



Kidd Creek Mines Ltd. Officers

P. Ray Clarke
Chairman of the Board
Chief Executive Officer

George W. Mannard
President
Chief Operating Officer

Michael P. Amsden
Senior Vice President
Operations

Kent D. Hoffman
Senior Vice President
Marketing

David G. Baskin
Vice President
Traffic

J. Eric Belford
Vice President
Mining

Ronald A. Garva
Controller

Bruce W. Gilbert
Vice President
Sales

Donald F. Grenville
Vice President
Employee Relations

John B. Heslop
Vice President
New Projects

Peter L. Money
Vice President
Exploration

John M. Newell
Vice President
Corporate Planning

George Podolsky
Vice President
Research and Development

L. Donald Sanderson
Vice President
Metallurgy

Albert W. Scragg
Vice President
Chief Financial Officer

H. Devon Smith
Vice President
Public Relations

Reginald A. Willoughby
Vice President
General Counsel
Secretary

Gerald N. Wood
Treasurer

Kidd Creek Europe Ltd. Officers

Michael C. Hughes
President

Alan S. Tipler
Vice President

Senior Staff

TIMMINS OPERATIONS

Peter N. Blakey
Superintendent
Owl Creek Mine

Colin Chapman
Superintendent
Concentrator

Ernest R. Hamilton
Superintendent
Zinc Plant

Denis J. Kemp
Superintendent
Copper Refinery

G. Merle T. Marshall
Manager
Engineering

James E. Martin
Superintendent
Maintenance
Metsite

Angelo Matulich
Chief Geologist

David L. McKay
Superintendent
No. 2 Mine

Denis Miller
Superintendent
Special Projects

John W. Miller
Superintendent
Maintenance, Minesite

Christopher J. Newman
Superintendent
Copper Smelter

William H. Niemi
Superintendent
Traffic

John P. Pappone
Superintendent
Employee Relations

Ronald M. Sweetin
Manager
Copper Smelter and Refinery

Stephen J. Walasek
Superintendent
Computer Services

Arthur C. Warren
Chief Accountant

J. Keith Youngblut
Superintendent
No. 1 Mine

Philip E. Donaldson
Superintendent
Purchasing & Warehousing

EXPLORATION DIVISION

Alfred Boerner
Group Manager
Calgary

Peter DeLancy
District Manager
British Columbia
Vancouver

William Gasteiger
District Manager
Northeast Ontario
Timmins

Richard Moore
Chief Geologist
Toronto

Giles R. Peatfield
Regional Manager
Canadian Shield
Toronto

Donald W. Pollock
Regional Manager
Appalachian Region
Windsor, N.S.

John Slankis
Chief Geophysicist
Toronto

E. Trueman
Manager
Uranium Exploration
Calgary

CORPORATE DIVISION

Kenneth J. Altorfer
Manager
Market Development
Edison, N.J.

Ann Casswell
Accounting Supervisor

Anthony J. Griffiths
Manager
Metal Sales

Victor N. Kelly
Assistant to
the President

Maura T. Leahy
Manager
Public Relations

William R. Smith
Manager
Metal Sales

Sales and earnings among best on record, but substantially below exceptional 1980 levels.

Canadian mining, metallurgical and minerals exploration assets of Texasgulf Inc. were separated from Texasgulf to become a new company, Kidd Creek Mines Ltd., an indirectly wholly-owned subsidiary of Canada Development Corporation.

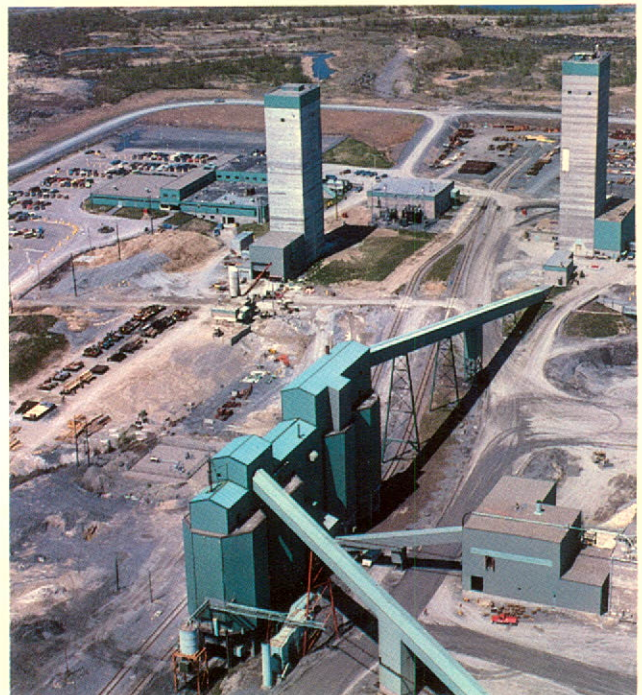
Construction of the \$300 million copper smelter and refinery at Timmins completed. Plant expected to be operating at capacity by end of 1982.

The deeper Number 2 Mine at Timmins picked up its 3,500-ton per day production responsibility, raising annual ore production capacity in the base metals mines to 4,800,000 tons.

Gold ore production began from Owl Creek Mine.

Zinc plant produced its millionth ton of metal as 1982 began.

Expansion of Timmins zinc plant from 120,000 to 140,000 tons a year is 60% completed. Added output expected in third quarter of 1982.





Kidd Creek Mines Ltd. is a Canadian resource company indirectly wholly-owned by Canada Development Corporation. It has evolved from the Metals Division formed by Texasgulf in 1964 to mine, process and market the metals in the rich orebody uncovered at Timmins, Ontario in the course of The Shield Project, a years-long mineral search in Canada.

During 1981, Societe Nationale Elf Aquitaine of France and CDC became the owners of all the shares of Texasgulf. A division of Texasgulf's assets was made between the two shareholders. As a consequence of the division, Texasgulf Canada Ltd., a former Texasgulf subsidiary, changed its name to Kidd Creek Mines Ltd., and became the corporate vehicle for CDC's newly acquired Canadian mining interests.

The principal components that Kidd Creek Mines inherited from the division of Texasgulf were the prolific metals mine at Timmins, together with its metallurgical plants and world-wide marketing organization, a forty percent interest in the Allan Potash Mine, a vast deposit managed by the Potash Corporation of Saskatchewan Mining Limited, and a large and well established exploration program.

