noranda 1986 ANNUAL REPORT

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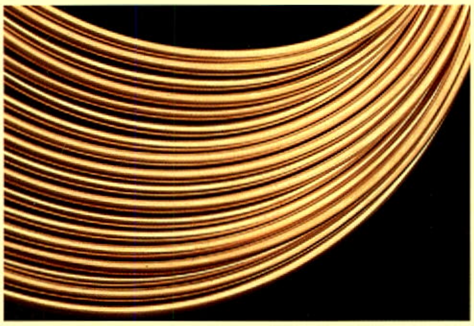

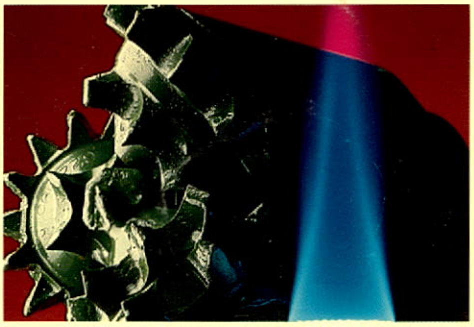

ANNUAL MEETING

April 24, 1987, 2:30 p.m.
Royal York Hotel, Toronto, Canada

REFERENCE

In this report, unless indicated otherwise, divisions and/or companies are wholly owned; production is for the calendar year 1986; tons means short tons of 2,000 lbs.; mineral inventories are as at Dec. 31/86; financial data is in Canadian dollars.

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company, Toronto, Vancouver, Calgary, Montréal and Halifax.

The Chase Manhattan Bank, New York, NY.

MULTINATIONAL GUIDELINES

In its international investment and trading activities Noranda continues to respect and adhere to the guidelines for multinational enterprises as established by the OECD. Noranda also supports the work at the United Nations for the development of guidelines to have universal applicability to an enterprise operating outside its home state.

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An English or French edition of this Report may be obtained from the head office of the Company, P.O. Box 45, Commerce Court West, Toronto, Canada, M5L 1B6.

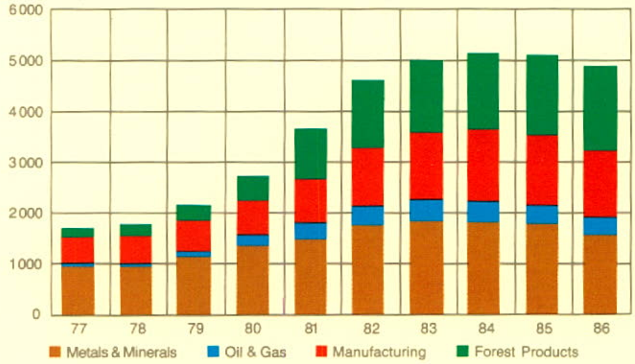
On peut se procurer la version française ou anglaise de ce rapport en en faisant la demande au siège social de la compagnie, B.P. 45, Commerce Court West, Toronto, Canada, M5L 1B6.

More detailed information may be obtained by writing the Secretary at the address noted above.

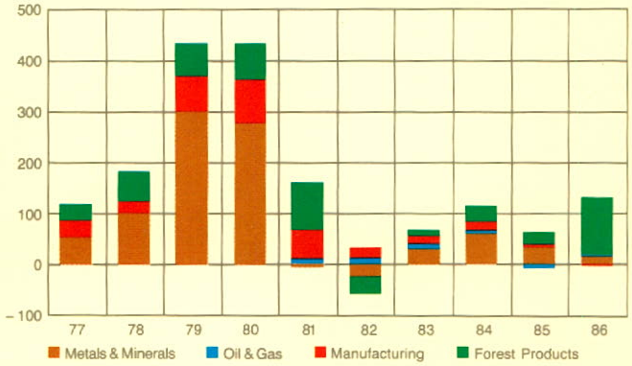
HIGHLIGHTS

$ millions	1982	1983	1984	1985	1986
Year					
Revenue	2,830.2	3,106.2	3,400.1	3,462.1	3,547.1
Share of earnings (losses) in associates	(74.7)	(8.7)	(3.5)	11.4	67.3
Earnings (loss) before unusual items	(136.4)	4.3	(4.5)	(70.7)	14.7
Earnings (loss) after unusual items	(79.2)	(24.7)	(4.5)	(253.9)	43.3
December 31					
Working Capital	1,041.7	951.9	740.1	675.2	764.7
Long-term debt	1,722.9	2,061.8	2,287.2	2,251.4	1,901.2
Shareholders' equity	2,740.2	2,644.0	2,603.6	2,358.9	2,671.0

Average Net Assets Employed by Segment
($ millions)

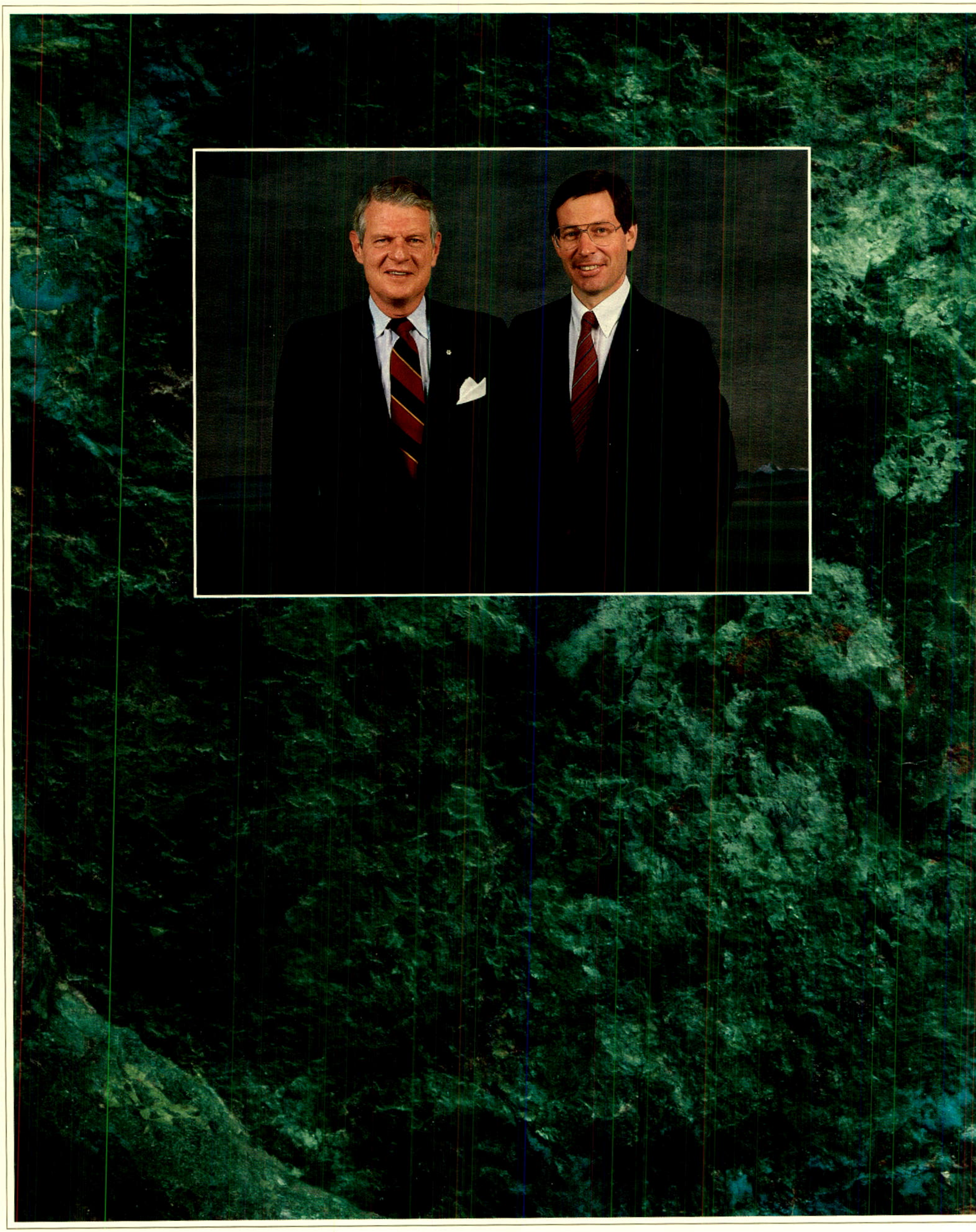


Earnings by Segment (before borrowing costs)
($ millions)



OWNERSHIP

December 31, 1986	Registered holders of Common Shares	Number of shares (000)	Ownership
Canada	19,850	138,185	95.5%
U.S.A.	1,614	5,143	3.6%
Other	318	1,336	.9%
	Registered holders of Series A Preferred Shares		
Canada	1,993	184	99.5%
U.S.A.	10	1	.5%
	Registered holders of Series B Preferred Shares		
Canada	1,865	1,966	97.5%
U.S.A.	72	47	2.3%
Other	17	4	.2%
	Registered holders of Series C Preferred Shares		
Canada	3,321	17,183	98.0%
U.S.A.	16	354	2.0%



In 1986 Noranda made substantial progress in achieving a number of its key corporate objectives. This included returning the company to profitability, strengthening the company's equity base, divesting non-core assets and restructuring into four distinct Divisions to enhance decision making and accountability.

OPERATING RESULTS

Net earnings of $43.3 million on sales of $3.5 billion, though far below the company's profit potential, were an improvement over the loss recorded in the previous year. Net earnings would have been higher by $69 million if there had not been strikes in eight operations. The turnaround was due to improved productivity at most operations and the strength in forest products and gold production.

With respect to forest products, the drop in the value of the American and Canadian dollars restored our competitiveness with the Scandinavians who had made inroads into our major markets in the United States. Paper product prices rose, on average, 12%, lumber benefited from high levels of house building, while pulp and newsprint benefited from increased advertising. Despite a four-month strike in British Columbia, Noranda Forest contributed $115.4 million to Noranda Inc. before borrowing costs.

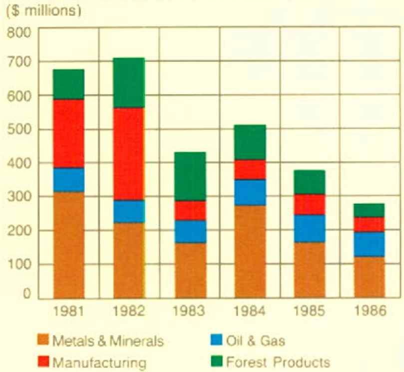
In minerals, a sluggish economy and weak capital spending were the main ingredients for a year of modest growth. Metal markets are still encumbered by excess productive capacity such that, even after four years of recovery, the prices in constant dollars of all the metals we sell, except gold, were near record lows. Gold was a bright spot. Hemlo, with an operating cost of U.S. $110 an ounce, is one of the world's great gold mines and still improving. Noranda Minerals showed a considerably reduced profit before borrowing costs of $16.4 million compared to 1985, but would have reported improved results in the absence of strikes.

Noranda Manufacturing's loss of $1.7 million for 1986 was below plan on account of strikes and a declining market for some of our products. However, the strikes were settled without long-term damage and efforts at cutting costs, rationalizing product lines and improving quality hold promise for a significant increase in net income contribution for 1987.

While the decline in oil and gas prices in 1986 caused Noranda's oil and gas operations to produce a virtual break-even level of $1.2 million, cash flow available for exploration and development amounted to $76 million which enabled Canadian Hunter to continue its aggressive exploration efforts. Noranda Oil and Gas is building the potential for very significant additions to its reserves which will be realized as increased markets open up, particularly for natural gas in the United States.

Earnings and Dividends
(as a percentage of shareholders' average common equity)

Fixed Assets and Deferred Expenditures
($ millions)



*Earnings (losses) before unusual items**

($ millions)	1985	1986
Metals and minerals	$32.7	**$16.4**
Oil and gas	(5.2)	**1.2**
Manufacturing	5.1	**(1.7)**
Forest products	23.7	**115.4**
Operating earnings	56.3	**131.3**
Cost of borrowing and corporate expense	(127.0)	**(116.6)**
Earnings (loss)	$(70.7)	**$14.7**

*Earnings have been reclassified to reflect a revised basis for the allocation of corporate expense.

FINANCIAL STRENGTH

The success to date of the program to rebuild Noranda's balance sheet can be seen by comparing the mid-1985 ratio of $1.10 of long-term debt for each dollar of equity with the $0.71 of long-term debt for each dollar of equity as at December 31, 1986. In large measure this improvement was achieved through a $700 million increase in Noranda's permanent equity base in 1986. The increase was generated by the issue of $411 million of common and preferred shares and the conversion of $289 million of retractable preferred shares into permanent equity. The debt-to-equity ratio was further improved in February, 1987 to $0.64 of debt for each dollar of equity by the sale of a part interest in Hemlo Gold Mines for $208 million.

The sale of non-core assets over the past two years has raised an additional $619 million which has been largely devoted to the reduction of debt. While no major non-core asset sales are targeted for 1987 at this time, existing operations will be monitored to ensure that their potential overall return meets Noranda's investment criteria.

CORPORATE RESTRUCTURING

The evolution of Noranda's operations into four free-standing Divisions was advanced during the year with the completion in December, 1986 of the physical separation of divisional staff from corporate staff. This decentralization has been viewed positively by all parties. It has improved accountability and enhanced the opportunity for encouraging entrepreneurship at every level of the organization.

With the new organization structure in place, Adam H. Zimmerman has assumed responsibility for creating a public company to hold Noranda's forest assets. In addition to becoming Chairman of Noranda Forest, Mr. Zimmerman was elected Vice-Chairman of Noranda Inc. At the same time David W. Kerr was appointed President of Noranda Inc. and will be working closely with the Chairman to execute strategic business initiatives and to achieve Noranda's corporate objectives.

Craig S. Tedmon, Jr. joined the corporate office in March, 1987 as Senior Vice-President – Technology. Dr. Tedmon has had a distinguished career in the technological field with a major U.S. corporation. This appointment reinforces Noranda's determination to be at the forefront of product and process technology.

CORPORATE OBJECTIVES

Noranda's primary objective is to create wealth for its shareholders and employees. In 1986 we concentrated on restructuring our organization and rebuilding our financial strength. In 1987 our efforts will emphasize:

- increasing productivity;
- improving decision-making and accountability;
- enhancing Noranda's financial flexibility; and
- implementing a system of rewards for management and employees that is consistent with Noranda's productivity gains and financial results.

Productivity

Emphasis is being placed on reducing operating and administrative costs as well as functioning with lower inventory levels. Increasing productivity is the only way to improve our profit margin when prices are stagnant and this has been the case for all of our commodities and products except for gold and portions of the forest industry.

One measure of our productivity improvement can be seen in the gains in labour productivity and the reduction in cost per unit of production which is tabled on this page. The reductions in costs are all the more noteworthy in that there has been an aggregate of approximately 20% inflation since 1982. Another measure is our expenditure on fixed assets which was limited to 92% of depreciation expense in 1986. New projects will continue to be limited to those that are mandated or help us attain our goal of being a low cost producer.

Accountability

Wherever possible, layers of management are being removed. For example, the Hemlo gold mine does not have any foremen or shift bosses, only a manager, supervisor and coordinators, hired as much for their ability to motivate people as for technical expertise. Most important, management is finding ways to make better use of employees' experience and capabilities.

In addition, our attempts to encourage more decision-making at the operating levels were rewarded with substantial improvements in productivity, including the transformation of a previously uneconomic orebody into an economic one at the Mines Gaspé E Zone.

A results-oriented form of accountability, setting standards of performance at levels which generate an appropriate return to shareholders, is being promoted throughout the company to assist with this flattening of the organization structure.

Financial Flexibility

To enhance Noranda's financial flexibility, operating units, which have demonstrated their self-sufficiency and have a record of success, are encouraged to seek a public market for their shares.

Hemlo Gold Mines Inc. was the first to take this step. In February 1987, a $208 million public issue of Hemlo common stock was made from Noranda's shareholdings, leaving Noranda with a 50% interest valued at the date of this report at more than $1 billion.

Noranda Forest is next with a public issue of common shares planned for 1987. The resulting company will become Canada's largest forest products company and will rank as a leader in world terms. Additional companies in the group will be encouraged to follow the same route to ensure that Noranda, with its diversity of operations, is positioned to capitalize on market opportunities resulting from changes in the prices of commodities produced by the various operating Divisions.

By operating through selected public companies, Noranda will have alternate sources of financing thereby adding to its financing flexibility. This includes being in a better position to select the timing of corporate debt and equity issues.

	Labour Productivity Gains (%)	*Cost/Unit (Reductions) (%)*
Pulp	47%	(18%)
Newsprint	20%	2%
Lumber	54%	(9%)
Aluminum	35%	—
Copper	(13%)	(21%)
Zinc	2%	(20%)
Gold	414%	(61%)

1986 vs. 1982

Quarterly operating earnings before borrowing costs*

($ millions)	*Metals & Minerals*	*Oil & Gas*	*Manu-facturing*	*Forest Products*	*Total*
First	$ 6.8	$ 2.6	$ 1.4	$ 16.3	$ 27.1
Second	10.8	.8	7.6	36.5	55.7
Third	4.8	4.3	(3.3)	28.0	33.8
Fourth	(6.0)	(6.5)	(7.4)	34.6	14.7
Year	$16.4	$1.2	$(1.7)	$115.4	$131.3

*Earnings have been reclassified to reflect a revised basis for the allocation of corporate expense.

Revenue of Noranda's subsidiaries & major associates (100% basis)

($ millions)	*1985*	***1986***
Metals and minerals	$1,182.5	**$1,081.6**
Oil and gas	169.6	**127.7**
Manufacturing	1,560.7	**1,605.7**
Forest products	3,517.0	**3,880.0**
Total	$6,429.8	**$6,695.0**

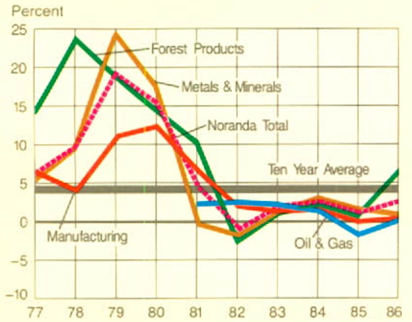
Employee Rewards

To achieve our objectives we need to compete effectively and provide an adequate return to our shareholders. Only by rewarding the shareholders can Noranda's management and employees improve their rewards and job satisfaction.

