,400,000 1987 to 1991 inclusive. | | |
| (b) Due to International Bank for Reconstruction and Development (IBRD) — | | |
| 7% Loans, due semi-annually to 1984, payable in various currencies | 10,728 | 14,620 |
| | 95,518 | 109,570 |
| (c) Housing — | | |
| 9.5% Mortgages on houses repayable monthly to 1993 in Dominican Republic currency | 1,766 | 1,873 |
| (d) Subordinated advances by shareholders — | | |
| Advances from the Company and the other sponsor under the terms of the agreement which requires the Company and the other sponsor to provide, respectively, 60% and 40% of the funds required by Falcondo to meet its cash requirements — interest rates vary from 12% to 21.5% (weighted average 17%), due not later than December 15, 1991 | 39,188 | 14,223 |
| (e) Other — | | |
| Unsecured borrowings payable in U.S. funds, bearing interest at 10.5%, due in semi-annual installments to 1985 | 1,372 | 1,714 |
| | 137,844 | 127,380 |
| Less long-term debt maturing within one year | 14,196 | 14,264 |
| Total — As reported by Falcondo in Dominican Republic currency, translated at year-end rates of exchange RD\$ | 123,648 RD\$ | 113,116 |
| Total — Expressed in Canadian currency and reflecting consolidation adjustments and Falconbridge's translation policy (1981 net of \$16,826,000 maturing within one year) \$ | 102,602 \$ | 103,850 |
| (iii) Other companies | | |
| Kiena Gold Mines Limited — Bank loan due December 31, 1986 (16.8% at December 31, 1981) (see note 15, page 36) \$ | 21,796 \$ | 8,100 |
| Others — various maturity dates and interest rates | 6,667 | 6,173 |
| Total (1981 net of \$911,000 maturing within one year) \$ | 28,463 \$ | 14,273 |

(iv) Maturity and sinking fund requirements

Maturity and sinking fund requirements (stated at 1981 year-end rates of exchange) for the next five years are as follows:

| | |
|---------------------|----------------------|
| 1982 — \$18,650,000 | 1985 — \$ 18,298,000 |
| 1983 — \$23,216,000 | 1986 — \$235,404,000 |
| 1984 — \$23,231,000 | |

B. Guarantees, covenants and restrictions:

(i) Falconbridge Nickel Mines Limited (the Company) has guaranteed portions of the long-term debt and other obligations of Falconbridge Dominicana, C. por A. (Falcondo), the details of which are as follows:

(a) Loans to Falcondo amounting to RD\$95,518,000 are secured by a first mortgage on the assets of the project, which have a net aggregate carrying value of RD\$151,718,000 at December 31, 1981. The Company has agreed to buy all ferronickel of commercial value produced by Falcondo and is also obligated to provide 60% of the funds required by Falcondo to enable it to meet its operating costs and debt service obligations in the event receipts from the sale of ferronickel produced by Falcondo and other receipts are insufficient for that purpose. (The Company has been required since July, 1980, in accordance with the terms of the financing agreements to provide funds totalling U.S. \$23,513,000 (1981 — U.S. \$14,979,000;

1980 — U.S. \$8,534,000), representing 60% of the total amount required by Falcondo to meet its cash requirements. The funds so provided to Falcondo are evidenced by notes, which are subordinated to all other debt instruments and can only be repaid under certain circumstances, and bear interest at rates related to the U.S. prime rate which is in effect on the date the notes are issued). The loans from Loma Corporation are covered by specific risk insurance issued by the Overseas Private Investment Corporation.

- (b) The Company has pledged all of its shareholdings in Falcondo against repayment of the Loma Series C demand mortgage notes and the IBRD loans. In addition, the Company has made a direct guarantee for repayment of 60% of the Loma Series D demand subordinated notes.
- (c) In accordance with the terms of the loan agreements, funds of \$2,395,000 (1980 — \$1,980,000) (included with cash and temporary investments) are on deposit with the Trustee for use in paying current debt service and operating expenses of Falcondo.
- (ii) During the period that the Falcondo loans are outstanding, there are certain restrictions placed on the amount and nature of borrowing that the Company may undertake. Covenants given by the Company in this respect are substantially the same (other than the restriction on the payment of dividends) as those given by the Company under its 8.85% debentures which include limitations as to:
 - (a) The amount of dividends which may be paid by the Company (see note 8 B (iii) below);
 - (b) The assumption of additional debt; and
 - (c) Guarantees which it may give on certain indebtedness of its subsidiary and other companies.
- (iii) At December 31, 1981, the portion of retained earnings restricted under the 8.85% debenture covenants and not available for dividend payment and share repurchase was \$170,905,000 (1980 — \$170,905,000).

9. Capital

(a) Preference shares

None of the Company's 7,000,000 authorized preference shares of the value of \$25 each were issued in 1981 or 1980. In 1980, 3,000,000 Variable Rate Cumulative Redeemable Preference Shares, Series "A", were redeemed and cancelled.

(b) Common shares

In 1979, the Company reserved 200,000 unissued common shares without par value for the purpose of granting options to purchase shares of the Company to certain full time employees of the Company or a subsidiary or associated company. The price for which the shares may be optioned is the closing bid price for the common shares on the business day immediately preceding the granting of the option less a discount of 10%.

Options are exercisable, over a period of ten years from the date granted, and are earned at the rate of 25% of the shares optioned times the number of periods of twelve months each which have elapsed since the date the option was granted less the aggregate number of options already exercised or surrendered. The optionee may also be given the right, at the time of exercise, to surrender the right to purchase shares under the options in return for receipt of cash equal to the excess of the fair market value of the shares over the option price thereof. Options were granted on November 16, 1981 to purchase 122,000 shares under the stock option plan at a price of \$57.15 per share. The cost to the Company, in 1981, of share options granted under the plan was \$135,000.

10. Interest in investees' undistributed earnings

Consolidated retained earnings includes the Company's share of the undistributed earnings of its (i) consolidated subsidiaries; and (ii) equity accounted for companies, which, respectively, amounted to \$87,242,000 and \$8,291,000 (1980 — \$89,627,000 and \$15,565,000; 1979 — \$82,900,000 and \$14,208,000).

11. Commitments and contingencies

- (a) There are commitments outstanding at December 31, 1981 aggregating approximately \$3,700,000 (1980 — \$6,200,000) in connection with capital expenditure programs.
- (b) The following are under continuing study and discussion with Government officials:
 - (i) The construction of Canadian facilities for refining ores mined in Ontario. However, the Company has received an exemption by the Ontario Government, until December 31, 1989, from a requirement to refine in Canada ores mined from certain properties of the Company in Ontario, such exemption being limited to the quantity of nickel-copper matte capable of producing not more than 100,000,000 pounds of refined nickel per year;
 - (ii) The requirement that, by December 31, 1983, the Company take such steps as are necessary to reduce emissions of sulphur dioxide from its Sudbury smelter complex so that in the aggregate they comply with the standards prescribed by the Ontario Government; and
 - (iii) The mounting concern of Environment Canada (an agency of the Federal Government) regarding acid rain and long range transport of pollutants.

It is presently not practicable to estimate the potential costs which may arise from these items.

- (c) During 1981, 1980 and 1979 a portion of accounts receivable was either sold without recourse or discounted with recourse. The cost, which was charged against earnings, amounted to \$6,774,000 in 1981 (1980 — \$4,514,000; 1979 — \$2,032,000). As a result of these transactions, at December 31, 1981, the Company has a contingent liability of U.S. \$22,944,000 (1980 — U.S. \$18,180,000). (See note 15, page 36).
- (d) See notes 4, 5(e), 7(b) and 8 B(i), pages 30, 32, 33 and 34, respectively, which detail other commitments and contingencies.

12. Transactions with related companies

Falconbridge is a member of a group of related companies. The Company's holdings in this group are described in Statement 5, page 44. Other significant holdings within the group include The Superior Oil Company's (Superior) 24% interest in Western Platinum Limited (Western Platinum) and its 100% interest in Canadian Superior Oil Ltd. (Canadian Superior). McIntyre Mines Limited (McIntyre), which holds a 36.8% interest in Falconbridge, is owned 26.6% by Superior and 26.4% by Canadian Superior (which has an 8.8% interest in Falconbridge).

The following transactions of an ongoing nature occurred between Falconbridge and other members of the group:

- (a) Matte produced from Western Platinum ore is refined on a fee basis and the refined metals are marketed on an agency basis by Falconbridge. Fees and commissions totalled \$6,748,000 in 1981 (1980 — \$7,061,000; 1979 — \$6,648,000).
- (b) The Company engages in a number of mineral exploration programs with Superior and other members of the related group. The Company's participating interest in these projects ranges up to 51%, and the Company's cost is equal to its share of the overall cost.

The most significant of these ventures include:

- (i) Exploration and development on mining claims in northern Chile pursuant to agreements between the Company, Superior, Canadian Superior, McIntyre, the government of Chile and private parties. The Company's minority participation to date has been \$7,114,000 of which \$2,444,000 was expended in 1981 (1980 — \$2,162,000; 1979 — \$1,431,000);
- (ii) Exploration for minerals in various African countries pursuant to an agreement between the Company and Superior. The Company's participating interest is 50% and to date it has expended \$11,335,000 on these projects, of which \$3,790,000 was expended in 1981 (1980 — \$4,799,000; 1979 — \$2,118,000); and
- (iii) Exploration for minerals in North America. Participation, pursuant to an agreement with Superior, ranges up to 51% and to date the Company has expended \$4,885,000, of which \$2,690,000 was expended in 1981 (1980 — \$1,762,000; 1979 — \$433,000).

See also notes 2 and 8 B (i)(a), pages 30 and 34, for other transactions which occurred between the Company and related members of the group.

13. Earnings per common share

Earnings per common share are based on the weighted average number of common shares outstanding during each year (after deducting shares held by subsidiary companies) as follows:

1981 and 1980 — 4,979,272; and 1979 — 4,979,184

The preference shareholder's prior claim is deducted from earnings for the 1980 and 1979 calculations.

14. Other charges

Other charges of \$2,963,000 in 1981 reflect a provision for employee severance payments and for the expenditures required to place Falconbridge Dominicana, C. por A.'s (Falcondo) assets on a standby basis, see note 17, page 37.

Other charges of \$15,306,000 in 1980, represent the costs incurred during the five-month shut down of Falcondo's ferronickel production operations.

15. Compensating balances and borrowing arrangements

No company within the Falconbridge group of companies is required to maintain a compensating balance under any borrowing arrangement. Falconbridge Dominicana, C. por A. is required, under loan agreements, to keep funds on deposit with the Trustee for use in paying current debt service and other expenses (see note 8 B (i) (c), page 35).

The various borrowing arrangements, which have been established over a period of years, are as follows:

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In addition to the lines of credit detailed in note 8 A (i) (c), page 33, the Company has an additional \$75,000,000 operating line of credit with the same Canadian chartered bank. The interest rate for this line is the bank's prime lending rate. This line of credit may also be used to discount U.S. trade paper at rates prevailing at the time of discounting. There is no commitment fee on this line which may be withdrawn at the bank's discretion. As at December 31, 1981 the Company was contingently liable to the bank for U.S. \$10,360,000 with respect to trade paper discounted with recourse.

The Company also has a \$50,000,000 line of credit with a second Canadian chartered bank. This line of credit can be converted to U.S. dollar loans at the bank's option. The interest rate for Canadian dollar drawings under this line is the bank's prime lending rate. For U.S. dollar borrowings the rate is the bank's U.S. base lending rate. The line of credit is also available to discount U.S. trade paper at rates prevailing at the time of discounting. There is no commitment fee and this line may be withdrawn at the bank's discretion. As at December 31, 1981 the Company was contingently liable to the bank for U.S. \$9,544,000 with respect to trade paper discounted with recourse.

The Company also has a U.S. \$40,000,000 line of credit with a U.S. bank under which the Company may sell U.S. dollar accounts receivable at rates prevailing at the time of sale. There is no commitment fee on this line which expires December 1, 1982. As at December 31, 1981 the Company was contingently liable to the bank for U.S. \$3,040,000 with respect to the sale of accounts receivable with recourse.

Use of these lines of credit is restricted under guarantees and covenants, see note 8 B, page 34.

INDUSMIN LIMITED

At December 31, 1981 Indusmin Limited (Indusmin) had an unsecured demand loan totalling \$5,945,000 outstanding to a Canadian bank pursuant to a line of credit of \$9,000,000 extended by the bank. No commitment fee is payable for this line of credit which can be withdrawn at the bank's discretion. Interest is payable at the bank's prime lending rate. During the year, the largest amount of indebtedness outstanding at any one time was \$7,714,000 and the average was \$4,472,000. Interest was payable at 17.0% at December 31, 1981 and averaged 19.3% during the year. The aforementioned \$9,000,000 line of credit may also be utilized by way of banker's acceptances. Indusmin pays ½ of 1% to the bank for their acceptance. At December 31, 1981 \$3,000,000 banker's acceptances were outstanding at an average rate of 16.7%.

Fahramet Limited (Fahramet), a wholly-owned subsidiary of Indusmin, has arranged with a Canadian bank, a \$7,000,000 revolving credit and term loan facility secured by hypothecation of shares of Fahramet owned by Indusmin. No commitment fee is payable for this loan facility which gives Fahramet various currency and interest rate options. The line of credit may also be utilized by way of banker's acceptances for which Fahramet pays ½ of 1% to the bank for their acceptance. This loan is repayable in quarterly installments over a five year period commencing December 15, 1982. The largest amount of indebtedness outstanding at any one time in 1981 was \$4,000,000, the average for the year was \$4,000,000 and \$4,000,000 was outstanding at December 31, 1981. Interest was payable at 16.8% as at December 31, 1981 and averaged 18.7% during the year.

At December 31, 1981, American Nepheline Corporation (ANC), a wholly-owned subsidiary of Indusmin, had a term loan totalling U.S. \$1,800,000, from a U.S. bank, secured by hypothecation of shares of Lawson-United Feldspar and Mineral Company (a wholly-owned subsidiary of ANC). The loan is repayable in quarterly installments over a five year period and bears interest at 1% above the U.S. dollar London Interbank Offered Rate for Eurodollars for selected maturities. The largest amount of indebtedness outstanding at any one time in 1981 was U.S. \$2,300,000 and the average for the year was U.S. \$2,111,000. Interest was payable at 11.5% at December 31, 1981 and averaged 12.2% during the year.

KIENA GOLD MINES LIMITED

Kiena Gold Mines Limited (Kiena), has arranged a \$25,000,000 Revolving Term Credit, due December 31, 1986, with a Canadian bank. The loan is secured by a fixed and floating charge upon Kiena's assets. Interest on this loan is payable at ½ of 1% above the bank's prime lending rate. Kiena also has an option to utilize this Term Credit facility by way of banker's acceptances. Kiena pays ½ of 1% to the bank for their acceptance. The largest amount of indebtedness outstanding at any one time in 1981 was \$22,472,000, the average for the term of the loan was \$15,676,000 and \$21,796,000 was outstanding at December 31, 1981. Interest was payable at 16.8% at December 31, 1981 and averaged 19.3% during the term of the loan. No commitment fee is payable for this term loan.

16. Reconciliation of earnings (loss) prepared in accordance with generally accepted accounting principles (GAAP) in Canada to accord with accounting principles which are generally accepted in the United States (U.S.):

| | Year ended December 31, | | |
|--|-------------------------|-----------------|-----------------|
| | 1981 (000's) | 1980 (000's) | 1979 (000's) |
| Earnings (loss) for the year, as reported | \$ (9,024) | \$ 109,122 | \$ 130,561 |
| Add (deduct) extraordinary item, as reported (iv) | 5,122 | (37,700) | (20,000) |
| Adjustments to accord with U.S. GAAP: | | | |
| 1. Record long-term debt at exchange rate current at the end of each year (i) | 2,622 | (1,151) | 4,050 |
| 2. Record gains which were deferred on translation of foreign subsidiaries' accounts for consolidation purposes (i) | (2,827) | 1,582 | (1,459) |
| 3. Adjust income tax reassessments (ii) | | | 3,296 |
| 4. Record capitalization of interest costs (iii) | 5,878 | 3,324 | |
| 5. Amortization of capitalized interest costs (iii) | (18) | | |
| Earnings (loss) from continuing operations in accordance with U.S. GAAP | 1,753 | 75,177 | 116,448 |
| Write off of Venus Mine project costs (iv) | (5,122) | | |
| Disposal of Canadian Superior shares (iv) | | 37,700 | |
| Extraordinary item under U.S. GAAP (iv) | | | 20,000 |
| Earnings (loss) for the year in accordance with U.S. GAAP | \$ (3,369) | \$ 112,877 | \$ 136,448 |
| Earnings (loss) per common share in accordance with U.S. GAAP: | | | |
| From continuing operations | \$ 0.35 | \$ 13.80 | \$ 22.20 |
| Write off of Venus Mine project costs | (1.03) | | |
| Disposal of Canadian Superior shares | | 7.57 | |
| From extraordinary item | | | 4.02 |
| For the year | \$ (0.68) | \$ 21.37 | \$ 26.22 |

- (i) Under Canadian GAAP Falconbridge translates long-term debt into Canadian dollars at rates of exchange prevailing when the debts were incurred and defers net unrealized gains on translation of foreign subsidiaries' financial statements for consolidation purposes. U.S. GAAP require recognition of all gains or losses resulting from translation of foreign currencies at year-end exchange rates.
- (ii) Under Canadian GAAP Falconbridge gives retroactive accounting treatment to reassessments of prior years' taxes. The U.S. professional pronouncements require that the cumulative effect of the tax reassessments be given recognition in current income.
- (iii) Consistent with the Canadian mining industry's policy of capitalizing all costs incurred during the preproduction stage of a project, Falconbridge capitalizes interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt capital. Interest costs incurred after the commencement of commercial production are expensed. For fiscal years beginning 1980 U.S. GAAP require the capitalization of interest costs as part of the historical cost of acquiring certain assets whether or not the assets are specifically financed by debt. Capitalized interest costs are amortized on the same basis as the related assets.
- (iv) See note 2, page 30.

