FALCONBRIDGE LIMITED

Annual Report 1985

INVESTING IN OUR FUTURE

Award-winning stationary engineers from the compressor house and service crews of Lockerby Mine, Sudbury Operations.

Cover photo:
An aerial view of Falconbridge Limited's newly acquired Kidd Creek metallurgical complex located in Timmins, Ontario.

Annual Meeting of Shareholders
Wednesday, April 16, 1986
10 a.m. (Eastern Standard Time)
Commerce Hall,
Concourse Level,
Commerce Court West,
Toronto, Ontario

La version francaise du rapport annuel sera fournie sur demande.

Falconbridge Limited's Form 10K Annual Report for 1985 is filed with the United States Securities and Exchange Commission. This report will be made available upon written request to the Secretary of the Corporation.

Highlights

	1985	1984	1983
Revenues	$890,247,000	$733,312,000	$615,387,000
Earnings (loss) for the year before extraordinary items	38,543,000	28,694,000	(31,409,000)
– per share	0.95	0.80*	(0.93)*
Earnings (loss) for the year	38,543,000	80,186,000	(16,593,000)
– per share	0.95	2.23*	(0.49)*
Dividends per share	–	–	–
Working capital	534,105,000	414,661,000	472,168,000
Long-term debt	283,970,000	283,842,000	486,135,000

*Restated to reflect the 5-for-1 share split in 1985.

Contents

Falconbridge Limited is an international resource enterprise engaged directly and indirectly through its subsidiary and associated companies in the exploration, development, mining, processing and marketing of metals and minerals. Products include nickel, ferronickel, copper, cobalt, other base metals, gold, silver, platinum group metals, industrial minerals and steel castings.

The Falconbridge Group of companies, in addition to operations in Canada, Norway, the Dominican Republic and southern Africa, includes research laboratories in Canada and Norway, marketing and sales offices serving Canadian and international markets and exploration offices in Canada and abroad.

The Corporation is committed to long-term growth through its search for new ore bodies, improved methods of mining and metals recovery, the development of new markets for its products and the acquisition of compatible assets.

It is also dedicated to meeting its social responsibilities by remaining an economically viable employer, providing a healthy and safe workplace and protecting the environment.

Report of the Directors to the Shareholders

Through continued emphasis on cost control and productivity improvements Falconbridge Limited maintained a position of profitability throughout 1985.

The Corporation recorded consolidated earnings in 1985 of $38.5 million, or 95 cents per share, compared with consolidated earnings, before extraordinary items, of $28.7 million, or 80 cents per share, in 1984. The per share figures have been restated to reflect the five-for-one share split which took effect at the close of business May 3, 1985.

When extraordinary items are included, 1984 earnings reached $80.2 million, or $2.23 per share. Extraordinary gains of $41.5 million from the sale of shares in The Superior Oil Company and $10 million from previously unrecorded tax benefits were posted that year.

Revenues for 1985 increased to $890.2 million from $733.3 million the previous year.

Contributing to this improvement in earnings were slightly higher realized prices in Canadian dollars for nickel, copper and cobalt along with higher sales volumes, lower interest expense and higher interest income. These factors more than offset a decline in precious metals prices.

While these financial results show improvement, there is more that can, and must be done to achieve a more satisfactory return on investment. Over the past year, a number of major steps have been taken toward investing in our future. These decisions are designed to expand, diversify and strengthen Falconbridge's position as a low-cost producer of metals and minerals.

The most significant event in the history of the Corporation was the purchase of the Kidd Creek Mining Group from the Canada Development Corporation (CDC) through a transaction valued at $615 million.

That purchase price had three components – $140 million in cash, 10,473,568 common shares, which had a closing market price of $19.50 per share the day the transaction was announced, and approximately $270.8 million principal amount of 8.5 per cent Convertible Debentures.

Falconbridge gains several advantages from this acquisition which was approved by shareholders at a special meeting on March 7, 1986 and it places the Corporation on the threshold of a new era.

Benefits include the ownership of one of the finest copper/zinc ore bodies in North America together with a modern environmentally sound metallurgical complex, diversification within the Corporation's core business activities and the potential for increased earnings and cash flow from the combined businesses.

The acquisition of one of the lowest cost copper and zinc producers in North America better positions the Corporation to take advantage of any future improvement in metals prices.

The transaction also provides the opportunity to gain economies of scale and competitive advantages from the formation of a larger and more diversified mining group.

The acquisition, however, was not undertaken without some potential concerns. Along with the possibility of reduced earnings on a per-share basis, there is also an increase in Falconbridge's indebtedness and limitations on its borrowing capacity.

These factors notwithstanding the transaction creates a stronger entity with assets worth more than $3 billion.

The Corporation continued its strong commitment to Sudbury Operations, where more than $66.8 million was spent on preproduction, development and plant and equipment in 1985 as part of a total three-year budget of approximately $216 million.

In 1985, Falconbridge signed an agreement with BCL Limited of Botswana to purchase and refine 42,000 tonnes of matte containing 36 per cent nickel and 41 per cent copper per year from 1987 to the turn of the century. To accommodate this substantial growth in our custom feed business, U.S. $43 million is being spent from 1985 to 1987 to expand our Kristiansand Refinery.

In 1985, consolidated exploration expenditures increased to $34.4 million from $23.9 million in 1984.

Corporation Falconbridge Copper and Giant Yellowknife Mines Limited each paid dividends for the first time in several years and Kiena Gold Mines Limited paid its first dividend.

On January 24, 1986, the Corporation completed the sale of its entire 56.7-per-cent controlling interest in Kiena Gold Mines to Campbell Red Lake Mines Limited, a subsidiary of Dome Mines Limited, for $86.6 million. Also, the Corporation issued 6.6 million common shares for net proceeds of $132.7 million received in February 1986. These transactions along with the net proceeds of $90 million received in March 1985 from an issue of common shares helped strengthen the Corporation's financial position prior to acquiring Kidd Creek.

There has been a change in the ownership of the control block of McIntyre Mines Limited which held 22.1 per cent of the Corporation last May.

In May, Dome Mines purchased 7.8 per cent of Falconbridge Limited shares and 53 per cent of the shares of McIntyre from subsidiaries of Mobil Corporation.

On May 29, R. F. Tucker, President Mobil Diversified Businesses, J. P. Rogers, President Mobil Mining and Minerals Co., and on June 4, Robert Hewitt, Chairman of Hewitt Equipment Limited, resigned from the Board of Directors.

They were succeeded by Fraser M. Fell, Q.C., Chairman and Chief Executive Officer of Dome Mines Limited, J. Howard Macdonald, Chairman of Dome Petroleum Limited, and Valentine N. Stock, Chairman and Chief Executive Officer of Canada Packers Inc.

The Board of Directors expresses thanks for the valuable contributions made to the Corporation by Messrs. Tucker, Rogers and Hewitt.

As a result of the transaction between the Corporation and CDC, Falconbridge Limited's Board of Directors was increased from 12 to 15 members. Elected to the Board were Pierre Côté, Chairman of CDC, H. Anthony Hampson, President and Chief Executive Officer of CDC, and Brian M. King, Senior Vice-President of CDC.

When the transaction to purchase Kidd Creek was completed, CDC owned approximately 18 per cent of the common shares of Falconbridge Limited and Dome Mines and its subsidiary McIntyre owned 24 per cent.

The Board would like to recognize the significant efforts of all employees. It is through their commitment that Falconbridge has been able to maintain profitability at a time of less than favourable metals prices.

On behalf of the Board of Directors,

William James

William James,
Chairman of the Board,
President and Chief Executive Officer

Toronto, Ontario, March 7, 1986

Nickel

The sharp slowdown of economic growth in the United States adversely affected the global nickel market in 1985.

Total Non-Communist World (NCW) nickel consumption fell by almost 5 per cent compared with 1984 levels to about 1,210 million pounds.

Most of the decline in nickel consumption took place in the second half of the year, as stainless steel producers, who historically account for more than half of the world's nickel consumption, began to rely more heavily on scrap to meet their nickel needs.

Despite the fall in consumption, NCW nickel production during 1985 increased 4 per cent to 1,175 million pounds from 1,135 million pounds the previous year. That total would have been even higher had it not been for a number of labour stoppages and technical difficulties at plants throughout the industry.

During the first half of 1985, nickel demand surpassed supply with the result that total inventories of refined nickel held by producers, consumers and the London Metal Exchange (LME), declined by more than 35 million pounds. By the end of June, producer inventories were at their lowest level in a decade, at 255 million pounds.

However, the drop in demand during the second half of the year resulted in a rise in inventories effectively negating the first-half decline. By the end of December nickel stocks held by NCW producers were estimated to be 280 million pounds, or roughly the same level as at the end of 1984.

LME nickel inventories stood at 14.2 million pounds at year end, compared with 16.2 million pounds at the end of 1984.

In response to strong consumer demand, nickel prices on the LME rose steadily during the first five and one-half months of 1985, reaching their highest levels since early 1982, at more than U.S. $2.60 per pound.

Beginning in mid-June, however, nickel prices came under severe downward pressure and dropped steadily through the year to U.S. $1.85 at year end.

For 1985 as a whole, the LME cash price for nickel averaged U.S. $2.26 per pound, compared with U.S. $2.16 per pound in 1984 and U.S. $2.12 per pound in 1983.

Copper

NCW refined copper consumption in 1985 declined by about 4.5 per cent to 7.9 million tons, compared with 1984.

NCW mine production in 1985 decreased by 2 per cent to 6.9 million tons, but refined production remained essentially unchanged at 7.9 million tons.

Although refined copper production and consumption were virtually identical, net exports of refined copper to Socialist countries were approximately 165,000 tons creating an equivalent reduction in NCW refined metal stocks.

As a result of this reduction, combined LME and Comex stocks of refined copper fell to 327,330 tons at the end of 1985, their lowest level in five years.

The LME cash price for Copper – Higher Grade rose from a low of U.S. $0.59 per pound in January to a peak of U.S. $0.75 per pound in May.

Subsequently, the normal summer slowdown and the decline in U.S. business activity combined to depress copper prices which fell to U.S. $0.64 per pound at year end.

For 1985 as a whole, the LME Higher Grade copper cash price averaged U.S. $0.65 per pound, compared with U.S. $0.625 per pound in 1984.

Cobalt

NCW consumption of 42 million pounds was approximately at the same level as in 1984.