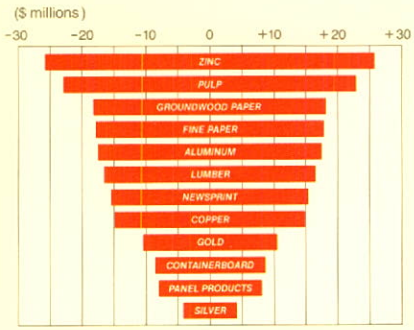
Developing employee reward systems that are linked to productivity and financial results is something we will endeavour to do in all areas of the company's operations. This means new initiatives with respect to employee information, education and involvement so that the company's objectives are understood. Variable compensation schemes are a prime objective with at least part of an employee's compensation fluctuating with the productivity and financial fortunes of the company.

Senior management will also be expected to derive a major portion of their rewards by acquiring important equity interests in the companies they manage. Rather than being compensated for special performance through traditional cash remuneration programs, management will be compensated in a manner that is consistent with the way that shareholders receive their rewards.

Return on Average Net Assets
(before borrowing costs)



Effect on 1987 Consolidated Net Earnings of a 10% Change in 4th Qtr. 1986 Prices



INTERNATIONAL TRADE CONDITIONS

During 1986 the world economy experienced its fourth consecutive year of growth. This sustained recovery has resulted in the reduction of excess inventory positions in several key commodities. To date the company's forest products, gold and aluminum operations have been the major beneficiaries of the improved markets. The decline in value of the United States dollar by 15.3% during 1986 on a trade-weighted basis and the continued decline thus far in 1987, will also contribute to a more favourable commodity price environment for North American producers.

In January 1987, under pressure from the United States, a 15% tax was imposed by the government of Canada on softwood lumber exports to the United States. We do not know yet what the impact will be of the tax or its conversion to higher stumpage fees. It is clear, however, that the Americans are intent on regaining control of their market place. Some 700 protectionist bills were proposed in 1986 and many more are expected in 1987. Petitions have been filed against our lumber, brass and potash. The American cases are weak, as evidenced by a 1982 United States government study which was updated in 1985 and concluded that sawmills in Canada, on average, are 26% more productive than sawmills in the United States, and that this productivity edge is the sole source of Canada's competitive advantage.

The 15% tax is a disturbing political precedent because, if U.S. producers can make a case against Canadian softwood lumber, they can make a case against almost any Canadian product. This development underlines Canada's need for a bilateral trade agreement with the United States. Without secure markets our industries cannot sustain current living standards. The world technological revolution is inexorably broadening and our market by itself is not big enough to justify the investment in technology needed to compete. Jobs are at stake and, in 1986, we at Noranda actively supported the Canadian government's free trade initiative with the United States.

OUTLOOK

Noranda has endured a period when all of its markets were depressed at once, a situation without parallel since the Nineteen Thirties. Now, with growing strength in forest products and gold, this pattern seems to have been broken. A weaker dollar is beginning to fuel U.S. economic activity while growth has begun to pick up in Japan and Europe. Inventories of aluminum are coming down, and the unit cost of our power, materials and labour have all been managed downward. We hope that damaging strikes are now behind us, though labour contracts in our eastern forest industry will be coming up for renewal this year.

We are now organized into four clearly-defined Divisions, each of which has a clear mandate, modern facilities with which to work and a sustainable future. In addition, Noranda's corporate restructuring, the additional equity capital and the emphasis on productivity and accountability are all working towards lowering the company's break-even point.

Our efforts in 1987 will continue to be devoted to improving productivity and providing Noranda with further financial flexibility. Increased emphasis will be placed on employee education and selection as well as new initiatives respecting the development of products and markets.

1987 should see substantially improved results for Noranda, bringing us one step closer to our goal of being the premier diversified natural resource company in the world.

On behalf of the Board

Chairman and Chief Executive Officer,

President

Toronto, Canada
March 9, 1987

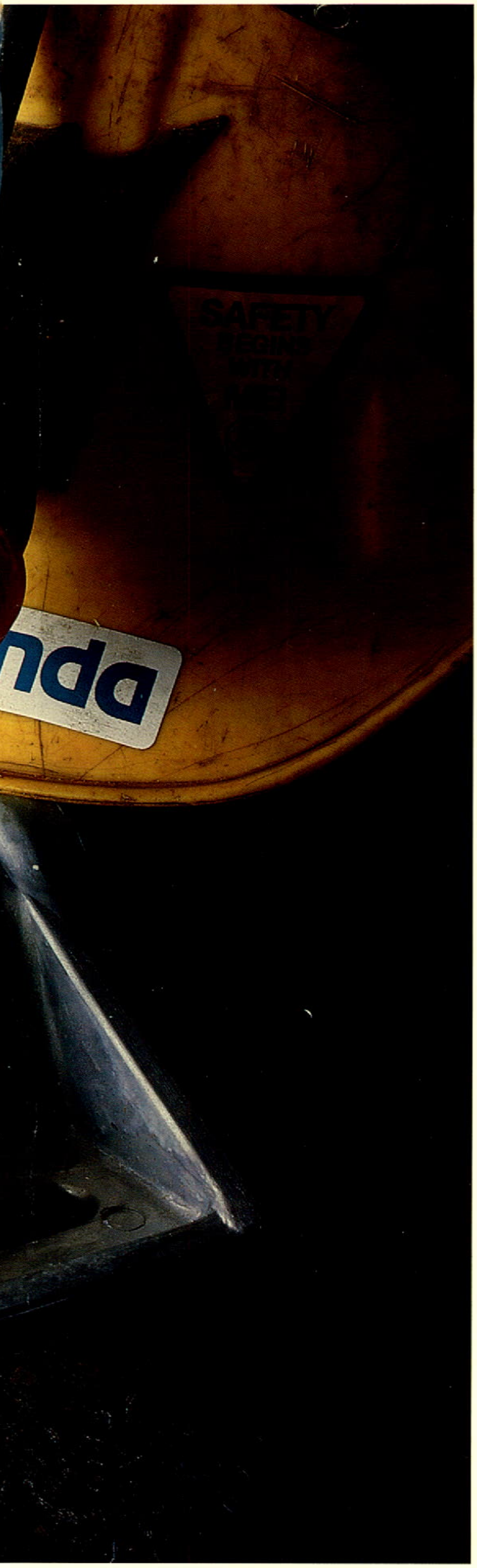
FINANCIAL SUMMARY – 100% basis

($ millions)		Earnings*	Sales	Average Net Assets Employed	Capital Expenditures	Employees
COPPER GROUP	1986	10.1	322.7	496.2	25.2	3,165
	1985	41.4	358.9	538.7	32.2	3,485
MINING CORPORATION GROUP	1986	40.2	310.7	434.5	59.7	1,991
	1985	(6.6)	187.2	400.0	77.7	2,593
ZINC GROUP	1986	(14.1)	407.9	412.8	20.3	3,382
	1985	12.5	549.0	427.8	30.3	3,789
OTHER	1986	(7.4)	40.3	118.0	24.9	431
	1985	(9.7)	87.4	157.1	27.9	730
TOTALS	1986	28.8	1,081.6	1,461.5	130.1	8,969
	1985	37.6	1,182.5	1,523.6	168.1	10,597

**before borrowing costs*

ASSOCIATE

KERR ADDISON	1986	5.1	59.2	333.5	20.4	1,024
	1985	2.5	48.0	357.3	6.1	367



NORANDA MINERALS INC.

Noranda Minerals is made up of three groups: Noranda Copper, Noranda Zinc and Mining Corporation. Through their marketing agent, Noranda Sales, they sell the products of 12 mines and 5 metallurgical plants to customers in 65 countries.

Product prices in 1986 remained, in constant dollars, near record lows. North American markets for cars and household appliances are approaching saturation. The trend to smaller cars, launched by energy conservation, has for some applications shrunk copper usage in half. Traditional metals have been displaced in other uses by plastics, ceramics, laminates and composites.

As a result Noranda Minerals, which since 1982 has been streamlining its operations, has continued in 1986 to find new ways to cut costs, raise productivity and develop new markets.

PRODUCTION

The survival of traditional industry in high-wage countries today depends on productivity, up-to-date technology, good management, and employees willing to work hard and smart.

Noranda Minerals invested $126 million in 1986 to maintain its technological edge. A new underground copper mine, the E Zone at Mines Gaspé, began production in December, three months ahead of schedule and 20% below its $53 million budget.

"Employees have been encouraged to participate in the development of flexible compensation plans that let them share in any savings in costs or increases in production."

The replacement of flotation cells at the Geco, Mattabi and Brunswick mines cut costs and improved mill recoveries of zinc, lead and copper in concentrates. Geco, the last of Noranda's mines to be modernized, is now one of North America's most efficient mines.

Our fertilizer plant at Belledune, New Brunswick was modified, its management and that of Brunswick Mining and Smelting were merged, and a new hemihydrate process was installed. The plant now produces, at less cost, a better quality phosphate fertilizer.

Work began on a $19.1 million slimes treatment plant at Canadian CCR in Montreal; this will give us more precious metal capacity and improve the working environment. A new $3.1 million gold refining plant at CCR was brought on stream. Construction started on a sampling plant for precious metal-bearing electronic scrap at East Providence, Rhode Island to better serve our American scrap suppliers and provide additional feed for the Horne smelter at Noranda, Quebec.

Management has cut costs by suspending operations at money-losing properties: the Heath Steele zinc-lead mine in New Brunswick, the Gallen Mine in Quebec and the Hopewell phosphate mine in Florida. The depleted Grey Eagle gold mine in California was closed and our 39.5% interest in the Greens Creek silver deposit in Alaska was sold.

In response to over-supplied markets, Brunswick Mining and Smelting's zinc-lead mine was closed for two weeks and Central Canada Potash for 14 weeks.

Depressed copper prices have closed many copper mines within economic freight range of the Horne smelter. Our response has been innovative – to develop processes that enable the smelter to treat complex copper-bearing ores and recover co-existing gold, silver, lead and other valuable by-products. We have developed methods of treating metal-bearing fluxes and many forms of copper and precious metal-bearing scrap. These have kept the smelter operating despite a 15% drop in the tonnage of copper concentrate smelted, maintaining the Horne as the largest, most efficient custom smelter in North America.

Local mine managers cut costs in 1986 by expanding the use of computers in processing and purchasing. At some operations, layers of management were removed.

Noranda Minerals Inc. Safety Record

	1984	*1985*	***1986***
Hours Worked	20,627,518	19,637,322	**15,630,819**
Lost Time Accidents	730	613	**394**
Frequency	35.39	31.22	**25.21**
Days Lost	27,716	31,930	**11,312**

Most important, management is finding ways to make better use of employees' experience and capabilities. Employees have been encouraged to participate in the development of flexible compensation plans that let them share in any savings in costs or increases in production. Noranda underground miners have always been paid incentive bonuses but the new plans, designed to suit particular local situations, are based on operating productivity, cost saving and profit sharing.

Many employees seem to appreciate our attempts to force decision-making down and bring ideas up from the bottom. At Gaspé it was only improvements initiated by the staff that made development of the new E Zone possible. As a manager says, "If you told anyone that a 2% copper underground orebody could be developed profitably today they wouldn't believe it."

At Geco, employees have cut the pay-back period for modernization from an estimated three years to one-and-a-half. At Golden Giant, employees screen job-

"In some operations, layers of management were removed. The Golden Giant Mine at Hemlo, for example, has no foreman, has no shift bosses, only a manager, superintendents and coordinators, hired as much for ability to motivate people as for technical expertise."

seekers and their involvement has helped to make this one of the world's six lowest-cost gold mines.

At the Brunswick mine, employee productivity increased by 8% and recovery of lead, copper and silver improved by 3% to 4%. The workforce at Brenda, a low-grade copper-molybdenum open pit, put through 8% more tonnage last year. Employees at Bell, another low-grade copper mine, were chiefly responsible for a 35% productivity gain.

Overall earnings were increasing sharply, despite a transformer failure at CCR, until strikes at CCR (17 days), at Canadian Electrolytic Zinc (five months) and, in November, for the first time in 33 years, at the Horne smelter and mine, which ended in February, 1987. These strikes indicate we have failed to put the industry conditions and our position across to all our employees.

MARKETING

Noranda Sales is the marketing agent for Noranda Minerals. Through offices in Toronto, London and Cleveland, it sells about $3 billion of metal and mineral products worldwide. Sales and operating units work as a business team, pooling knowledge and sharing decisions on strategy.

Their primary aim is customer satisfaction. They work closely with customers. They find out what customers want in product specification, packaging and delivery. To maintain critical shipments during the strikes, they bought from other producers, built inventories, and kept customers supplied.

They worked with some customers on analytical processes to improve the detectability of impurities that affect quality. They worked with the steel industry on corrosion-resistant zinc-coated steels. They worked with the casting industry to produce new alloys, with the fabricating metals industry to improve processes, product quality and finishes, and to promote greater use of fabricated products. Since Noranda does considerable business in re-cycling scrap, they are using their capabilities in managing and processing waste materials, which offer new business potential.

The largest consumer of metal products is the motor vehicle industry, but in 1986 General Motors and

Ford phased out copper strip for original equipment radiators in their cars. This market loss will be offset in replacement radiators, by increased use of electronics in cars and by finding market niches for new alloys.

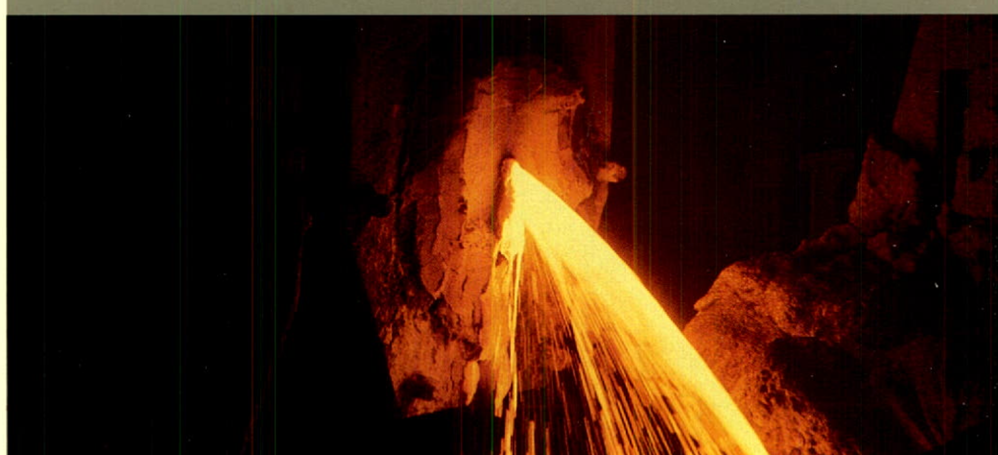
Through product and technical research, Noranda has developed a process that makes zinc pellets used by electrogalvanizing plants to produce galvanized steel for car bodies. This is a product now in high demand.

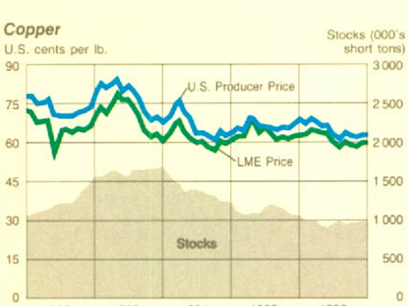
Success in capturing new applications in the motor vehicle industry lends high credibility for other applications. A new cast universal axle tube made from a Noranda zinc/aluminum alloy will be used by General Motors in its upcoming T400 series of trucks.

Internationally, Noranda Sales helped launch an industry advertising campaign to promote copper in Europe for roofing and other applications. Some progress was made in forming a copper study group to enable producers to be better informed on the industry's circumstances. Support was given to the newly-formed World Gold Council, which will seek to expand worldwide demand for gold as an investment and in coinage, jewellery and industrial applications.

The London Metal Exchange, which establishes most metal prices outside North America, is changing its method of operation to a clearing house. Noranda's subsidiary, Rudolf Wolff, is a leading metal broker on the exchange with offices in Hamburg, Zurich, Tokyo, Kuwait and New York and is active in organizing the change. It is also working with ten other creditors to recover funds from the International Tin Council, whose default in 1985

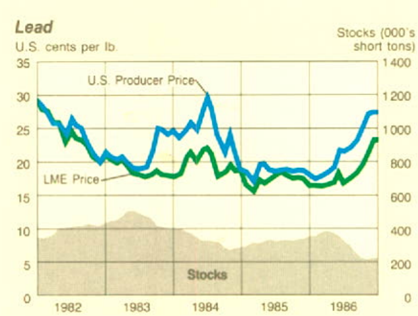
"We have developed methods of treating metal-bearing fluxes and many forms of copper and precious metal-bearing scrap. These have kept the smelter operating despite a 15% drop in the tonnage of copper concentrate smelted, maintaining the Horne as the largest, most efficient custom smelter in North America."





Western World Balance '000 Short Tons	1984	1985	1986 Estimated
Supply	7,865	7,858	**7,999**
Demand	8,287	8,042	**8,076**
Stocks	1,242	1,058	**981**

Western World Balance '000 Short Tons	1984	1985	1986 Estimated
Supply	5,110	5,201	**5,156**
Demand	5,129	5,201	**5,227**
Stocks	518	518	**447**



Western World Balance '000 Short Tons	1984	1985	1986 Estimated
Supply	4,379	4,526	**4,248**
Demand	4,498	4,470	**4,365**
Stocks	279	335	**218**

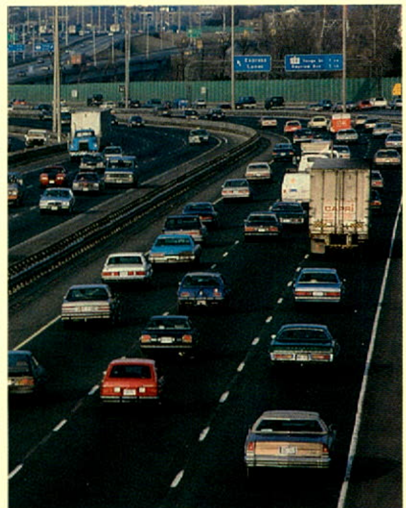
forced Noranda to write down inventories by $38 million. The financial futures side of Wolff was sold to Elders Finance.

OUTLOOK

Copper consumption continues to rise over 1% a year. No shortages are in sight and an increase to the 65¢ to 75¢ U.S. range could trigger financing for high grade deposits in Chile, Australia, Portugal and New Guinea. Significantly higher prices therefore seem to be some years ahead, though improved smelting and refining charges should raise earnings.

Zinc is in better balance with strong demand for cars and housing. New product research by the industry is offsetting losses caused by smaller cars and competition from plastics. While zinc should remain profitable for Noranda, the world's largest miner and second largest refiner, small shifts in supply and demand can affect price.

Lead prices rose in the second half of 1986 but this was due to strikes and disruptions in Canada, Australia, Peru, and the U.S. The electric storage battery for cars and trucks is still the main lead market, which is shrinking because of the impact of environmental concerns on the use of lead in gasoline. Noranda, which supplies a third of Canadian lead production, is focusing product promotion on expanding the use of lead-acid batteries for stationary standby power as well as transport applications.