17. Subsequent event

On January 11, 1982 Falconbridge Dominicana, C. por A. announced that its ferronickel production operations in the Dominican Republic would be shut down temporarily from January, 13, 1982. Production will resume as soon as conditions warrant (see notes 7(b), 8 B and 14, pages 33, 34, and 36 respectively).

Falconbridge Nickel Mines Limited

Segmented Information (Thousands of dollars)

The following segmented information is presented to provide a more complete appraisal of the preceding consolidated financial data.

| tes ing any ry) ted | Other | Consolidation adjustments | Consolidated total | Integrated Nickel Operations | Unallocated corporate | Wesfrob Mining Division | Corporation Falconbridge Copper | Falconbridge Dominicana, C. por A. |
|---------------------------------|------------|------------------------------|-----------------------|------------------------------------|--------------------------|-------------------------------|---|--|
| (%) | | (note 2) | | (100%) (note 1) | (100%) (note 1) | (100%) | (50.2%) | (65.7%) (note 2) |
| 90 | \$ 4,139 | \$ 6,685 | \$712,952 | \$350,496 | \$ 5,443 | \$ 18,473 | \$171,428 | \$137,614 |
| 50 | 1,824 | 4,157 | 548,080 | 192,906 | | 15,673 | 93,897 | 104,214 |
| 58 | 947 | (6,573) | 49,604 | 19,604 | 6,095 | 2 | 1,767 | 10,332 |
| 96 | | (547) | 26,755 | 12,430 | | 226 | 10,011 | 1,498 |
| 13 | 422 | 113 | 32,808 | 14,729 | 166 | 455 | 3,062 | 7,141 |
| | | | 2,963 | | | | | 15,306 |
| 17 | 3,193 | (2,850) | 660,210 | 239,669 | 6,261 | 16,356 | 108,737 | 138,491 |
| 27) | 946 | 9,535 | 52,742 | 110,827 | (818) | 2,117 | 62,691 | (877) |
| 22) | (1) | 6,774 | 18,769 | (5,150) | (2,575) | | (9,955) | 13,651 |
| | 2,758 | | 37,964 | 5,127 | 13,560 | | 7,569 | 214 |
| | | | 11,105 | 6,289 | | | | |
| 22) | 2,757 | 6,774 | 67,838 | 6,266 | 10,985 | | (2,386) | 13,865 |
| 05) | (1,811) | 2,761 | (15,096) | 104,561 | (11,803) | 2,117 | 65,077 | (14,742) |
| | 23 | (91) | 3,770 | | 9,489 | | 101 | |
| 05) | (1,788) | 2,670 | (11,326) | 104,561 | (2,314) | 2,117 | 65,178 | (14,742) |
| 00) | 84 | (501) | 2,212 | 47,189 | (2,001) | 614 | 34,845 | (5,193) |
| 05) | \$ (1,872) | \$ 3,171 | \$ (13,538) | \$ 57,372 | \$ (313) | \$ 1,503 | \$ 30,333 | \$ (9,549) |
| 27) | \$ (26) | | \$ (9,636) | | | | \$ 15,109 | \$ (2,621) |
| 93) | \$ (1,941) | | \$ (3,902) | \$ 57,372 | \$ (313) | \$ 1,503 | \$ 15,152 | \$ (4,516) |
| 06 | \$ 1,259 | \$ (34,553) | \$601,160 | \$324,825 | | \$ 9,548 | \$142,138 | \$ 80,835 |
| 11 | 1,213 | (29,993) | 127,990 | 136,411 | | 3,027 | 35,155 | 28,691 |
| 95 | \$ 46 | \$ (4,560) | \$473,170 | \$188,414 | | \$ 6,521 | \$106,983 | \$ 52,144 |
| 64 | \$ 1,991 | \$ 284 | \$294,529 | \$161,548 | | \$ 2,922 | \$ 10,225 | \$ 78,290 |
| 47 | 1,082 | (604) | 7,302 | 3,546 | | | | 1,839 |
| 26 | | (7,558) | 119,661 | 55,141 | | 880 | 17,036 | 35,345 |
| 37 | \$ 3,073 | \$ (7,878) | \$421,492 | \$220,235 | | \$ 3,802 | \$ 27,261 | \$115,474 |
| | \$ 41,040 | \$ 3,676 | \$128,519 | \$ 67,165 | | | \$ 266 | |
| | \$ 1,537 | \$ (27,835) | \$465,386 | \$167,678 | | | | \$113,763 |
| 21 | \$ 7,056 | | \$ 82,639 | | | | \$ 63,185 | \$ 14,984 |
| | \$ 1,588 | | \$ 4,919 | | | | \$ 6,510 | |
| | | | \$ 10,359 | \$ 23,902 | | | \$ 6,461 | |
| 29 | \$ 6,444 | | \$104,817 | \$ 64,946 | \$ 484 | \$ 9,306 | \$ 3,234 | |
| | \$ 19,882 | | \$168,182 | | | | \$ 78,116 | |
| ibia | | | | Ontario and Norway | | British Columbia | Quebec and Ontario | Dominican Republic |
| pper | | | | Nickel, copper and cobalt | | Iron and copper | Copper, zinc and precious metals | Ferronickel |
| rope | | | | Europe, U.S.A. and Japan | | U.S.A. and Japan | Canada and Europe | Europe, U.S.A. and Japan |

1980

1979

| | 1980 | | | | | 1979 | | | | | | | | | |
|---------|--|--|------------|---------------------------|--------------------|------------------------------|-----------------------|--------------------------|----------------------------------|------------------------------------|--|--|------------|---------------------------|--------------------|
| | Indusmin Limited | Damites Mining Company (Proprietary) Limited | Other | Consolidation adjustments | Consolidated total | Integrated Nickel Operations | Unallocated corporate | Westfrob Mining Division | Corporation Falconbridge Copper | Falconbridge Dominicana, C. por A. | Indusmin Limited | Damites Mining Company (Proprietary) Limited | Other | Consolidation adjustments | Consolidated total |
| | (69.0%) | (74.9%) | | (note 2) | | (100%) (note 1) | (100%) (note 1) | (100%) | (50.2%) | (65.7%) (note 2) | (69.0%) | (74.9%) | | (note 2) | |
| 4 | \$ 63,945 | \$ 20,003 | \$ 3,913 | \$ (13,500) | \$757,815 | \$348,973 | \$ 5,937 | \$ 21,069 | \$204,818 | \$160,648 | \$ 56,038 | \$ 18,495 | \$ 3,807 | \$ (30,367) | \$789,418 |
| 4 | 46,536 | 14,121 | 1,560 | (13,114) | 455,793 | 208,589 | | 12,829 | 100,665 | 116,344 | 38,859 | 12,222 | 1,279 | (21,704) | 469,083 |
| 2 | 6,830 | 2,387 | 1,284 | (8,187) | 40,114 | 17,919 | 4,130 | 168 | 1,554 | 7,253 | 5,887 | 1,821 | 600 | (5,196) | 34,136 |
| 8 | 31 | 127 | | (503) | 23,820 | 5,613 | | 315 | 3,973 | 1,486 | 30 | 105 | | (503) | 11,019 |
| 1 | 3,016 | 1,194 | 404 | 144 | 30,311 | 13,893 | 306 | 556 | 5,271 | 7,050 | 2,851 | 1,090 | 450 | 146 | 31,613 |
| 6 | | | | | 15,306 | | | | | | | | | | |
| 1 | 56,413 | 17,829 | 3,248 | (21,660) | 565,344 | 246,014 | 4,436 | 13,868 | 111,463 | 132,133 | 47,627 | 15,238 | 2,329 | (27,257) | 545,851 |
| 7 | 7,532 | 2,174 | 665 | 8,160 | 192,471 | 102,959 | 1,501 | 7,201 | 93,355 | 28,515 | 8,411 | 3,257 | 1,478 | (3,110) | 243,567 |
| 1 | 1,332 | (133) | (37) | 4,513 | 1,646 | 1,571 | 786 | | (4,201) | 13,155 | 1,011 | (12) | (71) | 2,035 | 14,274 |
| 4 | 75 | | 1,739 | | 28,284 | 2,390 | 6,848 | 586 | 3,593 | 153 | 92 | | 635 | | 14,297 |
| | 347 | | | | 6,636 | 3,640 | | | | | 354 | | | (34) | 3,960 |
| 5 | 1,754 | (133) | 1,702 | 4,513 | 36,566 | 7,601 | 7,634 | 586 | (608) | 13,308 | 1,457 | (12) | 564 | 2,001 | 32,531 |
| 2 | 5,778 | 2,307 | (1,037) | 3,647 | 155,905 | 95,358 | (6,133) | 6,615 | 93,963 | 15,207 | 6,954 | 3,269 | 914 | (5,111) | 211,036 |
| | 157 | | 23 | (182) | 9,588 | | 17,589 | | 86 | | 50 | | 22 | (158) | 17,589 |
| 2 | 5,935 | 2,307 | (1,014) | 3,465 | 165,493 | 95,358 | 11,456 | 6,615 | 94,049 | 15,207 | 7,004 | 3,269 | 936 | (5,269) | 228,625 |
| 3 | 2,248 | 920 | 69 | 1,409 | 80,100 | 33,145 | 294 | 1,941 | 47,500 | 5,324 | 2,871 | 1,179 | 215 | (1,471) | 90,998 |
| 9 | 3,687 | \$ 1,387 | \$ (1,083) | \$ 2,056 | \$ 85,393 | \$ 62,213 | \$ 11,162 | \$ 4,674 | \$ 46,549 | \$ 9,883 | \$ 4,133 | \$ 2,090 | \$ 721 | \$ (3,798) | \$137,627 |
| 1 | 1,135 | \$ 348 | | | \$ 13,971 | | | | \$ 23,186 | \$ 2,091 | \$ 1,274 | \$ 525 | \$ (10) | | \$ 27,066 |
| 6 | \$ 2,398 | \$ 909 | \$ (1,083) | | \$ 71,422 | \$ 62,213 | \$ 11,162 | \$ 4,597 | \$ 23,277 | \$ 4,508 | \$ 2,714 | \$ 1,360 | \$ 730 | | \$110,561 |
| 5 | \$ 26,972 | \$ 8,295 | \$ 2,369 | \$ (46,657) | \$548,325 | \$334,899 | | \$ 12,753 | \$128,127 | \$ 83,027 | \$ 23,717 | \$ 8,301 | \$ 1,838 | \$ (56,296) | \$536,366 |
| 1 | 13,843 | 4,378 | 3,844 | (39,143) | 186,206 | 106,718 | | 2,566 | 42,933 | 26,997 | 12,650 | 4,841 | 393 | (41,615) | 155,483 |
| 4 | \$ 13,129 | \$ 3,917 | \$ (1,475) | \$ (7,514) | \$362,119 | \$228,181 | | \$ 10,187 | \$ 85,194 | \$ 56,030 | \$ 11,067 | \$ 3,460 | \$ 1,445 | \$ (14,681) | \$380,883 |
| 0 | \$ 20,443 | \$ 3,655 | \$ 1,418 | \$ 482 | \$278,983 | \$153,413 | | \$ 2,927 | \$ 3,280 | \$ 82,400 | \$ 20,112 | \$ 4,122 | \$ 1,276 | \$ 979 | \$268,509 |
| 9 | 1,273 | 65 | 886 | (404) | 7,205 | 3,789 | | 42 | 862 | 1,891 | 1,303 | 86 | 851 | (446) | 8,378 |
| 5 | 372 | 1,297 | | (5,748) | 104,323 | 52,705 | | 1,700 | 2,520 | 36,843 | 403 | 424 | | (6,846) | 87,749 |
| 4 | \$ 22,088 | \$ 5,017 | \$ 2,304 | \$ (5,670) | \$390,511 | \$209,907 | | \$ 4,669 | \$ 6,662 | \$121,134 | \$ 21,818 | \$ 4,632 | \$ 2,127 | \$ (6,313) | \$364,636 |
| | \$ 639 | | \$ 54,605 | \$ (7,055) | \$115,620 | \$ 40,059 | | \$ 25,059 | | \$ 632 | | \$ 46,457 | \$ (6,464) | | \$105,743 |
| 3 | \$ 5,995 | | \$ 8,278 | \$ (9,913) | \$285,801 | \$171,994 | | | \$108,394 | \$ 6,557 | | \$ 225 | | | \$287,170 |
| 4 | \$ 8,639 | \$ 1,548 | \$ 7,306 | | \$ 95,662 | | | \$ 54,537 | \$ 17,606 | \$ 7,829 | \$ 1,468 | \$ 7,384 | | | \$ 88,824 |
| | \$ 725 | \$ 801 | \$ 17 | | \$ 8,053 | | | \$ 3,906 | | \$ 725 | \$ 793 | \$ 186 | | | \$ 5,610 |
| | \$ 326 | \$ 268 | | | \$ 30,957 | \$ 20,849 | | \$ 3,876 | | \$ 326 | \$ 269 | | | | \$ 25,320 |
| 4 | \$ 3,331 | \$ 1,706 | \$ 7,988 | | \$ 90,995 | \$ 37,008 | | \$ 99 | \$ 10,489 | \$ 1,022 | \$ 7,124 | \$ 772 | \$ 1,838 | | \$ 58,352 |
| | \$ 12,090 | | \$126,257 | | \$216,463 | | | \$ 65,097 | | \$ 12,896 | | \$ 58,740 | | | \$136,733 |
| in | Ontario, Quebec and U.S.A. | Namibia | | | | Ontario and Norway | | British Columbia | Quebec and Ontario | Dominican Republic | Ontario, Quebec and U.S.A. | Namibia | | | |
| sl | Industrial minerals and metal castings | Copper | | | | Nickel, copper and cobalt | | Iron and copper | Copper, zinc and precious metals | Ferronickel | Industrial minerals and metal castings | Copper | | | |
| 3, 4, 5 | Canada and U.S.A. | Europe | | | | Europe, U.S.A. and Japan | | U.S.A. and Japan | Canada and Europe | Europe, U.S.A. and Japan | Canada and U.S.A. | Europe | | | |

Notes to Statement of Segmented Information

1. Integrated Nickel Operations and Unallocated corporate

Included under the caption "Integrated Nickel Operations" are the accounts of the Company and all its wholly-owned subsidiaries engaged in the integrated operations of mining, milling, smelting, refining and marketing of metals mainly derived from Canadian ore. The Integrated Nickel's production operations are interdependent and are carried on in Canada (mainly mining and reducing ore to matte at Sudbury) and in Norway (matte refining). The Marketing Division is structured to serve worldwide markets and contracts the processing of material containing various metals, on a fee basis (refined metals produced from these sources are either marketed on an agency basis or returned to the owner of the material). That portion of the Company's net corporate expenditures relating to the overall direction and management of other activities of the Falconbridge group of companies and income from investment in associated and other companies have been segregated under the caption "Unallocated corporate". It is not practicable to segregate the Integrated Nickel Operations and the Company's corporate financial position items.

The Integrated Nickel Operations' and Company's corporate financial position at December 31, 1981 includes identifiable assets of \$48,681,000 in Norway (1980 — \$49,914,000; and 1979 — \$38,536,000).

2. Consolidation adjustments

Adjustments have been made on consolidation as follows:

(a) Falconbridge Dominicana, C. por A. (Falcondo)

The ferronickel produced by Falcondo is purchased and marketed by the Company. The earnings of Falcondo include profits on all ferronickel sold to the Company whereas consolidated earnings exclude the profits relating to inventories of ferronickel held by the Company at December 31, for subsequent resale to customers.