Shipments of refined cobalt by NCW producers, however, actually declined compared with 1984 primarily because of reduced deliveries to strategic stockpiles in the United States and other countries.

Supply and demand were in rough balance throughout most of 1985 and at year end producer inventories were effectively unchanged from year earlier levels.

The major African producers' published selling price for cobalt remained at U.S. $11.70 per pound through 1985, but, free-market prices for the metal averaged 3 per cent to 4 per cent below that level during the year.

Precious Metals

Gold and silver traded in a narrow price range, from U.S. $284 per ounce to U.S. $341 and from U.S. $5.57 per ounce to U.S. $6.73, respectively, for most of the year.

Improved precious metals prices anticipated from a weaker U.S. dollar, lower interest rates and relatively strong oil prices, failed to materialize. Slower economic growth rates in the developed nations, lower raw material prices and lower inflationary expectations contributed to reduced speculative and investment interest in precious metals.

Average Metal Prices Received by the Falconbridge Group

Metal	Pricing Unit	1985	1984	1983
Refined nickel*	pound	**U.S. $ 2.35**	U.S. $ 2.35	U.S. $ 2.16
Ferronickel	pound	**2.25**	2.27	1.96
Copper	pound	**0.65**	0.61	0.71
Gold	ounce	**317.67**	359.44	419.98
Silver	ounce	**6.14**	7.71	10.75
Platinum	ounce	**282.58**	344.31	412.79
Cobalt	pound	**11.42**	10.02	5.64
Exchange rate (Cdn. $ to U.S. $)**		**1.37**	1.30	1.23

* Includes metals refined and sold on an agency basis and excludes metals purchased for resale.

**Based on the average of the exchange rates on the last day of each month during the year.

Integrated Nickel Operations

Operating Results

The Integrated Nickel Operations (INO) include the Sudbury-area mines, mills and smelter, the Refinery in Kristiansand, Norway, the custom feed activity and the Marketing and Sales Group. The operations in the INO are interdependent.

While remaining profitable, the INO's earnings decreased in 1985 to $38.9 million from $43.9 million the previous year. Sales revenues were $531.5 million, compared with $393.5 million in 1984.

Integrated Nickel Operations

(000's of dollars)	1985	1984	1983
Revenues	**531,497**	393,478	309,979
Earnings (loss)	**38,940**	43,863	(6,766)
Cash and temporary investments*	**224,031**	118,975	192,984
Working capital*	**375,912**	283,178	309,476
Long-term debt*	**141,858**	143,694	345,805

* Includes items relating to the Corporate operations of Falconbridge Limited.

Sudbury Operations

Operating Review

Nickel production at the smelter declined to 69.2 million pounds in 1985 from 71 million pounds the previous year. Ore delivered to treatment plants from operating mines totalled approximately 3.2 million tons, about the same as 1984. In addition, some 5,534 tons of high-grade copper concentrate were produced and delivered to another Canadian company for custom treatment and refining.

The East, Lockerby, North, Fraser, Strathcona and Onaping Mines were in production throughout 1985. In June, the Falconbridge Open-Pit Mine commenced production.

Capital Program

Mine development and preproduction expenditures were $44 million in 1985, compared with $30.4 million the previous year. In addition, expenditures on property, plant and equipment more than doubled to $22.8 million from $11.2 million in 1984. This financial commitment is designed for the future and is directed towards developing ore reserves, reducing costs and improving productivity and safety.

Major projects include the deepening of Strathcona No. 1 shaft, the development of the Craig orebody and ongoing development of the Lockerby, Fraser and Onaping Mines.

At the Smelter a slag granulation system was installed which offers both economic and environmental advantages.

Labour Relations

A new collective agreement reached with Local 598 of the Mine, Mill and Smelter Workers' Union is in effect until August 21, 1988. That agreement with Production and Maintenance employees was reached after a 1½ day strike in August 1985.

The collective agreement with Local 6855 of the United Steelworkers of America, representing the Office, Clerical and Technical employees, expired March 1, 1986. While negotiations are continuing, the terms and conditions of the old agreement remain in place.

Production of metals			
(000's pounds)	**1985**	1984	1983
Nickel	**69,201**	71,039	61,941
Copper	**59,059**	70,828	60,615
Cobalt	**2,170**	1,791	1,452

Expenditures on mines and plants			
(000's of dollars)	**1985**	1984	1983
Property, plant and equipment	**22,790**	11,235	5,452
Development and preproduction	**43,976**	30,413	18,758

Personnel

In September 1985, steps were taken to reduce the level of staff and administrative employees. At year end, the number of employees at Sudbury was 2,602, compared with 2,684 at the end of 1984.

The absenteeism rate during 1985 compared with the previous year decreased by 27 per cent.

Occupational Health and Safety

Continuing efforts in accident prevention contributed to the lowest injury rate in more than two decades.

Total medical aid frequency was reduced to 12 accidents per 200,000 man hours in 1985 from 15.8 the previous year. This 24-per-cent improvement provided one of the lowest accident frequency rates in the industry.

The new injury management strategy initiated in 1984 cut the compensable accident frequency by more than half from 9.4 to 4.5 per 200,000 man hours in 1985.

Two modified work centres and the first in-plant physiotherapy unit in Northern Ontario became fully operational in 1985. These facilities are designed to aid in the recovery of injured workers so they can return to their regular work sooner.

Ore Reserves

On December 31, 1985, proven and probable ore reserves were estimated to be 63.7 million tons, with an average grade of 1.52 per cent nickel and 1.13 per cent copper. This compared with reserves of 69.5 million tons, with an average grade of 1.51 per cent nickel and 1.11 per cent copper at the end of 1984. Reserves at present are equivalent to about 20 years production at currently planned operating rates.

Falconbridge Nikkelverk Aktieselskap

At the Refinery, record production levels were reached in 1985 on three fronts – electrolytic nickel, copper and cobalt.

The output of electrolytic nickel increased to 82.7 million pounds from 78.4 million pounds in 1984.

Copper production rose to 68.5 million pounds from 66.9 million pounds the previous year.

Also, cobalt production grew dramatically to 3.6 million pounds from the previous high of 2.6 million pounds attained in 1984.

Nikkelverk Refinery			
(000's pounds)*	**1985**	1984	1983
Nickel	**82,702**	78,371	63,094
Copper	**68,506**	66,851	50,056
Cobalt	**3,609**	2,625	1,938

*Includes metals produced for companies outside the Falconbridge Group.

For many years, copper produced at the Refinery was labelled FEC brand. In 1985, due to process improvements an additional brand of copper from the Refinery, called FHG brand, was registered on the London Metal Exchange in the highest grade category.

Falconbridge Nikkelverk embarked upon a major expansion program scheduled to be fully completed by 1987. The program was made necessary by an agreement, which runs until the turn of the century, to purchase and custom refine about 42,000 tonnes of matte containing 36 per cent nickel and 41 per cent copper annually with BCL Limited.

Marketing and Sales

The group is responsible for the marketing and sales of products produced by Falconbridge. During 1985, these included eight forms of nickel, refined copper, copper concentrates, cobalt, silver, gold, platinum group metals, lead and zinc concentrates and sulphuric acid. The group also has the responsibility of acquiring raw materials for custom and toll treatment, acts as sales agent for toll and custom produced metals and conducts trading activities.

Falconbridge sales of nickel products in all forms, including ferronickel, increased in 1985 to 172.6 million pounds from the 139.2 million pounds delivered the previous year. Deliveries of refined copper decreased to 72.2 million pounds in 1985 from 81 million pounds in 1984. Cobalt sales reached a record level of 3.8 million pounds, up from 2.7 million pounds the year earlier.

Inventories of nickel, in all forms, were at minimum working levels throughout the year and totalled 34 million pounds at year end.

During 1985, approximately 19 per cent of the nickel refined by the Corporation was sourced as custom feed, the acquisition of which was handled by wholly owned subsidiary Falconbridge International Limited.

Integrated Nickel Operations sales of finished metals from all sources*

(000's pounds)	**1985**	1984	1983
Refined nickel (in all forms)	**120,372**	86,908	85,412
Ferronickel	**52,190**	52,331	45,058
Refined copper	**72,236**	80,997	56,680
Refined cobalt	**3,811**	2,743	2,030

*Includes metals refined and sold as agent and metals purchased for resale.

Corporate Operations

Exploration

Consolidated exploration expenditures increased to $34.4 million, compared with $23.9 million in 1984. During 1985, Falconbridge Limited alone had exploration expenditures of $16.1 million of which $14.6 million was spent in Canada.

In efforts to replenish ore reserves, surface and underground exploration continues in the Lockerby, Lindsley and Onaping areas of the Sudbury Basin.

Elsewhere in Ontario, ongoing regional exploration programs have resulted in a number of properties which have indicated excellent potential in the gold producing belt between Kirkland Lake and Matachewan and in the Atikokan, Cameron Lake, Oba, Hemlo and Sturgeon Lake areas. Programs conducted on these properties are in various stages of evaluation ranging from the initial geotechnical survey stage to the more detailed diamond drilling and bulk sampling stage.

At the Armstrong prospect in the Sturgeon Lake area, stripping of overburden and sampling have been completed. Irregular, high-grade quartz veins assaying up to 2.04 ounces of gold per ton have been found from three trenches over an average width of 6 feet and along a strike length of approximately 66 feet. Drilling failed to trace this zone to depth but surface exploration on the property will continue.

At the Hoyle property near Timmins, the results of a surface diamond drill program outlined gold mineralization in several zones over a strike length of 610 feet. Grades are variable and range from 0.44 ounce gold per ton over a width of five feet to 0.17 ounce gold per ton over a width of 28 feet. Mineable continuity of mineralization is yet to be established.

Several claim groups were optioned during 1985, located about 16 miles west of the Hemlo discoveries, along the interpreted extension of the favourable stratigraphic horizon. Work is scheduled to begin in 1986.

In the Oba area, south of Hearst, a volcanic-sedimentary horizon similar to that at Hemlo has been traced, trenched and drilled shallowly along a strike length of two miles. This horizon is gold bearing along its entire length but ore grades have not been discovered over significant strike lengths. Limited deeper drilling is planned for 1986.