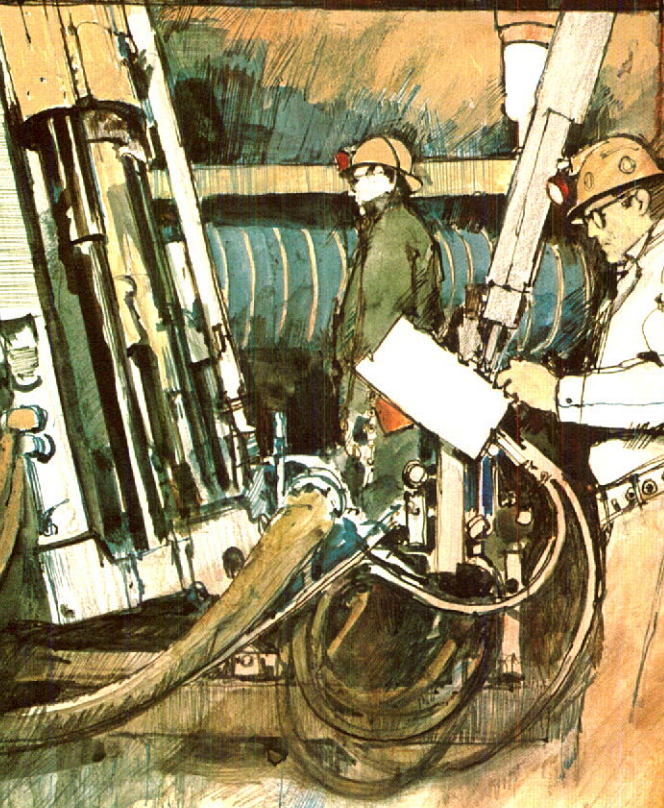
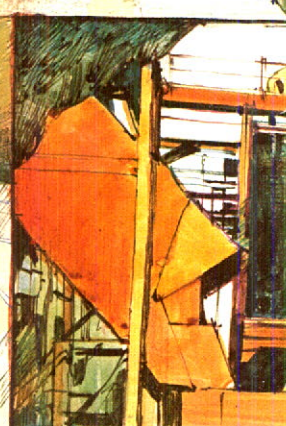
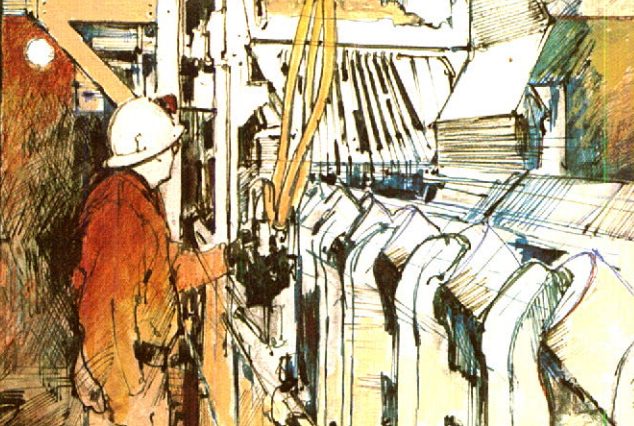
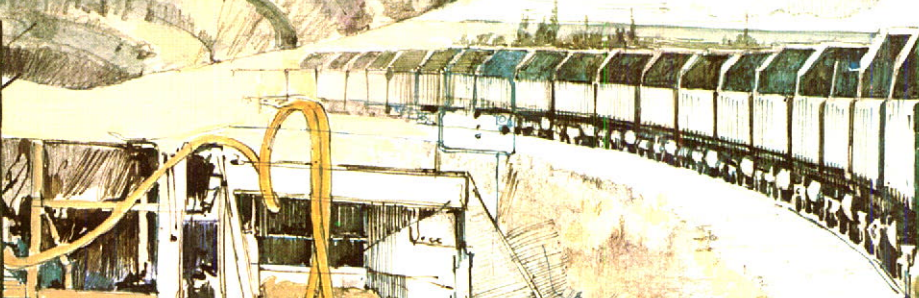
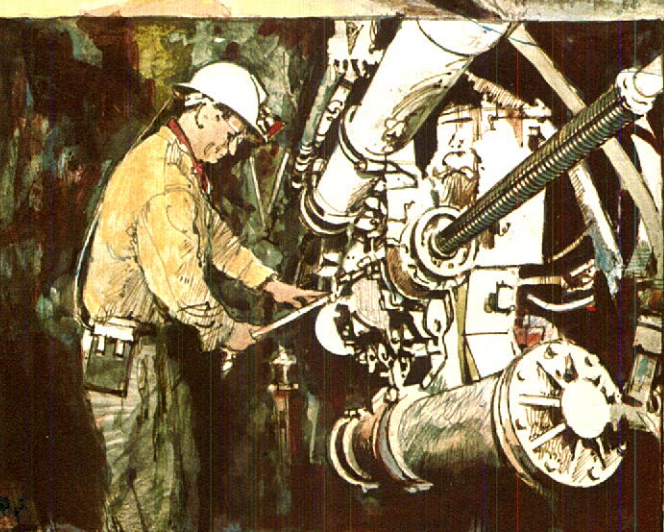
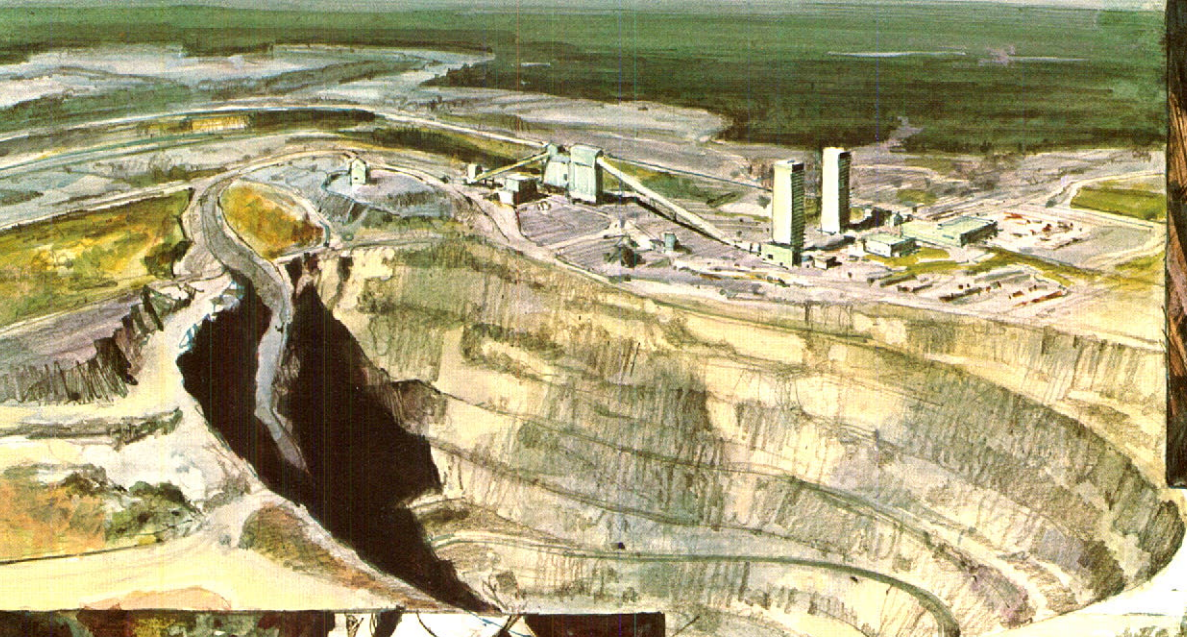
Production at Kidd Creek's Timmins mine began in November 1966. The original open-pit mine has been replaced by two underground mines, one extending to 3,000 feet and the other to 5,000 feet. Mine production is at an annual rate of 4,800,000 tons. The Owl Creek Gold Mine, also at Timmins, came into production early in 1982 from an open pit. Owl Creek will yield 200,000 tons of ore per year.