(b) Fair value adjustments

The difference between the interest in the book value of the net assets of certain consolidated subsidiaries and the carrying value of the investments are accounted for as explained in accounting policy A (ii) on page 24. The investment in consolidated subsidiaries is \$12,203,000 less than the equity in net assets of these subsidiaries at December 31, 1981 (\$12,284,000 at December 31, 1980) and this difference is included in the consolidated financial position as follows:

| | 1981 (000's) | 1980 (000's) |
|---|-----------------|-----------------|
| Increase (decrease) | | |
| Property, plant and equipment — | | |
| Producing assets | | |
| Plant and equipment | \$ 5,580 | \$ 5,656 |
| Accumulated depreciation | 5,297 | 5,173 |
| Land and properties | 5,891 | 6,100 |
| Accumulated depletion | 6,495 | 6,505 |
| Development and preproduction expenditures | (12,427) | (10,069) |
| Accumulated amortization | (4,870) | (4,321) |
| Non-producing assets | (4,951) | (7,038) |
| Investment in associated and other companies | 714 | 50 |
| Other | (88) | 374 |
| Excess of interest in net assets of subsidiaries over carrying value of investments | \$ (12,203) | \$ (12,284) |

The depreciation, depletion and amortization of the fair value adjustments included in the consolidated statement of earnings increased the 1981 depreciation and depletion expenses by a net \$113,000 (1980 — \$144,000; 1979 — \$1,514,000) and decreased the amortization of development and preproduction expenditures by \$547,000 in 1981 and by \$503,000 in both 1980 and 1979.

(c) Other adjustments have been made to eliminate inter-company transactions.

3. Interest in consolidated subsidiary companies' undistributed earnings

See note 10, page 35, of the notes to consolidated financial statements.

4. Working capital

(a) Working capital includes the estimated realizable value of metal settlements receivable and concentrates in transit of \$26,007,000 or 20% of consolidated accounts and metal settlements receivable, in respect of certain consolidated subsidiaries (1980 — \$40,128,000, or 37%).

(b) See note 8 B (i) (c), page 35, of the notes to consolidated financial statements for particulars of funds held in trust in respect of Falconbridge Dominicana, C. por A.

5. Property, plant and equipment

See note 7, page 32, of the notes to consolidated financial statements.

6. Market value of Falconbridge's shareholdings

The market values shown are based on Canadian stock exchanges' closing bid prices at year end. Because of the number of shares held by Falconbridge (representing control of the companies concerned), the amounts that could be realized if these securities were to be sold may be more or less than their indicated quoted market value.

7. Indusmin Limited

The Company acquired an additional 21,300 common shares of Indusmin Limited in the latter part of 1981 thereby increasing its percentage ownership from 69.02% to 70.84%.

8. Kiena Gold Mines Limited

The company commenced commercial production in October, 1981.

9. Segmented data

Although the Company and its subsidiary and significantly influenced companies basically constitute a one industry segment (mining industry) the data contained on Statement 4, page 38, and these notes thereto, present a more detailed review of the various group operations.

(a) The following table shows the consolidated sales revenues on a segmented and product basis by amount and approximate percentage:

| | Year ended December 31, | | | | | |
|---|-------------------------|-----|-------------------|-----|-------------------|-----|
| | 1981 | | 1980 | | 1979 | |
| | Amount (000's) | % | Amount (000's) | % | Amount (000's) | % |
| Integrated Nickel and corporate operations: | | | | | | |
| Nickel | \$ 232,253 | 32 | \$ 206,719 | 27 | \$ 226,794 | 29 |
| Copper | 53,469 | 7 | 62,385 | 8 | 44,352 | 6 |
| Cobalt | 34,701 | 5 | 40,158 | 5 | 44,197 | 6 |
| Gold | 4,714 | 1 | 3,568 | 1 | 2,309 | |
| Silver | 3,106 | 1 | 2,396 | | 953 | |
| Platinum | 7,857 | 1 | 8,025 | 1 | 8,163 | 1 |
| Palladium | 2,020 | | 3,366 | 1 | 2,741 | |
| Other revenues | 33,863 | 5 | 29,322 | 4 | 25,401 | 3 |
| | 371,983 | 52 | 355,939 | 47 | 354,910 | 45 |
| Other operations: | | | | | | |
| Ferronickel | 155,593 | 22 | 128,340 | 17 | 134,110 | 17 |
| Copper | 66,867 | 9 | 98,742 | 13 | 115,003 | 15 |
| Zinc | 4,165 | 1 | 24,073 | 3 | 41,445 | 5 |
| Gold | 24,798 | 3 | 31,563 | 4 | 22,568 | 3 |
| Silver | 7,313 | 1 | 41,487 | 5 | 51,351 | 6 |
| Industrial minerals | | | | | | |
| Nepheline syenite | 12,902 | 2 | 11,961 | 2 | 10,936 | 1 |
| Silica | 19,989 | 3 | 16,798 | 2 | 14,900 | 2 |
| Aggregates | 6,846 | 1 | 7,056 | 1 | 5,227 | 1 |
| Steel castings | 25,596 | 4 | 23,481 | 3 | 20,439 | 3 |
| Other metals and products | 16,900 | 2 | 18,375 | 3 | 18,529 | 2 |
| | 340,969 | 48 | 401,876 | 53 | 434,508 | 55 |
| | \$ 712,952 | 100 | \$ 757,815 | 100 | \$ 789,418 | 100 |

(b) Sales revenues, by product source, of the companies in the Falconbridge group which are accounted for on an equity basis were as follows:

| | Year ended December 31, | | | | | |
|--------------|-------------------------|-----|-------------------|-----|-------------------|-----|
| | 1981 | | 1980 | | 1979 | |
| | Amount (000's) | % | Amount (000's) | % | Amount (000's) | % |
| Gold | \$ 30,724 | 71 | \$ 27,968 | 47 | \$ 30,914 | 37 |
| Silver | 11,682 | 27 | 29,997 | 51 | 49,417 | 59 |
| Lead | 888 | 2 | 1,443 | 2 | 3,729 | 4 |
| | \$ 43,294 | 100 | \$ 59,408 | 100 | \$ 84,060 | 100 |

(c) Consolidated sales revenues by geographical area were as follows:

| | Year ended December 31, | | | | | |
|--|-------------------------|-----|-------------------|-----|-------------------|-----|
| | 1981 | | 1980 | | 1979 | |
| | Amount (000's) | % | Amount (000's) | % | Amount (000's) | % |
| Europe | \$ 223,742 | 32 | \$ 197,639 | 26 | \$ 222,712 | 28 |
| U.S.A. | 243,504 | 34 | 282,266 | 37 | 249,076 | 32 |
| Others | 87,936 | 12 | 51,462 | 7 | 67,350 | 8 |
| *Total foreign | 555,182 | 78 | 531,367 | 70 | 539,138 | 68 |
| Canada | 157,770 | 22 | 226,448 | 30 | 250,280 | 32 |
| *World total | \$ 712,952 | 100 | \$ 757,815 | 100 | \$ 789,418 | 100 |
| *Includes sales by Canadian operations to foreign customers of | \$ 328,453 | | \$ 335,877 | | \$ 339,936 | |

(d) Sale of principal metals and products by the consolidated companies in the Falconbridge group were as follows:

| | Year ended December 31, | | | | | |
|--------------------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|
| | 1981 | | 1980 | | 1979 | |
| | Consolidated total (000's) | Company share* (000's) | Consolidated total (000's) | Company share* (000's) | Consolidated total (000's) | Company share* (000's) |
| Integrated Nickel Operations: | | | | | | |
| Nickel (pounds) | 62,998 | 62,998 | 54,159 | 54,159 | 84,454 | 84,454 |
| Copper (pounds) | 56,458 | 56,458 | 53,686 | 53,686 | 42,460 | 42,460 |
| Cobalt (pounds) | 2,084 | 2,084 | 1,386 | 1,386 | 1,294 | 1,294 |
| Gold (ounces) | 9 | 9 | 5 | 5 | 6 | 6 |
| Silver (ounces) | 251 | 251 | 108 | 108 | 79 | 79 |
| Platinum (ounces) | 15 | 15 | 10 | 10 | 16 | 16 |
| Palladium (ounces) | 18 | 18 | 14 | 14 | 20 | 20 |
| Other operations: | | | | | | |
| Ferronickel (pounds of nickel) | 43,776 | 28,761 | 34,567 | 22,710 | 47,628 | 31,292 |
| Copper (pounds) | 73,171 | 42,451 | 86,971 | 49,287 | 104,459 | 59,405 |
| Iron concentrate (tons) | 549 | 549 | 677 | 677 | 638 | 638 |
| Zinc (pounds) | 7,591 | 3,811 | 50,984 | 25,594 | 91,710 | 46,038 |
| Gold (ounces) | 50 | 28 | 44 | 22 | 48 | 24 |
| Silver (ounces) | 653 | 392 | 2,011 | 1,067 | 2,575 | 1,349 |
| Industrial minerals (tons) — | | | | | | |
| Nepheline syenite | 439 | 305 | 429 | 296 | 430 | 297 |
| Silica | 866 | 601 | 977 | 674 | 920 | 635 |
| Aggregates | 2,563 | 1,783 | 2,950 | 2,035 | 2,452 | 1,692 |
| Steel castings (tons) | 5 | 3 | 6 | 4 | 6 | 4 |
| Sales on an agency basis: | | | | | | |
| Nickel (pounds) | 2,631 | | 5,612 | | 5,195 | |
| Copper (pounds) | 2,954 | | 3,666 | | 2,273 | |
| Cobalt (pounds) | 188 | | 391 | | 208 | |

*Includes the subsidiary companies' sales prorated on the basis of the Company's percentage ownership.

(e) Sales of metals by the companies in the Falconbridge group which are accounted for on an equity basis were as follows:

| | Year ended December 31, | | | | | |
|-----------------------|-------------------------|---------------------------|------------------|---------------------------|------------------|---------------------------|
| | 1981 | | 1980 | | 1979 | |
| | Total (000's) | Company share* (000's) | Total (000's) | Company share* (000's) | Total (000's) | Company share* (000's) |
| Silver (ounces) | 1,167 | 563 | 1,672 | 807 | 2,496 | 1,167 |
| Lead (pounds) | 2,243 | 1,086 | 3,296 | 1,596 | 5,620 | 2,721 |
| Gold (ounces) | 59 | 11 | 38 | 7 | 75 | 14 |

*Significantly influenced companies' sales are prorated on the basis of the Company's percentage ownership.

- (f) The following table sets forth certain information respecting metal prices during the periods indicated. The pricing bases used therein are the most representative prices that the Falconbridge group received for its metal products and metals in concentrates:

| Metal | Pricing unit | Prices at | Falconbridge (6) average prices during | | |
|----------------------|--------------|--------------|--|---------|---------|
| | | December 31, | 1981 | 1980 | 1979 |
| | | 1981 | U.S. Dollars | | |
| Refined nickel | pound | \$ 3.20(1) | \$ 3.09 | \$ 3.25 | \$ 2.31 |
| Ferronickel | pound | 3.18(1) | 2.97 | 3.18 | 2.41 |
| Copper | pound | 0.76(2) | 0.78 | 0.94 | 0.93 |
| Gold | ounce | 400.00(3) | 428.02 | 611.03 | 367.61 |
| Silver | ounce | 8.25(4) | 8.92 | 16.00 | 16.64 |
| Platinum | ounce | 379.00(5) | 450.43 | 678.55 | 421.47 |
| Cobalt | pound | 17.50(1) | 14.00 | 24.36 | 29.12 |

(1) Producer prices.

(2) London Metal Exchange copper — higher grade contract price.

(3) London gold fix.

(4) Prices quoted by Handy and Harman, New York.

(5) New York Dealer prices.

(6) Includes sales on an agency basis.

- (g) The following table shows the relationships of revenues, earnings, working capital and property, plant and equipment of the consolidated companies in the Falconbridge group on a segmented basis (see Statement 4, page 38, for corresponding dollar amounts):

| | Revenues (i) | | | Earnings (loss) (ii) | | | Working capital | | | Property, plant and equipment (producing assets) | | |
|---------------------------------|-------------------------|------|------|-------------------------|--------|---------|--------------------|------|------|--|------|------|
| | Year ended December 31, | | | Year ended December 31, | | | As at December 31, | | | As at December 31, | | |
| | 1981 | 1980 | 1979 | 1981 | 1980 | 1979 | 1981 | 1980 | 1979 | 1981 | 1980 | 1979 |
| | % | % | % | \$ millions | | | % | % | % | % | % | % |
| Integrated Nickel Operations .. | 51 | 46 | 44 | \$31.1 | \$57.4 | \$ 62.2 | 66 | 52 | 60 | 57 | 56 | 58 |
| Unallocated corporate | 1 | 1 | 1 | (13.9) | (0.3) | 11.1 | | | | | | |
| Corporation Falconbridge | | | | | | | | | | | | |
| Copper | 11 | 23 | 26 | 0.3 | 15.1 | 23.3 | 22 | 29 | 22 | 6 | 7 | 2 |
| Falconbridge Dominicana, | | | | | | | | | | | | |
| C. por A. | 20 | 18 | 20 | (19.7) | (4.5) | 4.5 | 8 | 14 | 15 | 25 | 30 | 33 |
| Indusmin Limited | 10 | 8 | 7 | 2.0 | 2.4 | 2.7 | 3 | 4 | 3 | 5 | 6 | 6 |
| Kiena Gold Mines Limited | 1 | | | | | | | | | 6 | | |
| Oamites Mining Company | | | | | | | | | | | | |
| (Proprietary) Limited | 2 | 3 | 2 | (0.6) | 0.9 | 1.4 | 1 | 1 | 1 | 1 | 1 | 1 |
| Wesfrob Mining Division | 2 | 2 | 3 | (1.1) | 1.5 | 4.6 | 1 | 2 | 3 | 1 | 1 | 1 |
| Other consolidated | | | | | | | | | | | | |
| subsidiaries | 1 | 1 | 1 | (2.0) | (1.1) | 0.8 | | | | 1 | | 1 |
| Consolidation adjustments | 1 | (2) | (4) | | | | (1) | (2) | (4) | (2) | (1) | (2) |
| Consolidated total | 100 | 100 | 100 | \$ (3.9) | \$71.4 | \$110.6 | 100 | 100 | 100 | 100 | 100 | 100 |

(i) The 1981 revenues include \$72,774,000, 10% of the consolidated total (1980 — \$144,984,000, 19%; 1979 — \$191,748,000, 24%) from sales by Corporation Falconbridge Copper to a single customer.

(ii) Earnings (loss) contributions are after consolidation adjustments, before extraordinary items.

- (h) Additional segmented information is included in the ten-year review, page 45, and in the summary of 1981, 1980 and 1979 consolidated results by quarters, page 46.