In Quebec, the main emphasis was placed on surface and underground exploration of the Callahan and adjoining properties in the Val d'Or area. By year end, the Callahan shaft had been sunk to a depth of 911 feet and the cross-cut had been driven north-northeastward 3,251 feet to the Number 4 zone underneath Lac de Montigny. The shaft has been positioned to allow underground access to three other significant, but smaller gold zones in the vicinity. Only about half of the Callahan and adjoining properties have been explored from surface and this work will continue in 1986. This program is financed on a joint-venture basis, 51 per cent by Falconbridge Limited and 49 per cent by Corporation Falconbridge Copper.

New Quebec Raglan Mines Limited, 73.8 per cent owned by the Corporation, indirectly holds mining claims covering 77 square miles in the Ungava Region. There was no exploration activity carried out on these claims during 1985. Further development of the property will depend on the advent of stronger prices and markets for nickel as well as the provision for the required infrastructure at an acceptable cost.

In British Columbia, emphasis is being placed on properties on Vancouver Island and the Mainland where detailed diamond drilling and trenching have uncovered encouraging gold values in diverse geological environments. Although the values are significant, further trenching and follow-up diamond drilling will be required to evaluate the potential of these properties.

In Botswana, the joint-venture program is continuing under the direction of DeBeers Consolidated Mines Limited. Four new diamond bearing kimberlite pipes have been discovered in the vicinity of Gope 25. Also in Botswana, Falconbridge's properties in the Francistown gold belt are being explored by joint-venture partners.

In the United States, a subsidiary continues to evaluate a cobalt-nickel property near Fredericktown, Missouri.

Research and Development

This group was reorganized into separate departments of metallurgical technology and mining technology with multi-discipline capabilities encompassing all phases from research and development to engineering and construction. This was a continuation of the organizational revisions commenced in 1984 which had the objectives of putting research people into closer contact with the operations and providing the opportunity to complete projects with fewer organizational barriers.

Development and adaptation of new technologies and equipment to improve safety and productivity and reduce costs continued to be the focus of mining research activities during 1985. The emphasis remains on improving ground control and working conditions in the mines.

The Corporation continued its commitment to improve its understanding of rockburst phenomena and to implement measures to detect, control and prevent these occurrences in all of its mines. About $1 million is being spent to install microseismic equipment at the Fraser, Strathcona, Lockerby and Onaping mines. Joint programs have also been entered into with the federal and provincial governments and with universities to study rockburst phenomena.

Metallurgical process improvements were directed towards the goals of enhancing environmental control, increasing recovery rates, reducing costs and gaining higher production from treatment of secondary materials.

Research and process development expenditures increased from $3.2 million in 1984 to $6.3 million, prior to investment tax credits, in 1985 with the largest part of the increase being expended on a converter slag cleaning project which was commenced in 1985 and will continue into 1986.

The installation of magnetic separation units at the Strathcona Mill has improved nickel and copper recovery by 0.4 per cent and increased pyrrhotite rejection thus assisting in the ongoing programs to reduce the quantity of sulphur dioxide emitted from the smelter.

A new process development program to modify the smelter in order to more economically control and reduce sulphur dioxide emissions at existing and moderately higher production rates, was started.

Also at the smelter, an induction furnace to allow the recycling of nickel and cobalt bearing alloys was put in place during February 1985.

At the Refinery, work continued on the development, engineering and construction of an improved autoclave copper-nickel separation process. Start-up is expected during the second quarter of 1986.

Also at the Refinery, considerable process alterations were designed for the expansion taking place to accommodate the treatment of nickel-copper matte from BCL Limited.

Throughout the Falconbridge Group assistance was provided to subsidiary and associated companies to improve gold recoveries at their various milling operations.

In the area of product development efforts continued toward the creation of new and improved materials for the electroplating industry.

Environmental Control

The policy of protecting the environment while at the same time improving operations was expanded in 1985 with $2.8 million, or 44 per cent of the total research budget, being spent on control programs associated with environmental enhancement. That compares with $800,000, or 25 per cent of the total research expenditures in 1984.

Of the 1985 total, $2.1 million was spent on slag cleaning which has the dual objective of improving metal recoveries and improving converting operations so that additional sulphur fixation can be achieved economically by increasing sulphur elimination during roasting. Sulphur eliminated by this process is recovered as sulphuric acid.

In 1985, there was also $10.5 million spent on operating costs associated with environmental programs and $5.3 million spent on related capital costs.

Steady progress has been made in reducing sulphur dioxide emissions. In 1953, 83 per cent of the sulphur contained in the ore mined in Sudbury was released by the smelter up the smokestack. By 1985, this had been reduced to 11 per cent, with a large portion of the sulphur contained in the ore now being converted into marketable sulphuric acid.

The Corporation complied with its amending Control Order by commencing a study to develop a functional comprehensive supplementary emission control system for ground level concentration controls by March 31, 1985. An interim report on this study was submitted by December 31, 1985 and a final report is due October 31, 1986.

Also, smelter stack sampling was performed to analyze mass balance of sulphur dioxide against actual measurement for this system.

An Order-in-Council has been issued by the Government of Ontario requiring the Corporation to further reduce its sulphur dioxide emissions from the present allowable 154,395 tonnes per year (423 tonnes per day) to 100,000 tonnes per year (274 tonnes per day) effective January 1, 1994. The Corporation believes it can modify its smelter operations to comply with the regulation to reduce emissions by that time.

The Corporation will also be required to conduct such research as is necessary to establish the best available technology to achieve even lower economically and technically feasible emission levels.

Reports on the progress of such studies are to be issued every six months commencing in 1986 with a final report required by December 31, 1988.

Subsidiary and Associated Companies and Division

Corporation Falconbridge Copper

Stock issued: 13,204,625 common shares
Falconbridge Limited's ownership: 6,661,696 common shares, or 50.4% at December 31, 1985

Corporation Falconbridge Copper			
(000's of dollars)	**1985**	1984	1983
Revenues	**102,811**	86,105	84,230
Earnings (loss)	**185**	550*	(118)*
Exploration and development expenditures	**19,920**	13,988	16,539
Working capital	**79,403**	72,186*	94,732*
Cash and temporary investments	**66,316**	46,095	71,192
Production (000's)			
Copper (pounds)	**44,868**	46,180	55,305
Zinc (pounds)	**19,857**	23,707	6,926
Gold (ounces)	**109**	65	53
Silver (ounces)	**382**	406	375

*Restated

The company is a diversified producer of base and precious metals with three operating divisions in Quebec: Lake Dufault near Noranda; Opemiska at Chapais; and Lac Shortt near Waswanipi, 46 miles southwest of Chapais.

The commencement of commercial production in January 1985 at the Lac Shortt Division led to a contribution of $21.1 million to gross revenues. However, lower production at the Lake Dufault and Opemiska Divisions and reduced prices received for all metals except copper resulted in total gross revenues of $102.8 million, or only $16.7 million higher than the comparable 1984 figure of $86.1 million.

In 1985, net revenue from metals shipments was distributed as follows: 63 per cent gold; 28 per cent copper; 6 per cent zinc; and 3 per cent silver.

Profits from the three operating divisions, before depreciation and amortization expenses, were $16.5 million during 1985.

The earnings for 1985 were $185,000, or $0.01 per share, compared with restated earnings of $550,000, or $0.04 per share the previous year. A dividend of $0.10 per common share was declared in the fourth quarter of 1985, the first in four years.

The company, which is debt-free, maintained a healthy working capital position of $79.4 million at year end, an increase of $7.2 million over the restated figure of $72.2 million at the end of 1984.

Gold has become a more significant contributor to the company's revenues with total production reaching 109,470 ounces. To boost gold production, a $1.32 million expansion at the Lac Shortt mill was completed.

Since November 1985, capacity at this operation has been increased to 1,268 tons per day from 826 tons per day. This should result in an annual production rate of 65,000 ounces of gold. During the last quarter of 1985, the cost of producing an ounce of gold at Lac Shortt was $270.

Plans to develop the Winston Lake zinc orebody for production were put on hold in November, primarily due to lower zinc prices and higher smelting charges. The cost of development was to be $52.5 million including working capital. Commissioned work underway will be completed. Further development will depend on improvements in zinc prices and market fundamentals.

On the Ansil property, near the Norbec mill of the Lake Dufault Division, shaft sinking reached a depth of 2,687 feet below collar at year end.

Under a joint-venture agreement with Falconbridge Limited, the company maintains a 49-per-cent working interest in the underground exploration program at the Callahan property, adjacent to the property of Kiena Gold Mines Limited, near Val d'Or, Quebec.

Other exploration programs are conducted in Quebec, Ontario, British Columbia and in the western United States through a wholly owned subsidiary, Nevcan Exploration Inc.

To support accelerated exploration programs in 1985, the company raised $3.58 million through an issue of 608 flow-through units in Quebec during October, bringing the total amount of exploration expenditures financed in 1985 by flow-through units to $14.2 million. Total exploration and development expenditures in 1985 were $19.9 million, compared with $14 million the previous year.

Ore reserves at the Opemiska Division on December 31, 1985, were 740,018 tons grading 1.51 per cent copper and 0.086 ounce gold per ton. At the Lake Dufault Division, ore reserves stood at 365,136 tons grading 3.21 per cent copper, 1.78 per cent zinc, 0.032 ounce gold per ton and 0.62 ounce silver per ton; at the current production rate, these reserves are expected to be depleted by August 1986. At Lac Shortt, reserves were 1,380,000 tons grading 0.151 ounce gold per ton.

Indusmin Division

Indusmin is a producer of non-metallic industrial minerals and specialty castings. Nepheline syenite and silica are produced by the Minerals Division which operates five open-pit mines and processing plants in Ontario and Quebec. Feldspar, mica and silica are produced from an open-pit operation by a wholly owned subsidiary Indusmin Incorporated in North Carolina. Specialty castings are produced by the Fahramet Division in Orillia, Ontario.

During 1985, Indusmin went through several organizational changes. In May, the wholly owned subsidiary of Falconbridge Limited became a division of the Corporation.

In June, the limestone construction aggregates operation at Acton, Ontario, was sold. Also that month, the nepheline syenite operation of IMC Industry Group (Canada) Ltd. at Blue Mountain, Ontario, was purchased.