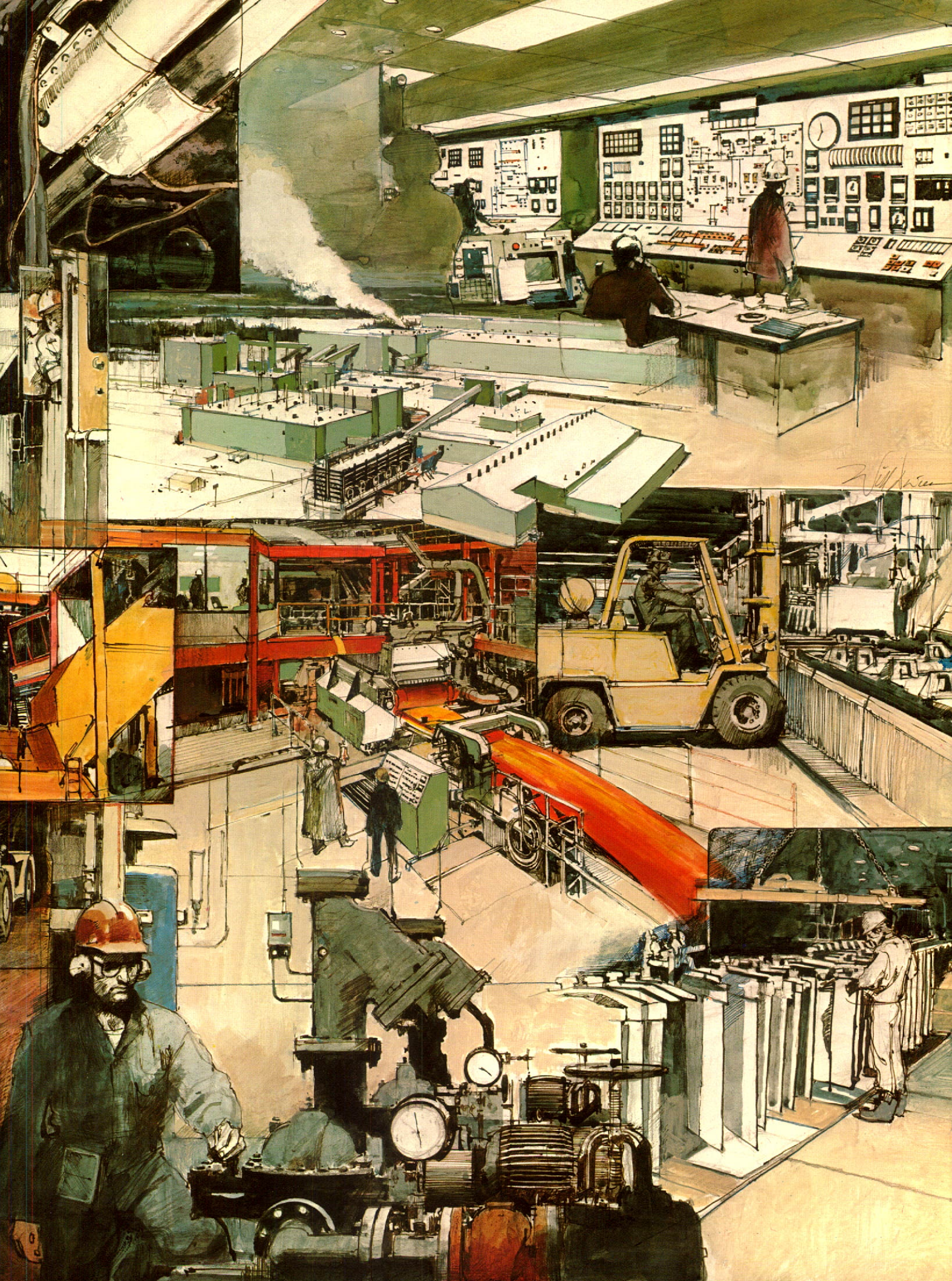
A highly automated concentrator at Timmins began production of zinc, copper and lead concentrates in 1966. Largely computer operated, this advanced technology plant processes all ore from the base metals and gold mines of Kidd Creek at Timmins.

A zinc metal reduction plant at Timmins utilizes Kidd Creek concentrates to produce 120,000 short tons of zinc metal and more than 500 tons of cadmium metal a year.

A copper smelter and refinery were completed in 1981. Their production is expected to reach an annual rate of 65,000 short tons of cathode copper later this year.

Kidd Creek Mines maintains an aggressive and extensive minerals exploration program. Currently, exploration activity is largely confined to Canada.





Dramatic and fundamental changes took place in our corporate structure and relationships during 1981. There were also substantial new elements added to our productive capability, the results of years of development and investment.

While adjusting to our rapidly altering circumstances, the approximately three thousand people of Kidd Creek Mines produced results that compared favourably with all but the most exceptional years of our fifteen year operating history. A fuller discussion of the trends and influences behind these results will be found in the President's report.

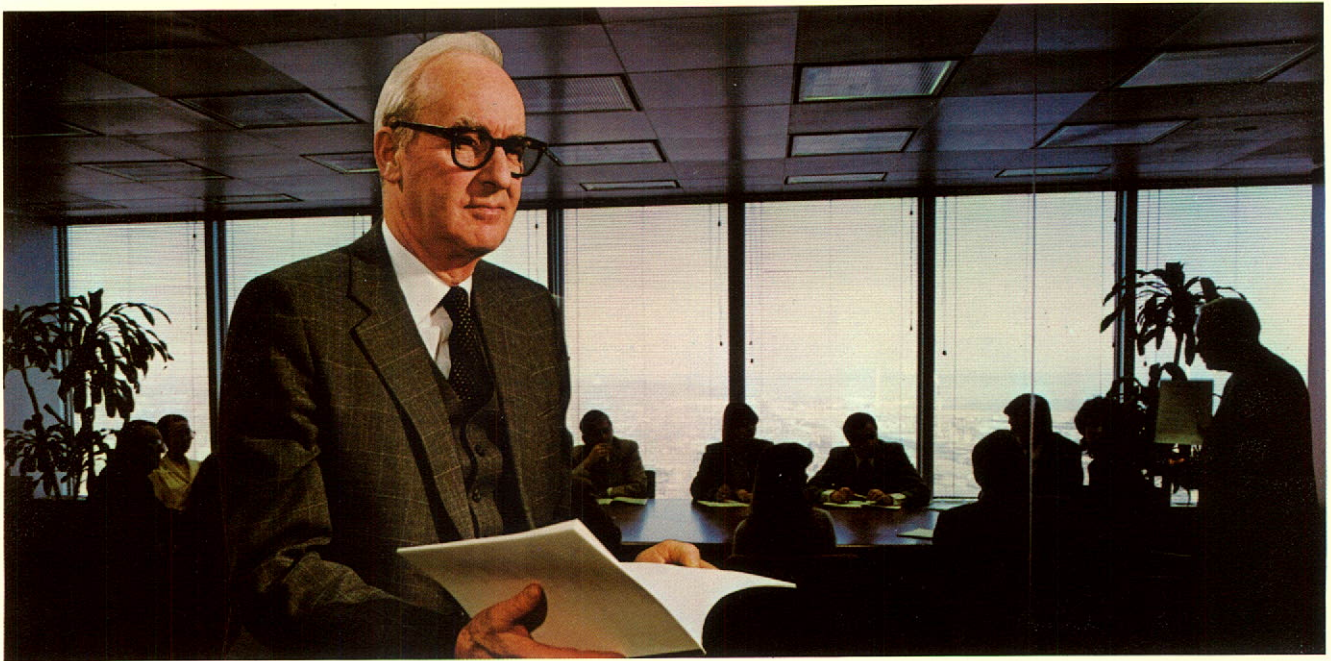
At the close of 1981, Texasgulf Canada Ltd., renamed Kidd Creek Mines Ltd. in November, separated from Texasgulf and became an indirectly wholly-owned subsidiary of Canada Development Corporation. This change was made under an arrangement announced by CDC on June 26, 1981. CDC officers made it clear to us then that they wanted continuity of management and policies under the new regime. A meeting of the CDC Board of Directors at Timmins during the summer provided important reassurance to the large majority of our employees that lives there.