Investment in Associated and Other Companies

| | December 31, 1981 | | Market value (note 1) | | | Carrying value (note 2) | | | Contribution to earnings (loss) for the year | | |
|---|------------------------|-----------------------|-----------------------|-----------|-----------|-------------------------|-----------|----------|--|----------|----------|
| | Shares of common stock | Beneficial interest % | As at December 31, | | | As at December 31, | | | 1981 | 1980 | 1979 |
| | | | 1981 | 1980 | 1979 | 1981 | 1980 | 1979 | (000's) | (000's) | (000's) |
| | | | (000's) | (000's) | (000's) | (000's) | (000's) | (000's) | | | |
| Accounted for on an equity basis (notes 2 and 3): | | | | | | | | | | | |
| Akaicho Yellowknife Gold Mines Limited ... | 1,198,230 | 36.7 | \$ 827 | \$ 2,996 | \$ 1,929 | \$ 186 | \$ 208 | \$ 262 | \$ (22) | \$ 6 | \$ 88 |
| Giant Yellowknife Mines Limited | 824,413 | 19.2 | 8,244 | 21,023 | 14,839 | 3,726 | 3,770 | 3,445 | 161 | 1,150 | 1,492 |
| United Keno Hill Mines Limited (note 7) | 1,195,989 | 48.4 | 20,631 | 52,026 | 48,288 | 9,789 | 16,997 | 15,910 | (1,488) | 3,718 | 10,035 |
| Total on an equity basis | | | 29,702 | 76,045 | 65,056 | 13,701 | 20,975 | 19,617 | (1,349) | 4,874 | 11,615 |
| Accounted for on a cost basis: | | | | | | | | | | | |
| Canadian Superior Oil Ltd. (note 4) | | | | | 57,358 | | | 17,465 | | | |
| McIntyre Mines Limited | 175,825 | 4.8 | 7,385 | 12,308 | 11,692 | 10,175 | 10,175 | 10,175 | | | |
| The Superior Oil Company (notes 4 and 6) . | 2,033,965 | 1.6 | 88,905 | 95,922 | 10,779 | 62,332 | 62,332 | 3,118 | 370 | 341 | 49 |
| Thompson-Lundmark Gold Mines Limited . | 600,000 | 12.0 | 342 | 1,500 | 330 | 377 | 377 | 377 | | | |
| Other companies (note 5) | | | 288 | 529 | 237 | | | | | | |
| | | | \$126,622 | \$186,304 | \$145,452 | 86,585 | 93,859 | 50,752 | (979) | 5,215 | 11,664 |
| Investments with no quoted market value — | | | | | | | | | | | |
| Western Platinum Limited (note 8) | 3,025,001 | 25.0 | | | | 10,010 | 6,214 | 6,214 | 3,017 | 1,987 | 3,793 |
| Blanket Mine (Private) Limited | 9,208 | 100.0 | | | | | | | 1,708 | 1,637 | 1,189 |
| Other companies (note 5) | | | | | | 370 | 369 | 371 | 24 | 749 | 943 |
| | | | | | | \$96,965 | \$100,442 | \$57,337 | \$ 3,770 | \$ 9,588 | \$17,589 |

- Notes:
1. The market values shown are based on Canadian and United States stock exchange closing bid prices at year end. Because of the number of shares involved the amounts that could be realized if these securities were to be sold may be more or less than their indicated quoted market value.
 2. The carrying value represents the cost of the investments less amounts written off, and also reflects the interest in earnings of certain significantly influenced companies on an equity basis (i.e. the investments are carried on the statement of financial position at cost plus proportionate share of undistributed earnings).
 3. Interest in equity accounted for companies' undistributed earnings — see note 10, page 35, of the notes to consolidated financial statements.
 4. See note 2, page 30, of the notes to consolidated financial statements.
 5. Representing investments, at various percentage ownerships, in a number of companies.
 6. Stock split 5 for 1 in 1981.
 7. The \$1,488,000 loss recorded in 1981 excludes the extraordinary item referred to in note 2, page 30, of the notes to consolidated financial statements.
 8. Shareholdings increased in 1981 under a commitment to subscribe, proportionately with other shareholders, to an issue of shares by Western Platinum Limited (to finance capital expenditures).

Falconbridge Nickel Mines Limited

Ten-Year Review (Unaudited)

| | | 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 |
|---|---|-------------|-----------|-----------|---------|----------|---------|---------|---------|---------|----------|
| REVENUES AND EARNINGS (LOSS) (\$000's) | Revenues | \$ 712,952 | 757,815 | 789,418 | 508,211 | 381,684 | 483,480 | 409,888 | 443,508 | 426,834 | 266,851 |
| | Earnings (loss) before extraordinary item | (3,902) | 71,422 | 110,561 | 5,818 | (28,786) | 14,591 | 2,937 | 31,996 | 49,533 | 5,240 |
| | Per common share | (0.78) | 13.04 | 21.01 | 0.22 | (6.14) | 2.94 | 0.59 | 6.46 | 10.00 | 1.06 |
| | Extraordinary item | (5,122) | 37,700 | 20,000 | | 20,238 | | | | 7,100 | (49,456) |
| | Per common share | (1.03) | 7.57 | 4.02 | | 4.08 | | | | 1.43 | (9.98) |
| EARNINGS (LOSS) CONTRIBUTIONS — after consolidation adjustments, before extraordinary items (\$000's) | Alminex Limited (note 7) | \$ | | | | 3,776 | 3,424 | 2,952 | 2,922 | 2,040 | 1,263 |
| | Corporation Falconbridge Copper | 266 | 15,152 | 23,277 | 7,498 | 2,913 | 1,637 | 198 | 3,981 | 12,295 | 3,058 |
| | Falconbridge Dominicana, C. por A. | (19,687) | (4,516) | 4,508 | (6,596) | 2,788 | 8,834 | 5,689 | 3,309 | 9,933 | 503 |
| | Giant Yellowknife Mines Limited | 161 | 1,150 | 1,492 | 613 | 368 | (137) | (43) | 450 | 717 | 181 |
| | Indusmin Limited (note 5) | 2,037 | 2,398 | 2,714 | 2,027 | 1,251 | 2,019 | 2,821 | 1,307 | 1,287 | 1,290 |
| | Integrated Nickel Operations | 31,059 | 57,372 | 62,213 | 6,558 | (21,496) | 4,860 | (5,271) | 17,779 | 19,487 | 5,180 |
| | Kiena Gold Mines Limited | 6 | | | | | | | | | |
| | Oamites Mining Company (Proprietary) Limited | (593) | 909 | 1,360 | 405 | (336) | 128 | 739 | 1,433 | 2,406 | 205 |
| | United Keno Hill Mines Limited | (1,488) | 3,718 | 10,035 | 1,825 | 1,168 | 841 | 1,422 | 2,946 | 1,159 | (350) |
| | Westfrob Mining Division | (1,089) | 1,503 | 4,597 | 551 | (2,211) | (337) | (1,361) | 539 | 2,753 | (2,490) |
| | Unallocated corporate (note 4) | (12,611) | (5,187) | (453) | (7,165) | (16,217) | (5,779) | (4,251) | (2,887) | (3,529) | (3,732) |
| | Others (note 5) | (1,963) | (1,077) | 818 | 102 | (790) | (899) | 42 | 217 | 985 | 132 |
| | Earnings (loss) before extraordinary item | \$ (3,902) | 71,422 | 110,561 | 5,818 | (28,786) | 14,591 | 2,937 | 31,996 | 49,533 | 5,240 |
| FINANCIAL POSITION (\$000's) | Total assets | \$1,253,038 | 1,159,094 | 1,069,371 | 868,525 | 889,781 | 737,176 | 750,394 | 754,950 | 725,129 | 645,681 |
| | Working capital — | | | | | | | | | | |
| | Integrated Nickel Operations (note 6) | 312,540 | 188,414 | 228,181 | 158,825 | 174,339 | 85,509 | 101,731 | 139,959 | 117,994 | 72,487 |
| | Falconbridge Dominicana, C. por A. (note 1) | 39,518 | 52,144 | 56,030 | 44,578 | 42,785 | 37,410 | 33,703 | 28,941 | 36,214 | 25,680 |
| | Corporation Falconbridge Copper | 103,703 | 106,983 | 85,194 | 45,525 | 32,696 | 24,409 | 20,768 | 18,840 | 25,776 | 14,044 |
| | Consolidated total | 473,170 | 362,119 | 380,883 | 254,784 | 255,592 | 155,131 | 167,017 | 198,263 | 188,052 | 114,813 |
| | Property, plant, and equipment, net — | | | | | | | | | | |
| | Producing | 421,492 | 390,511 | 364,636 | 367,601 | 304,768 | 255,217 | 283,611 | 282,803 | 303,767 | 330,965 |
| | Non-producing | 128,519 | 115,620 | 105,743 | 88,913 | 150,356 | 167,654 | 143,178 | 137,504 | 105,021 | 86,507 |
| | Long-term debt | 465,386 | 285,801 | 287,170 | 295,003 | 291,394 | 223,715 | 255,121 | 274,616 | 288,493 | 301,921 |
| SHAREHOLDERS' DATA | Shareholders' equity (000's) | \$ 489,648 | 506,141 | 495,921 | 386,201 | 384,755 | 322,440 | 312,736 | 314,643 | 292,556 | 241,582 |
| | Amount per common share | \$ 98.08 | 101.36 | 84.40 | 62.57 | 62.46 | 65.01 | 63.11 | 63.55 | 59.14 | 48.95 |
| | Dividends paid per common share | \$ 1.50 | 3.50 | 3.00 | | 0.50 | 1.00 | 1.00 | 2.00 | 1.00 | 1.00 |
| | Number of common shares outstanding at end of year (note 2) (000's) | 5,025 | 5,025 | 5,025 | 5,024 | 5,010 | 5,009 | 5,006 | 5,001 | 5,001 | 5,000 |
| | Number of common shareholders | 5,542 | 5,908 | 7,362 | 8,351 | 9,150 | 9,788 | 10,732 | 11,205 | 11,104 | 12,254 |
| | Toronto Stock Exchange quotes, High (TSE) | \$ 116.00 | 161.00 | 91.75 | 36.25 | 39.75 | 45.00 | 38.25 | 69.75 | 86.25 | 99.87 |
| | Low | \$ 57.00 | 79.00 | 32.00 | 16.63 | 16.50 | 29.25 | 24.25 | 23.00 | 57.00 | 50.50 |
| | Close | \$ 74.00 | 102.50 | 91.50 | 32.50 | 20.75 | 35.50 | 24.25 | 24.50 | 62.50 | 65.00 |
| | Volume of shares traded on TSE (000's) | 1,236 | 2,820 | 2,150 | 1,423 | 604 | 564 | 783 | 623 | 848 | 920 |
| | Preference shares (000's) | \$ | | 75,000 | 75,000 | 75,000 | | | | | |
| | Dividends paid per preference share | \$ | 2.158 | 1.970 | 1.577 | 0.564 | | | | | |
| EXPLORATION, RESEARCH AND PROCESS DEVELOPMENT (\$000's) | Exploration | \$ 37,964 | 28,284 | 14,297 | 7,662 | 9,726 | 8,325 | 7,826 | 11,432 | 8,895 | 6,768 |
| | Research and process development | 11,105 | 6,636 | 3,960 | 3,086 | 3,844 | 3,769 | 4,100 | 4,382 | 3,304 | 2,546 |
| CAPITAL EXPENDITURES (\$000's) | Expenditures on property, plant, equipment, development and preproduction — | | | | | | | | | | |
| | Integrated Nickel Operations (note 6) | \$ 70,927 | 64,946 | 37,008 | 30,429 | 63,762 | 33,201 | 46,307 | 39,432 | 24,589 | 43,563 |
| | Falconbridge Dominicana, C. por A. | 89 | 3,234 | 1,022 | 834 | 3,096 | 1,523 | 2,153 | 5,467 | 2,147 | 10,308 |
| | Corporation Falconbridge Copper | 8,119 | 9,306 | 10,489 | 8,543 | 7,720 | 10,775 | 8,823 | 17,117 | 12,577 | 6,882 |
| | Consolidated total | 104,817 | 90,995 | 58,352 | 42,964 | 81,701 | 50,252 | 62,706 | 67,444 | 42,975 | 67,359 |
| METAL SALES (000's pounds) | Integrated Nickel Operations — | | | | | | | | | | |
| | Nickel | 62,998 | 54,159 | 84,454 | 71,341 | 32,047 | 80,176 | 61,524 | 89,464 | 99,408 | 89,665 |
| | Copper | 56,458 | 53,686 | 42,460 | 30,027 | 42,677 | 34,076 | 40,713 | 53,981 | 53,725 | 56,464 |
| | Falconbridge Nickel Mines Limited — | | | | | | | | | | |
| | Nickel in ferronickel (note 3) | 43,776 | 34,567 | 47,628 | 43,477 | 43,394 | 59,781 | 50,270 | 73,828 | 67,644 | |
| | Corporation Falconbridge Copper — | | | | | | | | | | |
| | Copper | 56,324 | 69,172 | 83,547 | 87,555 | 92,369 | 82,939 | 77,503 | 56,911 | 80,935 | 80,870 |
| | Zinc | 7,591 | 50,984 | 91,710 | 85,337 | 89,032 | 73,430 | 73,767 | 30,838 | 37,950 | 38,218 |
| ORE RESERVES (000's tons) | Falconbridge Nickel Mines Limited | 79,161 | 78,649 | 75,771 | 78,808 | 80,670 | 83,405 | 89,099 | 90,578 | 92,798 | 92,646 |
| | Falconbridge Dominicana, C. por A. | 63,800 | 66,000 | 68,700 | 68,500 | 70,000 | 72,500 | 63,700 | 66,000 | 68,500 | 70,800 |
| | Corporation Falconbridge Copper | 5,654 | 6,725 | 8,565 | 9,235 | 8,653 | 7,187 | 9,234 | 11,004 | 11,287 | 11,724 |

- Notes:
- See note 8, page 33, of the notes to consolidated financial statements.
 - Includes 45,483 shares held by consolidated subsidiaries.
 - Ferronickel sales to customers, see note 2, page 40, of the notes to statement of segmented information.
 - Before interest in earnings of equity accounted for companies.
 - For comparative purposes the 1972 to 1975 figures have been restated to combine the contribution of Indusmin Limited and Fahralloy Canada Limited. In 1976, Fahramet Limited, a subsidiary of Indusmin Limited, acquired the operating assets of Fahralloy Canada Limited.
 - Includes both the Integrated Nickel Operations and Company's corporate operations, see note 1, page 40, of the notes to statement of segmented information.
 - Investment sold in 1977.

Summary of 1981, 1980 and 1979 Consolidated Results by Quarters (Unaudited — 000's omitted)

| | 1981 | | | | |
|---|-----------------------------------|---------------|---------------|---------------|---------------|
| | Three month period ended (note 4) | | | | |
| | March 31 | June 30 | Sept. 30 | Dec. 31 | Year |
| Metal sales (pounds): | | | | | |
| Integrated Nickel Operations — | | | | | |
| Nickel | 17,254 | 19,873 | 15,271 | 10,600 | 62,998 |
| Copper | 11,349 | 16,967 | 14,331 | 13,811 | 56,458 |
| Cobalt | 361 | 292 | 497 | 934 | 2,084 |
| Corporation Falconbridge Copper — | | | | | |
| Copper | 12,506 | 12,101 | 15,526 | 16,191 | 56,324 |
| Zinc | 926 | 2,329 | 3,295 | 1,041 | 7,591 |
| Gold and silver revenues (\$'s) | \$ 5,718 | \$ 4,450 | \$ 6,571 | \$ 5,609 | \$ 22,348 |
| Falconbridge Nickel Mines Limited (note 1) — | | | | | |
| Ferronickel | 11,373 | 12,974 | 10,708 | 8,721 | 43,776 |
| Inventories of finished nickel — all forms (pounds) | 48,987 | 44,237 | 43,466 | 48,778 | 48,778 |
| Earnings: | | | | | |
| Revenues | \$ 184,077 | \$ 200,306 | \$ 182,213 | \$ 146,356 | \$ 712,952 |
| Interest, investment and other income | 9,357 | 11,050 | 6,441 | 9,497 | 36,345 |
| | 193,434 | 211,356 | 188,654 | 155,853 | 749,297 |
| Costs other than the undermentioned | 144,460 | 162,620 | 147,675 | 145,892 | 600,647 |
| Depreciation, depletion, development and preproduction | 13,485 | 14,115 | 14,419 | 17,544 | 59,563 |
| Exploration, research and process development | 10,431 | 11,960 | 11,612 | 15,066 | 49,069 |
| Interest and debt expenses | 10,687 | 12,755 | 11,814 | 16,088 | 51,344 |
| Income and mining taxes | 5,460 | 3,511 | 5,723 | (12,482) | 2,212 |
| Minority interest in earnings (losses) of subsidiaries | 179 | (1,397) | (3,234) | (5,184) | (9,636) |
| | 184,702 | 203,564 | 188,009 | 176,924 | 753,199 |
| Earnings (loss) for the period before extraordinary item | 8,732 | 7,792 | 645 | (21,071) | (3,902) |
| Extraordinary item (note 3) | | | | (5,122) | (5,122) |
| Earnings (loss) for the period | 8,732 | 7,792 | 645 | (26,193) | (9,024) |
| Dividend requirement on preference shares | | | | | |
| Earnings (loss) applicable to common shares | \$ 8,732 | \$ 7,792 | \$ 645 | \$ (26,193) | \$ (9,024) |
| Earnings (loss) per common share: | | | | | |
| Before extraordinary item | \$ 1.75 | \$ 1.57 | \$ 0.13 | \$ (4.23) | \$ (0.78) |
| Extraordinary item | | | | (1.03) | (1.03) |
| For the period | \$ 1.75 | \$ 1.57 | \$ 0.13 | \$ (5.26) | \$ (1.81) |
| Earnings (loss) contributions: | | | | | |
| Corporation Falconbridge Copper | \$ 596 | \$ 42 | \$ (385) | \$ 13 | \$ 266 |
| Falconbridge Dominicana, C. por A. | (490) | (3,176) | (6,270) | (9,751) | (19,687) |
| Giant Yellowknife Mines Limited | 256 | (41) | 30 | (84) | 161 |
| Indusmin Limited | (64) | 666 | 711 | 724 | 2,037 |
| Kiena Gold Mines Limited | | 100 | 160 | (254) | 6 |
| Oamites Mining Company (Proprietary) Limited | (195) | (196) | 209 | (411) | (593) |
| United Keno Hill Mines Limited | (296) | (869) | 356 | (679) | (1,488) |
| Other controlled companies | (17) | (251) | (382) | (1,313) | (1,963) |
| Total | (210) | (3,725) | (5,571) | (11,755) | (21,261) |
| Wesfrob Mining Division | 123 | (782) | 427 | (857) | (1,089) |
| Unallocated corporate, net (notes 2 and 7) | (2,548) | (1,119) | (3,400) | (5,544) | (12,611) |
| Integrated Nickel Operations, net of allocated corporate costs (note 7) | 11,367 | 13,418 | 9,189 | (2,915) | 31,059 |
| Earnings (loss) for the period before extraordinary item | 8,732 | 7,792 | 645 | (21,071) | (3,902) |
| Extraordinary item (note 3) | | | | (5,122) | (5,122) |
| Earnings (loss) for the period | 8,732 | 7,792 | 645 | (26,193) | (9,024) |
| Dividend requirement on preference shares | | | | | |
| Earnings (loss) applicable to common shares | \$ 8,732 | \$ 7,792 | \$ 645 | \$ (26,193) | \$ (9,024) |