Indusmin Division			
(000's of dollars)	**1985**	1984	1983
Revenues	**60,780**	65,788	60,315
Earnings from operations	**3,171**	6,350	5,060
Dividends paid	**—**	584	584
Working capital	**26,467**	21,010	20,855

Revenues for 1985 declined to $60.8 million from $65.8 million in 1984. This was primarily due to reduced sales of silica and steel castings combined with the discontinuation of aggregate sales after mid-June. However, the additional sales of nepheline syenite gained from the Blue Mountain acquisition partially offset the lower sales in other areas.

Earnings from operations were $3.2 million compared with $6.4 million the previous year. One-time charges for staff reductions related to the Acton and Blue Mountain transactions and a portion of the Fahramet consolidation costs directly charged to operations contributed to the reduction in earnings.

Capital expenditures were $2 million compared with $2.8 million in 1984. Working capital at the end of 1985 was $26.5 million, compared with $21 million at the end of 1984.

Falconbridge Dominicana, C. por A.

Stock issued 3,000,000 shares
Falconbridge Limited's ownership: 2,012,280 shares, or 67.1% at December 31, 1985

Falconbridge Dominicana produces ferronickel at its mining and processing facilities in the Dominican Republic.

In 1985, the company reported a net loss of U.S. $10.5 million, compared with a net loss of U.S. $8.6 million in 1984. The largest portion of that loss occurred during the fourth quarter due to the sharp decline in nickel prices which took place during the second half of the year.

The sales price per pound of nickel contained in ferronickel averaged U.S. $2.19 in 1985 and by year end had fallen to below U.S. $2.00 per pound. In 1984, that price averaged U.S. $2.28 per pound.

Falconbridge Dominicana, C. por A.			
(000's of U.S. dollars)	**1985**	1984	1983
Revenues	**124,755**	121,787	92,824
Loss	**10,476**	8,649	32,763
Working capital	**34,805**	32,431	27,314
Long-term debt*	**212,765**	206,563	203,276
(000's pounds)			
Ferronickel shipments (nickel content)	**56,883**	53,394	46,742

*1985 total includes $10,208,000 due in 1986.

Shipments of nickel contained in ferronickel in 1985 reached the highest level in 11 years and totalled 56.9 million pounds, up from 53.4 million pounds in the previous year.

Only one of three electric furnaces was operated in 1985. Unit production costs were lower than 1984 as a result of continued productivity improvements along with the application of effective cost-management techniques.

Production was suspended from December 19, 1985, until January 27, 1986, to carry out scheduled plant maintenance projects, mine development and electric furnace modifications.

Total debt at December 31, 1985, was U.S. $212.8 million, including subordinated advances from the project sponsors and accrued interest of U.S. $168.2 million.

During 1985, the project sponsors provided additional funding of U.S. $8.35 million of which U.S. $8.25 million in principal and interest was repaid in December.

The company had 1,219 employees at year end, compared with 1,128 employees at the end of 1984. Of the total workforce 12 were foreign nationals and the balance citizens of the Dominican Republic.

Ore reserves at the end of 1985 were 30.7 million tons with a grade of 1.92 per cent nickel after recalculation using higher cut-off grades. That compares with ore reserves of 41.3 million tons with a grade of 1.77 per cent nickel at the end of 1984.

Kiena Gold Mines Limited

Stock issued: 5,876,848 common shares
Falconbridge Limited's ownership: 3,331,203 shares, or 56.7% at December 31, 1985

Kiena Gold Mines Limited			
(000's of dollars)	**1985**	1984	1983
Revenues	**29,787**	30,699	31,522
Earnings	**3,778**	4,328	5,748
Working capital	**4,433**	2,671	12,697
Long-term debt	**NIL**	807	3,228
Production (000's)			
Gold (ounces)	**70**	67	61

The company is an integrated gold producer with operations in Dubuisson Township, near Val d'Or, Quebec.

On January 24, 1986, Falconbridge Limited completed the transaction to sell all of the shares comprising its 56.7-per-cent ownership of Kiena to Campbell Red Lake Mines Limited for approximately $86.6 million.

Kiena recorded earnings of $3.8 million in 1985 and a year end working capital position of $4.4 million. In July, the company became free of long-term debt when it returned 1,500 ounces of gold as final settlement of its gold obligation and in November, declared a dividend for the first time in its history.

Record gold output of 70,034 ounces was reached although earnings were reduced because of lower gold prices.

Since mining operations began in 1981, the company enjoyed a steady growth in productivity and a reduction in production costs. During 1985, the cost of producing an ounce of gold was cut to $285 from $300 in the previous year.

The operation of the company's mill lived up to design expectations. Substantial cost savings are being realized as a result of having its own mill which started processing ore in September 1984.

Ore reserves at year end were 6.2 million tons with a grade of 0.152 ounce gold per ton.

Geophysical work on the company's property during 1985 located a number of anomalies from surface, some of which were tested by drilling. Several mineralized intersections were obtained from both surface and underground work.

An outstanding and nationally recognized safety record has been maintained since operations started and only one injury involving loss of time was suffered in 1985. At year end Kiena had 192 employees.

Giant Yellowknife Mines Limited

Stock issued: 4,303,050 common shares
Falconbridge Limited's ownership: 824,413 common shares, or 19.2% at December 31, 1985

Giant Yellowknife Mines Limited			
(000's of dollars)	**1985**	1984	1983
Revenues	**56,619**	49,989	33,095
Earnings**	**5,690**	1,891	4,129*
Working capital	**23,791**	15,698*	9,353*
Production (000's)			
Gold (ounces)	**129**	108	63

*Restated
**Accounted for by Falconbridge Limited on the equity basis.

Giant Yellowknife Mines Limited operates two gold mining and treatment facilities in the Northwest Territories, one at Yellowknife and the other 150 miles northeast at Salmita.

Consolidated results include the operations of subsidiary companies Lolor Mines Limited (87.5 per cent owned) and Supercrest Mines Limited (50.01 per cent owned), also located in Yellowknife.

Earnings in 1985 increased to $5.7 million, or $1.32 per share, from $1.9 million, or $0.44 per share, in 1984. The improvement reflects increased bullion production, especially from the Salmita Division, which more than offset a decline in the average gold price received, which fell to $436 per ounce in 1985 from $461 per ounce the previous year. The cost of producing an ounce of gold was $404 at the Yellowknife Division and $235 at the Salmita Division.

Gross revenues from mining operations reached a record $56.6 million, compared with $50 million in 1984. At December 31, 1985, working capital increased to $23.8 million from a restated figure of $15.7 million at the end of 1984.

In December, the company declared a dividend of $0.25 per share, its first since 1981.

Bullion output totalled 128,950 ounces from the treatment of 404,428 tons of ore. The Yellowknife Division, with a grade of 0.228 ounce per ton, produced 65,253 ounces of gold while the Salmita Division, with a grade of 0.914 ounce per ton, produced 63,697 ounces.

In November 1985, the Yellowknife Division reached a significant milestone when the 10,000th gold brick was poured, representing a total production since 1948 of more than 5.8 million ounces from the treatment of 12.5 million tons of ore with an average grade of 0.543 ounce per ton.

Ore reserves as of December 31, 1985, at the Yellowknife operations were 1,063,000 tons with a grade of 0.24 ounce gold per ton, compared with 1,057,000 tons at the same grade a year earlier. Salmita ore reserves were 64,000 tons at 0.97 ounce gold per ton, compared with 88,000 tons averaging 0.85 ounce gold per ton in 1984.

At Yellowknife, past diamond drilling has outlined three potential ore zones in satellite deposits, all within six miles of the treatment plant. Two of these are currently being developed by underground workings.

At Salmita, surface and underground exploration drilling has outlined mineable reserves both at depth and about two miles north of the mine area. A decline and internal shaft will provide access to the deeper ore zone by the middle of 1986 while ore to the north will be recovered by open pit work. Follow-up diamond drilling is taking place to explore for additional reserves.

During 1985, the company also continued exploration work in the Northwest Territories, Saskatchewan and Ontario in Canada and through a subsidiary in the western United States.

United Keno Hill Mines Limited

Stock issued: 2,823,700 common shares
Falconbridge Limited's ownership: 1,195,989 common shares, or 42.4% at December 31, 1985

United Keno Hill Mines Limited

(000's of dollars)	1985	1984	1983
Revenues	**11,360**	13,566	8,539
Loss**	**5,720**	6,793	622
Working capital	**10,800**	13,819*	16,376*
Production (000's)			
Silver (ounces)	**1,273**	1,233	635
Lead (pounds)	**2,151**	2,333	1,074

*Restated
**Accounted for by Falconbridge Limited on the equity basis.

United Keno Hill Mines Limited is a producer of silver and lead concentrates. It operates several mines and a milling facility at Elsa in the Keno-Galena Hill area of the central Yukon.

The company recorded a loss of $5.7 million for 1985 which included exploration expenditures of $4.7 million.

In spite of significant cost improvements made during the third quarter through reductions in transportation and smelting costs, wage rates and manpower as well as a weakening of the Canadian dollar, operating losses before write-offs and investment income totalled $2.6 million.

Gross revenues decreased from $13.6 million in 1984 to $11.4 million in 1985 due to continued depressed silver prices which averaged U.S. $6.14 per ounce in 1985, compared with U.S. $8.14 the previous year.

In 1985, damages of $2.2 million, including interest, were awarded to the company as a result of its action for breach of contract against a customer.

Cash and temporary investments were $6,639,000 at year end and working capital stood at $10,800,000.

A total of 74,600 tons of ore was milled during 1985 yielding 1,272,700 ounces of silver and 2,150,500 pounds of lead.

The average operating cost per ton of ore milled in 1985 was $144 and the cash cost per ounce of silver produced excluding write-offs and investment income averaged U.S. $7.61 per ounce.

At December 31, 1985, ore reserves in the Elsa area were 182,900 tons with a grade of 24.9 ounces silver per ton and 3.2 per cent lead, compared with 234,800 tons with a grade of 22.3 ounces of silver per ton and 3.1 per cent lead at the end of 1984.

In order to finance the 1985 exploration program the company raised $3,595,000 from the sale of flow-through units in March. Exploration was concentrated in the Elsa area on continuation of the three underground programs initiated in 1984.

Significant high-grade silver mineralization has been intersected at Silver King and Lucky Queen and the target area at Bellekeno will be reached during the first quarter of 1986.

In December 1985, the company raised $600,000 through a private placement. In February 1986, it filed a prospectus for another offering of flow-through units. The proceeds of this offering of up to $3.8 million will be spent in 1986 to complete the current underground drifting programs and to delineate previously intersected high-grade zones.