"Noranda, which supplies a third of Canadian lead production, is focusing product promotion on expanding the use of lead-acid batteries for stationary standby power as well as transport applications."

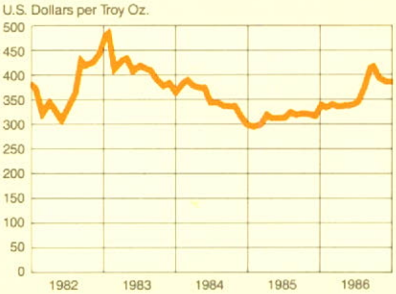
Precious metals: Gold production outside South Africa is rising at 13% a year, spurred by civil unrest and falling output in South Africa, inflation fears and sales of new coins, especially Japan's Hirohito, which in 1986 took some 600 tonnes off the market. But the rise of the yen makes the coin less desirable as an investment and the Japanese still have considerable stocks. The price of gold is most likely to track the American dollar, but Soviet sales, buying by banks and speculative wild cards make any forecast on gold unpredictable. Silver, which historically has been linked with gold, is in surplus supply and relatively cheap.

Other mineral products: Prices for fluorspar, molybdenum and tellurium remain flat. The near term prospect for fertilizers is reflected in low farm prices. Cadmium and selenium supplies are adequate for the electronics and photocopying industries.

In sum, while it seems unlikely that metal and mineral markets will be much stronger in 1987 than in the year past, we believe that our efforts to lower costs and raise margins will yield better profits.

Gold

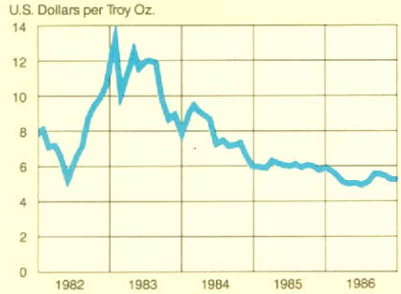
U.S. Dollars per Troy Oz.



Western World Balance '000,000 Troy Ounces	*1984*	*1985*	***1986 Estimated***
Supply	47.5	41.2	**45.4**
Demand	39.5	39.6	**46.2**
Surplus	8.0	1.6	**(0.8)**

Silver

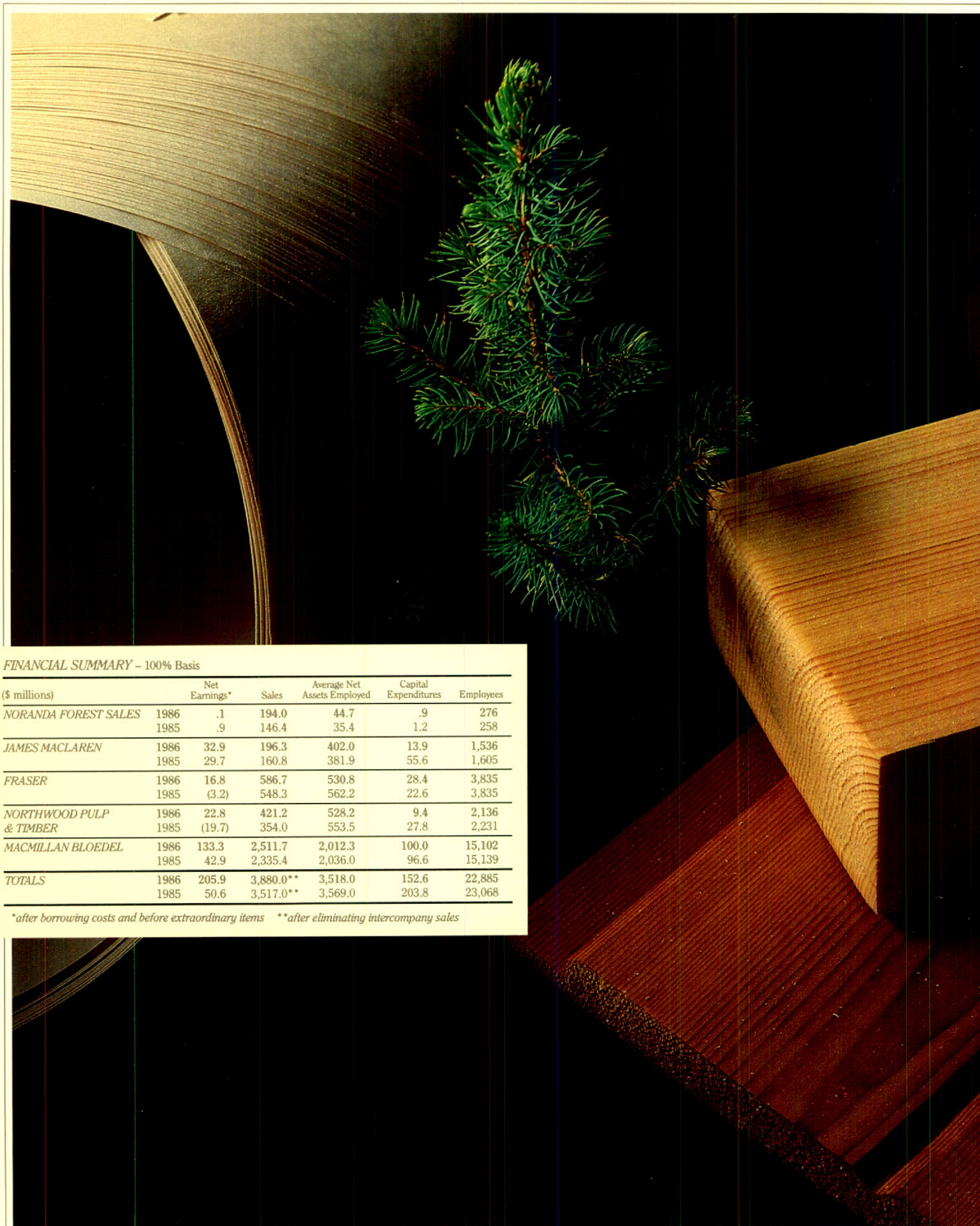
U.S. Dollars per Troy Oz.



Western World Balance '000,000 Troy Ounces	*1984*	*1985*	***1986 Estimated***
Supply	442.6	416.8	**408**
Demand	374.9	364.3	**397**
Surplus	67.7	52.5	**11**

Molybdenum

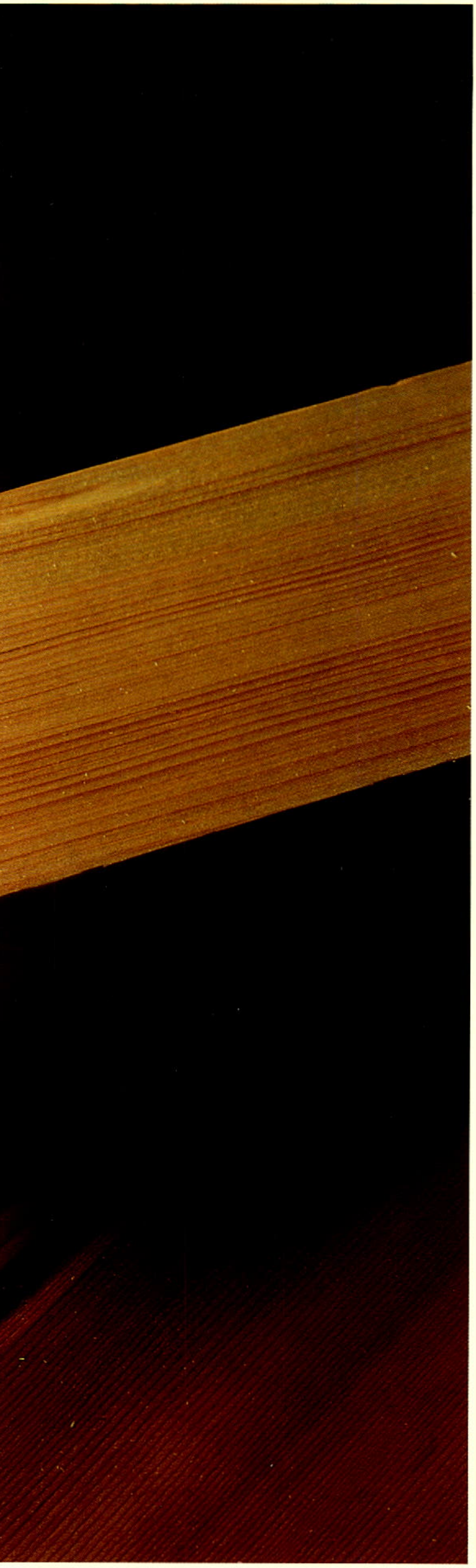
Western World Balance ('000,000 lb. Mo)	*1984*	*1985*	***1986 Estimated***
Supply	162	178	**166**
Demand	167	170	**168**
Stocks	93	101	**99**



FINANCIAL SUMMARY – 100% Basis

($ millions)		Net Earnings*	Sales	Average Net Assets Employed	Capital Expenditures	Employees
NORANDA FOREST SALES	1986	.1	194.0	44.7	.9	276
	1985	.9	146.4	35.4	1.2	258
JAMES MACLAREN	1986	32.9	196.3	402.0	13.9	1,536
	1985	29.7	160.8	381.9	55.6	1,605
FRASER	1986	16.8	586.7	530.8	28.4	3,835
	1985	(3.2)	548.3	562.2	22.6	3,835
NORTHWOOD PULP & TIMBER	1986	22.8	421.2	528.2	9.4	2,136
	1985	(19.7)	354.0	553.5	27.8	2,231
MACMILLAN BLOEDEL	1986	133.3	2,511.7	2,012.3	100.0	15,102
	1985	42.9	2,335.4	2,036.0	96.6	15,139
TOTALS	1986	205.9	3,880.0**	3,518.0	152.6	22,885
	1985	50.6	3,517.0**	3,569.0	203.8	23,068

**after borrowing costs and before extraordinary items* ***after eliminating intercompany sales*



Noranda Forest Inc. is made up of three wholly-owned companies — Fraser Inc., James Maclaren Industries Inc., and Noranda Forest Sales Inc., a 50% owned joint venture — Northwood Pulp and Timber Limited; and a 49.9% equity investment in MacMillan Bloedel Limited. Noranda's investment in forest products amounts to $1.7 billion. In 1986, the after-tax return on this investment was $115 million or 6.8%. Noranda Forest Inc. is the largest forest products group in Canada with combined sales of nearly $4 billion.

The Canadian forest products industry's results were much improved in 1986. This improvement was due to higher selling prices in Canadian dollar terms as the dollar dropped against the currencies of our major international competitors. In addition, demand for most of our products grew more quickly than the overall economy and costs were reduced by lower oil prices and interest rates.

But the good news of 1986 was overshadowed by two events: the four and one-half month strike by the International Woodworkers of America which disrupted much of the industry in B.C., and the lobbying success of the U.S. lumber industry which led, at year-end, to an export tax of 15% on Canadian softwood lumber.

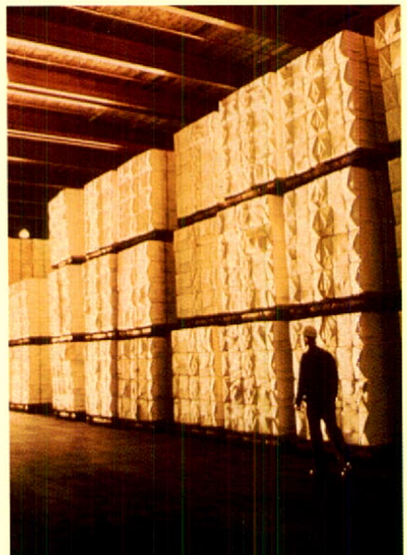
The direct impact of the strike ended in 1986. The lumber export tax will have ramifications, which are not yet determinable, well into the 1990's.

Noranda Forest Inc. was established in early 1986 as an operating division of Noranda Inc. to pull together the company's forest product investments. The new structure clarifies reporting channels, allows for a rationalized approach to capital investment decisions, and coordinates the strategic initiatives of each of the business units.

The establishment of Noranda Forest makes clear the vital role of the forest sector within the Noranda Group. With one-third of the Group's assets accounting for 88% of 1986 operating earnings, Noranda Forest's performance is a major determinant of Noranda's profitability.

Operating earnings were higher for all product sectors. The turnaround in market pulp was particularly sharp as operating rates rose from 84% in 1985 to an average of over 90% in 1986. Operating rates also improved for the paper and panelboard operations.

During the year a thorough review of existing operations was completed with particular attention being paid to the cost and quality competitiveness of the mills in the group. Actions prompted by these analyses resulted in a reduction of unit costs. Noranda Forest's competitive position was also enhanced by the extensive capital projects undertaken in recent years. Most of the major capital programs were completed prior to 1986 and the current year's spending was concentrated on product quality improvements. Marketing efforts were concentrated on customer service and product development. Externally, the fall of the U.S. dollar did much to restore our



"With one-third of the Group's assets accounting for 88% of 1986 operating earnings, Noranda Forest's performance is a major determinant of Noranda's profitability."

international competitiveness.

As good as overall profits were, however, they were depressed by $30 million after tax as a result of a strike of the industry in British Columbia. The main issue was management's right to "contract-out." In December, government mediation brought the workers back, but all parties — employees, companies and government — suffered large losses. The contracting-out issue has been deferred until March, 1988 — two months before the current contract expires — when a provincial commission will bring down its recommendations.

Improved employee relations are critical for Noranda Forest's future success. Additional programs were established in 1986 to raise safety standards and improve the working environment at our mills and offices. Initiatives are underway throughout the group to improve employees' understanding of the economic conditions of the industry and the plans and outlook for their operations. Clearly more needs to be done to avoid the recurrence of strikes and stoppages that inflict serious damage to all parties and to Canada's international reputation.

OPERATIONS

James Maclaren Industries, a 134 year-old company based in Eastern Quebec, produces newsprint, kraft pulp, particleboard, lumber, veneer, and parquet flooring. In late 1985, two 55-year-old newsprint machines at the Masson mill were replaced by a single new machine for a net cost of $117 million. The new machine will increase the mill's capacity by 30% with a corresponding increase in productivity and efficiency. During 1986 the machine progressed along its start-up curve and by year end daily production rates were approaching planned levels.

Most importantly, the advanced design and controls on the machine allow it to attain and surpass the demands of publishers for improved newsprint quality. New printing methods, greater use of colour, and competition with other advertising media have made newspapers more selective about the standards of paper they require. Maclaren newsprint meets this demand.

Maclaren's hardwood kraft mill set a production record in 1986, operating at 10% above its rated capacity while maintaining consistent high quality and outstanding cost control.

Net earnings were $33 million on sales of $196 million.

Fraser Inc., with mills in New Brunswick, Maine and Ontario, and a 50% interest in Island Paper in B.C., produces a wide range of printing and writing papers, pulp, lumber and boxboard.

Excellent operations at its integrated paper operations in Edmundston-Madawaska yielded record earnings for that mill despite a spotty market for some of the printing and writing grades it produces. Cost control and quality improvement were the company's priorities in 1986. The woods operations held costs at or below 1985 levels despite much higher demand. Higher fibre costs and shutdowns for modernization reduced earnings for the Thorold mill. With the completion of the current capital program the mill can move forward with its strategy of developing new grades and markets for its fine papers.

Noranda Forest Inc. Safety Record

	1984	1985	**1986**
Hours Worked	41,647,777	42,496,756	**39,942,779**
Lost Time Accidents	927	964	**779**
Frequency	22.26	22.69	**19.51**
Days Lost	46,787	67,235	**32,676**

Total sales for Fraser were $587 million and net earnings were $17 million for the year.

Island Paper Mills, a joint venture owned equally by Fraser and MacMillan Bloedel, had a strong year for production and sales. Rising pulp costs reduced margins during the second half of the year. Island was awarded the Gold Medal for Excellence in Marketing by the federal government in recognition of its achievements in product and market development and customer service.

Atlantic Waferboard, a Fraser affiliate in Chatham, N.B., completed the rebuild of a shutdown mill and started production at year end. This new company is an innovative partnership of Fraser, which owns 50%, the union and the wood suppliers, each with 22% and management, which holds 6%.

"Improved employee relations are critical for Noranda Forest's future success..."

Northwood Pulp and Timber is a 50%-owned joint venture with the Mead Corporation. Headquartered in Prince George, B.C., it produces bleached softwood pulp, lumber, plywood and waferboard. Net earnings were $23 million.

Northwood's four sawmills turned in an excellent performance for the first six months of 1986, then were closed for much of the second half by the industry strike. The plywood plant had record margins for the year and the waferboard plant in Minnesota set new highs for production and earnings.

The Prince George pulpmill, one of the largest facilities of its kind in the world, also had a record year. Despite some downtime in the first quarter of the year, extensive maintenance work in the fourth quarter and wood supply problems related to the strike, the mill produced 436,000 tonnes of pulp. Unit cost and productivity were better than budget and sales to all markets were up dramatically.

MacMillan Bloedel, Canada's largest integrated forest products company headquartered in Vancouver, sells a very broad range of products to markets around the world. Despite the strike which affected plywood, particleboard and newsprint production as well as lumber, the company's carefully-developed strategy of focusing on high-value-added products resulted in a highly successful year. Its program to upgrade older newsprint machines to make groundwood specialty papers lifted margins significantly. Its distribution business in Canada and the U.S. was another notable success, and U.S. packaging operations improved. Excluding an extraordinary gain of $45 million on the sale of part of its interest in KNP, a large European paper company, net earnings were $133 million on sales of $2.5 billion.

"High consumer spending resulted in higher newspaper advertising lineage and increased volumes of newsprint for inserts and flyers."

Noranda Forest Sales has three divisions. The Wood Products Division acts as agents for lumber and panelboard for companies within Noranda Forest and for outside producers, selling about one billion board feet of lumber per year, 75% in the United States, the balance around the world. The Pulp Sales Division markets wood pulp as an agent for Maclaren and Fraser. Northwood Building Materials wholesales building products across Canada. In the United Kingdom, a subsidiary company imports wood products for resale and acts as an agent.

While the Wood Products Division's results were impacted by the strike, all other areas improved their earnings performance in 1986. The company emphasized the development of new products for its wholesaling and agency businesses and concluded a number of new agency agreements.

MARKETS

Lumber and Panelboard prices rose steadily for two quarters but in the last half the strike distorted market conditions. The North American housing market was very strong, leading to record consumption levels for building materials. Lumber prices peaked in the first half at over U.S. $220 for Western 2x4. They fluctuated considerably in the second half as supply was restricted and the preliminary countervailing duty was imposed.

Plywood prices maintained their strength over the second half while waferboard prices fell back as new capacity came on in the U.S.