Notes:

- See note 2 (a), page 40, of the notes to statement of segmented information.
- Unallocated corporate shown on Statement 4, page 38, for 1981, is after reflecting the interest in earnings/losses, before extraordinary item, of significantly influenced companies, which are accounted for on the equity basis (Giant Yellowknife Mines Limited, earnings — \$161,000; United Keno Hill Mines Limited, loss — \$1,488,000 and Akaitcho Yellowknife Gold Mines Limited, included above with "other controlled companies", loss — \$22,000).
- See note 2, page 30, of the notes to consolidated financial statements.
- Metal markets deteriorated throughout the year with metal prices trending downward during the four quarters and nickel demand dropping significantly in the last half of the year. Unit production costs were significantly higher than in 1980.

| 1980 | | | | |
|-----------------------------------|------------|------------|------------|------------|
| Three month period ended (note 5) | | | | |
| March 31 | June 30 | Sept. 30 | Dec. 31 | Year |
| 19,807 | 10,369 | 10,373 | 13,610 | 54,159 |
| 14,560 | 13,644 | 12,066 | 13,416 | 53,686 |
| 403 | 346 | 362 | 275 | 1,386 |
| 19,310 | 18,366 | 16,064 | 15,432 | 69,172 |
| 19,257 | 15,371 | 12,352 | 4,004 | 50,984 |
| \$ 17,556 | \$ 16,890 | \$ 19,031 | \$ 13,949 | \$ 67,426 |
| 12,943 | 9,966 | 3,586 | 8,072 | 34,567 |
| 29,990 | 42,377 | 50,408 | 45,833 | 45,833 |
| \$ 240,017 | \$ 183,163 | \$ 156,272 | \$ 178,363 | \$ 757,815 |
| 13,071 | 11,418 | 10,633 | 11,932 | 47,054 |
| 253,088 | 194,581 | 166,905 | 190,295 | 804,869 |
| 142,044 | 120,382 | 113,654 | 135,133 | 511,213 |
| 13,371 | 13,804 | 13,921 | 13,035 | 54,131 |
| 6,134 | 9,112 | 9,099 | 10,575 | 34,920 |
| 9,474 | 10,837 | 9,285 | 9,516 | 39,112 |
| 41,127 | 17,159 | 10,631 | 11,183 | 80,100 |
| 6,923 | 4,461 | 1,635 | 952 | 13,971 |
| 219,073 | 175,755 | 158,225 | 180,394 | 733,447 |
| 34,015 | 18,826 | 8,680 | 9,901 | 71,422 |
| 37,700 | | | | 37,700 |
| 71,715 | 18,826 | 8,680 | 9,901 | 109,122 |
| 1,695 | 1,716 | 1,464 | 1,600 | 6,475 |
| \$ 70,020 | \$ 17,110 | \$ 7,216 | \$ 8,301 | \$ 102,647 |
| \$ 6.49 | \$ 3.44 | \$ 1.45 | \$ 1.66 | \$ 13.04 |
| 7.57 | | | | 7.57 |
| \$ 14.06 | \$ 3.44 | \$ 1.45 | \$ 1.66 | \$ 20.61 |
| \$ 4,824 | \$ 3,670 | \$ 3,566 | \$ 3,092 | \$ 15,152 |
| 2,908 | 813 | (4,005) | (4,232) | (4,516) |
| 895 | 613 | (67) | (291) | 1,150 |
| 555 | 817 | 322 | 704 | 2,398 |
| 942 | 143 | 274 | (450) | 909 |
| 659 | 967 | 1,811 | 281 | 3,718 |
| 163 | 92 | (418) | (914) | (1,077) |
| 10,946 | 7,115 | 1,483 | (1,810) | 17,734 |
| 481 | 164 | 359 | 499 | 1,503 |
| (29) | (1,642) | (2,397) | (1,119) | (5,187) |
| 22,617 | 13,189 | 9,235 | 12,331 | 57,372 |
| 34,015 | 18,826 | 8,680 | 9,901 | 71,422 |
| 37,700 | | | | 37,700 |
| 71,715 | 18,826 | 8,680 | 9,901 | 109,122 |
| 1,695 | 1,716 | 1,464 | 1,600 | 6,475 |
| \$ 70,020 | \$ 17,110 | \$ 7,216 | \$ 8,301 | \$ 102,647 |

| 1979 | | | | |
|-----------------------------------|------------|------------|------------|------------|
| Three month period ended (note 6) | | | | |
| March 31 | June 30 | Sept. 30 | Dec. 31 | Year |
| 26,371 | 29,068 | 13,567 | 15,448 | 84,454 |
| 9,728 | 8,635 | 8,905 | 15,192 | 42,460 |
| 375 | 367 | 213 | 339 | 1,294 |
| 21,272 | 21,630 | 18,387 | 22,258 | 83,547 |
| 22,336 | 26,009 | 23,430 | 19,935 | 91,710 |
| \$ 8,347 | \$ 10,926 | \$ 14,634 | \$ 36,451 | \$ 70,358 |
| 10,590 | 10,908 | 10,762 | 15,368 | 47,628 |
| 33,121 | 24,576 | 23,421 | 27,217 | 27,217 |
| \$ 172,019 | \$ 198,179 | \$ 173,020 | \$ 246,200 | \$ 789,418 |
| 5,510 | 7,723 | 10,829 | 15,342 | 39,404 |
| 177,529 | 205,902 | 183,849 | 261,542 | 828,822 |
| 120,771 | 130,109 | 109,680 | 142,659 | 503,219 |
| 10,827 | 10,492 | 10,649 | 10,664 | 42,632 |
| 3,097 | 4,596 | 4,654 | 5,910 | 18,257 |
| 8,553 | 8,713 | 9,053 | 9,770 | 36,089 |
| 13,408 | 21,894 | 19,967 | 35,729 | 90,998 |
| 3,771 | 3,641 | 5,923 | 13,731 | 27,066 |
| 160,427 | 179,445 | 159,926 | 218,463 | 718,261 |
| 17,102 | 26,457 | 23,923 | 43,079 | 110,561 |
| 4,129 | 8,499 | 2,401 | 4,971 | 20,000 |
| 21,231 | 34,956 | 26,324 | 48,050 | 130,561 |
| 1,385 | 1,402 | 1,464 | 1,660 | 5,911 |
| \$ 19,846 | \$ 33,554 | \$ 24,860 | \$ 46,390 | \$ 124,650 |
| \$ 3.16 | \$ 5.03 | \$ 4.51 | \$ 8.31 | \$ 21.01 |
| 0.83 | 1.70 | 0.49 | 1.00 | 4.02 |
| \$ 3.99 | \$ 6.73 | \$ 5.00 | \$ 9.31 | \$ 25.03 |
| \$ 4,115 | \$ 3,760 | \$ 4,585 | \$ 10,817 | \$ 23,277 |
| (988) | (990) | 1,665 | 4,821 | 4,508 |
| 90 | 300 | 363 | 739 | 1,492 |
| 160 | 813 | 963 | 778 | 2,714 |
| 492 | 217 | 224 | 427 | 1,360 |
| 492 | 1,607 | 2,372 | 5,564 | 10,035 |
| 101 | 260 | 392 | 65 | 818 |
| 4,462 | 5,967 | 10,564 | 23,211 | 44,204 |
| 672 | 577 | 1,153 | 2,195 | 4,597 |
| 73 | (845) | 835 | (516) | (453) |
| 11,895 | 20,758 | 11,371 | 18,189 | 62,213 |
| 17,102 | 26,457 | 23,923 | 43,079 | 110,561 |
| 4,129 | 8,499 | 2,401 | 4,971 | 20,000 |
| 21,231 | 34,956 | 26,324 | 48,050 | 130,561 |
| 1,385 | 1,402 | 1,464 | 1,660 | 5,911 |
| \$ 19,846 | \$ 33,554 | \$ 24,860 | \$ 46,390 | \$ 124,650 |

5. The downturn in the last half of the year mainly reflected higher unit production costs and a decrease in the volume of nickel sold.

6. Escalating metal prices throughout 1979 are reflected in the quarterly results. Most of the excess refined nickel inventory was sold in the first six months of 1979. Sales were lower in the third and fourth quarters and in better balance with production.

7. See note 1, page 40, of the notes to statement of segmented information.

Impact of inflation — financial reporting and changing prices (Unaudited)

In the absence of definitive Canadian recommendations and as in 1980, Falconbridge is presenting inflation adjusted and current cost information generally in accordance with the guidelines of the United States Financial Accounting Standards (FAS) 33 and 39. This disclosure will provide a general indication of the effects of inflation on Falconbridge and will facilitate comparisons with other companies. Interpretations accompany the adjusted amounts and further discussion is provided in "Management's discussion and analysis of financial condition and results of operations", page 60.

Certain caveats must be considered when reviewing the supplementary data. The current cost amounts are based on judgments by management involving choices of methods within the guidelines of FAS 33. As such the estimates and judgments may differ from those chosen by other companies and may not represent the actual costs that would be incurred if the related assets were to be, or could be, replaced. The general inflation and current cost restatement only includes the effects of inflation on inventories, fixed assets and net monetary items. Income tax effects pertaining to timing differences, allocations or other factors have not been reflected in the adjustments to reported earnings. No comparisons of the adjusted costs of property, plant and equipment, development and preproduction expenditures were made with a prediction of the current worth of the net amount of cash expected to be recoverable from the use or sale of these assets because such a comparison would involve the use of highly subjective estimates and forecasts. The disclosure of current cost amounts does not necessarily indicate Falconbridge's intention to replace existing assets.

The following supplementary data is intended to reflect the effects of inflation on Falconbridge's business. Generally, the most significant impact of inflation is on inventories and fixed assets. The earnings statement items which are affected by cost changes in inventories and fixed assets are cost of sales and depreciation, depletion and amortization. It is therefore these items which have been adjusted. Two inflation measurement concepts are employed — constant dollars (general inflation) and current costs. In addition, because the value of monetary assets and liabilities decrease during inflationary periods this effect is reported as a change in purchasing power of net monetary items held.

1. 1981 earnings (loss) adjusted for changing prices

(a) Earnings (loss) for the year before extraordinary item adjusted for the effects of general inflation (constant dollars)

The purchasing power of the dollar varies with inflation and as a result reporting dollars of varying purchasing power does not yield comparative results. The constant dollar method restates historical data in terms of a single unit of measure. To arrive at a constant unit of measure, dollars are made comparable by allowing for the effects of general inflation as measured by the Canadian Consumer Price Index, base 1971 = 100 (CPI). The CPI is a measure of changing price levels for selected goods and services which are intended to be representative of all economic transactions. As such, adjusting for general inflation does not necessarily indicate the effect of specific price changes on Falconbridge's business.

Depreciation, depletion and amortization and cost of sales calculations are made by reference to fixed asset and inventory values derived by applying the appropriate indexing factors. The resulting amounts represent an approximation of charges to income had the related expenditures been made in 1981 dollars.

| | Integrated Nickel and corporate operations (000's) | Other operations (000's) | Consolidated total (000's) |
|---|---|--------------------------------|----------------------------------|
| Earnings (loss) as reported | \$ 17,099 | \$ (21,001) | \$ (3,902) |
| Adjustments to restate historical costs for the effect of general inflation (average 1981 dollars) | | | |
| Cost of sales (increase) | (1,926) | (7,294) | (9,220) |
| Depreciation, depletion and amortization (increase) | (40,598) | (27,979) | (68,577) |
| Earnings (loss) adjusted for general inflation | \$ (25,425) | \$ (56,274) | \$ (81,699) |

Adjusting for general inflation increases the consolidated loss to \$81,699,000. Depreciation, depletion and amortization increases relate to assets of \$1,122,971,000 in average 1981 dollars compared to \$550,011,000 in historical dollars. Cost of sales are increased by \$9,220,000 which reflects the increased value assigned to inventories sold under the constant dollar method. The Integrated Nickel Operations' cost of sales are not greatly affected because under historical accounting, the last-in, first-out (LIFO) method of charging inventory to cost of sales is used. Under the LIFO method, the latest production costs which are charged to historical cost earnings are substantially the same as calculated under the constant dollar method.

(b) **Earnings (loss) for the year before extraordinary item adjusted to reflect current costs**

The concept of current costs reflects cost increases by considering specific price changes in inventories and fixed assets. Current costs are defined as the cost of purchasing goods or the resources required to produce the goods concerned in the case of inventories, and as the cost of acquiring the same service potential in the case of fixed assets. Service potential is measured by reference to physical output capacity and unit operating costs. The current cost amounts of depreciation, depletion and amortization and cost of sales represent the charges to income based on the estimated current costs of the related assets.

The adjustment to cost of sales on a current cost basis represents the additional cost of replacing inventories at the date of sale compared with the historical costs. The adjustment for depreciation, depletion and amortization represents the difference between the current cost of assets consumed in the year and the charges recorded in the historical cost financial statements.

| | Integrated Nickel and corporate operations (000's) | Other operations (000's) | Consolidated total (000's) |
|---|---|--------------------------------|----------------------------------|
| Earnings (loss) as reported | \$ 17,099 | \$ (21,001) | \$ (3,902) |
| Adjustments to restate historical costs to current costs | | | |
| Cost of sales (increase) | (446) | (373) | (819) |
| Depreciation, depletion and amortization (increase) | (37,595) | (48,961) | (86,556) |
| Earnings (loss) adjusted for changes in costs | \$ (20,942) | \$ (70,335) | \$ (91,277) |

The consolidated loss of \$3,902,000 adjusted to reflect current costs increases to \$91,277,000. The Integrated Nickel Operations' cost of sales are not significantly affected because of the use of the LIFO method as described in part 1(a), page 48. The other operations' cost of sales do not increase significantly on a current cost basis because the historical cost amounts include the write-down of ferronickel inventory to net realizable value.

Depreciation, depletion and amortization charges are higher under the current cost method than under the constant dollar method because the CPI has not increased as much as the current cost of the related assets. The depreciation, depletion and amortization adjustments reflect the significant increased cost of the related assets as noted in part 3, page 50.

2. Purchasing power gain on net monetary items during 1981

Gains or losses from the decline in the purchasing power of net monetary items reflect the declining value of the dollar by recognizing changes in purchasing power during inflationary periods. Monetary assets include cash and receivables and monetary liabilities include current liabilities and long-term debt.

| | Integrated Nickel and corporate operations (000's) | Other operations (000's) | Consolidated total (000's) |
|---|---|--------------------------------|----------------------------------|
| Gain from decline in purchasing power of net amounts owed (average 1981 dollars) | \$ 17,566 | \$ 38 | \$ 17,604 |

During 1981, Falconbridge held more monetary liabilities than monetary assets and consequently recorded a purchasing power gain of \$17,604,000. This gain is not included in historical or adjusted earnings reported under part 1, page 48.