Falconbridge Limited did not subscribe to any of these units and as a result its ownership level will be reduced to 36.8 per cent when the shares attached to all flow-through units and the private placement are issued.

Falconbridge Investments (Zimbabwe) (Private) Limited

Falconbridge Limited's indirect ownership: 9,208 common shares, or 100% at December 31, 1985

The company produces gold, through a wholly owned subsidiary, at two operations — the Blanket and Golden Kopje Mines — in Zimbabwe.

Production from both mines during 1985 was 24,689 ounces of gold, compared with 24,812 ounces the previous year.

At the Blanket Mine gold production totalled 17,418 ounces from the milling of 149,032 tons of ore, while Golden Kopje produced 7,271 ounces of bullion from the milling of 75,563 tons of ore.

Falconbridge Investments (Zimbabwe) (Private) Limited

(000's of dollars)	**1985**	1984	1983
Revenues	**10,857**	11,594	10,302
Earnings*	**1,473**	3,095	4,044
Dividends paid*	**1,036**	1,372	2,008
Working capital (deficiency)	**(929)**	(1,107)	(333)
Production (000's)			
Gold (ounces)	**25**	25	20

*Accounted for by Falconbridge Limited on a cost basis.

Earnings of $1.5 million in 1985 declined from the $3.1 million reported the year earlier largely because of lower gold prices and exchange gains included in the 1984 results.

Mill recoveries at Golden Kopje improved in 1985 by 9 per cent from the previous year.

Western Platinum Limited

Stock issued: 12,100,000 ordinary shares
Falconbridge Limited's indirect ownership: 3,025,001 ordinary shares, or 25% at December 31, 1985

Western Platinum Limited produces platinum group metals, gold, nickel, copper and cobalt at its operations in Transvaal, Republic of South Africa.

Platinum group metals production reached a record high of 264,000 ounces during 1985 and earnings increased to R37.9 million from R24.6 million during the previous year.

Western Platinum Limited**

(000's of Rand)	**1985**	1984	1983
Revenues	**167,182**	110,834	87,942
Earnings*	**37,878**	24,557	18,595
Dividends paid*	**NIL**	2,904	8,470
Working capital	**62,656**	40,415	28,012
Production (000's)			
Platinum group metals (ounces)	**264**	263	214
Nickel (pounds)	**4,693**	4,325	4,284
Currency 1 Rand = Canadian $**	**.55**	.79	1.11

*Accounted for by Falconbridge Limited on a cost basis.
**Fiscal year ended September 30.

Construction of the base metals refinery has been completed and is now in operation complementing the company's precious metals refining facilities.

Due to the allocation of money for capital programs and the conservation of cash reserves no dividends were paid in 1985.

Accounting Responsibilities, Procedures and Policies

The Board of Directors which, among other things, is responsible for the consolidated financial statements of the Corporation, delegates to management the responsibility for the preparation of the statements. Responsibility for their review is that of the Audit Committee. Each year the shareholders appoint independent auditors to examine and report directly to them on the financial statements.

In preparing the financial statements great care is taken to use the appropriate generally accepted accounting principles and estimates considered necessary by management to present fairly and consistently the consolidated financial position and the results of operations. The significant accounting policies followed by Falconbridge are summarized on pages 14 and 15.

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

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

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

W. James
Chairman of the Board,
President and Chief Executive Officer

J. F. Gillies
Vice-President, Controller and
Chief Financial Officer

Auditors' Report

To the Shareholders of Falconbridge Limited:

We have examined the statement of consolidated financial position of Falconbridge Limited as at December 31, 1985 and 1984 and the consolidated statements of operations, shareholders' equity and changes in consolidated financial position for each of the years in the three-year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Falconbridge Limited, the results of its operations and the changes in its financial position at the dates and for the periods indicated in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Clarkson Gordon
Chartered Accountants

Toronto, Canada
January 31, 1986
(except as to note 19(iv) which is as of February 26, 1986).

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

In the United States, reporting standards for auditors require the expression of an opinion qualified as being subject to the outcome of significant uncertainties affecting the financial statements such as the uncertainty relating to Falconbridge Dominicana, C. por A., referred to in note 7(b), page 23, of the notes to consolidated financial statements. The opinion in our above report is expressed in accordance with Canadian standards and is not qualified with respect to, and provides no reference to, this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Clarkson Gordon
Chartered Accountants

Toronto, Canada
January 31, 1986.

Summary of Accounting Policies

The consolidated financial statements of Falconbridge Limited have been prepared in accordance with accounting principles generally accepted in Canada, consistently applied. All amounts are expressed in Canadian dollars unless otherwise noted. In these statements, references to the Corporation mean only Falconbridge Limited, the parent company, and references to Falconbridge include the Corporation, its consolidated subsidiaries and significantly influenced companies. The principal accounting policies followed by Falconbridge are summarized hereunder to facilitate review of the consolidated financial statements.

A. Basis of consolidation and accounting standards

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

(i) Falconbridge generally consolidates the financial statements of subsidiary companies and accounts on an equity basis for those companies over which it is able to exercise significant influence. Companies incorporated in foreign countries in which there are significant restrictions on the transfer of funds are accounted for on the cost basis;

(ii) Differences between the interest in the book value of the net assets of consolidated subsidiaries and the carrying value of the investments are allocated to the subsidiary's asset accounts based on their fair values at the date of acquisition. For consolidated operating subsidiaries, the differences are depreciated, depleted or amortized in accordance with the Corporation's accounting policy for the related asset; and

(iii) For consolidation purposes foreign subsidiaries' foreign currency financial statements are restated to accord with the Corporation's accounting policies.

B. Translation of foreign currencies

Foreign currency transactions and balances, and the financial statements of integrated foreign operations, are translated into Canadian dollars using the temporal method. Under this method monetary items are translated at the rate of exchange at the balance sheet date while non-monetary items are translated at historic exchange rates and revenue and expense items are translated at the weighted average of exchange rates prevailing during the year except for depreciation and amortization which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year, except when the gain or loss relates to a monetary item with a fixed or ascertainable original life extending beyond the end of the following fiscal year in which case the gain or loss is deferred and amortized to income on a straight-line basis over the period the related monetary item is outstanding.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect on the balance sheet date while revenue and expense items (including depreciation and amortization) are translated at the weighted average of exchange rates prevailing during the year. Exchange gains and losses from the translation of such financial statements are deferred and disclosed as a separate component of shareholders' equity.

C. Revenue recognition

Revenues from the sale of refined metals, ferronickel, industrial minerals and metal castings are recorded in the accounts when the rights and obligations of ownership pass to the buyer.

Estimated revenues, based upon anticipated metal prices or forward sales commitments, are recorded in the accounts during the month when bullion, and metals contained in concentrates which are sold under contracts, are produced. Such estimated revenues, which relate to a relatively small portion of Falconbridge's business, are adjusted monthly to reflect changes in metal market prices, weights and assays up to the date of final settlement.

D. Valuation of inventories

Inventories are valued as follows:

(i) Metals inventories are valued at the lower of cost and net realizable value determined on a "first-in, first-out" basis. Cost includes direct labour and material costs as well as administrative expenses at the operating properties, but excludes development and preproduction expenditures, depreciation and depletion; and

(ii) Supplies inventories are valued at the lower of average cost of acquisition and replacement cost.

E. Property, plant and equipment

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

(i) Property, plant and equipment and related capitalized development and preproduction expenditures are generally recorded at cost and include, where appropriate, the fair value adjustments referred to in policy A(ii) above. Government assistance and investment tax credits relating to plant and equipment expenditures are recorded as reductions of the cost of the related assets;

(ii) The Corporation depreciates plant and equipment on a straight-line basis over the lesser of their useful service lives or the lives of the producing mines to which they relate, limited to a maximum of twenty-five years. Generally the subsidiary companies calculate depreciation on a straight-line basis at rates varying from 5% to 25%. Depreciation is provided on the unit of production basis by Kiena Gold Mines Limited and by Corporation Falconbridge Copper for certain of its properties;

(iii) Idle plant and equipment resulting from temporary curtailments of operations continue to be depreciated on a straight-line basis. Care and maintenance costs during standby periods are expensed as incurred;

(iv) Idle plant and equipment resulting from the termination of operations are carried at the lower of depreciated cost and estimated salvage value. Upon sale or abandonment, the cost of fixed assets and the related accumulated depreciation are removed from the accounts and any gains or losses thereon are taken into earnings;

(v) Depletion of resource properties is provided over the lesser of the estimated lives of the resources recoverable from the properties and twenty-five years;

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

(vii) Repairs and maintenance expenditures are charged to operations or, if related to non-producing properties, to development and preproduction; major betterments and replacements are capitalized.

F. Exploration

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

G. Research and process development

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

H. Retirement plans

The costs of retirement plans are charged against earnings in the year required fundings are payable and include amounts for current service and amortization of past service costs. Past service costs are generally being amortized and funded over periods of up to 15 years.

I. Income and mining taxes

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

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

J. Stock option plan

The cost to the Corporation of shares optioned under the plan is allocated over the period the holder becomes entitled to exercise the options from the date options are granted and is measured as the amount by which the quoted market value of the Corporation's shares exceeds the option price specified under the plan adjusted to reflect current market values throughout the period that options remain outstanding.

Accrued stock option plan expenses are included in accounts payable and accrued charges in the statement of consolidated financial position until the options are exercised or cancelled.

K. Interest costs

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

L. Earnings (loss) per common share

Earnings (loss) per common share are computed using the weighted average number of shares outstanding during the year, after deducting shares held by a subsidiary company. The common stock equivalents of outstanding stock options and warrants are included in the calculation of fully diluted earnings per share, provided they do not increase earnings per share or decrease a loss per share.