Market Pulp prices rose in each quarter of the year. The opening list price for the year was U.S. $420 per tonne for bleached softwood kraft pulp. At year end a list price of $550 had been announced. World demand for this internationally traded product increased 4% and Canada's market share rebounded from its low level in 1985.

Newsprint consumption in the United States, by far the world's largest market, rose by 3% in 1986. This increase was about double the long term average growth rate. High consumer spending resulted in higher newspaper advertising lineage and increased volumes of newsprint for inserts and flyers. Canadian shipments to the domestic and overseas markets rose by 11% and 12% respectively. This strong demand led to an October increase in the U.S. price from U.S.$535 to $570.

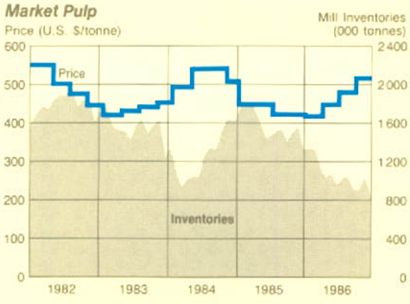
Printing and Writing Paper demand continued to expand during 1986, the third year of sizeable consumption gains. Prices and sales volumes however did not perform as evenly. Inventory swings at consumers and oversupply caused by some 2 million tonnes of new capacity in North America led to wide swings in mill sales and sharply lower prices for some grades. Coated groundwood papers were particularly weak while fine papers, which had dropped in price in 1985, were able to recoup lost revenue in 1986.

OUTLOOK

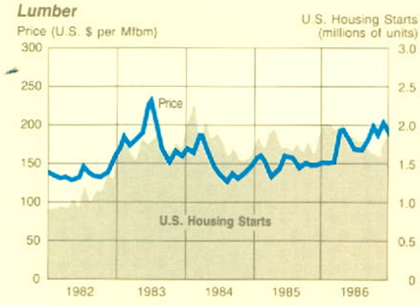
Noranda Forest expects that the healthy demand for most pulp and paper products will continue in 1987, though the lumber sector could see some weakening later in the year and Fraser's margins for lightweight coated magazine paper are under pressure.

Earnings should benefit from a full year of higher pulp and newsprint prices and further price increases are possible. Higher output of newsprint from the new Maclaren paper machine and slightly more production at most pulpmills will also boost income.

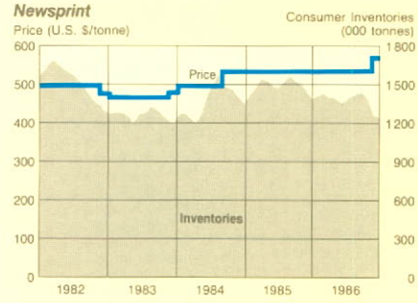
This bullish forecast is based, as always, on some assumptions: that exchange rates will remain much as they are now, that business will perform as well as economists predict, that U.S. protectionist activity against lumber will not be extended to other forest products, and that the pulp and paper industry in eastern Canada, where labour contracts will be negotiated this year, will reach agreement with its unions without the losses that took place in B.C.



Norscan Market Pulp Balance (000 tonnes)	1982	1983	1984	1985	**1986**
Production	13,483	15,563	16,316	15,791	**17,188**
Shipments	13,398	15,952	15,904	16,109	**17,648**
Closing Inventory	1,597	1,194	1,616	1,313	**854**



	1982	1983	1984	1985	**1986**
U.S. Housing Starts (millions)	1.06	1.70	1.74	1.73	**1.83**
U.S. Lumber Consumption (billion fbm)	30.9	38.5	43.0	43.7	**47.0**

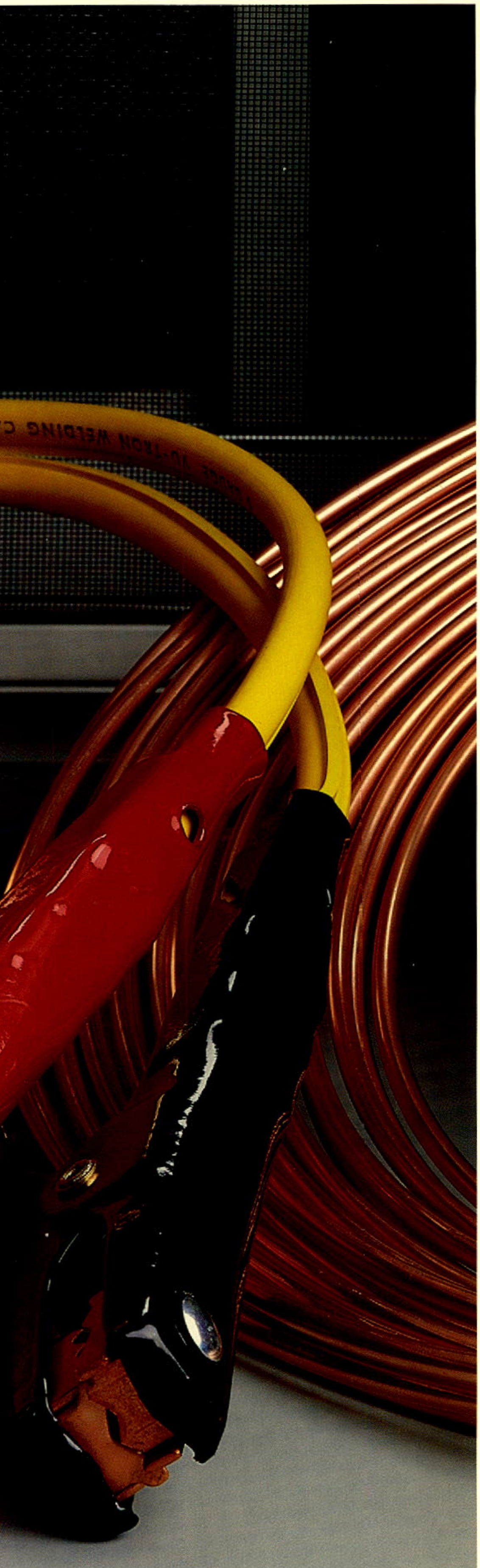


U.S. Newsprint Balance (000 tonnes)	1982	1983	1984	1985	**1986**
Consumption	10,115	10,589	11,431	11,596	**11,949**
Closing Inventory	1,269	1,179	1,329	1,378	**1,257**

FINANCIAL SUMMARY – 100% Basis

($ millions)		Net Earnings*	Sales	Average Net Assets Employed	Capital Expenditures	Employees
TORONTO GROUP	1986	(11.1)	691.8	464.8	17.7	5,140
	1985	1.6	711.0	482.1	16.1	5,260
MONTREAL GROUP	1986	(1.6)	202.5	103.8	3.0	1,530
	1985	6.2	216.3	129.8	4.6	1,790
CLEVELAND GROUP	1986	(17.4)	711.4	799.5	20.1	2,820
	1985	(36.6)	633.4	794.1	39.7	2,600
TOTALS	1986	(30.1)	1,605.7	1,368.1	40.8	9,490
	1985	(28.8)	1,560.7	1,406.0	60.4	9,650

**after borrowing costs*



NORANDA MANUFACTURING INC.

Noranda Manufacturing encompasses 30 manufacturing plants and 230 sales and distribution centres throughout the United States and Canada. Sales for its thousands of products in 1986 totalled $1.6 billion but operating results were disappointing.

Most of these manufacturing operations—divided administratively into three groups: Toronto, Montreal and Cleveland—are related to Noranda's core resource industries. Their markets are mature, threatened by competition from new products, by competitors in lower-wage countries and by growing protectionism in the U.S.

These threats are being met by cutting costs and raising quality through better employee and plant performance. Spending in 1986 on modernization was $35 million. A scientist from Noranda Research Centre was assigned to help all groups raise profits through technological advance.

The improvement in performance in 1986 was hurt by strikes at Noranda Metal Industries' plants at Pointe Claire and Fergus and at Noranda Aluminum in New Madrid, Missouri, but the strikes were settled without long-term damage and profits in the year ahead should be healthy.

Canada Wire and Cable, based in Toronto, is comprised of nine plants in Canada, Carol Cable in the U.S. and Canstar Communications, its fibre optics division.

Markets in both Canada and the U.S. were soft and export growth in the U.S. slowed to 3%. No high voltage cables were sold in 1986 but power utilities in Egypt and Bahrain placed orders totalling $25 million for delivery over the next two years.

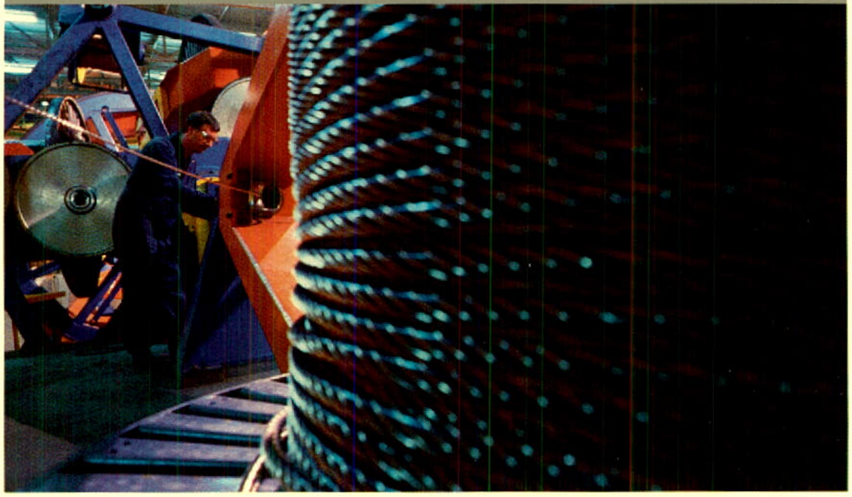
The wire and cable industry worldwide is rationalizing and only the strongest are surviving. At CWC the drive to cut costs continued. A plant at New Westminster, B.C. was closed and is for sale. Computerized management information systems were installed. Control systems for raw materials and scheduling were completed at the CWC plant in Leaside, Ontario. In all, the group spent $18 million to replace obsolete equipment and improve operational efficiency.

A computer-aided manufacturing system (CAM) was successfully tested and installed in two departments of the Fergus factory, yielding significant cost savings. CAM will be introduced into other Canada Wire operations.

Carol Cable Inc., a CWC subsidiary, makes wire and cable products in 10 U.S. plants. Despite difficult trading conditions, improved productivity gave Carol its best profit performance in years.

Canstar Communications, with offices and laboratories in Scarborough, Ontario, manufactures fibre optic cables, systems and couplers in Winnipeg. In 1986 a further 760 kilometers of fibre optic cable were delivered for the CNCP trans-Canada cable line and another 800 km will be delivered in 1987. R&D continued on the Hubnet Local Area Network, a computer system, and a product will be announced in 1987.

"The wire and cable industry worldwide is rationalizing and only the strongest are surviving."



Noranda Metal Industries, with plants at Montreal, P.Q., Fergus, Ontario and New Westminster, B.C., is Canada's largest producer of copper and brass mill products. The industry has problems: the displacement of copper tubing by plastics; the auto industry's 1986 phasing out of copper radiators, the biggest market for strip; low-wage Third World competitors whose currencies are tied to the U.S. dollar.

The company responded in 1986 by restructuring. New plant managers and a new chief operating officer were appointed. New equipment was installed at Montreal and Fergus which produces products of higher quality faster. New markets for special copper alloys are being developed for the electronics industry and for tubing in heat recovery and fire sprinkler systems. But with protectionism increasing in the U.S., where 30% of our tubular products are sold, prospects for growth call for optimism.

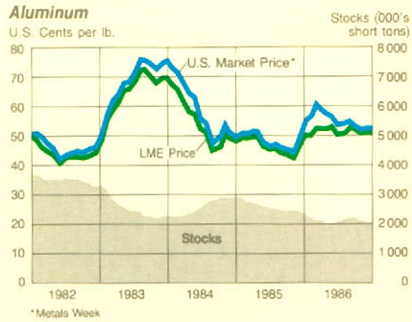
Wire Rope Industries has 30% of the Canadian market for wire rope products. But, as the company celebrated its 100th anniversary, a 19-week strike at its Pointe Claire plant brought its first loss. A mounting volume of imports from Korea and the U.S. was met by developing sophisticated plastic-impregnated ropes lasting two to three times longer than previous products, by servicing rope installations, by designing ropes for specialized hoisting, by export sales in 15 countries and cost-savings in production and marketing. The company expects to return to profitability next year.

Norcast Inc., owned 60% by Noranda Metal and 40% by Canron Inc., has plants at Mont Joli, Quebec and New Liskeard, Ontario producing grinding media, castings and other products for resource companies. An agreement was concluded in 1986 with Sandvik of Sweden to manufacture special castings for pumps, snowploughs, grader blades and bucket teeth. Despite low growth in the resource sector, increased export sales, mainly to South America, gave Norcast another financially successful year.

Nor-Sand Metals Inc. is a seamless stainless steel tubing facility jointly owned by Noranda Metal and Sandvik of Sweden. In a nuclear power market, dormant because of environmental concern, the final shipments of tubing were made for the Darlington, Ontario and Romanian reactors. And, despite stiff offshore competition, Nor-Sand maintained its profitable markets in the U.S., Europe and the Far East.

Noranda Aluminum's primary production complex at New Madrid, Mo. operated at 74% capacity. Cost-cutting continued and costs in constant dollars are now 23% lower than in 1983. Prices, however, though up 10% from 1985, have been depressed by refinery overcapacity and are down 33% from their peak in the 70s.

Following a six-week strike, a three-year labour contract was signed, reducing wages 14.6% overall and granting concessions in work rules. Negotiations on power costs resulted in short-term rate concessions. Raw material costs were down. With customer inventories nearing minimum operating levels, the year ahead should be profitable.



Western World Balance '000 Short Tons	*1984*	*1985*	***1986 Estimated***
Supply	13,702	13,148	**13,078**
Demand	13,072	13,601	**13,478**
Stocks	2,859	2,406	**2,006**

Norandal USA Inc., with plants at Scottsboro, Alabama and Huntingdon, Tennessee, turns some of Noranda Aluminum's output into flat-rolled aluminum products. This is a mature low-growth industry with intense competition from large modernized plants, mini-mills and foreign imports, which since 1980 have captured 15% of the U.S. market.

The Scottsboro plant was upgraded, a profit plan introduced, and the cost of producing sheet shaved by one cent a pound. Through superior customer service and new specialty products such as welded tube, conductor strip and caul stock, Norandal generated a 11% return on net assets.

> *"Noranda Enterprise Limited, Noranda's venture capital arm, has an investment portfolio of thirteen advanced technology companies."*

Norandex Inc., owned 100% by Noranda Aluminum, fabricates windows, doors and siding sold through 58 company-owned outlets in the eastern two-thirds of the United States. In 1986, costs in thermal barrier pouring and glass production were reduced. Twenty-two buildings were sold, raising cash flow by $7.6 million. New branches were opened in Charlotte, North Carolina and Atlanta, Georgia. Two new window lines were introduced, expanding existing markets and opening new ones. Profits, buoyed by a robust housing market, reached a new high.

Noranda Manufacturing Inc. Safety Record

	1984	*1985*	***1986***
Hours Worked	18,889,589	18,762,141	**18,379,877**
Lost Time Accidents	771	566	**497**
Frequency	40.82	30.17	**27.04**
Days Lost	23,353	12,798	**11,752**

Noranda Enterprise Limited, Noranda's venture capital arm, has an investment portfolio of thirteen advanced technology companies. During 1986, *Cognos Inc.* successfully completed an initial public offering and is fast becoming a major force in the vibrant software industry. *Lumonics Inc.*, the world's third largest laser company, had a difficult year in 1986 but nonetheless expanded new product development efforts and strengthened its overseas sales force, positioning itself strategically for the future. Several other portfolio companies achieved record sales and earnings and will be candidates for public offerings in 1987-88.

Canadian Hunter/American Hunter – Noranda's Share

($ millions)	*1985*	***1986***
Sales	127.7	**93.7**
Operating profit	54.6	**17.3**
Average net assets employed	378.6	**366.4**
Capital expenditures	80.6	**72.4**
Employees	247	**264**

Noranda Oil & Gas Capital Expenditures

	Land Acquisition & Exploration	*Oil & Gas Development*	*Total*
Canadian Hunter	24.2	32.9	57.1
American Hunter	15.3	–	15.3
Total	39.5	32.9	72.4

Noranda Share of Reserves

	Oil & Natural Gas Liquids (millions of barrels)		*Marketable Natural Gas (billions of cubic feet)*	
	1985	***1986***	*1985*	***1986***
Proven	38.6	**29.2**	528.6	**556.1**
Probable	60.1	**75.0**	538.5	**552.3**
Proven & Probable	98.7	**104.2**	1,067.1	**1,108.4**

O*il & Gas:* Canadian Hunter Exploration Ltd. is a wholly-owned subsidiary of Noranda and it operates a joint venture owned 87% by Noranda and 13% by Kerr Addison.

The petroleum industry throughout the world experienced a difficult year in 1986 due to a dramatic drop in oil and gas prices. From year-end 1985 prices of U.S. $28 per barrel for West Texas Intermediate marker crude, prices fell until they reached a brief low of less than U.S. $10 per barrel by summer 1986. By year end 1986, oil prices had recovered to the U.S. $17 to $18 per barrel range. However, there still remains a great deal of uncertainty regarding the stability of these prices.

With its relatively large reserves of natural gas as compared to oil, Canadian Hunter was somewhat cushioned from the full effects of the reduction in world energy prices until the deregulation of natural gas took effect November 1st. Deregulation has resulted in a significant decline in natural gas prices which will affect 1987 cash flow. Canadian Hunter's earnings and cash flow were also impacted in 1986 by a drop of 10% in the demand for natural gas from Canadian producers compared with 1985.

Canadian Hunter expects modestly improved prices for oil in 1987 although continued volatility is a very real possibility. In the medium and longer term, Canadian Hunter's outlook on energy prices and the demand for natural gas is positive.

In order to partially offset the various effects of lower energy prices, both the federal and Alberta governments took steps in 1986 to favourably improve the fiscal regime under which the industry operates. Effective October 1, the federal government eliminated the Petroleum and Natural Gas Revenue Tax (PGRT) which had previously been scheduled to phase out by 1989.

In October, the Alberta Government announced downward adjustments to its royalties and a new program of royalty holidays of up to five years aimed at stimulating exploration and development activities. The Saskatchewan Government announced an extension and some revisions to its royalties holiday program which had been scheduled to expire at the end of 1986.

The Canadian Hunter Joint Venture was involved in the drilling of 88 wells in 1986, a decrease of three from the previous year. Of these wells, 66 wells were capable of production in commercial quantities for a drilling success rate of 75%. Of the 66 successful wells, 48 were exploration wells adding significant new reserves to the company. Capital expenditures decreased 10% from 1985 levels with $39.5 million spent on land acquisition and exploration and $32.9 million on development and facility expenditures.