3. Current cost amounts of inventories (metals and supplies) and property, plant and equipment, development and preproduction expenditures at December 31, 1981

Current cost amounts of inventories and property, plant and equipment, development and preproduction expenditures represent the current costs of assets owned. To arrive at current cost of inventories, the most recent production costs were used for metals inventories and replacement cost for supplies inventories. Estimates of current costs to construct or purchase, costs per unit of production or indices published by governmental and private organizations were used to arrive at the current cost of property, plant and equipment, development and preproduction expenditures and depreciation, depletion and amortization.

| | Integrated Nickel and corporate operations (000's) | Other operations (000's) | Consolidated total (000's) |
|--|---|--------------------------------|----------------------------------|
| Inventories — | | | |
| Metals | | | |
| Historic cost | \$ 78,636* | \$ 54,169* | \$ 132,805 |
| Current cost | \$ 138,987* | \$ 54,371* | \$ 193,358 |
| *Adjusted for ferronickel held by the Company for resale as agent for its subsidiary, Falconbridge Dominicana, C. por A. | | | |
| Supplies | | | |
| Historic cost | \$ 19,904 | \$ 31,102 | \$ 51,006 |
| Current cost | \$ 22,568 | \$ 34,183 | \$ 56,751 |
| Property, plant and equipment — | | | |
| Historic cost | \$ 450,817 | \$ 333,856 | \$ 784,673 |
| Accumulated depreciation and depletion | 246,228 | 201,925 | 448,153 |
| Net book value | \$ 204,589 | \$ 131,931 | \$ 336,520 |
| Current cost | \$1,069,911 | \$1,127,188 | \$2,197,099 |
| Accumulated depreciation and depletion | 636,756 | 658,810 | 1,295,566 |
| Net book value | \$ 433,155 | \$ 468,378 | \$ 901,533 |
| Development and preproduction expenditures, net — | | | |
| Historic cost | \$ 119,722 | \$ 93,769 | \$ 213,491 |
| Current cost | \$ 196,042 | \$ 256,240 | \$ 452,282 |

The current cost of the Integrated Nickel Operations' metals inventories are \$138,987,000 or \$60,351,000 higher than historic cost. As noted previously, under the LIFO method, latest production costs are charged to earnings, resulting in older, lower costs remaining in historical cost metals inventories. The inventories of the other operations do not change substantially because ferronickel inventory has been written down to net realizable value, in the historical cost financial statements, which is also used as the current cost of inventory. Supplies inventories increased by only \$5,745,000 to \$56,751,000 on a current cost basis, since they turn over frequently during the year. Current costs of property, plant and equipment are \$565,013,000 higher than historical costs, and current costs of development and preproduction expenditures are \$238,791,000 higher than historical costs. The current costs of the other operations are proportionately higher than those of the Integrated Nickel Operations', largely due to the age of assets and their geographical location.

4. Increases in current cost amounts of inventories (metals and supplies) and property, plant and equipment, development and preproduction expenditures during 1981

Increases in current costs are reported to indicate specific price changes during the current year and the effects of these specific price changes are compared to the general rate of inflation.

| | Integrated Nickel and corporate operations (000's) | Other operations (000's) | Consolidated total (000's) |
|---|---|--------------------------------|----------------------------------|
| Inventories — | | | |
| Increase in current cost | \$ 17,431 | \$ 6,245 | \$ 23,676 |
| Effect of increase in general price level | 17,667 | 10,310 | 27,977 |
| Excess of increase in general price level over increase in current costs | \$ 236 | \$ 4,065 | \$ 4,301 |
| Property, plant and equipment, development and preproduction expenditures, net — | | | |
| Increase in current cost | \$ 103,862 | \$ 102,701 | \$ 206,563 |
| Effect of increase in general price level | 68,156 | 82,254 | 150,410 |
| Excess of increase in current costs over increase in the general price level . | \$ 35,706 | \$ 20,447 | \$ 56,153 |

Although current costs of inventories increased during the year, the percentage increase in cost was less than the increase in the general price level. The general price level increase applied to inventories results in a year-to-year increase of \$27,977,000, but based on specific current costs, the 1981 cost increases were only \$23,676,000. The year-to-year increase in the current cost of property, plant and equipment, development and preproduction expenditures exceeded the increase in the general price level by \$56,153,000.

5. Five-year comparison of selected supplementary financial data adjusted for the effects of changing prices in average 1981 dollars

The following data is a summary of selected financial information presented in average 1981 dollars and consequently it may differ from information reported elsewhere. Previous year information has been adjusted by the CPI to make it comparable to current year data.

| Year ended December 31, | 1981 (000's) | 1980 (000's) | 1979 (000's) | 1978 (000's) | 1977 (000's) |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | \$ 712,952 | \$ 852,812 | \$ 978,515 | \$ 687,477 | \$ 562,557 |
| Historical cost information adjusted for general inflation — | | | | | |
| Earnings (loss) for the year before extraordinary item | (81,699) | 18,497 | Data | | |
| Earnings (loss) for the year before extraordinary item, per common share | (16.41) | 2.25 | | | |
| Net assets at year end | 1,101,068 | 1,193,742 | | | |
| Current Cost information — | | | not | | |
| Loss for the year before extraordinary item | (91,277) | (15,488) | | | |
| Loss for the year before extraordinary item, per common share | (18.33) | (4.57) | | readily | |
| Excess of increase in current costs over increase in the general price level | 51,852 | 41,195 | | | |
| Net assets at year end | 1,293,181 | 1,348,742 | | | available |
| Gain from decline in purchasing power of net amounts owed | 17,604 | 8,576 | | | |
| Dividends per common share | 1.50 | 3.94 | 3.71 | | 0.73 |
| Market price per common share at year end | 70.38 | 109.87 | 109.74 | 42.67 | 29.61 |
| Average Canadian Consumer Price Index, base 1971 = 100 | 237.0 | 210.6 | 191.2 | 175.2 | 160.8 |

Comparative historical cost data:

| | | | | | |
|---|------------|------------|------------|------------|------------|
| Revenues | \$ 712,952 | \$ 757,815 | \$ 789,418 | \$ 508,211 | \$ 381,684 |
| Earnings (loss) for the year before extraordinary item | (3,902) | 71,422 | 110,561 | 5,818 | (28,786) |
| Earnings (loss) for the year before extraordinary item, per common share | (0.78) | 13.04 | 21.01 | 0.22 | (6.14) |
| Net assets at year end | 489,648 | 506,141 | 420,921 | 311,201 | 309,755 |
| Dividends per common share | 1.50 | 3.50 | 3.00 | | 0.50 |
| Market price per common share at year end | 74.00 | 102.50 | 91.50 | 32.50 | 20.75 |

6. Supplementary quantity and price information

| | Integrated Nickel Operations | Wesrob Mining Division | Corporation Falconbridge Copper | Falconbridge Dominicana, C. por A. | Indusmin Limited | Damites Mining Company (Proprietary) Limited | Kiena Gold Mines Limited | New Quebec Raglan Mines Limited |
|---|------------------------------------|------------------------------|---------------------------------------|--|---------------------|--|--------------------------------|---------------------------------------|
| (% ownership) | (100%) | (100%) | (50.2%) | (65.7%) | (70.8%) | (74.9%) | (68.3%) | (68.6%) |
| 1981: | | | | | | | | |
| Proven and probable ore reserves at the end of the year (note) — | | | | | | | | |
| Tons (000's) | 79,161 | 3,047 | 5,654** | 63,800 | | 2,027 | 5,812 | 12,037 |
| Grades (principal metals/products only): | | | | | | | | |
| Nickel (%) | 1.49 | | | 1.64 | | | | 3.11 |
| Copper (%) | 0.93 | 0.31 | ** | | | 1.13 | | 0.79 |
| Zinc (%) | | | ** | | | | | |
| Iron (%) | | 48.48 | ** | | | | | |
| Gold (ounce per ton) | | | | | | | 0.18 | |
| Nepheline syenite (000's tons) | | | | | 20,000 | | | |
| Silica (000's tons) | | | | | 28,000 | | | |
| Aggregates (000's tons) | | | | | 110,000 | | | |
| Ore milled (000's tons) | 3,042 | 1,112 | 1,436 | 1,762 | | 530 | 112 | |
| Principal metals/products produced (000's): | | | | | | | | |
| Nickel (pounds) | 62,728* | | | 41,933 | | | | |
| Copper (pounds) | 55,754* | 6,206 | 56,324 | | | 10,641 | | |
| Cobalt (pounds) | 1,372* | | | | | | | |
| Zinc (pounds) | | | 7,591 | | | | | |
| Iron concentrates (tons) | | 606 | | | | | | |
| Gold (ounces) | | 2 | 36 | | | | 15 | |
| Silver (ounces) | | 89 | 434 | | | 216 | 3 | |
| Nepheline syenite (tons) | | | | | 437 | | | |
| Silica (tons) | | | | | 939 | | | |
| Aggregates (tons) | | | | | 2,838 | | | |
| Feldspar (tons) | | | | | 147 | | | |

Average selling prices:

See note 9(f) of the notes to the statement of segmented information, page 43.

*Metals in matte produced from Sudbury ores.

**Includes 2,277,000 tons of ore with average grades of 3.08% copper, 2.02% zinc, and 0.029 ounce of gold per ton; and 3,377,000 tons grading 1.78% copper and 0.026 ounce of gold per ton.

| | | | | | | | | |
|---|---------|-------|---------|--------|---------|--------|-------|--------|
| 1980: | | | | | | | | |
| Proven and probable ore reserves at the end of the year (note) — | | | | | | | | |
| Tons (000's) | 78,649 | 7,150 | 6,725** | 66,000 | | 1,927 | 2,500 | 16,050 |
| Grades (principal metals/products only): | | | | | | | | |
| Nickel (%) | 1.50 | | | 1.64 | | | | 2.58 |
| Copper (%) | 0.78 | 0.31 | ** | | | 1.07 | | 0.71 |
| Zinc (%) | | | ** | | | | | |
| Iron (%) | | 48.73 | ** | | | | | |
| Gold (ounce per ton) | | | | | | | 0.23 | |
| Nepheline syenite (000's tons) | | | | | 18,000 | | | |
| Silica (000's tons) | | | | | 29,000 | | | |
| Aggregates (000's tons) | | | | | 113,000 | | | |
| Ore milled (000's tons) | 3,262 | 1,098 | 1,894 | 1,918 | | 628 | | |
| Principal metals/products produced (000's): | | | | | | | | |
| Nickel (pounds) | 66,495* | | | 36,046 | | | | |
| Copper (pounds) | 53,339* | 4,904 | 69,172 | | | 12,892 | | |
| Cobalt (pounds) | 1,394* | | | | | | | |
| Zinc (pounds) | | | 50,984 | | | | | |
| Lead (pounds) | | | 4,059 | | | | | |
| Iron concentrates (tons) | | 677 | | | | | | |
| Gold (ounces) | | 2 | 44 | | | | | |
| Silver (ounces) | | 71 | 1,782 | | | 229 | | |
| Nepheline syenite (tons) | | | | | 430 | | | |
| Silica (tons) | | | | | 875 | | | |
| Aggregates (tons) | | | | | 2,437 | | | |
| Feldspar (tons) | | | | | 171 | | | |

Average selling prices:

See note 9(f) of the notes to the statement of segmented information, page 43.

*Metals in matte produced from Sudbury ores.

**Includes 2,970,000 tons of ore with average grades of 2.98% copper and 2.05% zinc; and 3,755,000 tons grading 1.71% copper and 0.027 ounce of gold per ton.

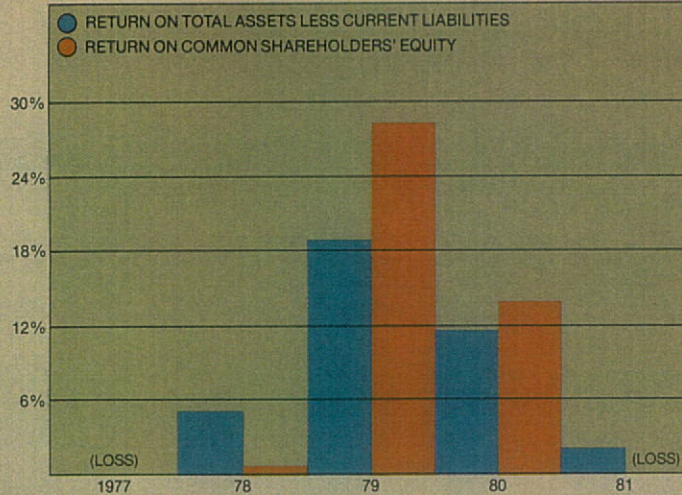
Note:

Proven reserves — The estimated quantities of commercially recoverable reserves that, on the basis of geological, geophysical, and engineering data, can be demonstrated with a reasonably high degree of certainty to be recoverable in the future from known mineral deposits by either primary or improved recovery methods.

Probable reserves — The estimated quantities of commercially recoverable reserves that are less well defined than proven reserves and that may be estimated or indicated to exist on the basis of geological, geophysical, and engineering data.



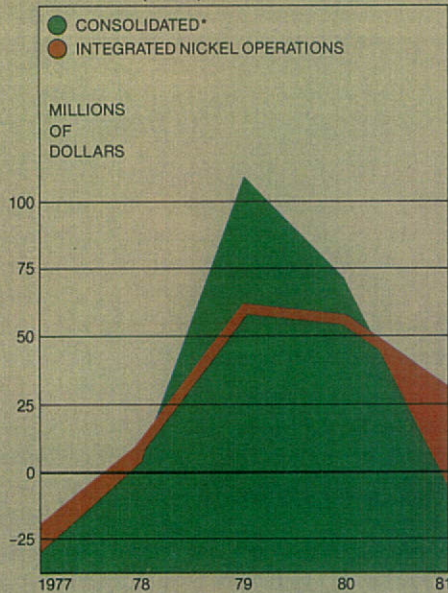
RETURN ON INVESTMENT



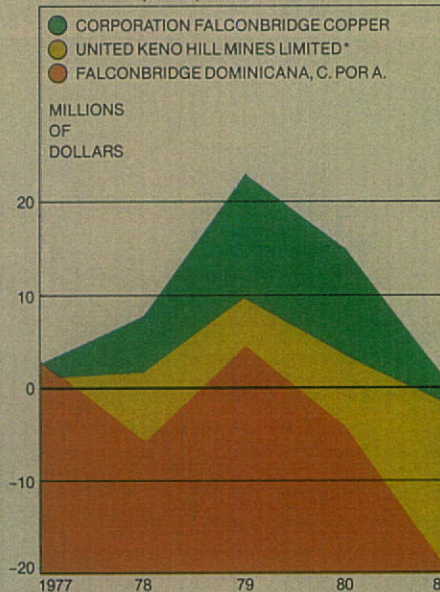
COMMON STOCK



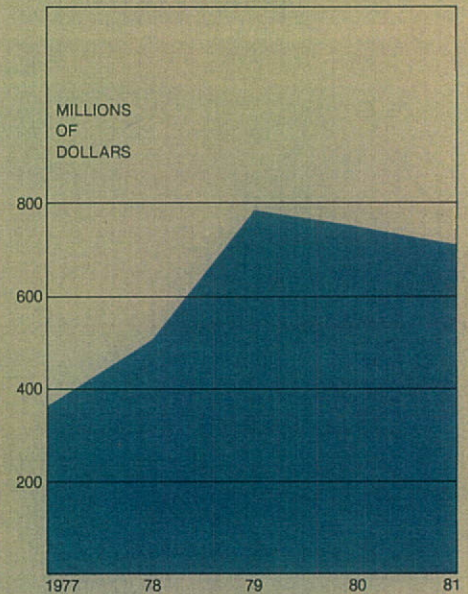
EARNINGS (LOSS)