As soon as the separation proposal was made public, CDC named me Chairman of the Board and Chief Executive Officer. George W. Mannard was chosen to be President and Chief Operating Officer. Other officers of Texasgulf Canada were confirmed in their positions and some additional officers were appointed.

The reputation enjoyed by this company as it assumed its new name and separate role was excellent, as good as any in the Canadian mining industry. The management concepts that brought us that reputation have not changed.

Kidd Creek Mines will continue to strive for an unmatched safety record; innovation in management and human relations; high productivity because of advanced technology and a happy working environment. We plan to retain and further strengthen the respect we have gained from each other as employees, and from our governments, suppliers and competitors.

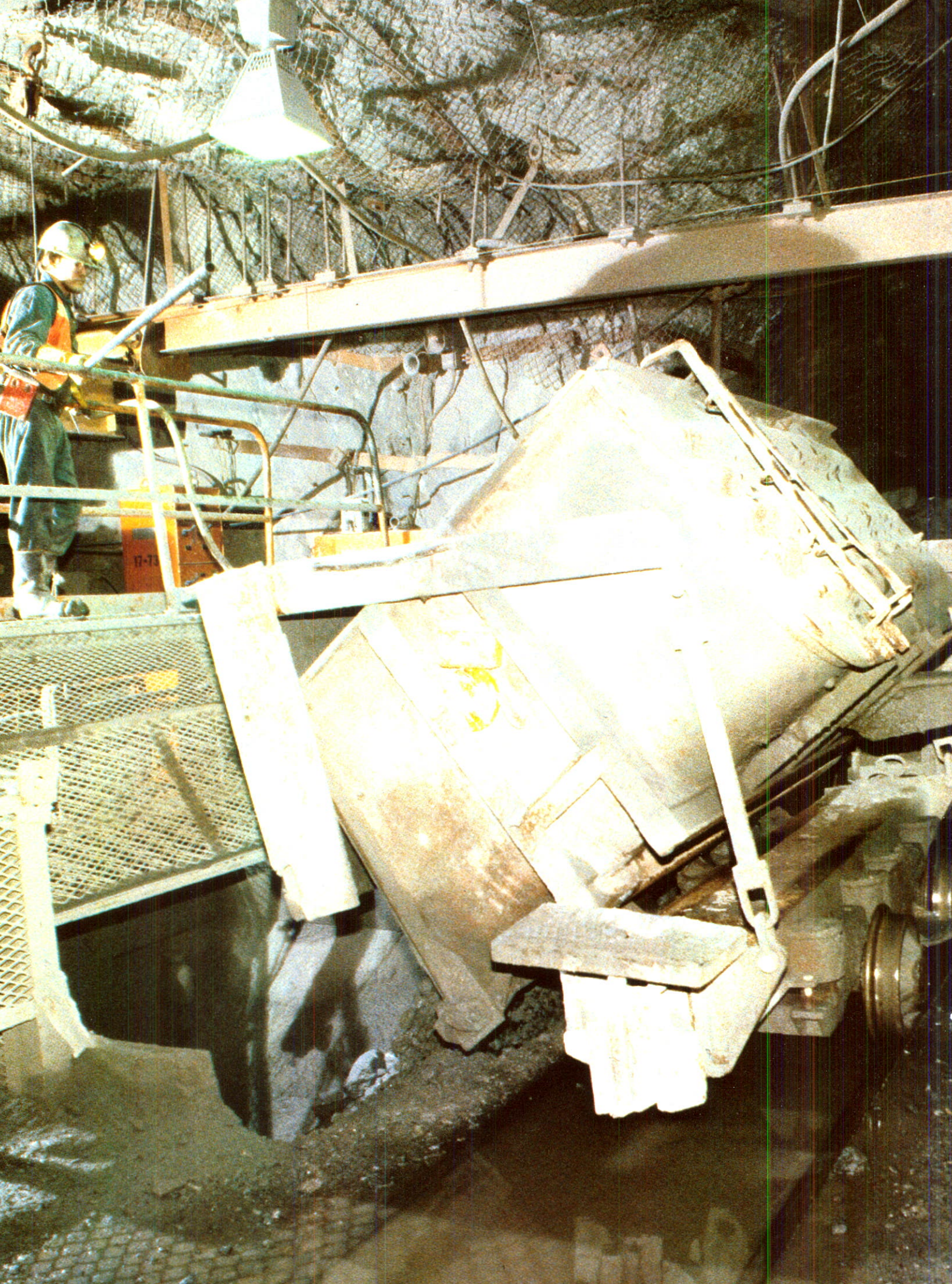
We have the full support of our new shareholder to carry on being innovative and imaginative, being a good place to work, being a reliable supplier and being a good customer to the local and the more distant Canadian communities.



Although weak metals prices have markedly reduced profits or resulted in losses for many mining companies this past year, Kidd Creek reported an operating profit that was not out of line with our historic pattern, though down from the exceptional level of 1980. Kidd Creek's performance may be attributed in part to the fact that three major metals are mined. While copper prices have been disappointing, zinc prices stood up well until the final quarter of the year, and silver remained at an historically good price level.

The recession that has depressed copper and zinc prices is likely to continue well into the second half of this year or beyond. Until prices are substantially improved the mining industry will have difficulty remaining profitable and thus sustaining the exploration, development and innovation that are required to maintain or enhance mineral output in Canada.

P. Ray Clarke
Chairman of the Board and
Chief Executive Officer



Pro Forma Combined Statement of Assets and Liabilities (note 3)
December 31, 1981

ASSETS

	(in thousands)
Current assets:	
Cash	\$ 11,248
Trade accounts receivable	52,938
Other receivables (note 3(e))	21,144
Inventories:	
Minerals and products	65,622
Materials and supplies	39,433
Total current assets	190,385
Notes receivable, advances and other assets	19,796
Property, plant and equipment:	
Lands, contract rights and development	290,204
Plants, buildings, machinery and equipment	808,879
	1,099,083
Less accumulated depreciation and amortization	7,306
	1,091,777
Unproved properties and exploration projects	13,112
	\$1,315,070

See accompanying notes to the statement.

LIABILITIES

	(in thousands)
Current liabilities:	
Current maturities of long-term debt	\$ 26,483
Accounts payable and accrued liabilities	66,584
Income taxes payable	2,525
Total current liabilities	95,592
Bank loans (note 5)	329,562
Other long-term debt (note 6)	23,510
Other liabilities	1,543
Shareholder's advances and investment (note 7):	
Long-term debt	400,969
Shareholder's investment	463,894
	864,863
Contingency (note 8)	
	<u>\$1,315,070</u>

Auditors' Report



Peat, Marwick, Mitchell & Co.