"With...large reserves of natural gas...Canadian Hunter was somewhat cushioned from the full effects of the reduction in world energy."

The Canadian Hunter, Inland Natural Gas and TransMountain Pipelines 1986 Joint Venture Exploratory Agreement was expanded during the year from a $30 million program to a $40 million program. Inland and TransMountain together paid $25 million of the program costs. The program was successful and the parties have entered into a similar joint venture program for 1987 whereby Inland and TransMountain will each pay $10 million of the planned $33.3 million exploratory expenditures. Canadian Hunter will pay $13.3 million.

In Saskatchewan, Canadian Hunter was a 35% participant in the most significant deep oil discovery in the province's history. Extended flow tests have indicated that the Tableland well has the capability to flow over 1,000 barrels of sweet, light-gravity crude oil per day from the Devonion Winnipegosis pinnacle reef. This deep discovery well is eligible for a three year royalty holiday from the provincial government at an "allowable" production rate of 750 barrels of oil per day. Canadian Hunter plans to drill other similar anomalies in Saskatchewan in 1987.

In British Columbia, Canadian Hunter is currently extending the Deep Basin gas play which may be the largest gas reserve under active development on land in North America. This field is a major extension of the Elmworth/Wapiti Gas Field in Alberta.

In seeking a partner for the B.C. Deep Basin exploration program, Canadian Hunter entered into a joint venture agreement with Standard Oil Production Company (formerly Sohio). Standard Oil has committed to an initial expenditure of $150 million. Further options by Standard Oil can result in an ultimate expenditure by Standard of up to $400 million to earn 50% of Canadian Hunter's interest in this

Land Position

	Gross Acres	Joint Venture Net Acres	Noranda Net Acres
Canada			
Leases	3,935,816	1,210,216	1,052,362
Licenses & Permits	710,767	415,744	361,517
	4,646,583	1,625,960	1,413,879
U.S.A.			
Federal & State	127,402	93,165	85,770
Fee	859,006	457,292	420,996
	986,408	550,457	506,766
Total	5,632,991	2,176,417	1,920,645

area. The Canadian Hunter/Standard Oil Joint Venture now controls approximately 900,000 acres in this play and has drilled twenty-two wells since late 1985. Twenty of these have been successful. Average initial deliverability for completed wells is 6 Mmcfd and average reserves per section associated with these wells is estimated at 4 Bcf. The results of the program to date indicates that development of the field is economically feasible at current prices for natural gas provided markets are available.

The resource potential for the B.C. Deep Basin is 4 Tcf of potentially recoverable reserves net to the Canadian Hunter/Standard Oil Joint Venture. Plans for the initial development of 50 Mmcfd of natural gas supply from two areas which are within the B.C. Deep Basin and near the Alberta border are now being completed.

Canadian Hunter's exploration success in both the B.C. Deep Basin and in its Alberta and Saskatchewan programs is reflected in its low "finding costs." Canadian Hunter's estimate of its average finding cost over the past 3 years of \$3.50 per barrel of oil equivalent is less than one half of the industry average of \$8 to \$9 per oil equivalent barrel. At \$1.80 per barrel, Canadian Hunter's 1986 finding costs were only one quarter of the industry cost. These finding costs are before adjustments for government incentive programs.

Noranda's share of daily gas production in 1986 averaged 88 million cubic feet per day; a decline of 11% from 1985 levels. Trans Canada Pipelines Limited, Canadian Hunter's major purchaser, reduced average takes from 54% to 46% of contract quantities during the contract year ending October 31. The outlook for 1987 indicates higher levels of take than in 1986 and lower effective royalty rates but also significantly lower wellhead prices, resulting in slightly lower operating cash flow.

Noranda's share of crude oil and natural gas liquids production increased by 45% in 1986 to 4,714 barrels per day from 3,247 barrels per day in 1985. This increase results primarily from a full years production in 1986 from the new Elmworth and Wapiti Deep Cut facilities which came on stream in June and October of 1985 respectively. Total oil production was less than expected due to the suspension of the heavy oil pilot project situated in the Primrose area of Alberta.

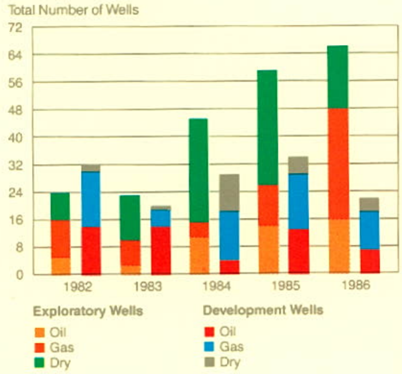
Canadian Hunter's oil and gas exploration efforts in 1986 resulted in reserve replacement well in excess of produced volumes. Noranda's share of Canadian Hunter's proven and probable remaining reserves at year-end have been estimated by the Company's engineers at 1,108.4 billion cubic feet of marketable natural gas, 52.8 million barrels of natural gas liquids, and 51.4 million barrels of oil. This represents an increase of 41.3 billion cubic feet of natural gas, 0.2 million barrels of natural gas liquids, and 5.3 million barrels of oil from the 1985 year-end reserve figures.

In the United States, capital expenditures were reduced to \$15.3 million compared to \$22.3 million in 1985. The American Hunter Exploration office in Houston was closed late in the year and American Hunter activities are now being operated from the Denver office. Capital expenditures by American Hunter on oil and gas exploration and development in 1987 will be reduced to a minimum level.

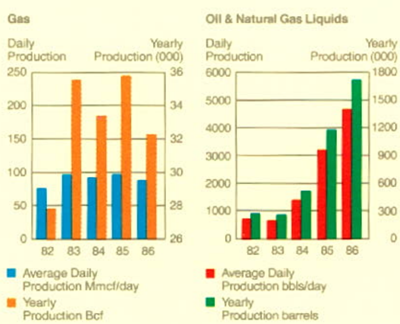
Panarctic Oils Ltd., in which Noranda has a 3.5% interest, explores for oil and natural gas in the Canadian Arctic islands. The end of the Petroleum Incentive Program has eliminated the near term prospects of exploration and drilling in the High Arctic.

Drilling Activities

Total Number of Wells



Noranda Production (Gross before Royalty)



Exploration: Noranda's mining companies, their subsidiaries and joint-venture partners spent \$57.1 million on exploration in 1986, mainly in North America and Australia. The bulk of the program was carried out by Noranda Exploration Company. The staff in its 18 North American field offices evaluated, surveyed or drilled 315 projects.

Research & Development: Noranda believes that its future competitiveness depends on technological advance and, despite some difficult years, it has maintained its R&D effort, most of it carried out by the Noranda Research Centre: 131 people, including 64 scientists and engineers and 27 technicians. In 1986 they spent \$12.1 million on improving processes and products, developing new processes and products, and pursuing new technology-based business opportunities.

NORANDA EXPLORATION COMPANY, LIMITED

Metals and Minerals: The worldwide exploration program carried out by the Noranda Group of companies continued during 1986 as 315 projects were active mainly in North America and Australia. Total expenditures in 1986 by Noranda Inc., its subsidiary companies and managed associate, Brenda Mines Ltd., amounted to $45 million, most of which was spent by Noranda Exploration Company, Limited based in Toronto, Canada. In addition, a total of $12.1 million was contributed worldwide by Joint Venture partners on Noranda-operated projects.

Offsetting the Noranda Group's costs during 1986 was the sale of exploration-related investments and properties totalling $13 million (excluding Greens Creek). In Canada, Noranda and Brenda financed a portion of their exploration costs with flow-through shares in the amount of $22 and $3.5 million respectively. In Australia, Noranda Pacific Limited raised $14.8 million (Aust.) by share placements for future exploration and development.

Exploration Expenditures
(Total Noranda and subsidiaries)

($ millions)	Base Metals	Precious Metals	Other	Total
Canada	14.0	19.4	1.0	34.4
United States	0.7	6.2	0.1	7.0
Australia	0.4	3.1	—	3.5
Other	0.1	—	—	0.1
Total	15.2	28.7	1.1	45.0

Noranda's program worldwide was mainly concentrated on searching for precious metal deposits as 63.8% of Noranda's exploration budget was applied to this activity. Base metals received 33.8% of the total funding, which was mainly spent in Eastern Canada to assure additional millfeed for Noranda's existing processing facilities. The remaining 2.4% was spent on other minerals, such as uranium in northern Saskatchewan.

In Canada, base metal exploration was carried out in the Bathurst-Newcastle, New Brunswick; Gaspe, Noranda and Matagami, Quebec; Manitouwadge and Sturgeon Lake, Ontario mining camps. The most notable increases to base metal mineral inventory were experienced on the Brunswick Mining and Noranda jointly-held Stratmat Option adjacent to the Heath Steele minesite in northern New Brunswick and in the Matagami, Quebec area where Noranda Zinc continued to outline important copper-zinc-silver mineralization on its wholly-owned Norita and partially owned (85%) Isle Dieu Mattagami properties. During 1986 a production decision was made on the latter property and currently a four compartment 2,125 foot vertical shaft is being sunk as the initial opening towards development of the moderate size, high-grade zinc deposit currently being delineated by Noranda Exploration and scheduled for production start-up in mid-1988.

During 1986, seven Noranda controlled properties containing pre-1986-discovered precious metal deposits reached the advanced exploration stage and will be further evaluated in 1987 to assess their economic potential. Properties containing the latter potentially-mineable deposits include the Noranda wholly-owned Remnor and Waite Beauchastel and jointly-held Ribago and Arntfield claim groups in the Noranda, Quebec area, where definition drilling programs were completed in 1986 and, during 1987, feasibility studies are planned for all. At Timmins, Ontario the former producing Desantis property has been dewatered and, during 1987, drifting and underground drilling is planned by Noranda and its joint venture partners to assess the ore potential at depth. In the Northwest Territories, Noranda and its joint venture partner in 1987 will continue their deep definition drilling program from surface to further evaluate the Tundra Main Zone at Courageous Lake. In British Columbia during 1986, Pan Canadian's massive sulphide polymetallic J-L deposit near Revelstoke was optioned by Noranda, and metallurgical studies are currently underway to assess this property as a possible source of millfeed for the nearby dormant Goldstream plant. An eighth advanced explora-

"The Research Centre explored opportunities for new businesses in advanced engineered materials, electrochemical systems and optoelectronics, all in some way connected with our core businesses."

tion property in Saskatchewan, partially owned by Noranda but operated by Eldorado, contains the Eagle Point North uranium deposit and, during 1987, the joint venture consortium will conduct feasibility studies under Eldorado's guidance.

Several new minerals discoveries in 1986 resulted from the program financed by Noranda's exploration companies and their joint venture partners. At year-end sufficient important results had been obtained from 15 of these discoveries to justify the budgeting of more advance testing programs for them in 1987.

In Australia the sale by Noranda Pacific of its interest in the Mt. Leyshon gold project to its joint venture partner was completed. Noranda Pacific's consolidated working capital at year-end was $27.1 million (Aust.) after exploration expenditures by Noranda Australia totalling $3.5 million (Aust.) in 1986, which were mainly directed towards precious metals. The most important results encountered during 1986 were from the BHP operated Coronation Hill joint venture gold-platinum-palladium prospect in the Northern Territory, where a positive feasibility study is contemplated during 1987. In Western Australia's Kalgoorlie gold mining area, gold production commenced in November from the BHP-operated Orban property and additional open pittable oxide gold reserves were delineated. Near Kalgoorlie on the West Black Flag property, optioned by Noranda in 1986, a new gold deposit was discovered and is currently being assessed by reverse circulation drilling rigs. In Queensland, further diamond drilling on the Noranda operated Conjuboy Joint Venture's Survey I Lease increased the base metal inventory which is considered uneconomic at present.

Oil & Gas: In Australia, Noranda Inc. and Brenda Mines Ltd. continued to maintain their combined 2.2% interest in the Timor Sea BHP operated consortium. During August production commenced from the Jabiru oil field at a capital cost of $1.7 million (Aust.) to each of Noranda and Brenda and, to the end of 1986, their share of production income totalled $.4 million (Aust.). Exploration continued in the Challis oil field structure and Noranda and Brenda's share of expenditures each totalled $.3 million (Aust.).

RESEARCH AND DEVELOPMENT

Seventy percent of the R&D effort was in support of Noranda's mining and metallurgical operations. Research continued on computer models that can predict the stresses in rock around a mine opening, a technique of primary importance to mine safety and ore recovery. Small-scale tests on rejecting waste rock in ore before it is concentrated showed promise for further cost-cutting. Experiments on a novel method of blasting rock continued.

At CCR, a new hydrometallurgical process was started up, successfully releasing $3.5 million in tied-up gold and almost doubling platinum and palladium production capacity. At CEZ, another new process was implemented to reduce cadmium in copper cake, allowing it to be treated at the Horne smelter, and significantly increasing revenues. A viable process for treating copper smelter dust has been developed which, when implemented, will allow treatment of more complex concentrates at the Horne as well as reducing copper/lead separation costs at Mattabi and other milling operations.

In manufacturing, a new production line was commissioned at Norandex for installing thermal barriers in aluminum door and window frames, a Noranda-developed technology that will pay back its costs in 18 months. Work continued on wire rope products, following the 1986 success of our plastic-impregnated, long-lasting *Cushion* series.

Opportunities for new businesses were explored in advanced engineered materials, electrochemical systems and optoelectronics, all in some way connected with our core businesses. An investment has been made in Nova Crystals Ltd., which is developing a new method to grow gallium arsenide single crystals. Gallium arsenide is expected to replace silicon in high-speed computers, and this unique but unproven technology could have a large profit potential. As an expansion of Noranda's selenium business, a reuseable selenium X-ray plate and scanner system is being developed which provides a sharper image than film, and enables the X-ray image to be stored and transmitted digitally, and enhanced by computer techniques. Progress toward a commercial product is encouraging.

ENVIRONMENT

The year was characterized by unprecedented environmental activities in Canada. Major reviews of principal acts and regulations are underway at the federal level as well as in Ontario, Quebec and Manitoba. In the U.S.A., laws requiring environmental cleanup with real estate transactions are being adopted by many states. The focus of all these legislative activities is in the handling of hazardous substances and the public's "right to know." Several in-house activities were initiated in response to these trends, including;

- pronouncement of a new environmental policy which sets the standard for all Noranda Group operations;
- a major research effort in collaboration with other mining companies and governments to develop low-cost and environmentally acceptable methods for rehabilitation of sulphur-containing tailings;
- completion of Phase I – Emergency Preparedness audits of selected plants, and a plan for environmental audits of all operations;
- a plan to gradually eliminate PCB and PCB-containing oils from electrical transformers.

Efforts in 1986 were concentrated on tailings rehabilitation, effluent quantity and quality, activities related to sulphur dioxide emission control and hazardous materials, including wastes.

The first phase of the decommissioning program for the Grey Eagle mine in California was successfully completed.

Canadian Electrolytic Zinc completed significant water pollution control improvements which will result in 70 and 99 percent reductions in zinc and cadmium discharges respectively into the St. Lawrence River system. CCR in East Montreal commenced site preparation for a $19 million slimes treatment plant, equipped with state-of-the-art emission control technology.

Noranda's total capital environmental expenditures in 1986 were $20 million, a total of $518 million since 1975.

Cadmium contamination in lobsters in Belledune Harbour, New Brunswick, has been decreasing after construction of a water treatment plant in 1981. It is projected that the harbour will be opened to normal fishing in 1989. Projects to improve the environment for fish have been successfully carried out at Noranda-Rouyn and Bathurst.

Brunswick Mining and Smelting Corporation Limited successfully completed the decontamination of nine transformers located at Brunswick and Heath Steele.

Under a provision of the U.S. comprehensive, Environmental Response, Compensation, and Liability Act (Superfund), the State of Idaho filed a Natural Resource Damage lawsuit against the company's Blackbird Mine. A motion for summary judgment has led to dismissal of the suit by the District Court. Besides technical issues, the court pointed out that the company had operated in full compliance with environmental law and was wrongly sued. In spite of this, the State has appealed.

James Maclaren Industries Inc. installed a reactor clarifier and sludge press at its Masson plant which will reduce suspended solids discharge by 82%. The project involved an expenditure of $6 million. Fraser Inc., in cooperation with provincial agencies, is carrying out long-term studies to identify productive uses for solid wastes generated by the forest industry. Rehabilitation of the Fraser Inc. water treatment plant at Edmundston was also initiated during the year.

In 1986, Noranda continued its partnership with the World Wildlife Fund and Environment Canada in support of the Toxicology Fund. Twenty-two projects on the effects of chemicals and toxic pollutants on wildlife, worth $3.5 million, were conducted in the first year. Noranda's total capital environmental expenditures in 1986 were $20 million, a total of $518 million since 1975.