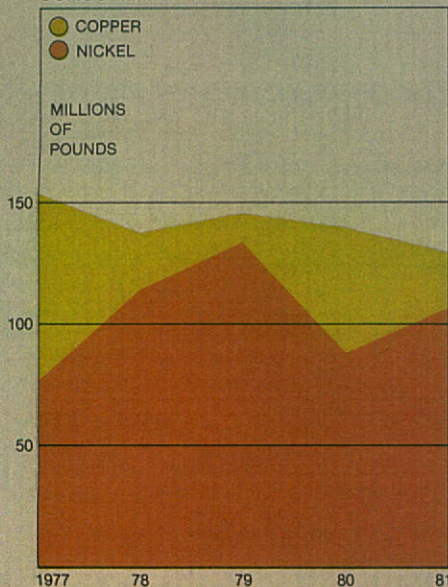
EARNINGS (LOSS) CONTRIBUTIONS



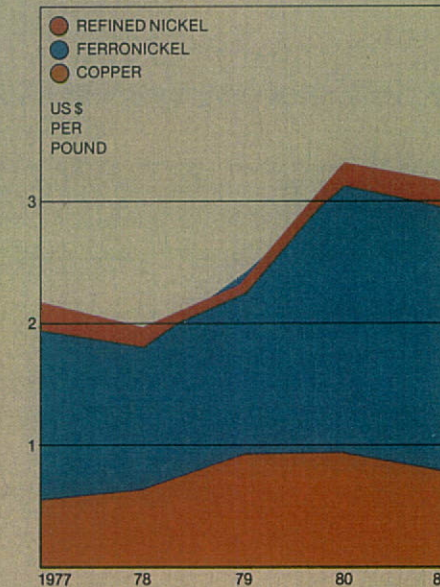
CONSOLIDATED REVENUES



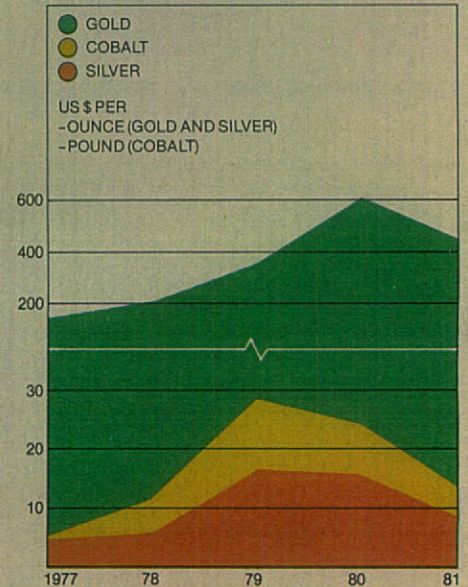
CONSOLIDATED METAL SALES



METAL SALES PRICES



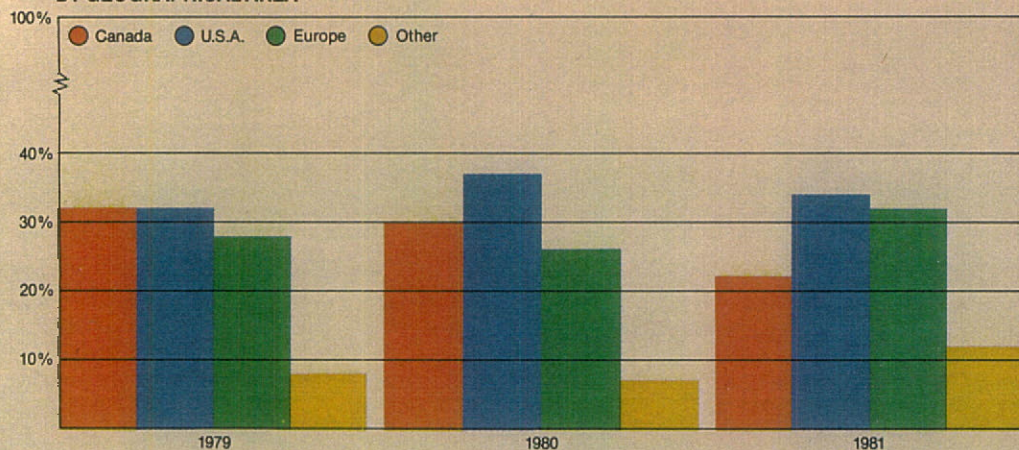
METAL SALES PRICES



*Before extraordinary item

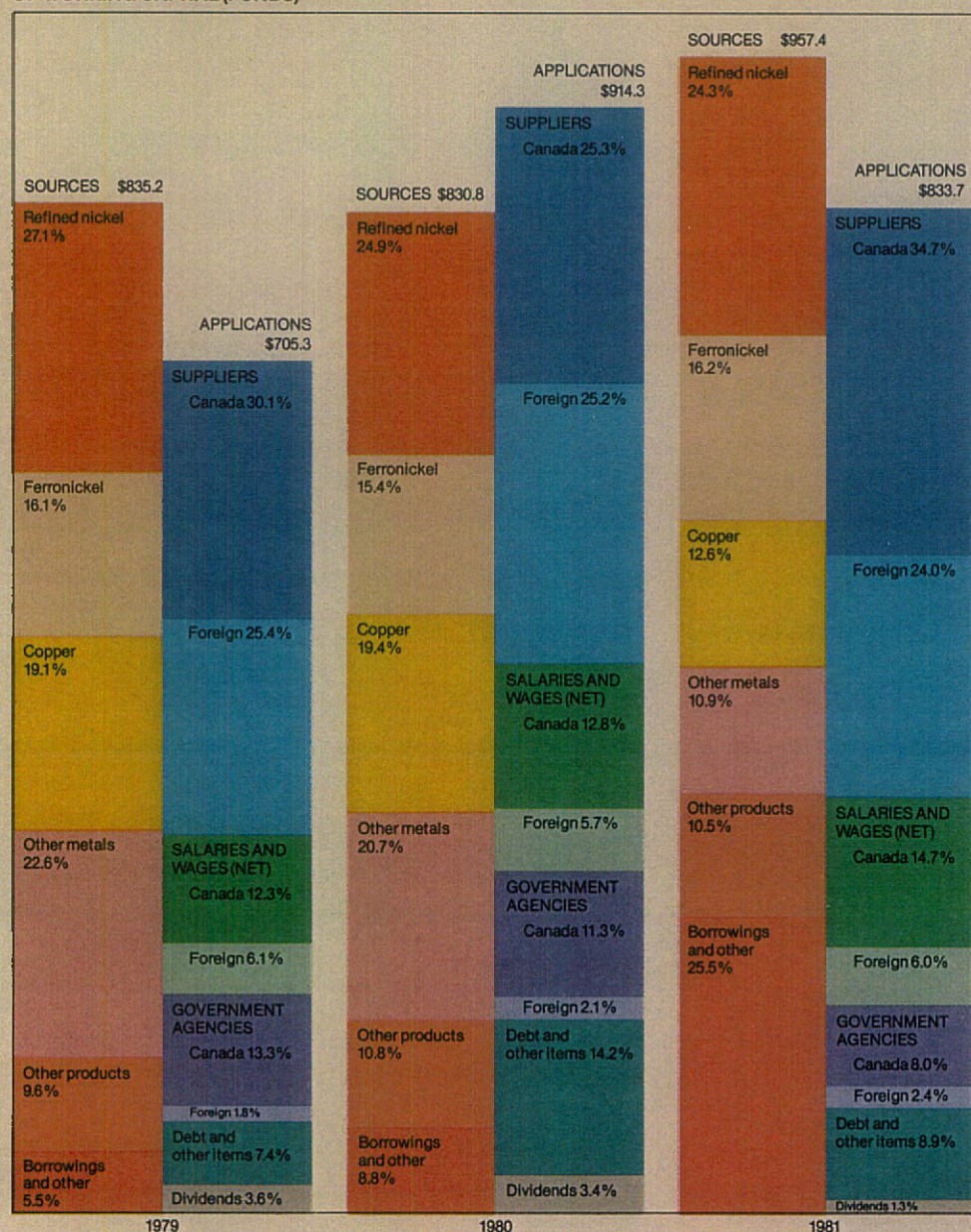
Falconbridge Nickel Mines Limited

CONSOLIDATED REVENUES BY GEOGRAPHICAL AREA



In 1981 Falconbridge's sales continued to increase in the emerging industrial markets of South America, Asia and India. These areas are rapidly becoming major consumers of metal products and represent a significant opportunity for future market expansion. Participation in the mature markets of Europe, Canada and the U.S. remained generally consistent with prior years' performances.

CONSOLIDATED SOURCES AND APPLICATIONS OF WORKING CAPITAL (FUNDS)*



The accompanying charts indicate the relative importance of the revenue sources and the contribution to Canadian and foreign business, labour and government.

Sources of funds exceeded applications by \$123,700,000 in 1981. However, sources include additional group borrowings of \$197,600,000 of which \$171,400,000 was borrowed by the Company. In 1980, adjusted applications of funds exceeded sources by \$83,500,000 and in 1979, sources exceeded adjusted applications by \$129,900,000.

Sources of funds in 1981 were \$126,600,000 higher than in 1980, reflecting the proceeds of additional borrowings, partially offset by lower revenues from product sales. Sources in 1980 of \$830,800,000 were slightly less than sources of \$835,200,000 in 1979.

Changes in the composition of sources of funds reflect the volatility of metal prices, variations in the demand for nickel, different production levels and changes in the Canadian/U.S. dollar exchange rate. In 1981, copper, cobalt, zinc and precious metals accounted for a lesser percentage of funds because of generally lower metals prices, the termination of operations at the Sturgeon Lake Joint Venture and production lost to strikes. In 1980, decreased sources from nickel and zinc revenues, compared with 1979, were substantially offset by increased funds from other sources.

Funds applied in 1981 were \$833,700,000 compared to \$914,300,000 in 1980. The decrease is attributable to the redemption of the Company's preference shares in 1980, lower application of funds to government agencies and reduced dividends to shareholders, partially offset by greater amounts applied to suppliers in 1981. The decrease in funds applied to government agencies in 1981 reflects the adverse results reported by most operations which resulted in lower income and mining taxes. The Company's dividends to its shareholders were cut back to \$1.50 per share in 1981 from \$3.50 in 1980 and \$3.00 in 1979, representing only 1.3% of funds applied in 1981.

In 1981, almost 50% of consolidated funds applied were to salaries and wages in Canada and to Canadian suppliers. In 1980 and 1979, the respective percentages were 38% and 42%.

*Adjusted for changes in inventories of metals

\$ MILLIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations

Analysis of Financial Condition:

Liquidity

The short-term liquidity position of Falconbridge remained very strong during 1981. Liquidity, as indicated by working capital, amounted to \$473,170,000 at December 31, 1981, an increase of \$111,051,000 from the previous year. This increase reflects the additional net borrowings of \$179,639,000 during 1981.

The change in the composition of working capital during 1981 reflected increased liquidity as the proportion of working capital in cash and temporary investments increased while the amounts in inventories declined. Cash and temporary investments increased during 1981 by \$47,283,000 to total \$290,363,000 at December 31, 1981, which includes \$197,760,000 held by the Integrated Nickel Operations and \$84,260,000 held by Corporation Falconbridge Copper. The remaining amount of cash and temporary investments is held by other consolidated subsidiaries.

The 1981 expenditures on property, plant and equipment, and development and preproduction of \$104,817,000 were financed internally through funds generated from operations of \$49,968,000, with the balance provided by working capital and borrowings. This contrasts with 1980 and 1979 when funds generated from operations exceeded expenditures on property, plant and equipment, and development and preproduction by \$76,996,000 in 1980 and \$149,982,000 in 1979. The decrease in funds generated from operations in 1981 result mainly from lower average metal selling prices and increased production costs.

In late 1981 the Company borrowed the U.S. dollar equivalent of Cdn. \$171,403,000 from a chartered bank. This was arranged through an existing line of credit and the addition of a five-year U.S. \$40,000,000 fixed rate loan and a seven-year U.S. \$45,000,000 floating rate loan. These borrowings will be used for necessary capital expenditures in the Sudbury area, expected further financial support for Falconbridge Dominicana, C. por A. (Falcondo), a 65.7% owned subsidiary, and other corporate funding purposes. The Company's bank loans are due December 31, 1986 (U.S. \$165,000,000) and December 31, 1988 (U.S. \$45,000,000). The mining industry is subject to cyclical markets — the Company believes it is prudent to borrow funds during economic downturns to ensure that sufficient funds are available for operations and capital expenditures. During the ensuing up cycle, it is expected that the cash flow generated from operations will be sufficient to retire this debt.

The Company and the other sponsor have been required, since July, 1980, in accordance with the terms of the financing agreements, to provide funds totalling U.S. \$39,188,000 (1981 — U.S. \$24,965,000; 1980 — U.S.

\$14,223,000) to Falcondo to meet its cash deficiencies. The Company provides 60% of the requirement. It is anticipated that this cash deficiency will continue in 1982, and that additional advances will be required. On January 11, 1982 Falcondo announced that it was temporarily suspending production operations to minimize supplementary financing from the project sponsors.

Kiena Gold Mines Limited (Kiena), a 68.3% owned subsidiary of the Company, financed its 1981 property, plant and equipment and development and preproduction expenditures of \$15,121,000 from the proceeds of a \$25,000,000 revolving term bank credit. Kiena commenced commercial production on October 1, 1981. Expenditures in 1982 are expected to be financed through internal generation of funds and the balance of the existing revolving term bank credit.

Long-term liquidity in 1981, as reflected by the ratio of the percentage of debt in the capital structure, has declined from 1980. The percentage of debt in the capital structure was 50% at December 31, 1981 compared with 38% in the previous year. This decline is a result of the additional debt assumed in 1981.

Capital Resources

No new common or preference shares were issued during 1981. In 1980 the authorized capital of the Company was increased by the creation of 17,998,000 common shares without par value and \$175,000,000 in preference shares. No new common or preference shares were issued during 1980. In 1980 the \$75,000,000 Variable Rate Cumulative Redeemable Preference Shares were redeemed and cancelled.

At December 31, 1981 shareholders' equity and long-term debt totalled \$973,684,000, an increase of \$163,324,000 over 1980. Shareholders' equity and long-term debt totalled \$810,360,000 at the end of 1980 and \$797,513,000 at the end of 1979.

The debt/equity ratio at December 31, 1981, and for the two previous years, was 50:50, 38:62, and 38:62, respectively.

It is anticipated that property, plant and equipment and development and preproduction expenditures for the next few years will be financed through internal generation of funds and existing working capital.

See notes 8, 9 and 15, pages 33, 35 and 36, respectively, of the notes to the consolidated financial statements in respect of capitalization, borrowing arrangements and liabilities.

Analysis of Results of Operations:

The following paragraphs set forth a discussion of certain factors reflected in the consolidated statement of earnings for the three years ended December 31, 1981.

A consolidated loss, before extraordinary item, for the year 1981 amounted to \$3,902,000 or 78 cents per share compared with earnings of \$71,422,000 or \$13.04 per share in 1980 and the record \$110,561,000 or \$21.01 per share earned in 1979. The Company's interest, \$5,122,000, in the write-off of United Keno Hill Mines Limited's Venus Mine Project costs increased the 1981 loss to \$9,024,000 or \$1.81 per share. The acceptance of a public offer by The Superior Oil Company to purchase all the capital stock of Canadian Superior Oil Ltd. increased the Company's consolidated earnings for 1980 by \$37,700,000 to \$109,122,000 or \$20.61 per common share. In 1979 an extraordinary credit of \$20,000,000, reflecting the reduction of deferred income taxes resulting from the carry-forward of prior years' losses, increased consolidated earnings to \$130,561,000 or \$25.03 per share.

The main reasons for the change to a consolidated loss, before extraordinary item, for 1981, compared with earnings

in 1980 were lower U.S. dollar metal selling prices, which were modified by a more favourable average U.S. currency exchange rate, higher operating costs, increased exploration and research and process development expenditures, higher interest expense and lower interest income. Metal production in certain operations was lower because of strikes and the closure of a joint venture. These unfavourable factors were partially offset by the favourable impact of a higher volume of nickel sales. The principal reasons for the decrease in consolidated earnings, before extraordinary item, for 1980, compared with 1979's record high earnings were higher unit production costs and a decrease in the volume of nickel sales. In 1980 the average realized prices for most metals were higher than in 1979.

The following table compares the various 1981, 1980 and 1979 contributions to consolidated earnings (loss) and shows relative sales statistics:

| | 1981 (000's) | 1980 (000's) | 1979 (000's) |
|--|-------------------|------------------|------------------|
| Earnings (loss) contributions: | | | |
| Corporation Falconbridge Copper | \$ 266 | \$ 15,152 | \$ 23,277 |
| Falconbridge Dominicana, C. por A. | (19,687) | (4,516) | 4,508 |
| Giant Yellowknife Mines Limited | 161 | 1,150 | 1,492 |
| Indusmin Limited | 2,037 | 2,398 | 2,714 |
| Kiena Gold Mines Limited | 6 | | |
| Oamites Mining Company (Proprietary) Limited | (593) | 909 | 1,360 |
| United Keno Hill Mines Limited | (1,488) | 3,718 | 10,035 |
| Other controlled companies | (1,963) | (1,077) | 818 |
| Total | (21,261) | 17,734 | 44,204 |
| Wesfrob Mining Division | (1,089) | 1,503 | 4,597 |
| Unallocated corporate, net | (12,611) | (5,187) | (453) |
| Integrated Nickel Operations, net of allocated corporate costs | 31,059 | 57,372 | 62,213 |
| Earnings (loss) for the year before extraordinary item | (3,902) | 71,422 | 110,561 |
| Write off of Venus Mine project costs | (5,122) | | |
| Disposal of Canadian Superior shares | | 37,700 | |
| Deferred income tax credits | | | 20,000 |
| Earnings (loss) for the year | \$ (9,024) | \$109,122 | \$130,561 |
| Metal sales (pounds): | | | |
| Integrated Nickel Operations — | | | |
| Nickel | 62,998 | 54,159 | 84,454 |
| Copper | 56,458 | 53,686 | 42,460 |
| Cobalt | 2,084 | 1,386 | 1,294 |
| Corporation Falconbridge Copper — | | | |
| Copper | 56,324 | 69,172 | 83,547 |
| Zinc | 7,591 | 50,984 | 91,710 |
| Gold and silver revenue (\$'s) | \$ 22,348 | \$ 67,426 | \$ 70,358 |
| Falconbridge Nickel Mines Limited — | | | |
| Ferronickel | 43,776 | 34,567 | 47,628 |
| Metal sales prices (U.S. per pound): | | | |
| Integrated Nickel Operations — | | | |
| Nickel | \$ 3.09 | \$ 3.25 | \$ 2.31 |
| Copper | \$ 0.79 | \$ 0.99 | \$ 0.89 |
| Cobalt | \$ 13.93 | \$ 24.97 | \$ 29.12 |
| Falconbridge Nickel Mines Limited — | | | |
| Ferronickel | \$ 2.97 | \$ 3.18 | \$ 2.41 |

Corporation Falconbridge Copper's \$14,886,000 lower 1981 contribution to consolidated earnings, compared with 1980, mainly results from lower production because of the closure of its Sturgeon Lake Joint Venture in December 1980 and one month long strikes, in 1981, at both operating divisions, lower metal prices and higher exploration expenditures. The \$8,125,000 lower 1980 contribution, compared with 1979, reflects lower copper and zinc production, because of lower grades, and increased costs.