To the Shareholder of
Kidd Creek Mines Ltd.

We have examined the pro forma combined statement of assets and liabilities of Kidd Creek Mines (as defined in note 1 to the statement). 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 this statement presents fairly the pro forma combined financial position of Kidd Creek Mines as at December 31, 1981 in accordance with the basis of presentation outlined in notes 3 and 4 to the statement.

Toronto, Canada
March 17, 1982

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Kidd Creek Mines

Notes to Pro Forma Combined
Statement of Assets and Liabilities
December 31, 1981

1. Kidd Creek Mines:

For the purpose of the pro forma combined statement of assets and liabilities Kidd Creek Mines is defined as the entity set out in note 3.

2. Canada Development Corporation Acquisition:

Under the terms of an agreement dated June 26, 1981 between Canada Development Corporation ("CDC") and Societe Nationale Elf Aquitaine ("SNEA"), CDC agreed to acquire the assets and related liabilities of the Canadian operations of Texasgulf Inc. ("Tg") in exchange for its 35.1% interest in the shares of Tg. The acquisition was completed on January 5, 1982 with effect from September 26, 1981. The companies acquired, all of which were wholly-owned subsidiaries of Tg, include:

<u>SUBSIDIARY</u>	<u>INCORPORATION</u>
Kidd Creek Mines Ltd. (formerly Texasgulf Canada Ltd.)	Delaware
Kidd Creek Potash Company (formerly Texasgulf Potash Company)	California
Kidd Creek Europe Ltd. (formerly Texasgulf Export Corp.)	Delaware
Land and Timber Company	Delaware
Kahulu Creek Mining Company Limited	Canada
Kidd Creek Newfoundland Limited (formerly Texasgulf Newfoundland Limited)	Newfoundland
Exploration Miniere Kidd Creek Ltee (formerly Exploration Miniere Texasgulf Ltee)	Quebec
Tg Hydrocarbons Limited	Alberta

The significant operations of these companies include the mining operations of Kidd Creek Mines Ltd. and Kidd Creek Potash Company, and the oil and gas and recovered sulphur operations of Kidd Creek Mines Ltd., and Tg Hydrocarbons Limited.

It is CDC's intention that Kidd Creek Mines will manage the mining operations acquired from Tg as well as certain exploration activities of other CDC subsidiaries.

3. Basis of presentation:

The pro forma combined statement of assets and liabilities has been prepared on the following basis:

- It includes the mining and related assets and liabilities of all of the subsidiaries acquired from Tg.
- It does not include the assets and liabilities of the oil and gas and recovered sulphur operations of Kidd Creek Mines Ltd. and the assets and liabilities of Tg Hydrocarbons Ltd.
- It includes the assets and liabilities of certain mining operations which it is intended will be transferred to Kidd Creek Mines from other subsidiaries of CDC. The net assets to be transferred amount to \$3,577,000, and are represented primarily by unproved properties and exploration projects.
- It includes \$488,334,000, the excess of the value of CDC's purchase consideration allocated to mining and related net assets over the book value of such net assets as shown in the records of the Tg subsidiaries acquired. The value of the purchase consideration is subject to unresolved income tax issues and litigation as outlined in note 8. Additionally, information to allocate fully the purchase consideration to the underlying assets and liabilities is not yet available. For the purpose of this statement a preliminary allocation has been made to the most significant assets and liabilities as follows:

	(in thousands)
Land, contract rights and development	\$ 166,000
Plants, buildings, machinery and equipment	136,288
Deferred income taxes	147,974
Canadian branch taxes payable	38,072
	<u>\$488,334</u>

- (e) It gives effect to transactions which took place on January 4, 1982 as follows:
(in thousands)

Receipt of loan proceeds:	
Banks	\$ 329,562
CDC	400,969
	<u>730,531</u>
Less payments to Tg:	
Settlement of long-term intercompany account	390,024
Dividends	329,562
	<u>719,586</u>
Cash deposited in bank	<u>\$ 10,945</u>

Included in other receivables is \$11,205,000, the estimate of the amount due from Tg upon final settlement of the intercompany account.

4. Significant accounting policies:

The accounting policies of the companies combined in this statement are in accordance with accounting principles generally accepted in Canada. The significant accounting policies are as follows:

(a) Inventories:

Inventories of minerals above ground and products are stated at the lower of average cost and net realizable value. Materials and supplies are stated at average cost.

(b) Property, plant and equipment:

Property, plant and equipment are recorded at cost, including an allocation of the excess of the value of CDC's purchase consideration over the book value of the net assets acquired.

Development expenditures necessary to prepare an orebody for production are capitalized prior to initial production. Thereafter, expenditures of a similar nature are charged to operations except for major expenditures expected to benefit several years' production which are capitalized.

Producing property, plant and equipment are depreciated and amortized over the estimated lives of such assets by the application of the unit-of-production method in the case of mine properties and facilities and the straight-line method in the case of manufacturing facilities. In arriving at rates under the unit-of-production method, commercially recoverable product reserves are estimated by the company's geologists and engineers. Such estimates are revised as data becomes available to warrant revision. Under the straight-line method, the annual rates applied to the cost of the assets give effect to wear and tear, deterioration from natural causes and normal obsolescence. Accumulated depreciation represents depreciation recorded in the accounts from September 26, 1981, the effective date of acquisition.

(c) Exploration:

All expenditures on major unproved properties and mineral exploration projects are capitalized pending determination of commercially recoverable reserves. Costs are accumulated initially in connection with broad areas of interest prior to property acquisition. Thereafter, costs are allocated to properties acquired and ultimately to specific prospects. Major projects determined to be commercially unsuccessful are charged to expense and allowances are provided for all expenditures on minor projects. General administrative expense relating to overall exploration efforts is charged to operations as incurred.

(d) Capitalized interest:

Interest on major construction projects in progress is capitalized.

(e) Foreign currency translation:

Current assets and current liabilities that are receivable or payable in foreign currencies have been translated into Canadian dollars at rates of exchange in effect at December 31, 1981. Transactions which took place on January 4, 1982 have been translated at rates of exchange in effect on that date.

5. Bank loans:

On January 4, 1982 \$329,562,000 was drawn down from a temporary credit facility arranged with Canadian chartered banks. Subsequent to that date a formal credit facility was arranged in the amount of U.S. \$300 million. The loans bear interest based on rates quoted for bankers' acceptances, prime Canadian or U.S. dollar loans and L.I.B.O.R. loans. Under the terms of the loan agreement, the banks have the right to review the established credit facility annually or from time to time and to reduce or terminate the credit at any time.

Bank loans have been classified as non-current liabilities as the banks have indicated that they do not anticipate that the credit will not be renewed in its entirety as a result of their review, nor do they anticipate that it will be reduced or eliminated during the succeeding twelve months.