Consolidated Financial Position

Assets

	December 31, 1985 (000's)	1984 (000's)
Current:		
Cash and temporary investments, at cost which approximates market value (note 8 B(i)(c), page 25)	**$ 310,602**	$ 190,374
Accounts and metals settlements receivable (note 11(c), page 27)	**169,270**	166,096
Inventories of metals (note 6, page 23)	**134,857**	124,109
Inventories of supplies	**45,874**	40,793
	660,603	521,372
Property, plant and equipment (note 7, page 23):		
Producing assets –		
Plant and equipment, at cost	**831,997**	786,092
Land and properties, at cost	**19,066**	19,252
	851,063	805,344
Less accumulated depreciation and depletion	**516,634**	500,258
	334,429	305,086
Development and preproduction expenditures, at cost less amounts written off	**235,336**	200,090
	569,765	505,176
Non-producing assets –		
Properties and projects, at cost less amounts written off	**71,592**	100,381
	641,357	605,557
Other:		
Investment in associated and other companies (note 17, page 30)	**32,793**	30,935
Deposits, long-term accounts receivable, other assets, at cost and deferred debt issue expenses, net	**6,226**	5,793
Deferred exchange loss, net of amortization	**10,399**	1,893
	49,418	38,621
	$ 1,351,378	$ 1,165,550

(See notes to consolidated financial statements)

Statement 1

Liabilities and Shareholders' Equity

	December 31, 1985 (000's)	1984 (000's)
Current:		
Bank indebtedness (note 15, page 28)	$	$ 1,342
Accounts payable and accrued charges	**77,938**	59,671
Salaries and wages payable	**23,886**	21,364
Income and other taxes payable	**10,400**	10,314
Long-term debt maturing within one year	**14,274**	14,020
	126,498	106,711
Long-term debt (notes 8, 15, 18 and 19, pages 24, 28, 30 and 31):		
Falconbridge Limited and its wholly-owned subsidiaries	**141,858**	143,694
Falconbridge Dominicana, C. por A.	**142,112**	139,280
Other subsidiary companies		868
	283,970	283,842
Deferred income and mining taxes (note 5, page 21)	**107,610**	88,956
Minority interest	**47,115**	50,047
Commitments and contingencies (note 11, page 27)		
Shareholders' equity:		
Capital (notes 9, 18 and 19, pages 26, 30 and 31)		
Issued: 41,894,275 Common shares (36,334,650 in 1984)	**318,512**	217,700
To be issued: 156,830 Common shares (375,000 in 1984)	**2,541**	4,678
Retained earnings (notes 8 and 10, pages 24 and 27)	**437,734**	401,918
Cumulative translation adjustment	**30,144**	14,444
	788,931	638,740
Less 143,620 common shares held by a subsidiary company, at its cost	**(2,746)**	(2,746)
	786,185	635,994
	$ 1,351,378	$ 1,165,550

On behalf of the Board:

William James
Director

David E. Lewis, Q.C.
Director

Consolidated Statement of Operations

Statement 2

	Year ended December 31,		
	1985 (000's)	1984 (000's)	1983 (000's)
Revenues	**$ 890,247**	$ 733,312	$ 615,387
Operating expenses:			
Costs of metal and other product sales (note 6, page 23)	**681,078**	520,787	509,953
Selling, general and administrative	**50,615**	50,018	42,770
Development and preproduction	**29,905**	23,668	16,885
Depreciation and depletion	**38,940**	33,359	32,637
Other charges (note 14, page 28)	**8,871**	8,439	17,264
	809,409	636,271	619,509
Operating profit (loss)	**80,838**	97,041	(4,122)
Interest and other income, net (note 4, page 21)	**47,380**	53,094	36,251
	128,218	150,135	32,129
Interest and debt expenses (note 8, page 24)	**40,039**	57,016	56,219
Exchange loss on early retirement of long-term debt	**824**	14,810	3,364
Exploration (note 12(c), page 28)	**34,423**	23,928	18,965
Research and process development	**4,606**	3,240	3,394
	79,892	98,994	81,942
	48,326	51,141	(49,813)
Income (loss) from investment in associated and other companies (note 17, page 30)	**879**	(664)	6,277
Earnings (loss) before taxes and other items	**49,205**	50,477	(43,536)
Income and mining taxes (note 5, page 21):			
Current	**4,661**	1,817	7,110
Deferred	**6,981**	20,344	(7,926)
	11,642	22,161	(816)
Earnings (loss) before minority interest and extraordinary items	**37,563**	28,316	(42,720)
Minority shareholders' interest in earnings (losses) of subsidiary companies	**(980)**	(378)	(11,311)
Earnings (loss) before extraordinary items	**38,543**	28,694	(31,409)
Extraordinary items (note 2, page 21)		51,492	14,816
Earnings (loss) for the year	**$ 38,543**	$ 80,186	$ (16,593)
Earnings (loss) per common share (notes 13, 18 and 19, pages 28, 30 and 31):			
Before extraordinary items	**$ 0.95**	$ 0.80	$ (0.93)
Extraordinary items		1.43	0.44
For the year	**$ 0.95**	$ 2.23	$ (0.49)

(See notes to consolidated financial statements)

Consolidated Statement of Shareholders' Equity

Statement 3

	1985 (000's)	1984 (000's)	1983 (000's)
	Year ended December 31,		
Common shares issued (note 9, page 26)			
Balance at beginning of year	**$ 217,700**	$ 199,618	$ 89,368
Issuance of shares and units to the public	**93,000**	17,411	110,000
Issuance of shares pursuant to flow-through unit offerings	**6,776**		
Issuance of shares under stock option plan	**1,036**	671	250
Balance at end of year	**318,512**	217,700	199,618
Common shares to be issued (note 9, page 26)			
Balance at beginning of year	**4,678**		
Shares to be issued pursuant to flow-through unit offerings	**4,639**	4,678	
Shares issued	**(6,776)**		
Balance at end of year	**2,541**	4,678	
Retained earnings (notes 8, 9 and 10, pages 24, 26 and 27)			
Balance at beginning of year	**401,918**	322,794	346,242
Earnings (loss)	**38,543**	80,186	(16,593)
	440,461	402,980	329,649
Common share issue expenses	**(2,727)**	(1,062)	(6,855)
Balance at end of year	**437,734**	401,918	322,794
Cumulative translation adjustment			
Balance at beginning of year	**14,444**	13,052	12,609
Translation adjustments	**15,700**	1,392	443
Balance at end of year	**30,144**	14,444	13,052
Common shares held by subsidiary companies			
Balance at beginning of year	**(2,746)**	(3,179)	(3,179)
Shares disposed		433	
Balance at end of year	**(2,746)**	(2,746)	(3,179)
Total shareholders' equity	**$ 786,185**	$ 635,994	$ 532,285

(See notes to consolidated financial statements)

Changes in Consolidated Financial Position

Statement 4

	1985 (000's)	1984 (000's)	1983 (000's)
			Year ended December 31,
Cash provided by (used in) operating activities:			
Earnings (loss) for the year before extraordinary items	**$ 38,543**	$ 28,694	$ (31,409)
Charges (credits) not affecting cash in the current period:			
Depreciation and depletion	**38,940**	33,359	32,637
Deferred income and mining taxes	**6,981**	20,344	(7,926)
Development and preproduction	**29,905**	23,668	16,885
Exchange loss on early retirement of long-term debt	**824**	14,810	3,364
Amortization of deferred exchange loss	**3,804**	2,993	663
Interest in (earnings) losses of companies accounted for on the equity basis, net	**171**	2,927	(1,531)
Gain on disposal of fixed assets, net	**(4,642)**	(1,091)	(5,461)
Minority shareholders' interest in earnings (losses) of subsidiary companies	**(980)**	(378)	(11,311)
Currency translation adjustments	**9,927**	11,529	(2,117)
Net change in non-cash working capital balances related to operations	**5,603**	(32,226)	21,620
Other items	**(2,264)**	(1,558)	(4,246)
Cash provided by operating activities	**126,812**	103,071	11,168
Cash provided by (used in) financing activities:			
Issue of units, common shares and warrants for cash, net	**99,833**	25,478	103,395
Net reduction in long-term debt	**(12,923)**	(235,785)	(11,279)
Proceeds from subsidiary companies' share and rights offerings	**11,394**	4,546	23,691
Cash provided by (used in) financing activities	**98,304**	(205,761)	115,807
Cash provided by (used in) investing activities:			
Property, plant and equipment expenditures	**(43,476)**	(52,683)	(24,321)
Development and preproduction expenditures	**(56,236)**	(50,077)	(22,128)
Proceeds on disposal of fixed assets	**4,033**	5,624	7,715
Increase in investment in subsidiary companies	**(7,867)**	(13,428)	
Decrease in other assets		(460)	(848)
Proceeds on sale of Superior shares and Mobil debentures (note 12(d), page 28)		119,235	
Cash provided by (used in) investing activities	**(103,546)**	8,211	(39,582)
Increase (decrease) in cash during the year	**121,570**	(94,479)	87,393
Net cash position, beginning of year	**189,032**	283,511	196,118
Net cash position, end of year	**$ 310,602**	$ 189,032	$ 283,511
Represented by:			
Cash and temporary investments	**$ 310,602**	$ 190,374	$ 294,511
Less bank indebtedness		(1,342)	(11,000)
Net cash position	**$ 310,602**	$ 189,032	$ 283,511

Note: Non-cash working capital balances consist of receivables, inventories, accounts payable, salaries and wages payable and income and other taxes payable.

(See notes to consolidated financial statements)

Notes to Consolidated Financial Statements

1. Accounting policies

The principal accounting policies followed by Falconbridge are described on pages 14 and 15.

2. Extraordinary items

The $51,492,000 of extraordinary items in 1984 reflects a $10,000,000 benefit resulting from the recognition of previously unrecorded tax debits and a $41,492,000 gain on the sale of the common shares of The Superior Oil Company (net of a $13,830,000 provision for income taxes).

The $14,816,000 extraordinary item in 1983 reflects the change in the Corporation's interest in the net identifiable assets of Kiena Gold Mines Limited, a consolidated subsidiary, which resulted from the Corporation's decision not to participate in the subsidiary's public share issue in 1983.

3. Retirement plans

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

Total pension expense for the year was $3,850,000, (1984 – $3,355,000; 1983 – $5,905,000), net of actuarial gains of $8,640,000 (1984 – $8,401,000; 1983 – $5,266,000) arising from retirements, terminations and investment gains. The current year's expense includes past service costs of $4,313,000 (1984 – $3,605,000; 1983 – $3,465,000). Based on the most recent actuarial valuations, the unfunded past service costs for all pension plans in effect at December 31, 1985, are estimated to amount to approximately $32,000,000 (1984 – $21,012,000; 1983 – $21,200,000) including $26,506,000 (1984 – $17,704,000; 1983 – $13,800,000) which is computed to have vested. The present intention is to provide for the unfunded past service costs over periods of up to 15 years.