Falconbridge Dominicana, C. por A.'s (Falcondo) \$15,171,000 higher loss in 1981, compared with 1980, principally results from a higher unit production cost, a lower average net selling price for ferronickel, the write-down of inventory to estimated realizable value, and interest expense on additional borrowings. In 1982 Falcondo temporarily shut down its production operations, see note 17 of the notes to consolidated financial statements, page 37. The \$9,024,000 unfavourable change to a loss in 1980, compared with earnings in 1979, reflects a lower ferronickel sales volume, higher unit production costs and the expensing of ongoing costs (\$15,306,000) incurred during the five month shut down of production operations in 1980; partially offset by the impact of a higher average net selling price for ferronickel.

Giant Yellowknife Mines Limited's \$989,000 lower 1981 contribution, compared with 1980, is mainly attributable to a lower average price received for the gold produced, \$524 per ounce in 1981 compared with \$730 per ounce in 1980, and increased costs. The \$342,000 lower 1980 contribution, compared with 1979, mainly results from lower production, because of a 3½ month strike by employees. Partially offsetting the impact of the strike were an increase in the price of gold produced, \$730 per ounce compared with \$412 per ounce in 1979, and a favourable adjustment to the 1979 estimated bullion settlements receivable.

Indusmin Limited's \$361,000 lower 1981 contribution, compared with 1980, mainly reflects higher operating costs in its Aggregates and Castings Divisions and higher interest expenses. The \$316,000 lower 1980 contribution, compared with 1979, generally reflects the impact of a recession on the demand for Indusmin's products.

Kiena Gold Mines Limited's 1981 contribution to consolidated earnings represents production from initial extraction in the mine stopping areas.

Oamites Mining Company (Proprietary) Limited's \$1,502,000 unfavourable change to loss in 1981, compared with earnings in 1980, generally results from lower production and decreased metal selling prices. The \$451,000 decrease in 1980 contribution, compared with 1979, mainly results from increased production costs.

United Keno Hill Mines Limited's \$5,206,000 unfavourable change, before its Venus Mine project costs write off (see note 2 of the notes to consolidated financial statements, page 30), to a loss in 1981 compared with

earnings in 1980 results from lost production because of a strike which began in September 1980 and was settled in May 1981 and a considerably lower average silver price in 1981 (\$9.99 compared with \$17.91 per ounce) and increased labour costs. The \$6,317,000 lower 1980 contribution, compared with 1979, mainly reflects lower production because of the strike which continued from September through year-end.

The \$886,000 increased loss in 1981, compared with 1980, by other controlled companies mainly reflects increased exploration expenditures in the U.S. by a wholly-owned subsidiary. The \$1,895,000 unfavourable change to a loss in 1980, compared with earnings in 1979, generally results from the lower earnings of a small U.S. oil and gas subsidiary and increased exploration expenditures in the U.S. by another small U.S. subsidiary.

Falconbridge Nickel Mines Limited's Wesfrob Mining Division's \$2,592,000 unfavourable change to a loss in 1981 compared with earnings in 1980 mainly reflects a lower average selling price for copper and precious metals, increased operating costs and accelerated depreciation charges. The \$3,094,000 lower 1980 earnings, compared with 1979, mainly results from increased costs.

Unallocated corporate expenditures, net, are \$7,424,000 higher in 1981, compared with 1980, mainly because of lower interest income (the unfavourable impact of lower cash balances being modified by higher rates), increased interest expense (because of higher rates), greater expenditures on exploration and increased administrative expenditures. The 1980 unallocated corporate expenditures were \$4,734,000 higher than those in 1979 because of increased exploration and administrative expenditures, partially offset by higher interest income.

The Integrated Nickel Operations' earnings of \$31,059,000 in 1981 compared with \$57,372,000 in 1980. The decrease of \$26,313,000 reflects lower average metal selling prices, modified by a more favourable U.S. dollar exchange rate, higher production costs, increased mine operating development and depreciation, and higher allocated corporate expenditures, reflecting increased research and process development expenditures, larger interest expenses, lower interest income and greater administrative costs. These unfavourable factors were partially offset by the impact of increased nickel, copper and cobalt sales volumes. Earnings of \$57,372,000 in 1980 compared with \$62,213,000 in 1979. The decrease of \$4,841,000 generally results from a 36 per cent decrease in the volume of nickel sales and increased costs, the unfavourable impact of which was partially offset by a 41 per cent higher average nickel selling price and a 26 per cent increase in the volume of copper sold.

See pages 38 to 43 for certain segmented data. Further discussion and analysis of the results of operations of the

Company and its operating subsidiaries is also contained throughout the annual report.

Impact of Inflation:

As a result of significant and continued inflation, traditional historical cost financial statements do not fully reflect the cumulative effects of increasing costs and changes in the purchasing power of the dollar. The extent to which Falconbridge has been affected by inflation is indicated on pages 48 to 53, "Impact of inflation — financial reporting and changing prices".

Falconbridge's 1981 consolidated loss of \$3,902,000, before extraordinary item, adjusted for general inflation is increased to an estimated loss of \$81,699,000. Adjusting the reported loss to reflect current costs results in an estimated loss of \$91,277,000. The large variances from historical results reflected by the use of these inflation measurement techniques, neither of which is conclusively correct, indicate the significant impact of inflation.

Depreciation, depletion and amortization of \$59,563,000 for property, plant and equipment, development and preproduction expenditures reported in the historical cost financial statements compares to \$146,119,000 based on the current cost of the related assets. This indicates that the \$59,563,000 reported in the historical cost financial statements does not adequately reflect the current cost of assets consumed in the production process. The \$803,804,000 higher cost of property, plant and equipment, development and preproduction expenditures (from the historical cost of \$550,011,000 to \$1,353,815,000 adjusted for current costs) indicates that large capital outlays are required to

bring new mines and plants into production and that increased product prices are required to yield an acceptable rate of return on the current cost of these assets.

Because the prices of Falconbridge's products are set in international markets, they do not necessarily reflect the effect of inflation on its various cost components. Consequently, Falconbridge cannot offset the effects of inflation by increasing prices as costs rise. However, ore reserves are a significant hedge against inflation as is increased productivity through the development of improved processes and methods. Recognizing that inflation affects all business activity, appropriate allowances are made in Falconbridge's planning and financial forecasting.

Board of Directors

*F. C. ACKMAN
Chairman of the Board, President and
Chief Executive Officer,
The Superior Oil Company

*H. T. BERRY
Chairman of the Board, President and
Chief Executive Officer

J. B. CONNALLY
Senior Partner, law firm of Vinson &
Elkins

†MARSH A. COOPER
President, M. A. Cooper
Consultants Inc.

†R. E. HARRISON
Chairman and Chief Executive Officer,
Canadian Imperial Bank of Commerce

ROBERT HEWITT
Chairman, Hewitt Equipment Limited

*W. F. JAMES
Consulting Geologist

*H. B. KECK
Director, The Superior Oil Company

†H. B. KECK, JR.
President, Maritime Bank of California

†D. E. LEWIS, Q.C.
Barrister and Solicitor

G. P. MITCHELL
Geological Consultant

EIVIND WIGSTOL
Managing Director,
Falconbridge Nikkelverk Aktieselskap

*Member of the Executive Committee

†Member of the Audit Committee

Officers and Corporate Management

H. T. BERRY
Chairman of the Board,
President and Chief Executive Officer

L. G. BONAR
Vice-President Marketing and Sales

J. M. DONOVAN
Vice-President Finance

I. H. KEITH
Vice-President Ferronickel and Industrial
Minerals Divisions and African Operations

L. C. KILBURN
Vice-President Exploration, Development
and Western Canadian Operations

J. D. KRANE
Vice-President Corporate Affairs and
Secretary

A. G. SLADE
Vice-President Canadian Nickel and Copper
Operations

MICHAEL WALKER
Vice-President Sales

J. L. MATTHEWS, Q.C.
General Counsel and Assistant Secretary

A. M. CLARKE
Assistant Vice-President Development

T. J. DESANTI
Assistant Vice-President
Commodity Marketing

H. T. EVANS
Assistant Vice-President
Ferronickel Division

C. M. H. JENNINGS
Assistant Vice-President Exploration

A. R. PASIEKA
Assistant Vice-President Mining

M. O. PEARCE
Assistant Vice-President Marketing

P. D. BARBER
Director Human Resources

J. J. BRESNAHAN
Director of Administration

F. G. T. PICKARD
Director Metallurgy and
Engineering

E. L. SHILLER
Director Public Affairs

R. G. SMITH
Director Corporate Planning

P. G. THORNHILL
Director Metallurgical Research

PETER ZAHARUK
Director General Engineering

J. F. GILLIES
Controller

N. H. WITHERELL
Treasurer

Corporate Offices

Head Office — P.O. Box 40,
Commerce Court West, Toronto,
Ontario, Canada M5L 1B4
Telephone: (416) 863-7000
Telex: 065-24211
Cables: "Falconbrij"

Vancouver Office —
1112 West Pender Street,
Vancouver, B.C. V6E 2S1

Among Wholly-Owned Operations

Falconbridge Nikkelverk Aktieselskap
Kristiansand S., Norway
G. Lous — Chairman of the Board
E. Wigstol — Managing Director

Wesfrob Mining Division
Tasu, Queen Charlotte Islands, B.C.
J. C. Cowan — President
C. L. Stafford — Vice-President and General Manager

Canadian Nickel Division
Falconbridge, Ontario P0M 1S0
A. G. Slade — President
G. B. Reed — General Manager, Sudbury Operations

Sudbury Operations
Mines — Falconbridge, East, Lockerby, Onaping, North, Fraser, Strathcona

Concentrators — Falconbridge, Strathcona

Smelter — Falconbridge

Marketing Subsidiaries

Falconbridge International Limited
Gibbons Building, Queen Street, Hamilton 5-31, Bermuda
Telephone: (809) 292-4700
Telex: 290-3479
Rapifax: 809-292-5441

Falconbridge Europe S.A.
150 Chaussée de La Hulpe — Bte. 15, B-1170 Brussels, Belgium
Telephone: (02) 673-99-50
Telex: (046) 23280
Rapifax: (02) 660-64-82

Falconbridge U.S. Incorporated
Seven Parkway Center, Suite 450, Pittsburgh, Pennsylvania 15220, U.S.A.
Telephone: (412) 922-0100
Telex: 866-507
Rapifax: 412-922-5515

Falconbridge Canada
P.O. Box 40, Commerce Court West, Toronto, Ontario, Canada M5L 1B4
Telephone: (416) 863-7000
Telex: 065-24211
Rapifax: 364-8986

Products

Products of Falconbridge Nickel Mines Limited and affiliated companies include nickel, ferronickel, copper, cobalt, gold, silver, platinum, palladium, iridium, rhodium, ruthenium, selenium, lead, iron ore, zinc, cadmium, nepheline syenite, silica, feldspar, mica, limestone aggregates, liquid sulphur dioxide, carbon and high-alloy steel castings, and other products for consumer and industrial use.

Research Laboratories

Falconbridge Metallurgical Laboratories, Richmond Hill, Ontario; Kristiansand S., Norway.

Exploration Offices

Toronto, Sudbury and Timmins, Ontario; Quebec City, Quebec; Vancouver, British Columbia; Winnipeg, Manitoba; St. John's, Newfoundland; Santo Domingo, Dominican Republic; Oslo, Norway; Johannesburg, South Africa; Windhoek, Namibia (South West Africa); Gaborone, Botswana; Bulawayo, Zimbabwe; and Manila, Philippines.

Solicitors

Tilley, Carson & Findlay, Toronto

Auditors

Clarkson Gordon, Toronto

Transfer Agents and Registrars

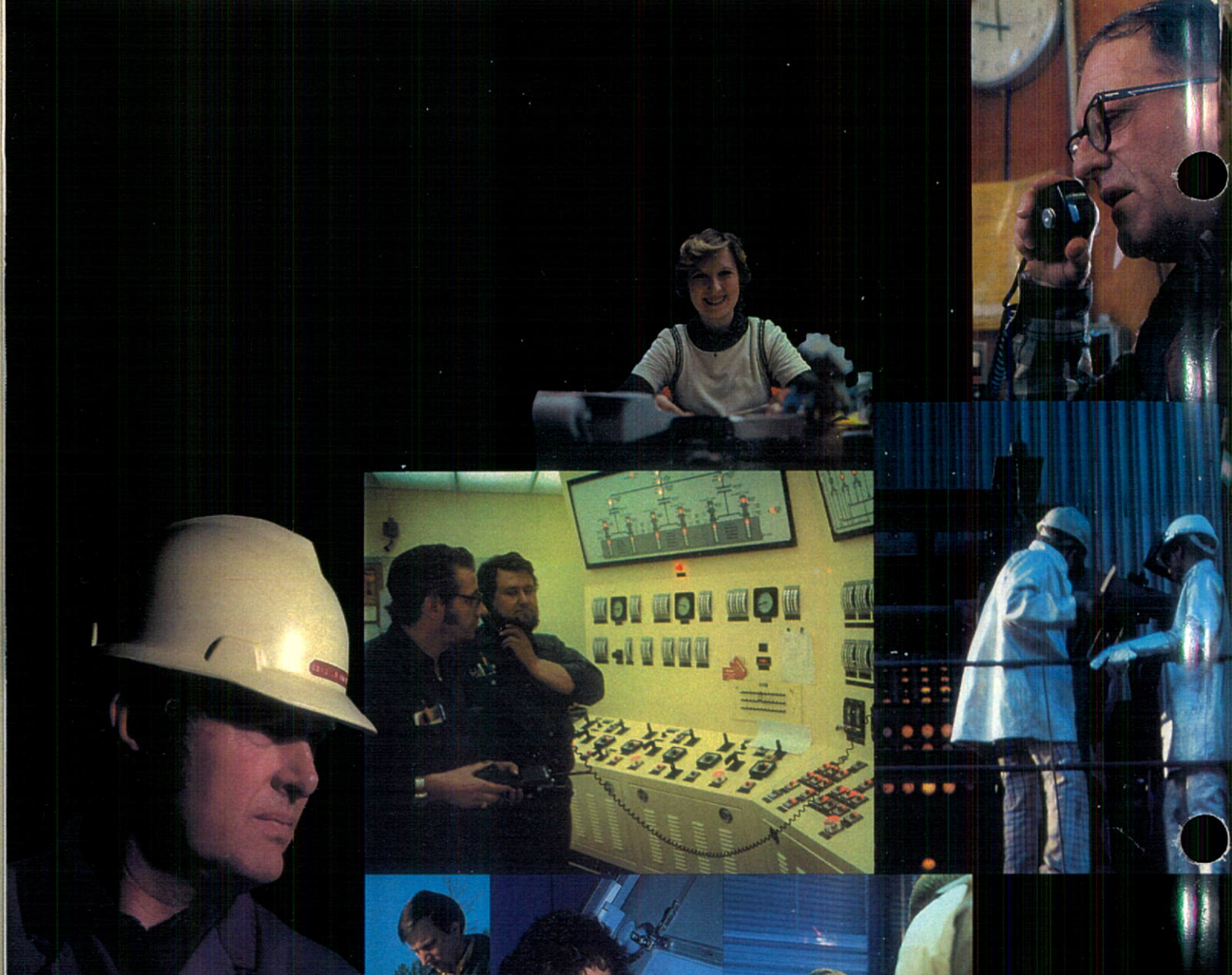
Crown Trust Company, Toronto, Montreal, Vancouver and Calgary

Registrar and Transfer Company
New York and Cranford, N.J., U.S.A.

Stock Exchanges

The shares of Falconbridge Nickel Mines Limited are listed on the Toronto, Montreal and Vancouver stock exchanges.

The shares are also traded Over-the-Counter in the United States. The NASDAQ symbol is FALCF.



FALCONBRIDGE