6. Other long-term debt:

Other long-term debt, excluding long-term debt payable to CDC, consists of the following:

	(in thousands)
9.5% notes, due 1982	\$ 25,000
10% debentures, due 1986. Sinking fund payments of \$741,000 in 1984 and \$1,250,000 in 1985 and final payment of \$15,000,000 in 1986	16,991
5.75% U.S. dollar notes, due 1986. Semi-annual payments of U.S. \$625,000 through 1985 and final semi-annual payments of U.S. \$875,000 in 1986	8,002
	49,993
Less current maturities	26,483
	<u>\$23,510</u>

Other long-term debt at December 31, 1981 matures through 1986 as follows:

	(in thousands)
1982	\$26,483
1983	1,483
1984	2,222
1985	2,731
1986	17,074

7. Shareholder's investment:

Long-term debt payable to CDC consists of a U.S. dollar note payable at interest based on rates quoted for L.I.B.O.R. loans plus 1% to July 30, 1986 and 1¹/₈% thereafter. It is repayable in semi-annual payments of U.S. \$33,800,000 from 1987 through 1991.

Shareholder's investment represents the book value of CDC's investment in Kidd Creek Mines, as defined, as at December 31, 1981. It consists of the book value of the 35.1% interest CDC held in the shares of Tg and acquisition costs, net of adjustments arising on the acquisition, less the value of the CDC purchase consideration allocated to oil and gas and recovered sulphur operations plus net income from September 26, 1981, the effective date of acquisition, to December 31, 1981.

8. Contingent purchase consideration:

Under the terms of the Agreement dated June 26, 1981 between SNEA and CDC, assessments of prior year income taxes (U.S. and Canadian) and interest will be shared on the basis of 57.5% and 42.5%, respectively. The results of Tg's Canadian operations have been included in the consolidated returns filed by Tg for U.S. Federal income tax purposes and will also be included in Tg's 1981 consolidated tax return. The Internal Revenue Service ("Service") audit of Tg's U.S. Federal income tax returns for the years 1966 through 1977 has recently been completed. As a result of the audit for the years 1971 to 1973, Tg paid an assessment of approximately U.S. \$27,300,000 including interest, relating to

unresolved issues. This amount has been accounted for in the book value of net assets acquired from Tg.

In connection with the years 1974 to 1977, Tg expects to receive an assessment of approximately U.S. \$40,000,000 including interest, relating to the unresolved issues. These issues will be litigated. Tg's treatment of taxes paid to Ontario pursuant to the Ontario Mining Tax Act on income from the mine at Kidd Creek remains the most significant unresolved issue. Tg has claimed this tax as a credit against U.S. income taxes. The Service has asserted the tax should be a deduction in arriving at U.S. taxable income. This same issue can be anticipated for the years 1978 through 1981. Should Tg not prevail in its litigation, the purchase price consideration will be adjusted accordingly.

9. Pension plan:

Substantially all employees are covered by a defined benefit pension plan. The policy is to fund pension costs as accrued. As at the date of the last actuarial determination, June 30, 1981, the current value of plan net assets exceeded accumulated plan benefits.

Kidd Creek Five-Year Production Comparison

Production quantities given below are from those former Texasgulf operations which comprise the operations of Kidd Creek Mines. They are presented to illustrate the recent history of production at these operations. All quantities are in short tons unless otherwise noted.

	1981	1980	1979	1978	1977
TIMMINS AREA OPERATIONS					
Ore Milled	4,493,400	4,298,600	4,057,500	3,309,300	3,636,000
Zinc Concentrates produced for sale	130,700	149,000	112,400	163,700	237,500
Zinc Concentrates consumed internally	246,000	238,600	229,700	171,700	198,800
Zinc Metal produced	120,400	112,000	117,600	80,300	91,100
Copper Metal produced (1)	66,600	68,000	68,100	53,000	57,100
Cadmium Metal produced	532	514	542	350	396
Lead-Silver Concentrate	17,800	30,600	13,700	20,700	30,600
Tin Concentrate	263	300	247	256	496
Silver (troy ounces)					
Total in Concentrates (2)	6,006,300	8,575,600	6,965,700	7,825,600	8,924,000
Accountable Silver (3)	4,661,000	7,061,000	5,691,000	6,327,000	6,976,000
Sulphuric Acid	213,000	203,000	203,000	152,400	166,800
ALLAN POTASH MINE					
(Kidd Creek Portion)					
Ore Milled	1,495,569	1,205,524	1,315,212	1,287,053	1,231,634
Muriate of Potash produced	537,393	439,807	477,633	473,256	457,060

(1) From 1977-1981, the copper was smelted and refined from Kidd Creek concentrates on a toll basis; 1981 production includes tolled copper and 6,159 tons produced at Kidd Creek's new smelter and refinery.

(2) This total includes all silver contained in copper, zinc and lead concentrates produced from Kidd Creek ores.

(3) This total includes silver returned from tolled copper concentrates, and ounces of silver paid for from sale of silver-bearing lead concentrates, zinc concentrates and refinery slimes and residues.



Kidd Creek Mines Ltd. operates two underground mines which extract complex ores from a single major deposit of copper, zinc, silver and lead, located 14 miles north of the centre of Timmins, Ontario.

Ore mined in 1981 was 4.5 million tons, compared to 4.3 million tons in 1980. This represents satisfactory progress towards our 1982 objective of mining 4.8 million tons, a production level which will prevail for several years. The capacity to sustain ore production at this level is illustrated by the ore reserve situation at the end of 1981. The 4.5 million tons mined in 1981 was partly offset by a gain of 1.7 million tons added to the reserves by successful underground exploration.

Proven and probable ore reserves at December 31, 1981 totalled 94,097,042 tons containing 2.82% copper, 4.85% zinc, 0.17% lead and 1.89 troy ounces of silver per ton. The existence of an additional 9,709,640 tons of ore of undetermined grade is inferred from limited data.

Ore from the underground mines is hauled by railroad 17 miles to the Metallurgical Site at Hoyle, 15 miles east of downtown Timmins. The metallurgical complex includes: a concentrator, a zinc reduction and refining plant, and a newly completed copper smelter and refinery.

In the concentrator the ore is processed by flotation, yielding concentrates of zinc, copper, lead and tin. Some of these concentrates contain substantial quantities of silver. In 1981, 4.5 million

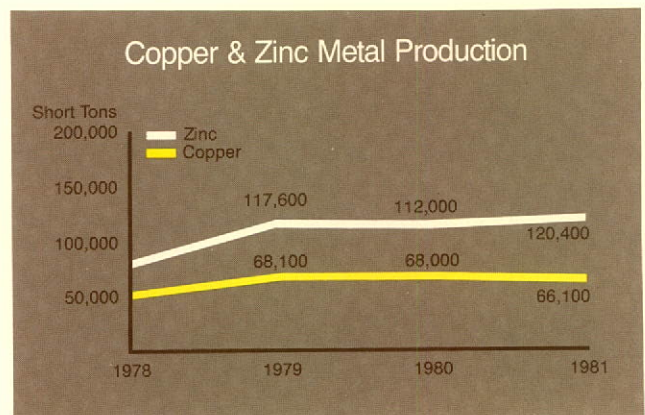
tons of ore were treated in the concentrator. It is anticipated that 4.8 million tons of base metal ore and 200,000 tons of gold ore will be milled in 1982, bringing the concentrator to its design capacity of 5 million tons per year.