4. Interest and other income, net

Interest and other income, net, includes a $2,841,000 gain (1984 – $5,078,000; 1983 – $553,000) resulting from translation of the Corporation's U.S. dollar temporary investments and in 1984 a $1,581,000 gain on the sale of the Mobil Corporation debentures which were received as partial consideration for the sale of a portion of the shares of The Superior Oil Company. The 1983 amount includes a $4,073,000 gain on the sale of the Corporation's airplane.

5. Income and mining taxes

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

	1985 (000's)	1984 (000's)	1983 (000's)
Canadian taxes –			
Current	**$ 3,884**	$ 1,239	$ 4,453
Deferred	**6,837**	19,996	(7,986)
	10,721	21,235	(3,533)
Foreign taxes –			
Current	**777**	578	2,657
Deferred	**144**	348	60
	921	926	2,717
Total taxes	**$11,642**	$22,161	$ (816)

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

	1985 (000's)	1984 (000's)	1983 (000's)
Depreciation claimed for tax purposes in excess of depreciation expensed in the accounts	**$ 328**	$ 1,393	$ 408
Exploration, preproduction and mine development costs claimed for tax purposes in excess of (lower than) amounts expensed in the accounts, net	**(8,804)**	17,617	(9,358)
Losses carried forward	**15,804**	3,994	(1,811)
Other	**(347)**	(2,660)	2,835
	$ 6,981	$20,344	$ (7,926)

At December 31, 1985, deferred income and mining taxes on the statement of consolidated financial position amount to $107,610,000 (1984 – $88,956,000). This amount will be reflected as a component of current taxes payable in subsequent years as timing differences are reversed.

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

	1985				1984				1983			
	Federal and provincial income taxes (000's)	Provincial mining taxes (000's)	Foreign taxes (000's)	Total (000's)	Federal and provincial income taxes (000's)	Provincial mining taxes (000's)	Foreign taxes (000's)	Total (000's)	Federal and provincial income taxes (000's)	Provincial mining taxes (000's)	Foreign taxes (000's)	Total (000's)
Earnings (loss) before taxes	$ 35,479	$ 35,479	$ 13,726	$ 49,205	$ 39,844	$ 39,844	$ 10,633	$ 50,477	$(19,279)	$(19,279)	$(24,257)	$(43,536)
Statutory tax rates	51%	20.8%*	51%		51%	20.5%*	51%		51%	16.7%*	51%	
Earnings (loss) before taxes multiplied by the statutory tax rates	$ 18,094	$ 7,380	$ 7,000	$ 32,474	$ 20,320	$ 8,181	$ 5,423	$ 33,924	$ (9,832)	$ (3,220)	$(12,371)	$(25,423)
Taxes reported in accounts	6,465	4,256	921	11,642	14,918	6,317	926	22,161	(3,371)	(162)	2,717	(816)
Difference to be reconciled	$(11,629)	$ (3,124)	$ (6,079)	$(20,832)	$ (5,402)	$ (1,864)	$ (4,497)	$(11,763)	$ 6,461	$ 3,058	$ 15,088	$ 24,607
Reconciliation, tax effect of –												
(1) Non-claimable expenses	$ 2,078	$ 10,304	$ 500	$ 12,882	$ 6,968	$ 16,255	$ (543)	$ 22,680	$ 4,081	$ 3,530	$ (448)	$ 7,163
(2) Resource, depletion, processing and inventory allowances	(14,805)	(7,629)	(31)	(22,465)	(12,889)	(8,553)		(21,442)	(2,813)	(694)		(3,507)
(3) Adjustments because of differences in tax rates	(1,641)	(1,105)	1,941	(805)	(1,268)	(609)	2,132	255	3,140	831	8,052	12,023
(4) Unrecorded tax debit			3,423	3,423			3,684	3,684	5,233	(111)	13,683	18,805
(5) Non-taxable income	2,739	(4,694)	(11,912)	(13,867)	1,787	(8,957)	(9,770)	(16,940)	(3,180)	(498)	(6,199)	(9,877)
	$(11,629)	$ (3,124)	$ (6,079)	$(20,832)	$ (5,402)	$ (1,864)	$ (4,497)	$(11,763)	$ 6,461	$ 3,058	$ 15,088	$ 24,607

*Average determined from the graduated scale which ranges from 0% to 30%.

(d) Falconbridge Dominicana, C. por A. (Falcondo), a subsidiary company, has received an income tax assessment from the Dominican Government for the 1972 and 1973 fiscal years approximating RD$4,800,000 (at December 31, 1985, 1RD$ = Cdn. $0.466). Falcondo has appealed the assessment to the Superior Administrative Court and also asked the Supreme Court of the Dominican Republic to rule on the admissibility of the said appeal. The Supreme Court handed down a ruling on August 28, 1985 declaring the appeal to be inadmissable without prior payment of the amount in dispute. Falcondo and its legal advisors are studying various alternatives for future action. Management cannot reasonably predict the final outcome and consequently no provision has been made in the accompanying financial statements for the amount of any assessment.

(e) At December 31, 1985, Falcondo has losses, aggregating RD$93,768,000, which can be carried forward to reduce its taxable income in future years. The loss carry forwards expire in 1986 – RD$20,832,000; 1987 – RD$47,047,000; 1988 – RD$24,262,000; 1989 – RD$555,000 and 1990 – RD$1,072,000. In addition, depreciation and amortization charges of approximately RD$95,885,000 which have been recorded in the accounts, but not claimed for tax purposes, are available to reduce taxable incomes of future years. These amounts give rise to deferred tax debits which have not been recorded in the accounts.

(f) At December 31, 1985, United Keno Hill Mines Limited (42.4% owned by the Corporation and accounted for on the equity basis) has non-capital losses, approximating $3,393,000, which can be carried forward until 1991 to reduce its taxable income. The company also has net capital losses approximating $800,000 and unrecognized investment tax credits of approximately $1,000,000 which are available until 1986 to reduce income taxes payable. As a result of the current and prior year losses, cumulative expenditures of approximately $14,552,000 which have been recorded in the accounts, but not claimed for tax purposes, are available to reduce taxable incomes of future years and give rise to an unrecorded deferred tax debit.

(g) At December 31, 1985, the Corporation has losses for federal income tax purposes, aggregating $56,057,000, which can be carried forward to reduce its taxable income in future years. The loss carry forwards expire in 1986 – $46,736,000 and 1989 – $9,321,000. The benefits of these tax losses carried forward have been recorded in the accounts.

6. Inventories of metals

Consolidated inventories of metals consist of the following:

	1985		1984	
	Metals in process (000's)	**Finished metals (000's)**	Metals in process (000's)	Finished metals (000's)
Derived from:				
Corporation's Sudbury ore	**$37,351**	**$52,794**	$35,842	$35,311
Subsidiaries	**41**	**25,817**	4,418	18,809
Other sources	**3,936**	**14,918**	319	29,410
	$41,328	**$93,529**	$40,579	$83,530
Total inventories of metals	**$134,857**		$124,109	

Cost of metal and other product sales in 1985 includes a writedown in the valuation of purchased inventory of $14,459,000.

7. Property, plant and equipment

(a) The following table details consolidated property, plant and equipment on a functional basis:

	1985			1984		
	Cost (000's)	**Accumulated depreciation and depletion (000's)**	**Net book value (000's)**	Cost (000's)	Accumulated depreciation and depletion (000's)	Net book value (000's)
Property, plant and equipment:						
Producing assets –						
Plant and equipment:						
Mines, mining plants and ancillary mining assets	**$541,574**	**$334,171**	**$207,403**	$509,302	$325,768	$183,534
Smelter	**112,809**	**43,540**	**69,269**	108,943	40,789	68,154
Refinery	**129,401**	**95,110**	**34,291**	111,951	83,927	28,024
Townsites and other company housing	**11,261**	**8,452**	**2,809**	16,185	11,974	4,211
Transportation, including facilities	**1,718**	**1,602**	**116**	6,616	5,065	1,551
Other	**35,234**	**20,287**	**14,947**	33,095	19,406	13,689
	831,997	**503,162**	**328,835**	786,092	486,929	299,163
Properties	**17,128**	**13,472**	**3,656**	17,321	13,329	3,992
Land	**1,938**		**1,938**	1,931		1,931
	19,066	**13,472**	**5,594**	19,252	13,329	5,923
	$851,063	**$516,634**	**334,429**	$805,344	$500,258	305,086
Non-producing assets			**15,541**			34,820
			349,970			339,906
Development and preproduction expenditures:						
Producing assets			**235,336**			200,090
Non-producing assets			**56,051**			65,561
			291,387			265,651
			$641,357			$605,557

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

(c) Non-producing assets consist of the following:

	1985 (000's)	1984 (000's)
Company and project		
Falconbridge Limited –		
Various Projects (i)	**$ 9,746**	$ 5,148
New Quebec Raglan Mines Limited –		
Subsidiary's Cape Smith-Wakeham Bay properties (ii)	**43,008**	42,994
Other subsidiary companies' projects (iii)	**18,838**	52,239
	$71,592	$100,381

(i) Consists primarily of costs associated with the development of the Craig orebody.

(ii) Exploration, development and other expenditures relating to New Quebec Raglan Mines Limited (a 73.8% owned subsidiary) and its wholly-owned subsidiary company, Société Minière Raglan du Québec Ltée, incurred in the development of the latter company's Cape Smith-Wakeham Bay properties.

These costs have been capitalized with the intention that they will be amortized by charges against income from future mining operations. Profits commensurate with the risks of operating in such a remote northern location must be indicated before development to production.

(iii) The 1984 balance includes $35,479,000 of costs relating to the Lac Shortt project of Corporation Falconbridge Copper. Early in 1985 it reached a commercial level of production and accordingly was transferred to producing assets.

(d) On May 15, 1984, Corporation Falconbridge Copper (CFC) announced that it had accepted an offer of a grant to a maximum of $25,000,000 from the Minister of Energy and Resources of Quebec to encourage the development of the Ansil project which is located three miles west of the company's Lake Dufault division. The funds are to be used to assist in financing the cost of sinking a 5,300 foot shaft and performing underground exploration and development work. The terms of the grant provide that if the Ansil deposit is brought into production before December 31, 1991, the company will repay in 1992 and 1993 the difference between the $25,000,000 grant and 20 per cent of the total costs incurred in bringing the property into production. In the event the property is not brought into production by December 31, 1991, the full amount of the grant is repayable without interest. To December 31, 1985, project gross expenditures amounted to $11,521,000 (1984 – $3,965,000) against which an equivalent amount of grant has been recognized in the accounts.