NORANDA MINERALS INC.
SMELTING AND REFINING PRODUCTION

	1986	1985
COPPER GROUP		
HORNE SMELTER		
Copper content of anodes produced (000 tons)	166	205
GASPÉ SMELTER		
Copper content of anodes produced (000 tons)	72	48
Sulphuric Acid (000 tons)	135	119
CCR REFINERY		
Copper (000 tons)	329	336
Silver (000 ounces)	20,482	23,551
Gold (000 ounces)	907	653

	1986	1985
ZINC GROUP		
CANADIAN ELECTROLYTIC ZINC (90% direct, 5% indirect)		
Zinc (000 tons)	130	240
Sulphuric acid (000 tons)	241	451
BRUNSWICK SMELTER (63%)		
Lead (000 tons)	65	58
Silver (000 ounces)	2,992	2,656
Sulpuric Acid (000 tons)	183	170

NORANDA MINERALS INC.
MINE PRODUCTION – CONTAINED METAL

		Ore Treated (000 tons)	Copper tons	Zinc tons	Lead tons	Silver (000 oz)	Gold ounces	Molybdenum (000 lbs)	Muriate of Potash (000 tons)
COPPER GROUP									
Gaspé	1986	1,393	17,805	—	—	175	781	782	—
	1985	1,207	13,993	—	—	153	622	718	—
Chadbourne	1986	30	—	—	—	3	2,792	—	—
	1985	231	—	—	—	14	20,117	—	—
Gallen	1986	—	—	—	—	—	—	—	—
(51%)	1985	499	—	25,740	—	84	7,164	—	—
Bell Copper	1986	5,879	23,419	—	—	124	23,449	—	—
	1985	1,750	5,905	—	—	32	5,632	—	—
Remnor	1986	142	—	—	—	28	23,447	—	—
	1985	61	—	—	—	—	7,765	—	—
Noranda Lakeshore	1986	—	3,581	—	—	—	—	—	—
	1985	—	6,779	—	—	—	—	—	—
MINING CORPORATION GROUP									
Geco	1986	1,372	20,590	58,400	630	1,325	—	—	—
	1985	1,438	22,240	35,040	280	1,325	—	—	—
Mattabi	1986	680	830	62,990	3,970	1,603	—	—	—
(60%)	1985	356	820	23,950	990	555	—	—	—
Lyon Lake	1986	285	3,270	23,270	370	1,221	—	—	—
	1985	313	4,360	24,680	620	1,430	—	—	—
Golden Giant	1986	808	—	—	—	—	254,545	—	—
(50%)	1985	358	—	—	—	—	98,155	—	—
Central Canada	1986	2,425	—	—	—	—	—	—	870
Potash	1985	3,042	—	—	—	—	—	—	1,118
Brenda	1986	11,248	18,740	—	—	294	4,210	9,620	—
(45%)	1985	3,314	5,170	—	—	80	1,100	2,700	—
Grey Eagle	1986	169	—	—	—	54	24,347	—	—
	1985	268	—	—	—	86	42,986	—	—
ZINC GROUP									
Brunswick Mining	1986	3,757	7,370	262,412	89,190	6,556	—	—	—
and Smelting (63%)	1985	3,650	7,072	261,792	34,394	5,734	—	—	—
Matagami	1986	1,111	10,130	46,438	—	200	3,520	—	—
	1985	1,208	9,453	42,325	—	250	4,044	—	—
TOTALS	1986	29,299	105,735	453,510	94,160	11,583	337,091	10,402	870
	1985	17,695	75,792	413,527	36,284	9,743	187,585	3,418	1,118
Noranda's Direct	1986	20,049	92,369	331,222	59,572	8,354	207,503	5,111	870
Interest	1985	14,945	70,232	297,089	23,506	7,397	232,844	1,987	1,118

ASSOCIATE COMPANY
MINE PRODUCTION – CONTAINED METAL

		Ore Treated (000 tons)	Copper tons	Zinc tons	Lead tons	Silver (000 oz)	Gold ounces	Molybdenum (000 lbs)	Muriate of Potash (000 tons)
KERR ADDISON	1986	1,655	15,450	3,500	—	—	154,395	—	—
(51%)	1985	373	—	—	—	—	47,200	—	—

OPERATIONS DATA

NORANDA MINERALS INC.
INVENTORIES

	1986 (000 tons)	Copper %	Zinc %	Lead %	Silver oz. per ton	Gold oz. per ton	Molyb-denum %	Muriate of Potash K_2O%	Phosphate Rock (000 tons)
COPPER GROUP									
Gaspé									
Needle Mountain	2,581	2.11	—	—	—	—	0.029	—	—
Copper Mountain Oxide	22,320	0.44	—	—	—	—	—	—	—
Murdochville Project	4,745	2.94	—	—	0.49	—	—	—	—
Remnor – proven & probable	825	—	—	—	—	0.164	—	—	—
Bell	17,458	0.54	—	—	—	—	—	—	—
Goldstream	3,499	3.51	2.50	—	0.51	—	—	—	—
MINING CORPORATION GROUP									
Geco	15,522	1.69	3.16	—	1.27	—	—	—	—
Lyon Lake	820	1.31	10.47	1.07	4.79	—	—	—	—
Mattabi	962	0.21	9.25	0.93	2.37	—	—	—	—
Golden Giant	22,742	—	—	—	—	0.282	—	—	—
Central Canada Potash	476,576	—	—	—	—	—	—	27.0	—
Brenda	26,300	0.19	—	—	—	—	0.037	—	—
Hopewell –									
recoverable product	—	—	—	—	—	—	—	—	11,304
ZINC GROUP									
Brunswick Mining and Smelting									
– proven	86,613	0.31	8.95	3.64	2.81	—	—	—	—
– probable	25,167	0.38	8.46	3.45	2.83	—	—	—	—
Matagami									
Mattagami Lake	1,112	0.43	4.81	—	0.69	0.011	—	—	—
Norita	730	2.26	3.28	—	0.56	0.013	—	—	—
Isle Dieu									
– probable	2,126	1.15	18.36	—	2.35	0.013	—	—	—

The above reserves are proven and/or drill indicated except where noted "probable", and are based on updated forecasts and mining plans to include only material which the Company believes will eventually be mineable.

ASSOCIATE COMPANY
INVENTORY

KERR ADDISON	1986 (000 Tons)
Gold (0.128 oz. per ton)	3,397
Copper (7.0%)	2,300
Zinc (16.0%)	3,400

NORANDA FOREST INC.
PRODUCTION

		Lumber MMfbm	Panel Products MM sq. ft. 1/16"	Market Pulp (000 tonnes)	Newsprint & Paper (000 tonnes)	Containerboard (000 tonnes)
JAMES MACLAREN	1986	24	691	128	136	—
	1985	23	780	96	114	—
FRASER	1986	102	—	101	473	33
	1985	84	—	75	439	31
NORTHWOOD PULP & TIMBER	1986	462	2,647	446	—	—
	1985	615	2,592	389	—	—
MACMILLAN BLOEDEL	1986	841	3,855	408	873	654
	1985	979	3,683	422	850	609
TOTALS	1986	1,429	7,193	1,083	1,482	687
	1985	1,701	7,055	982	1,403	640

NORANDA MANUFACTURING INC.
PRODUCTION

			Metal Consumption (tons)
TORONTO GROUP	Canada Wire	1986	114,900
		1985	117,800
MONTREAL GROUP	Noranda Metal	1986	38,000
		1985	40,800
			Primary Aluminum Produced
CLEVELAND GROUP		1986	171,400
		1985	160,600

		Prime Product Shipped (tons)
NORCAST	1986	33,300
	1985	33,700
ALUMINUM	1986	222,100
	1985	210,900

ACCOUNTING POLICIES

Basis of presentation of consolidated financial statements:

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Noranda Inc. (the "Company") and all of its subsidiaries ("Noranda"). Interests in associated companies in which it has significant influence but not majority share ownership are accounted for on the basis of cost plus equity in undistributed earnings since the dates of investment. The difference between the cost of the shares of associated companies and the underlying net book value of the assets is amortized over the life of the assets to which the difference is attributed.

Certain subsidiary and associated companies own shares in the Company. The Company's pro rata interest in the carrying value of such shares has been deducted from shareholders' equity. Similarly, the Company's earnings per share have been calculated on the number of shares outstanding after reduction for such intercompany holdings.

Translation of foreign currencies:

Monetary assets and liabilities are translated at the exchange rate prevailing at the year end and revenues and expenses (other than depreciation) at average rates of exchange during the year. Non-monetary assets and liabilities are translated at historical rates of exchange. Long-term debt payable in foreign currencies is translated at the exchange rate prevailing at the year end with the resulting adjustment being amortized over the life of the debt. Exchange gains and losses arising on the translation of the accounts are included in consolidated earnings.

The accounts of self-sustaining foreign subsidiaries are translated using the current rate method, under which assets and liabilities are translated at the exchange rate prevailing at the year end, and revenues and expenses at average rates of exchange during the year. Gains or losses on translation are not included in the consolidated statement of earnings but are deferred and shown as a separate item in shareholders' equity. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign subsidiaries are reported in the same manner as translation adjustments.

Inventories:

Mine products are valued at estimated realizable value and other inventories at the lower of cost (determined on a first-in-first-out or average cost basis) and replacement value.

Futures contracts:

From time to time, Noranda owns futures contracts for the purchase or sale of metals and currencies not related to production. These contracts are not reflected in Noranda's accounts, beyond the amount of deposit required, until maturity date although provision is made for any estimated unrealized losses.

Depreciation and mine development charges:

Depreciation of property, buildings and equipment and amortization of mine development expenditures are based on the estimated service lives of the assets calculated using the method appropriate in the circumstances, for the most part straight-line for fixed assets and unit of production for development.

Exploration:

Mining exploration expenditures are charged against current earnings unless they relate to properties from which a productive result is reasonably certain or on which work is in process. Gains on sale or recoveries of costs previously written off are normally credited against exploration expense.

Noranda follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants which became effective December 31, 1986 whereby all costs associated with the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized in cost centres on a country by country basis and charged against earnings as set out below. Such costs include land acquisition, drilling, geological and geophysical interest and overhead expenses related to exploration and development activities.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method based on estimated proved oil and gas reserves. The company periodically reviews the costs associated with unproved properties to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

The carrying value of the Company's oil and gas investments in producing cost centres is limited to an ultimate recoverable amount which is the aggregate of future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future general and administrative costs, financing costs and income taxes. Future net revenues are estimated using year-end prices.

Preproduction costs:

Preproduction costs including interest on major projects are deferred until the related facility achieves commercial production volume and are amortized on either a straight-line or a unit of production basis.

Income taxes:

Noranda follows the tax allocation method of accounting for income taxes. Under this method, timing differences between reported and taxable income result in provisions for taxes which are not currently payable. Such timing differences arise principally as a result of claiming depreciation, development, exploration and preproduction costs for tax purposes at amounts differing from those charged to reported income.

Investment tax credits:

Investment tax credits are accounted for using the cost reduction method. Investment tax credits generated by qualifying capital expenditures are accrued as deferred credits when reasonable assurance of realization of the benefit exists and are amortized to earnings on the same basis and at the same rate as the related expenditures are depreciated or amortized.

Interest:

Interest expense is charged to earnings except interest that can be identified with a major capital expenditure program, in which case it is capitalized.

Capital leases:

Noranda leases certain property, buildings and equipment under long-term capital leases which are recorded in the consolidated financial statements as fixed assets and long-term debt.

Pension costs:

Noranda has various contributory pension plans which cover substantially all employees. Current service pension costs are charged to earnings as they accrue. Past service costs are charged to earnings at rates which, based on annual independent actuarial estimates, will fully provide for the obligations over periods not longer than those permitted by various regulatory bodies. Contributions which would otherwise be required to fund pension rights being currently earned may not be made where the pension plan is overfunded.

CONSOLIDATED BALANCE SHEET

Noranda Inc. (Incorporated under the laws of Ontario)

ASSETS

Years ended December 31	1986 (in thousands)	1985
Current assets		
Cash and short-term notes	$ 62,641	$ 64,672
Marketable investments, at cost (quoted market value $55,942; 1985–$70,354)	48,065	66,386
Accounts, advances and tolls receivable	689,424	966,232
Inventories	829,321	840,194
	1,629,451	1,937,484
Investments in and advances to associated and other companies [note 2(a)]	1,230,253	1,142,295
Fixed assets		
Property, buildings and equipment, at cost	4,963,521	4,835,211
Accumulated depreciation	(2,182,162)	(1,965,564)
	2,781,359	2,869,647
Other assets [note 3]	307,780	291,233
	$5,948,843	$6,240,659

AUDITORS' REPORT

To the Shareholders
of Noranda Inc.:

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

Toronto, Canada
February 26, 1987

In our opinion, these consolidated financial statements present fairly the financial position of Noranda Inc. as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

CONSOLIDATED BALANCE SHEET

LIABILITIES	(in thousands) 1986	1985
Current liabilities		
Bank advances [note 4(b)]	$ 76,244	$ 355,791
Accounts payable	591,824	795,509
Taxes payable	35,020	29,830
Debt due within one year	137,616	81,140
Deferred revenue	24,000	
	864,704	1,262,270
Long-term debt [note 4(a)]	1,901,246	2,251,397
Deferred taxes, revenues and other liabilities [note 5]	403,629	273,093
Minority interests in subsidiaries	108,291	94,979
Shareholders' equity [note 7]		
Capital stock	2,107,531	1,748,425
Retained earnings	629,331	693,567
	2,736,862	2,441,992
The Company's pro rata interest in its shares held by subsidiary and associated companies	(60,412)	(78,052)
Currency translation adjustment [note 7(f)]	(5,477)	(5,020)
	2,670,973	2,358,920
Commitments and contingencies [note 6]		
	$5,948,843	$6,240,659

(See accompanying notes)

On behalf of the Board

A. POWIS, Director

W.P. WILDER, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

EARNINGS Years ended December 31	(in thousands) 1986	1985
Revenue		
Sales	$3,536,518	$3,438,862
Investment income	10,613	23,203
	3,547,131	3,462,065
Expense		
Cost of production	2,818,926	2,746,402
Administration, selling and general expenses	296,634	266,562
Depreciation ($250,374; 1985–$243,733) and amortization	274,718	267,322
Mining exploration (net of premium on flow-through shares $13,522; 1985–$8,832)	13,160	27,541
Interest – net [note 4(a)]	206,520	244,763
	3,609,958	3,552,590
Loss before the following	(62,827)	(90,525)
Income tax recovery and production taxes [note 8]	10,461	5,200
Minority interests in (earnings) losses of subsidiaries	(165)	3,220
Share of earnings in associates	67,260	11,424
Earnings (loss) before unusual items	14,729	(70,681)
Unusual items [note 11]	28,617	(183,192)
Earnings (loss)	$ 43,346	$ (253,873)
Loss per common share before unusual items	$ (0.19)	$ (0.88)
Earnings (loss) per common share	$ 0.02	$ (2.38)
RETAINED EARNINGS		
Balance, beginning of year	$ 693,567	$1,041,423
Earnings (loss)	43,346	(253,873)
	736,913	787,550
Dividends [note 7(g)]	(107,141)	(97,778)
Disposition of shares held by associated companies [note 7(h)]	5,244	3,795
Share issue expenses, net of income tax reduction of $5,042	(5,685)	
Balance, end of year	$ 629,331	$ 693,567

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31	1986	1985
	(in thousands)	
Cash realized from (used for) operations:		
Earnings (loss) before unusual items	$ 14,729	$ (70,681)
Charges (credits) not affecting cash:		
Depreciation and amortization	274,718	267,322
Deferred exploration written off	289	31
Forward gold sales	(15,179)	
Taxes provided not currently payable	(46,423)	(54,638)
Minority interests in earnings (losses) of subsidiaries	165	(3,220)
(Earnings) losses of associates net of dividends received	(48,454)	221
	179,845	139,035
Net decrease (increase) in accounts receivable, inventories and payables	37,235	(12,373)
Effect of exchange rate changes	1,413	(2,229)
Other	(176)	(380)
	218,317	124,053
Cash realized from (used for) investment activities:		
Fixed asset additions	(229,615)	(315,948)
Deferred expenditures	(54,021)	(65,406)
Investments and advances	(40,909)	(141,914)
	(324,545)	(523,268)
Sale of investments	100,323	377,027
Sale of fixed assets	50,346	72,126
	(173,876)	(74,115)
Cash available before financing activities	44,441	49,938
Cash realized from (used for) financing activities:		
Long-term debt repaid	(291,987)	(65,825)
Forward gold sales – unpriced	210,000	
Sale of investment tax credits	46,510	
Issue of shares – common	260,429	15,601
– preferred (net)	98,677	52,299
– cost of issues	(10,727)	
Issue of shares to minority shareholders	13,809	
	326,711	2,075
Dividends		
Shareholders	(111,926)	(100,983)
Minority shareholders of subsidiaries	(31)	(6,875)
	(111,957)	(107,858)
Cash increase (decrease)	259,195	(55,845)
Cash, beginning of year	(224,733)	(168,888)
Cash, end of year	$ 34,462	$ (224,733)

Cash comprises cash, short-term notes and marketable investments less bank advances.

(See accompanying notes)

(all $ in thousands except for per share information)

December 31, 1986

1. Accounting policies

The principal accounting policies followed by Noranda are summarized under the caption "Accounting Policies".

2. Investments

(a) Investments in and advances to associated and other companies consist of:

	Noranda's Beneficial Interest	Carrying Value 1986	Carrying Value 1985
Associated companies carried on an equity basis			
Brenda Mines Ltd.	45%	$ 9,930	$ 9,168
Kerr Addison Mines Limited	51%	102,702	80,299
MacMillan Bloedel Limited	49%	723,036	647,621
Northwood Forest Industries Ltd.	50%	55,120	46,162
Tara Exploration and Development Company Limited (note 11)			57,997
Associated manufacturing companies		41,739	40,419
Other companies		115,041	100,525
		1,047,568	982,191
Other investments and advances, at cost			
Shares		176,207	156,499
Advances		6,478	3,605
		182,685	160,104
		$1,230,253	$1,142,295

The calculation of beneficial interest includes interests held through an associated company. Kerr Addison Mines Limited is not consolidated because the interest held directly and indirectly through subsidiaries is less than 50%.

(b) Included above are shares carried at a book value of $993,406 which had a quoted market value of $1,027,950 at December 31, 1986 ($936,285 and $713,013, respectively, at December 31, 1985). The latter amount does not necessarily represent the value of these holdings which may be more or less than that indicated by market quotations.