The zinc concentrate contains approximately 52 percent zinc. Roughly one-third of the concentrate is sold on the open market. The remainder becomes feed for our zinc reduction plant and refinery, where it is converted into extremely pure zinc metal. By-products of this process are cadmium metal, sulphuric acid and silver-rich residues. The zinc plant had an excellent year in 1981, exceeding its 120,000 ton design capacity for the first time in its 10-year history. Early in January, 1982, the plant produced its millionth ton of zinc metal.

The addition of new facilities, to be completed in 1982, will increase the capacity of the zinc plant by 20,000 tons. The expansion utilizes pressure leaching technology developed recently in Canada by Sherritt Gordon Mines Limited.

Lead-silver and tin concentrates produced at Timmins are sold without further processing.

Prior to 1981, the copper concentrate produced at Timmins, which contains about 25 percent copper, had been smelted and refined elsewhere in Canada on a toll basis.



During 1981, 52,000 tons, or 17 percent of the copper concentrate, were consumed in the newly constructed copper smelter and refinery. Six thousand tons of refined copper were produced, and a substantial amount is currently still in process. When the smelter and refinery are operating at capacity, which is expected to occur late in 1982, two-thirds of Kidd Creek's copper concentrate will be consumed and 65,000 tons of refined copper produced each year. In addition to copper metal, the smelter and refinery produce substan-

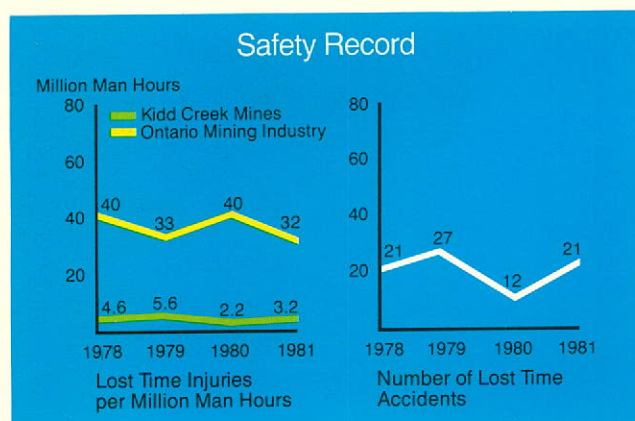
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tial amounts of sulphuric acid, and refinery slimes rich in silver and selenium.

It is noteworthy that Kidd Creek's Timmins copper and zinc plants were designed to capture sulphur dioxide emissions and convert them to sulphuric acid. At full capacity approximately 500,000 tons of sulphuric acid will be available for sale each year.

The employees at Kidd Creek's Timmins operations have established a unique and enviable safety record. Among their accomplishments they have won the Ryan Trophy, awarded annually to Canada's safest mine, from 1975 to 1978 and in 1980. The Trophy is awarded to the mine achieving the lowest frequency of lost-time injuries. Every effort is being made to maintain or improve our safety performance, a performance that reflects corporate policies now considered exemplary by official and industry observers.



Owl Creek

During 1981 an open pit gold mine was developed at Owl Creek, two and a half miles west of the Timmins metallurgical complex. The new mine will yield 200,000 tons of gold ore per year for six years.

The Owl Creek ore will be treated in one circuit of the concentrator at the nearby Metallurgical Site. Only minor modifications were required to permit the treatment of the gold ore. Gold concentrate produced at the Metallurgical Site will be sent to a local gold mining company for refining on a toll basis. It is estimated that yearly production will be at least 20,000 troy ounces of gold. Investigation of the potential for underground mining at Owl Creek continues. Drilling from underground stations established in 1981 will test the deposit at depth.

In the same vicinity, one and one-half miles northwest of the Metallurgical Site, another gold deposit is being evaluated at Hoyle Pond, a small but high-grade, vein-type deposit that has an excellent chance of developing into a future source of ore for the concentrator. Additional drilling and sampling, possibly from underground, will be needed to determine the viability of this project.

Allan Potash Mine

Kidd Creek Potash Company owns a 40% interest in the Allan Potash Mine, 30 miles east of Saskatoon, Saskatchewan. The remainder is owned by Potash Corporation of Saskatchewan Mining Limited, the operator. The mine produces various grades of muriate of potash, a fertilizer component. Two-thirds of Kidd Creek's share of the product is sold in North America; the balance is marketed overseas through Canpotex, a Canadian producers' marketing organization.

The Allan Mine had a record year in 1981, hoisting 3.7 million tons of ore. Production of muriate of potash was 1.3 million tons, an increase of 22% over 1980 production. Kidd Creek's share of the product was 537,000 tons. Progress was made towards achieving capacity production. The mine has vast reserves of potash ore, and a substantial expansion will be considered when the long-range supply and demand situation is deemed to be favourable.

Nanisivik Mines Ltd.

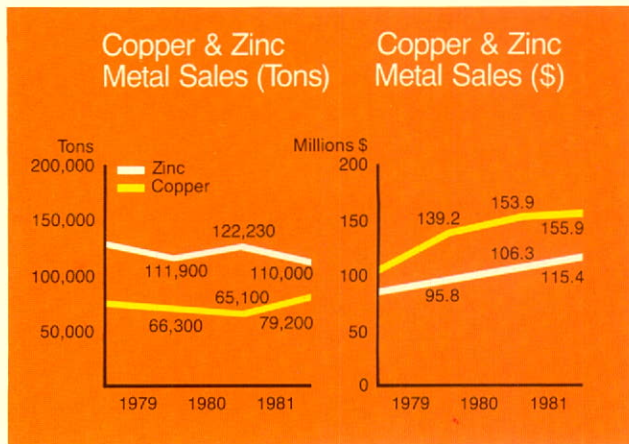
Kidd Creek Mines owns a small equity interest in Nanisivik Mines Ltd., and also holds a 35 per cent net profits royalty with respect to a lead-zinc deposit currently being mined by Nanisivik. The mine is located at Strathcona Sound, near the northern end of Baffin Island. The royalty due to Kidd Creek will become effective after Nanisivik Mines Ltd. has recovered its development and exploration costs.

Ore reserves at the start of mining in October, 1976 were 7 million tons with an average content of 14.1% zinc and 1.4% lead.

During 1981, 678,000 tons of ore were mined and milled. Average grade was 12.1% zinc and 1.5% lead. There were 12,700 tons of lead concentrate and 139,000 tons of zinc concentrate shipped. Ore reserves at the end of 1981 were estimated to be approximately 3.3 million tons, indicating a projected mine life of five years.



An intensive exploration program, currently in progress, offers substantial hope that additional ore will be found, thus extending the life of the mine. This possibility is of importance to Kidd Creek Mines, as financial projections show that Kidd's 35% net profits royalty will become payable for the first time in 1984. Assuming the continuance of profitable operations, the Nanisivik mine could become a significant contributor to Kidd Creek's future earnings until the orebody is exhausted.



Marketing

In general, markets for Kidd Creek's products deteriorated during the course of 1981. An exception was zinc concentrate, which was in demand throughout the year. Zinc concentrate sales rose to 163,192 tons, an increase of 3.8% over 1980. A raw material shortage in the zinc industry exists because of disruptions of production and a lack of new mine development. The terms offered in 1981 by the smelters that take our zinc concentrate were very favourable, and resulted in net-backs that were higher than we have obtained during our history as a zinc concentrate producer.

Zinc metal demand was good through the third quarter, but deteriorated badly as the year ended. The volume of zinc metal sales decreased to 110,000 tons, a drop of 9.8% compared to 1980. Zinc metal continued its long-term recovery from low prices, attaining a base U.S. price of 49.25¢ per pound in August. Both consumption and production have fallen since that time. The zinc price had retreated to 42¢ per pound at year-end. Zinc prices at this level, although above historical trends, give no incentive for new mine or smelter development, and, indeed, may not

cover costs for some existing projects.

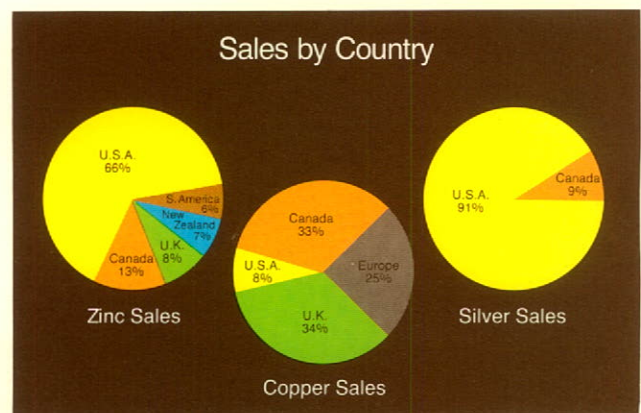
Copper metal sales rose by 21% to 79,000 tons in 1981, the increase being in part due to sales from inventory and sales of purchased copper. The start-up of the new copper smelter and refinery at Timmins has tied up large quantities of copper and silver that are in-process. Although the price of copper fell consistently throughout the year, and at year-end was 80¢ (U.S.) per pound, demand remained good, and worldwide inventories are not excessive by historical standards.

The Canadian copper mining industry, like the copper industry throughout the world, is in a state of stagnation caused largely by prices that are low in relation to costs of production and capital costs for new projects. In real terms, copper prices are at their lowest level since the late 1940's.

This price situation, combined with high interest rates, has led to production cut-backs at some places and the deferral of new projects, including expansions. Copper appears to be poised for a substantial price rise that must come when slowly rising consumption collides with the production growth hiatus now being imposed by low prices and high costs.

Silver sold in 1981 decreased to 4,550,000 troy ounces, 11.5% below 1980 sales. Silver sales were limited by a decrease in the silver content of ore mined during 1981. The price of silver fell throughout the year, but the average price received was good by historical standards.

A large part of world primary silver is produced as a by-product from base metal mining. During 1980, when the average price was almost \$25 per ounce, silver by-product credits supported many non-ferrous metals mines which, without these credits, might not have been profitable.





In 1981, at the lower price level, much of this support disappeared. The full effect of this change on future silver supply will become apparent over the next few years.

Sales of Kidd Creek's share of potash from the Allan Mine decreased by 3.5% to 479,000 tons. 1981 began as a good year for fertilizer sales, but ended badly. The downturn in fertilizer consumption has resulted from the combination of high interest rates and low farm income. It is unlikely that the depressed potash sales situation will be short-lived.

Kidd Creek Mines has appointed Texasgulf Inc. as agent for our potash sales in North America in order to maintain continuity of supply to our customers. Offshore sales will continue to be made through Canpotex, a consortium of Canadian potash producers.

International agreement: Zinc protects steel best.

What does a high-priced European car have in common with an American compact automobile?

In the case of the Porsche 900 and the American Motors Concord, they both autos are built for long-term rust resistance.

And both manufacturers agree that galvanized steel is one of the best defenses against corrosion.

Galvanizing protects two ways.

Zinc has proved to be one of the most effective safeguards against rust. Galvanized steel resists corrosion up to 75 times better than bare steel metal. And unlike paint, the coating can't peel off. It's a galvanizing coating, zinc, diffuses into the steel creating an iron-zinc fusion layer.

Zinc resists peeling, too. Because it has the unique ability to sacrifice itself electrochemically to protect the steel and resist damaged areas.

It actually seals itself over nicks and scratches to prevent further corrosion.

One or two sides to protect.

Car makers can use one-sided galvanized steel for an economical, but effective, rust barrier. Or two-sided galvanized steel for double protection.

Today both Porsche and AMC make all of their exterior body shells from galvanized steel. Then they coat hard-to-reach rust-prone areas with zinc-rich paints. That way they know their automobiles are protected long after leaving the factory.

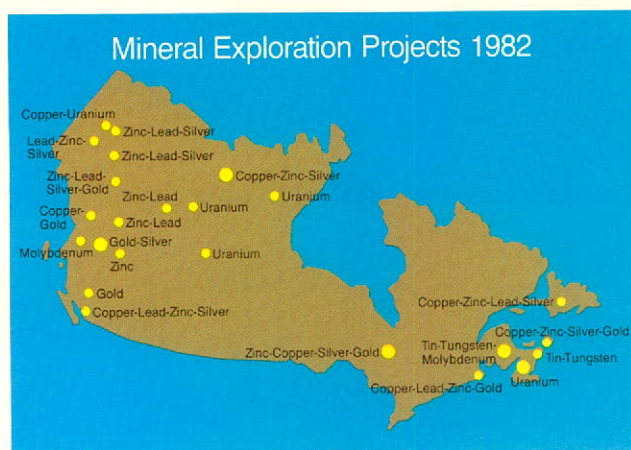
Kidd Creek Mines Ltd.



Kidd Creek Mines has taken an active part in market development for its products. To date this work has emphasized promotion of zinc applications and support for customer industries in that metal. Competence developed in this area is being extended to marketing in our other products.

Exploration

Any mine, no matter how large or rich, is a depleting asset. Exploration for new reserves is essential to sustain and expand the company. Kidd Creek Mines has a large and aggressive Exploration Division, incorporating former Texasgulf, Aquitaine and CDC projects and people. Forty geologists and geophysicists, backed up by support staff, work out of offices in Vancouver, Calgary, Toronto, Timmins, Fredericton and Windsor, Nova Scotia. An office will be opened in Quebec during 1982.



During 1981 the exploration program included forty-three projects, distributed broadly across Canada. The search was concentrated on base metals, precious metals and the alloy metals molybdenum and tungsten. Significant new prospects were found in the Northwest Territories, where two deposits containing copper, lead, zinc and silver were found within thirty miles of our earlier find at Izok Lake. Further drilling will be done to define the size and grade of these deposits in 1982. Encouraging tungsten-molybdenum mineralization was found in New Brunswick and gold-silver occurrences in northern British Columbia.

The Exploration Division's 1982 budget is, by industry standards, substantial. It will place us among the top minerals exploration companies in Canada. Among the commodities sought, gold will be our first priority, followed closely by base metals.

Kidd Creek's long-range strategy is to grow and diversify in the mineral industry. Maintenance of a consistently high level of exploration activity is a key element in this strategy.

George W. Mannard

George W. Mannard
President and
Chief Operating Officer

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The reputation enjoyed by Kidd Creek Mines as it assumed its new name and separate role at the end of 1981 was excellent, as good as any in the Canadian mining industry. The management concepts that brought us that reputation have not changed...

We have the full support of our new shareholder to carry on being innovative and imaginative, being a good place to work, being a reliable supplier and being a good customer to the local and more distant Canadian community.



Kidd Creek Mines Ltd.