(c) Summarized consolidated financial information for MacMillan Bloedel Limited as at December 31, 1986 and 1985 and for the years then ended is as follows:

Financial position	1986	1985
Net assets employed		
Current assets	$ 683,200	$ 733,100
Deduct current liabilities	229,600	239,500
Operating working capital	453,600	493,600
Investments and other assets	254,100	269,900
Property, plant and equipment	1,258,600	1,317,200
	$1,966,300	$2,080,700
Invested capital		
Interest-bearing indebtedness		
Current	$ 95,000	$ 88,600
Long-term	452,300	775,100
Deferred income taxes	82,600	75,100
Deferred revenue	16,000	15,800
	645,900	954,600
Shareholders' equity	1,320,400	1,126,100
	$1,966,300	$2,080,700
Statement of earnings		
Sales of products and services	$2,511,700	$2,335,400
Operating costs	2,289,200	2,226,500
Operating earnings	222,500	108,900
Other income	17,100	10,400
Interest expense	(67,300)	(92,000)
Earnings before income taxes	172,300	27,300
Income taxes	(65,500)	(8,500)
Earnings before the undernoted item	106,800	18,800
Share of earnings in associates	26,500	24,100
Earnings before extraordinary item	133,300	42,900
Extraordinary item	45,000	
Net earnings	$ 178,300	$ 42,900

3. Other assets

	1986	1985
Deferred preproduction and mine development	$ 218,405	$ 206,992
Deferred exploration	53,361	40,529
Other	36,014	43,712
	$ 307,780	$ 291,233

4. Debt

(a) Long-term debt	1986	1985
Noranda Inc.		
9.75% sinking fund debentures due 1994	$ 25,960	$ 31,910
7.50% sinking fund debentures due 1988	13,476	13,676
9.25% sinking fund debentures due 1990	23,393	25,488
Notes payable and revolving term loans (including $332,682 U.S.; 1985–$435,000 U.S.) [note 4(b)]	959,268	1,107,913
Variable rate serial debentures due 1987-1992	262,000	290,000
Noranda Aluminum Inc.		
10.50% secured notes due 1995 ($44,800 U.S.; 1985–$49,200 U.S.)	61,846	68,757
9.75% note due 1987 ($3,750 U.S.; 1985–$7,500 U.S.)	5,177	10,481
Phase I and III pollution bonds due 2002 ($45,000 U.S.; 1985–$45,000 U.S.)	62,123	62,887
8% pollution control revenue bonds due 2001 ($10,500 U.S.; 1985–$10,500 U.S.)	14,495	14,674
Capital lease – 5.90% industrial revenue bonds, sinking fund issues, due 1993 ($38,445 U.S.; 1985–$40,285 U.S.)	53,073	56,298
Noranda Finance Inc.		
10% note payable due 1988 ($30,000 U.S.; 1985–$30,000 U.S.)	41,415	41,925
Brunswick Mining and Smelting Corporation Limited		
5.85% first mortgage sinking fund bonds, series "A" due 1986		1,052
7.25% general mortgage sinking fund bonds, series "A" due 1987	967	2,267
11% general mortgage sinking fund bonds, series "B" due 1996	15,658	15,699
Fraser Inc.		
6.125% sinking fund debentures due 1987 (1985–$1,500 U.S.)		2,098
10.75% sinking fund debentures due 1986 to 1992 (1985–$23,350 U.S.)		32,650
Revolving term loan due 1988 convertible to a term loan due 1998 (including $21,770 U.S.) [note 4(c)]	205,592	225,983
Notes payable due 1987 – 1989	16,654	15,005
James Maclaren Industries Inc.		
5.75% sinking fund debentures due 1987	6,328	6,753
Bank loan due 1987 – 1988	9,721	14,639
Canada Wire & Cable Limited		
Bank notes due 1987 – 1992 (including $140,166 U.S.; 1985–$145,333 U.S.)	200,600	220,884
Carol Cable Company, Inc.		
Variable rate industrial revenue bonds, due 1988 to 1989 ($20,676 U.S.; 1985–$21,105 U.S.)	28,543	29,494
Sundry indebtedness (including $16,401 U.S.; 1985 $19,079 U.S.)	32,573	42,004
	2,038,862	2,332,537
Debt due within one year	137,616	81,140
Total	$1,901,246	$2,251,397

Maturities of long-term debt are as follows:
1988 – $256,893; 1989 – $975,986; 1990 – $167,975;
1991 – $123,614; and subsequent $376,778.

Long-term interest expense for the year was $260,454 (1985 – $301,957) which when netted with interest income and other interest expense was $206,520 (1985 – $244,763).

(b) Notes payable with maturities in 1987 and revolving term loans have been classified as long-term debt as a result of unconditional commitments the Company has received from its bankers for contractual term credits of $959,268 (including $332,682 U.S.) expiring from June 30, 1988 to January 31, 1990.

(c) As collateral for Fraser Inc.'s revolving term loan there is an assignment of certain assets and a floating charge on the remaining assets.

(d) Interest capitalized on major capital expenditures amounted to $7,400 (1985 - $28,000).

5. Deferred taxes, revenues and other liabilities

	1986	1985
Taxes provided not currently payable	$ 99,346	$142,893
Deferred revenues and other liabilities	304,283	130,200
	$403,629	$273,093

Included in deferred revenue at December 31, 1986 is $170,821 representing the long-term unearned portion of the proceeds from forward gold sales during the year. Interest, calculated monthly on the outstanding balance, is included in interest expense.

6. Commitments and contingencies

(a) Capital expenditures of approximately $168,824 have been approved for the year ending December 31, 1987.

(b) Noranda has guaranteed, or is contingently liable for, repayment of loans of associated companies to the extent of approximately $60,000 at December 31, 1986.

(c) Based on the most recent actuarial valuation as at December 31, 1985, some of Noranda's pension plans were overfunded by $94,000. Because of the continued overfunding, contributions of approximately $11,800 (1985 - $16,300) which otherwise would have been required to fund the pension rights being currently earned have not been made. Plans of certain subsidiaries were underfunded by approximately $9,000.

(d) By agreement with Noranda, its subsidiary, Hemlo Gold Mines Inc. is entitled to all benefits and is obligated to indemnify Noranda for any loss arising out of actions relating to the failure of a principal contractor to complete work at the Golden Giant Mine in 1984. In an action started in the Supreme Court of Ontario the contractor's bonding company is currently claiming damages of $20,000, a further $4,000 in respect of certain payments incurred in satisfaction of lien claims, $3,500 in respect of payments made under an unrelated performance bond and punitive damages of $6,000. In the opinion of counsel to Noranda the first two claims are significantly overstated and the two latter claims are without legal basis. Noranda has counterclaimed for damages in the amount of $52,000 against the bonding company under labour and materials bonds and performance bonds.

(e) A subsidiary, Norcoal Company, Inc., operates a coal brokerage business in the United States. In 1986 several actions were brought against Norcoal and affiliated companies, alleging, among other things, breaches of contract and tort. The amount claimed for compensatory and punitive damages is in the aggregate about U.S. $392,000. The Company believes that the defences to the actions are meritorious and that the amounts claimed are grossly overstated and not supportable at law. The Company is vigorously defending these actions.

(f) Certain Mexican companies in which a wholly-owned subsidiary has minority interests are in default in payment of certain indebtedness. The terms of the indebtedness are being re-negotiated to rectify the defaults. Should these efforts not be successful the subsidiary's investment in these companies of approximately $27,000 may be impaired.

(g) Revenue Canada has indicated that it proposes to reassess a wholly-owned subsidiary for its taxation years from 1981 to 1984. The potential additional tax expense, net of deferred taxes, is estimated by Noranda at approximately $42,000 including interest. The subsidiary has been advised by its solicitors that on their understanding of the relevant facts the basis for the proposed reassessments is ill-founded and the company should ultimately be successful in challenging these proposed reassessments.

(h) The Company's future minimum lease payments on operating leases as at December 31, 1986 are:

	1987	$ 32,297
	1988	30,843
	1989	25,255
	1990	21,896
	1991	20,739
	Thereafter	74,566
Total future minimum lease payments		$205,596

7. Shareholders' Equity

(a) Capital stock

	1986	1985
Authorized:		
Preferred shares, an unlimited number		
Common shares, an unlimited number		
Participating shares, an unlimited number		
Issued:		
Series A 9½% Preferred shares	$ 18,444	$ 358,326
Series B 9¼% Preferred shares	52,436	52,299
Series C 7¾% Preferred shares	438,422	
Common shares	1,598,229	1,337,800
	$2,107,531	$1,748,425

(b) Preferred shares Series A

The Company has designated 3,601,493 preferred shares as 9½% cumulative, redeemable, convertible preferred shares Series A of which 184,445 are outstanding at December 31, 1986. On July 10, 1986, 2,884,471 were exchanged for 11,537,884 preferred shares Series C and on September 15, 1986 the Company retracted 514,193 Series A shares for $51,419. Each of the remaining 184,445 Series A shares is convertible into 3.05 common shares until June 15, 1987.

(c) Preferred shares Series B

The Company has 2,016,752 preferred shares outstanding which were designated fixed/floating rate cumulative, redeemable, retractable, convertible preferred shares Series B. These shares were issued in exchange for the remaining shares of Fraser Inc. and the holders are entitled to dividends at the rate of 9¼% to July 15, 1988 and thereafter at a floating rate with a minimum of 7% and maximum of 12%.

The Company may not redeem these shares prior to July 15, 1990 but thereafter may redeem them at prices ranging from $27.00 in 1990 to $26.00 after 1994. Each of these shares is convertible into 1.3 common shares of the Company from July 16, 1988 until July 15, 1995 subject to certain conversion provisions. Shareholders may require the Company to redeem shares at $26.00 on July 15, 1995 by tendering them to the Company on or before July 4, 1995.

(d) Preferred shares Series C

On July 10, 1986 the Company offered 20,340,952 7¾% cumulative, redeemable, convertible preferred shares Series C comprising 6,000,000 sold to the public for cash proceeds of $150,000 and 14,340,952 offered in exchange for 3,585,238 preferred shares Series A on a four for one basis. All 6,000,000 preferred shares Series C were sold and 11,537,884 preferred shares Series C were issued in exchange for 2,884,471 preferred shares Series A.

Each share will be convertible into 1.15 common shares of the Company until June 15, 1993 at a conversion price of $21.74. The Company may not redeem these shares prior to June 15, 1989. Thereafter and prior to June 15, 1991 the Series C shares will be redeemable subject to certain conversion provisions. On and after June 15, 1991, the shares will be redeemable at the option of the Company at a price of $25.00 together with all unpaid dividends.

(e) Summary of common share transactions for the year

	Shares	Amount
	(in thousands)	
Common shares, beginning of year	129,259	$1,337,800
Issued:		
For cash	13,800	233,812
As stock dividends	1,045	17,775
Under share purchase plan	43	749
Under stock option plan	47	558
As flow-through shares	462	7,495
On conversion of preferred shares and other	8	40
Common shares, end of year	144,664	1,598,229
Company's pro rata interest in its shares held by subsidiaries and an associate	4,092	60,412
Net common shares	140,572	$1,537,817

On February 19, 1986 the Company issued 6,250,000 common shares to the public and 6,250,000 to an associate for cash proceeds of $207,812 and on December 30, 1986 a further 1,300,000 to the public for cash proceeds of $26,000.

The earnings per common share calculations have been based on the weighted average number of common shares outstanding, 136,972,357 in 1986 and 122,164,029 in 1985.

(f) Currency translation adjustment

The following is a summary of the currency translation adjustment account:

	1986	1985
Balance, beginning of year	$(5,020)	$(21,611)
Net effect of foreign currency translation	(6,957)	191
Share of currency translation adjustment account of associate	6,500	16,400
	$(5,477)	$ (5,020)

(g) Summary of dividends	1986	1985
During the year the following dividends were declared:		
Series A preferred shares	$ 17,809	$ 34,060
Series B preferred shares	4,858	2,801
Series C preferred shares	18,025	
Common shares	71,234	64,122
Total	111,926	100,983
Less the Company's pro rata share of dividends paid to subsidiaries and an associate	4,785	3,205
Net charge to retained earnings	$107,141	$ 97,778

(h) Contributed surplus

Contributed surplus at December 31, 1986 was $41,171 (1985 – $35,927) arising principally from the excess of the proceeds on sale of shares of the Company held by associates over their carrying value. This amount is included in retained earnings for financial statement presentation purposes.

(i) Stock options

During the year ended December 31, 1986, 47,308 common shares were issued under the Company's stock option plan for $558 and options on 22,700 shares were cancelled. At December 31, 1986 options on 2,045,092 shares were outstanding and exercisable at prices varying from $9.22 to $22.91 for periods up to 1994.

(j) Share purchase plan

Under the Company's share purchase plan, shares are sold to a trustee for resale to employees financed by an interest free loan from the Company. At December 31, 1986, the amount of the loan included in accounts receivable was $12,045.

(k) Purchases for cancellation

Shareholders have the right to receive either cash dividends or the equivalent in common shares. Under an exemption order of the Ontario Securities Commission the Company may purchase for cancellation on an annual basis through the facilities of the Toronto Stock Exchange a number of common shares approximately corresponding in number to the common shares issued by it as stock dividends, subject to certain conditions. During 1986, 1,045,045 common shares were issued as stock dividends and no shares were purchased for cancellation under this arrangement.

8. Income taxes

The provision for income and production taxes differs from the amount that would have been computed by applying statutory income tax rates to earnings or losses before earnings or losses in associated companies and unusual items. The difference arose for the following reasons:

	1986	1985
Loss before the following: Income and production taxes minority interests in losses (earnings) of subsidiaries share of earnings in associates unusual items	$(62,827)	$(90,525)
Recovery based on combined federal and composite provincial rate of 52% (1985 – 49.7%)	(32,670)	(44,991)
Increase (decrease) in taxes resulting from:		
Inventory allowance	(763)	(6,910)
Resource and depletion allowance	(21,216)	(21,915)
Royalties and mineral taxes	34,517	43,431
Unrecognized tax savings on operating losses		12,863
Sale of exploration credits	4,062	4,107
Other	5,609	8,215
Income tax recovery and production taxes	$(10,461)	$(5,200)

At December 31, 1986 Noranda had available losses of approximately U.S. $135,000 for which no tax benefit has been recognized in the consolidated financial statements. These losses expire subsequent to 1994.

9. Related party transactions

The following summarizes the related party transactions during the year between Noranda and its associated companies:

(a) Sale of goods and services, consisting of sales commissions and sales of lumber and concentrate at market prices on normal trade terms, amounted to $86,494 and gave rise to accounts receivable at December 31, 1986 of $14,239 (1985 – $49,305 and $18,763 respectively).

(b) Purchase of goods and services, consisting primarily of commissions on forest product sales and purchases of alumina at market prices on normal trade terms, amounted to $86,769 and gave rise to accounts payable at December 31, 1986 of $14,167 (1985 – $90,135 and $21,027 respectively).

(c) Noranda and its associated companies participate in a short-term investment pool, which gave rise to a net account payable of $3,220 at December 31, 1986 (1985 – net account receivable of $1,290). Interest charges and credits are calculated at market rates.

(d) At December 31, 1986 certificates of deposit totalling $300,904 U.S. have been offset by a note payable to an associated company of a similar amount. The note payable bears interest at market rates, is payable on demand and may be extinguished entirely, at the Company's option, by the transfer of the certificates of deposit to the associated company.

In addition, the Company had $87,800 of short-term notes payable to an associated company bearing interest at market rates.

10. Business segment information

Noranda operates in four industry segments: Metals and minerals, oil and gas, manufacturing and forest products. Inter-segment sales and purchases are made at market prices and normal trade terms.

Operations and identifiable assets by geographic area and industry segment are presented below:

(a) Geographic areas	1986	1985
Revenue:		
Canada – domestic	$1,067,619	$1,164,525
– export	816,641	860,063
	1,884,260	2,024,588
U.S.A.	1,662,871	1,437,477
Total	$3,547,131	$3,462,065
Operating profit (loss):		
Canada	$ 135,547	$ 221,793
U.S.A.	20,802	(65,206)
Total	$ 156,349	$ 156,587
Identifiable assets:		
Canada	$3,971,021	$4,146,997
U.S.A.	1,867,116	1,962,604
	5,838,137	6,109,601
Cash and marketable investments	110,706	131,058
Total	$5,948,843	$6,240,659

(b) Industry segments	1986	1985
Revenue:		
Metals and minerals	$ 983,965	$1,022,106
Oil and gas	93,689	127,695
Manufacturing	1,600,829	1,546,939
Forest products	964,926	845,951
	3,643,409	3,542,691
Inter-segment sales	(106,891)	(103,829)
Investment income	10,613	23,203
Total	$3,547,131	$3,462,065
Segment operating profit:		
Metals and minerals	$ 44,082	$ 37,305
Oil and gas	17,331	54,601
Manufacturing	(1,959)	10,289
Forest products	96,895	54,392
Total segment operating profit	156,349	156,587
Income tax recovery and production taxes	10,461	5,200
Minority interest	(165)	3,220
Share of earnings in associates	67,260	11,424
Corporate expense	(12,656)	(2,349)
Interest expense	(206,520)	(244,763)
Unusual items	28,617	(183,192)
Earnings (loss)	$ 43,346	$ (253,873)

During 1986 the basis for allocating corporate expense was revised and the comparative 1985 figures have been reclassified. The 1985 corporate expense is net of a partial refund of the pension plan surplus in the amount of $7,468.

	1986	1985
Total assets employed:		
Metals and minerals	$1,932,366	$2,304,828
Oil and gas	489,473	514,206
Manufacturing	1,588,217	1,556,730
Forest products	1,842,248	1,754,095
Inter-segment receivables and payables	(14,167)	(20,258)
	5,838,137	6,109,601
Cash and marketable investments	110,706	131,058
Total	$5,948,843	$6,240,659
Capital expenditures:		
Metals and minerals	$ 126,440	$ 160,221
Oil and gas	72,367	80,567
Manufacturing	40,680	60,441
Forest products	44,149	80,125
Total	$ 283,636	$ 381,354
Depreciation and amortization:		
Metals and minerals	$ 106,373	$ 105,654
Oil and gas	47,375	48,320
Manufacturing	66,228	65,157
Forest products	54,742	48,191
Total	$ 274,718	$ 267,322

11. Unusual items

The consolidated statements of earnings and retained earnings include the following unusual items:

	1986	1985
After-tax gains from:		
Sale of investments in associates:		
Tara Exploration and Development Company Limited	$ 3,132	$
Craigmont Mines Limited		562
Placer Development Limited		104,089
Pamour Porcupine Mines, Limited		19,737
Share of gain on the sale of KNP – an associate of MacMillan Bloedel Limited	22,500	
Sale of mining properties	5,995	
Dilution of the investment in Noranda Pacific Limited following a common share issue	8,100	
	39,727	124,388
After-tax losses from:		
Write-down of the carrying value of certain assets	(7,550)	(273,580)
Losses resulting from the 1985 default of the International Tin Council	(3,560)	(34,000)
	(11,110)	(307,580)
Unusual items (net of income tax provision (recovery) $1,221; 1985–($9,616))	$ 28,617	$(183,192)

12. Subsequent event

As a result of the amalgamation of its subsidiary Noranda Hemlo Inc. with Goliath Gold Mines Ltd., Golden Sceptre Resources Ltd. and Hemglo Resources Ltd., Noranda received 54,483,400 common shares of Hemlo Gold Mines Inc. Noranda then sold 10,800,000 common shares of Hemlo Gold Mines Inc. through a public offering and realized net proceeds of $197,000. Noranda continues to hold 43,683,400 common shares or 50.1% of Hemlo Gold Mines Inc.

NORANDA MINERALS INC. OPERATING INTERESTS

COPPER GROUP
Canada

BELL COPPER DIVISION Granisle, B.C.	*copper, gold*
CCR DIVISION Montréal East, Que.	*copper refinery*
CHADBOURNE DIVISION Noranda, Que.	*gold*
HORNE DIVISION Noranda, Que.	*copper smelter*
LES MINES GALLEN LIMITÉE (50%), Noranda, Que.	*zinc, silver*
MINES GASPÉ DIVISION Murdochville, Que.	*copper mining and smelter*

U.S.A.

MICRO METALLICS CORPORATION San Jose, California	*electronic scrap processing*
NORANDA LAKESHORE MINES, INC. Casa Grande, Arizona	*copper*

ZINC GROUP
Canada

BRUNSWICK MINING AND SMELTING CORPORATION LIMITED (63%) Smelting & Fertilizer Division, Belledune, N.B. Mining Division, Bathurst, N.B.	*lead smelter, diammonium phosphate, zinc, lead, copper, silver*
CANADIAN ELECTROLYTIC ZINC LIMITED (90%) Valleyfield, Que.	*zinc refinery*
MATAGAMI DIVISION Matagami, Que.	*zinc, copper, silver*

MINING CORPORATION GROUP
Canada

BRENDA MINES LTD. (45%) Peachland, B.C.	*molybdenum, copper*
BRENDA MINES LTD. (45%) Oil and Gas Division, Calgary, Alta.	*oil and gas*
CENTRAL CANADA POTASH DIVISION Colonsay, Sask.	*potash*
GECO DIVISION Manitouwadge, Ont.	*copper, zinc, silver*
HEMLO GOLD MINES INC. (50%) (GOLDEN GIANT MINE) Marathon, Ont.	*gold*
LYON LAKE DIVISION Ignace, Ont.	*zinc, copper, lead, silver*
MATTABI MINES LIMITED (60%) Ignace, Ont.	*zinc, copper*
MINING CORPORATION OF CANADA LIMITED South Porcupine, Ont.	*mine development*

U.S.A.

HOPEWELL LAND CORPORATION Lithia, Florida	*phosphate*
NORANDA GREY EAGLE MINES. INC. Happy Camp, CA	*gold and silver*

MARKETING
Canada

NORANDA SALES CORPORATION LTD. Toronto, Ont.	*resource marketing*
NUTRITE INC. (50%) Montréal, Que.	*fertilizer marketing*

U.S.A.

CANADIAN AMERICAN METAL COMPANY (65%), New York, NY	*resource trading*
NORCOAL COMPANY, INC. Charleston, WV	*coal trading*
NORANDA SALES, INC. Cleveland, Ohio	*resource marketing*

Other Countries

NORANDA SALES CORPORATION OF CANADA LIMITED London, England	*resource marketing*
RUDOLF WOLFF & CO. LTD. London, England Hamburg, New York, Tokyo, Zurich, Kuwait	*commodity broking*

OTHER ASSOCIATES

FEDERATED GENCO LIMITED
(40%)

Burlington, Ont.; Lachine, Que.	*metal alloyers*

GRUPO INDUSTRIAL LAS CUEVAS, S.A.
(49%)
Other Countries

CIA MINERA LAS CUEVAS, S.A. DE C.V. San Luis Potosi, Mexico	*fluorspar*
FLUOREX S.A. DE C.V. Juarez, Mexico	*hydrofluoric acid*

KERR ADDISON MINES LIMITED
(51%)
Canada

KERR ADDISON MINES LIMITED Virginiatown, Ont.	*gold*
CORPORATION FALCONBRIDGE COPPER (49%) Schreiber, Ont.; Chapais, Noranda, Que.	*gold and base metals*
ANDERSON EXPLORATION LTD. (33%) Calgary, Alta.	*oil and gas*
CANADIAN HUNTER JOINT VENTURE (13%), Calgary, Alta.	*oil and gas*
CANADIAN ELECTROLYTIC ZINC LIMITED (10%) Valleyfield, Que.	*zinc refinery*

U.S.A.

AMERICAN HUNTER JOINT VENTURE (7%) Denver, Colorado	*oil and gas*

NORANDA FOREST INC. OPERATING INTERESTS

FRASER INC.
Canada

FRASER INC. Edmundston, N.B. Atholville, Kedgwick, Edmundston, Plaster Rock, N.B.; Thorold, Ont.	*boxboard, lumber, pulp, paper*
ISLAND PAPER MILLS (50%) LIMITED New Westminster, B.C.	*fine paper*
ATLANTIC WAFERBOARD INC. Chatham, N.B. (50%)	*waferboard*

U.S.A.

FRASER PAPER LIMITED Madawaska, Maine	*paper*
J. PAUL LEVESQUE & SONS, INC. Ashland, Maine (50%)	*lumber*

JAMES MACLAREN INDUSTRIES INC.
Canada

JAMES MACLAREN INDUSTRIES INC. Masson, Que. Masson, Thurso, High Falls, Lac-des-Iles, Que.	*newsprint, pulp, lumber, particle-board, hydro power*
MANIWAKI FOREST PRODUCTS INC. Maniwaki, Que.	*lumber, veneer, flooring*
NORMICK PERRON INC. (26%) LaSarre, Québec LaSarre, Beattyville, Amos, Senneterre, Que.; Kirkland Lake, Cochrane, Ont.	*lumber, plywood, waferboard, newsprint*

MACMILLAN BLOEDEL LIMITED
Canada

MACMILLAN BLOEDEL LIMITED Vancouver, B.C. (49%) Powell River, Port Alberni, Nanaimo, Chemainus, Vancouver, New Westminster, B.C.; Hudson Bay, Sask.; Nipigon, Thunder Bay, Sturgeon Falls, Toronto, Ont. (22 sales & distribution centres)	*lumber, plywood, waferboard, particle-board, pulp, paper, newsprint, hardboard, siding, poles*
ISLAND PAPER MILLS LIMITED New Westminster, B.C. (50%)	*fine paper*
MACMILLAN BATHURST INC. Mississauga, Ont. (50%) (13 plants)	*corrugated containers*

U.S.A.

MACMILLAN BLOEDEL CONTAINERS Atlanta, Georgia Elmira, NY; Jersey City, Union, NJ; Odenton, MD; Cleveland, OH; Rock Island, Chicago, IL; Little Rock, AR; Magnolia, MS; Houston, TX; Nashville, TN (11 sales & distribution centres)	*corrugated containers*
MACMILLAN BLOEDEL INC. Pine Hill, Alabama	*container-board, linerboard, plywood, lumber*
MACMILLAN BLOEDEL INC. Edenton, NC	*panelling, wood products, lumber*

Other Countries

MACMILLAN SMURFIT SCA LIMITED (50%) U.K. (13 plants)	*corrugated containers*
KONINKLIJKE NEDERLANDSE PAPIERFABRIEKEN N.V. (25%) Holland and Belgium	*paper, packaging*
SOCIEDADE CIVIL DE *INVESTIMENTOS FLORESTAIS LIMITADA* *Brazil*	*lumber*

NORTHWOOD PULP & TIMBER LIMITED
Canada

NORTHWOOD PULP AND TIMBER LIMITED (50%) Prince George, B.C. Prince George, Houston, Shelley, Upper Fraser, B.C.	*lumber, pulp, plywood*
B.C. CHEMICALS LTD. Prince George, B.C. (50%)	*chlorate and tall oil*

U.S.A.

NORTHWOOD PANELBOARD COMPANY Solway, MN	*waferboard*

NORANDA FOREST SALES INC.
Canada

NORANDA FOREST SALES INC. Toronto, Ont.	*forest products marketers*
NORTHWOOD BUILDING MATERIALS Toronto, Ont. Brampton, Ont.; Langley, B.C.; Edmonton, Calgary, Alta.; Winnipeg, Man.; Boucherville, St. Augustin, Que.; Windsor Junction, N.S.	*lumber, panelling, flooring, ceiling tiles*

Other Countries

NORANDA FOREST HOLDINGS (U.K.) LIMITED Bristol, England	*forest products marketers*
R.A. NAYLOR LIMITED Warrington, England	*forest products marketers*

NORANDA MANUFACTURING INC. OPERATING INTERESTS

TORONTO GROUP
Canada

CANADA WIRE AND CABLE LIMITED Toronto, Ontario Toronto, Fergus, Simcoe, Orangeville, Ont.; Montréal Québec City, Que.; Winnipeg, Man.; Weyburn, Sask. (14 sales & distribution centres)	*copper rod, wire and cable*

U.S.A.

CAROL CABLE COMPANY, INC. Pawtucket, Rhode Island Warren, Lincoln, Central Falls, Pawtucket, RI; Manchester, NH; New Bedford, Taunton, Williamstown, MA; River Grove, IL; Rancho Dominiguez, CA	*electrical wire and cable products*
MILLER ELECTRIC COMPANY Woonsocket, Rhode Island	*custom electrical cord sets*
CANADA WIRE AND CABLE, INC. Los Angeles, CA	*wire and cable distribution*

Other Countries

CANADA WIRE AND CABLE (INTERNATIONAL) LIMITED associates: – Alambres Dominicanos, Dominican Republic – Fadaltec, Colombia – Iconel Venezuela – Industrias AXA, S.A., Mexico – Irish Cable and Wire, Republic of Ireland	*copper wire, cable and other products*

MONTREAL GROUP
Canada

WIRE ROPE INDUSTRIES LTD. (80%) Pointe Claire, Québec Pointe Claire, Que.; Dartmouth, N.S.; Surrey, B.C. (16 sales & distribution centres)	*steel wire ropes, strands and slings, fishing nets, trawl warps, industrial cordage*
NORANDA METAL INDUSTRIES LIMITED, Montréal East, Québec Montréal East, Que.; Fergus, Ont., Vancouver, B.C.	*copper and alloys, strip rod and tube, secondary metals*
NORCAST INC. (60%) Toronto, Ontario Mont Joli, Que.; New Liskeard, Ont.	*castings, liners, grinding media, conveyances for the mining industry*
NOR-SAND METALS INC. (50%) Arnprior, Ont.	*high nickel and stainless steel tube*

U.S.A.

WIRE ROPE INDUSTRIES INC. Seattle, Washington	*fishing nets, trawl warps, industrial cordage*

CLEVELAND GROUP
U.S.A.

NORANDA ALUMINUM, INC. Cleveland, Ohio New Madrid, MO	*aluminum reduction plant*
NORANDAL USA, INC. Brentwood, TN Huntingdon, TN; Scottsboro, AL	*aluminum sheet and foil*
NORANDEX INC. Cleveland, Ohio Cleveland, Columbus, Ohio; Harrisburgh, PA (58 sales & distribution centres)	*aluminum building products*

NORANDA OIL & GAS OPERATING INTERESTS

CANADIAN HUNTER (Canada)

CANADIAN HUNTER EXPLORATION LTD. Calgary, Alta.	*oil and gas*

CANADIAN HUNTER (U.S.A.)

AMERICAN HUNTER EXPLORATION LTD. (92%) Denver, Colorado	*oil and gas*

DIRECTORS AND OFFICERS

DIRECTORS

(Year of election in brackets)

J.W. Bird, (1983)
Chairman, J.W. Bird and Company Limited, General Manager, Bird Holdings Limited, Fredericton

*Jack L. Cockwell, (1981)
Executive Vice-President, Brascan Limited, Toronto

James C. Dudley, (1970)
Managing Partner, Dudley and Company New York

*J. Trevor Eyton, Q.C., O.C., (1981)
President and Chief Executive Officer, Brascan Limited, Toronto

Brian Flemming, Q.C., (1981)
Chairman, CanEast Capital Ltd., Halifax

Denis S. Giroux, (1985)
Vice-President, Corporate Investments, Caisse de dépot et placement du Québec, Montréal

David W. Kerr, (Director-elect)
President, Noranda Inc., Toronto

*Pierre Lamy, (1981)
Economic and Financial Consultant, Montréal

Paul M. Marshall, (1981)
President and Chief Executive Officer, Westmin Resources Limited, Calgary

David E. Mitchell, O.C., (1973)
President and Chief Executive Officer, Alberta Energy Company Limited, Calgary

*André Monast, Q.C., (1966)
Partner in the legal firm of Stein, Monast, Pratte and Marseille, Québec

Donald S. McGiverin, (1980)
Governor, Chairman and Director, Hudson's Bay Company, Toronto

*W. Darcy McKeough, (1979)
Company Director, Chatham

Fernand Paré, (1981)
President and General Manager, La Solidarité, Compagnie d'assurance sur la vie, Québec

*Alfred Powis, O.C., (1964)
Chairman and Chief Executive Officer Noranda Inc., Toronto

Antoine Turmel, O.C., (1981)
President, Turan Investments Inc., Montréal

H. Richard Whittall, (1982)
Chairman, Placer Development Limited, Vancouver

*William P. Wilder, (1966)
Chairman, The Consumers' Gas Company Limited, Toronto

Harold M. Wright, O.C., (1981)
Chairman, Wright Engineers, Vancouver

*Adam H. Zimmerman, F.C.A., (1974)
Chairman, Noranda Forest Inc., Vice-Chairman, Noranda Inc., Toronto

*Member of the Executive Committee

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W. James	J.D. Simpson
A.J. Little	

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Senior Vice-President – Treasurer

D.H. Ford,
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J.O. Hinds,
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Senior Vice-President – Noranda Forest

R.P. Riggin,
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Vice-President – Engineering and Construction

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Vice-President – Taxation

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Vice-President – Accounting Services

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Vice-President – Corporate Relations

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Secretary

L.J. Taylor
Assistant Secretary

T.E. Phelps,
Assistant Treasurer

L.S. Tigert,
Assistant Treasurer

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President, Copper Group

I.D. Bayer,
President, Kerr Addison Mines Limited

J.N. Bowersock,
President, Fraser Inc.

A.G. Bykhovsky,
President, Noranda Forest Sales Inc.

W.G. Deeks,
President, Noranda Sales Corporation Limited

J.M. Gordon,
President, Mining Corporation Group

C.W. Halstead,
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President, Noranda Metal Industries Limited

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Honourable E.C. Lumley,
Chairman, Noranda Manufacturing Inc.

J.A. Masters,
President, Canadian Hunter Exploration Limited

B.T. Ness
President, Canada Wire and Cable Limited

H.G. Sander
President, Northwood Pulp and Timber Limited

R.V. Smith,
President and Chief Executive Officer, MacMillan Bloedel Limited

J.C. White,
President, Zinc Group

TEN YEAR FINANCIAL REVIEW*

($ millions)

EARNINGS	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Revenue	1,395.8	1,691.1	2,484.7	2,889.3	3,030.4	2,830.2	3,106.2	3,400.1	3,462.1	3,547.1
Expense – excluding interest	1,247.8	1,420.0	1,786.4	2,279.9	2,751.9	2,800.1	2,922.2	3,159.2	3,307.8	3,403.4
Interest	71.9	64.8	65.3	48.4	95.4	145.5	168.5	233.7	244.8	206.5
Income and production taxes (recovery)	23.6	93.1	230.2	246.7	62.1	(60.2)	(7.2)	(4.3)	(5.2)	(10.4)
Minority interests in earnings (losses) of subsidiaries	12.6	24.8	57.2	28.9	9.1	6.5	9.7	12.5	(3.2)	.2
Share of earnings (losses) in associates	33.5	49.3	70.1	83.1	(1.5)	(74.7)	(8.7)	(3.5)	11.4	67.3
Earnings (loss) before unusual items	73.4	137.7	415.7	368.5	110.4	(136.4)	4.3	(4.5)	(70.7)	14.7
Unusual items		.9	(15.7)	47.2	59.0	57.2	(29.0)		(183.2)	28.6
Earnings (loss) after unusual items	73.4	138.6	400.0	415.7	169.4	(79.2)	(24.7)	(4.5)	(253.9)	43.3
FINANCIAL POSITION										
Capital employed										
Working capital	167.3	281.6	687.4	821.5	867.0	1,041.7	951.9	740.1	675.2	764.7
Investments and advances	387.8	410.0	406.1	529.4	1,159.3	1,097.3	1,219.7	1,263.9	1,142.3	1,230.2
Fixed assets – net	911.7	979.6	1,265.5	1,578.2	2,085.7	2,556.0	2,718.7	2,944.9	2,869.6	2,781.4
Other assets	115.8	123.3	189.3	262.5	316.0	302.9	254.3	313.6	291.2	307.8
	1,582.6	1,794.5	2,548.3	3,191.6	4,428.0	4,997.9	5,144.6	5,262.5	4,978.3	5,084.1
Capital sources										
Shareholders' equity	767.5	897.6	1,481.9	2,027.0	2,900.0	2,740.2	2,644.0	2,603.6	2,358.9	2,671.0
Long-term debt	588.9	604.1	602.5	580.5	922.3	1,722.9	2,061.8	2,287.2	2,251.4	1,901.2
Minority interest in subsidiaries	128.2	150.9	194.0	199.0	210.2	147.3	151.7	146.0	94.9	108.3
Other	98.0	141.9	269.9	385.1	395.5	387.5	287.1	225.7	273.1	403.6
	1,582.6	1,794.5	2,548.3	3,191.6	4,428.0	4,997.9	5,144.6	5,262.5	4,978.3	5,084.1
CHANGES IN FINANCIAL POSITION										
Operations	90.6	211.4	271.1	812.5	295.5	(12.0)	272.2	333.9	124.1	218.3
Investment activities:										
Fixed asset additions	(123.7)	(124.0)	(295.3)	(308.2)	(614.1)	(677.8)	(396.6)	(433.1)	(315.9)	(229.6)
Deferred expenditures	(21.7)	(9.1)	(34.6)	(87.8)	(83.7)	(42.9)	(39.9)	(80.3)	(65.4)	(54.0)
Investments, advances and other, net	7.9	28.4	12.5	(13.8)	(732.6)	76.9	(64.6)	(1.5)	307.2	156.2
	(137.5)	(104.7)	(317.4)	(409.8)	(1,430.4)	(643.8)	(501.1)	(514.9)	(74.1)	(127.4)
Financing activities:										
Long-term debt (repaid) incurred	(14.5)	(19.0)	(19.2)	(62.5)	196.8	800.1	304.1	182.4	(65.8)	(292.0)
Issue of shares		4.3	139.0	12.7	1,001.5	17.1	3.8	18.2	67.9	362.2
Forward gold sales – unpriced										210.0
	(14.5)	(14.7)	119.8	(49.8)	1,198.3	817.2	307.9	200.6	2.1	280.2
Dividends	(34.2)	(38.0)	(102.5)	(164.8)	(189.7)	(132.1)	(104.3)	(109.4)	(107.9)	(111.9)
Cash increase (decrease)	(95.6)	54.0	(29.0)	188.1	(126.3)	29.3	(25.3)	(89.8)	(55.8)	259.2

Cash comprises cash, short-term notes and marketable investments less bank advances.

*COMMON SHARES DATA***	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Per share – $										
Earnings (loss) after unusual items	1.04	1.97	4.77	4.13	1.37	(0.97)	(0.50)	(0.32)	(2.38)	0.02
Dividends	0.40	0.43	0.85	1.25	1.40	0.75	0.50	0.50	0.50	0.50
Market price range – $										
High	11.46	13.00	22.83	33.63	36.38	27.88	29.38	27.50	21.38	22.00
Low	6.54	6.88	12.13	22.13	19.38	11.38	18.88	16.50	13.38	15.13
Close	8.33	12.25	22.37	30.00	22.50	19.50	26.50	17.25	15.63	20.00
Common shares issued (000)	73,394	75,548	101,536	113,274	126,170	127,314	127,488	128,379	129,259	144,664
Preferred shares issued (000)	—	—	—	—	3,583	3,583	3,583	3,583	5,595	19,739

*1977-1983 restated to reflect the Company's change in method of accounting for exploration and development costs of its oil and gas operations.
**1977-1978 restated to reflect 3 for 1 split in August, 1979.

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