On September 11, 1985, CFC announced its decision to proceed to production at the Winston Lake zinc property located 28 kilometres north of Schreiber in northwestern Ontario. CFC approved total expenditures of $52,500,000, including working capital and a provision to assist in the living accommodation of the labor force. Production was scheduled to commence in late 1986 and to reach 1,000 tonnes of ore per day in the early part of 1987. However, on November 1, 1985 CFC announced that it was suspending development of the project. The decision was made as a result of sharply deteriorating zinc prices, higher anticipated smelter charges and forecasted zinc surpluses, due in part to the proposed reactivation of a major zinc producer. Although complete development of the project has been postponed until there is an improvement in marketing conditions, contractual obligations pertaining to certain phases of the project will be completed. Total expenditures on the project to December 31, 1985 amounted to $14,228,000.

8. Long-term debt

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

	1985 (000's)	1984 (000's)
(i) **Falconbridge Limited and its wholly-owned subsidiaries**		
7.75% Sinking fund debentures maturing February, 1991 (a) and (c)	**$ 33,094**	$ 36,102
8.85% Sinking fund debentures maturing May, 1996 (1985 – U.S. $13,783,000; 1984 – U.S. $17,204,000) (b) and (c)	**19,273**	22,739
Bank loans –		
Due December 31, 1989 (U.S. $24,000,000; 1984 – U.S. $24,200,000) (d)	**33,559**	31,985
Due December 31, 1989 (U.S. $40,000,000) (e)	**55,932**	52,868
Total	**$141,858**	$143,694

(a) The Corporation has fulfilled its requirements to make sinking fund payments sufficient to retire $1,250,000 principal amount of the 7.75% debentures in each year to and including 1990.

(b) The Corporation is required to make sinking fund payments sufficient to retire U.S. $3,000,000 principal amount of the 8.85% debentures in each year to and including 1995. Sinking fund requirements have been satisfied until 1993.

(c) During 1985, the Corporation recorded (netted with interest and debt expenses) a gain of $1,614,000 (1984 – $2,708,000) on the redemption of debentures at substantial discounts.

(d) This bank loan reflects borrowings under the Corporation's line of credit, of Canadian $180 million or the U.S. equivalent, due December 31, 1989. Interest is based on the London Interbank Offered Rate (LIBOR) plus ½ of 1% and was payable at 8.69% as at December 31, 1985 (1984 – 9.5%) and averaged 9.21% (1984 – 11.54%) during the year.

(e) This committed line of credit of U.S. $40,000,000 is available until December 31, 1989. Interest is fixed at 15.88% until December 31, 1986 at which time the interest rate will be fixed at the rate in effect at that time.

(ii) **Falconbridge Dominicana, C. por A.** (see note B (i)(a), below)

(a) Due to Loma Corporation (Loma)*		
8.73% Series C secured sinking fund notes, due in semi-annual payments of U.S. $5,080,000 to and including 1986 (U.S. $10,150,000; 1984 – U.S. $20,310,000)	**$ 14,193**	$ 26,844
8.50% Series D guaranteed sinking fund notes, due in semi-annual payments of U.S. $3,400,000 from 1987 to and including 1991 (U.S. $34,000,000)	**47,542**	44,938
* Payment can be demanded under certain specified circumstances, the most significant being if Loma is required to meet payments due on its notes which were issued in the same principal amounts and at the same interest rates as the above notes.		
(b) Subordinated advances by a minority shareholder –		
Interest rates vary from 11½% to 21% (weighted average 14.04%; 1984 – 14.24%), due not later than December 15, 1991 (U.S. $46,653,000; 1984 – U.S. $45,783,000)	**65,235**	60,512
Accrued interest thereon	**28,882**	19,322
(c) Other		
Interest rates vary from 7% to 10.5%, due over various terms to and including 1991 and payable in various currencies	**534**	1,684
	156,386	153,300
Less long-term debt maturing within one year	**14,274**	14,020
Total	**$142,112**	$139,280

(iii) **Maturity and sinking fund requirements**

Maturity and sinking fund requirements (stated at 1985 year-end rates of exchange) for the next five years are as follows:

1986 – $14,274,000
1987 – $ 9,753,000
1988 – $ 9,777,000
1989 – $98,374,000
1990 – $10,389,000

B. Guarantees, covenants and restrictions:

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

(a) Loans to Falcondo amounting to $61,735,000 are secured by a first mortgage on the assets of the project, which have a net aggregate carrying value of $169,179,000 at December 31, 1985. The Corporation has agreed to buy all ferronickel of commercial value produced by Falcondo and is also obligated to provide 60% of the funds required by Falcondo to enable it to meet its operating costs and debt service obligations in the event receipts from the sale of ferronickel produced by Falcondo and other receipts are insufficient for that purpose. The Corporation has been required since July, 1980, in accordance with the terms of the financing agreements, to provide funds in U.S. dollars (translated at 1985 year-end rates of exchange) totalling $97,853,000 (1985 – $1,825,000; 1984 – $3,524,000; 1983 – $25,169,000), representing 60% of the total amount required by Falcondo to meet its cash requirements. The funds so provided to Falcondo are evidenced by notes, which are subordinated to all other debt instruments and can only be repaid under certain circumstances, and bear interest at rates related to the U.S. prime rate which is in effect on the date the notes are issued.

(b) The Corporation has pledged all of its shareholdings in Falcondo against repayment of the Loma Series C demand mortgage notes. In addition, the Corporation has made a direct guarantee for repayment of 60% of the Loma Series D demand subordinated notes. The loans from Loma Corporation are covered by specific risk insurance issued by the Overseas Private Investment Corporation.

(c) In accordance with the terms of the loan agreements, at year-end, funds of $6,116,000 (1984 – $7,101,000) (included with cash and temporary investments) were on deposit with the Trustee for use in paying current debt service and operating expenses of Falcondo.

(ii) During the period that the Falcondo loans are outstanding, there are certain restrictions placed on the amount and nature of borrowing that the Corporation may undertake. Covenants given by the Corporation in this respect are substantially the same (other than (a) and (d) below) as those given by the Corporation under its 8.85% debentures which include limitations as to:

(a) The amount of dividends which may be paid by the Corporation (see note 8 B(iii) below);

(b) The incurring of additional debt. Under the covenants the Corporation is prohibited from borrowing, if after giving effect thereto the ratio of its consolidated indebtedness, as defined, exceeds 45% of certain of its consolidated net tangible assets. At December 31, 1985, the Corporation had available borrowing capacity of approximately $503 million.

(c) Guarantees which it may give on certain indebtedness of its subsidiary and other companies; and

(d) The 8.85% debenture covenants provide that the proceeds from the permitted sale of assets which are owned by the Corporation shall be held in cash or short term securities, applied to the redemption of debentures, other funded debt or bank indebtedness, or invested in mineral properties or processing or manufacturing plant or facilities or in securities of a corporation engaged in businesses similar to that of the Corporation.

(iii) At December 31, 1985, the portion of retained earnings restricted under the 8.85% debenture covenants and not available for dividend payment and share repurchase was $ nil (1984 – $42,573,000).

9. Capital

(a) Authorized capital

At the Annual and Special Meeting of the Shareholders on April 19, 1984, resolutions were passed to delete the par value of preference shares and to provide for an unlimited number of common and preference shares authorized for issuance in each class.

(b) Common shares

(i) At the Annual Meeting of Shareholders held on April 17, 1985, the shareholders of the Corporation approved that the common shares be divided on a five-for-one basis. Earnings per share and share amounts have been adjusted to reflect the split.

(ii) In January, 1985, the Corporation completed two issues of flow-through units. One issue related to exploration programs on various properties throughout Canada and provided the right to earn common shares at the rate of one share for each $28 of subscribers' funds, including interest earned on these funds, expended during 1985 on Canadian Exploration Expenses (CEE) as defined in the Income Tax Act (Canada). The gross proceeds of this issue were $5,600,000. The other issue related to exploration programs in the province of Quebec and provided the right to earn common shares at the rate of one share for each $49 of subscribers' funds, including interest earned on these funds, expended during 1985 on CEE. The gross proceeds of this issue were $3,675,000. The portion of the subscription price and interest earned on subscribers' funds relating to the shares ($4,639,000) is included as capital in the shareholders' equity at the value equal to the market value at the date of issue. The balance of the subscription price ($5,008,000) is the value attributed to the tax benefits transferred to the subscribers and is included in the provision for income and mining taxes in the consolidated statement of operations. In July, 1985 the Corporation issued 129,500 shares for work performed under these issues.

In March, 1985, the Corporation received gross proceeds of $93,000,000 from the sale of 5,000,000 common shares at $18.60 per share.

In December, 1985 the Corporation completed an issue of flow-through units. The issue related to exploration programs on various properties throughout Canada and provided the right to earn common shares at the rate of one share for each $41.25 of subscribers' funds, including interest earned on these funds, expended up to and including March 1, 1986. The gross proceeds of the issue will be $903,000.

The underwriting, legal and associated costs of the above issues, net of the related tax recovery of $1,123,000, were charged to retained earnings.

(iii) In January, 1984, the Corporation received gross proceeds of $16,445,000 from the sale of 1,150,000 common shares at $14.30 per share. The underwriting, legal and associated fees of $625,000 were charged to retained earnings.

(iv) In June, 1984, the Corporation issued 7,500 units at a price of $1,070 per unit. Each unit entitled the subscriber to earn 50 common shares at the rate of one share for each $21.40 expended on CEE. The underwriting, legal and associated fees of $437,000 were charged to retained earnings. The portion of the subscription price relating to the shares ($4,678,000) is included as capital in shareholders' equity at the value equal to the market value at the date of issue. The balance of the subscription price ($3,347,000) is the value attributed to the tax benefits transferred to the subscribers and is included in the provision for income and mining taxes in the consolidated statement of operations.

(v) In February, 1983, the Corporation received gross proceeds of $110,000,000 from the sale of common shares and common share purchase warrants (units). The number of units sold was 2,000,000 at $55.00 per unit, the price being allocated at $53.50 for 5 common shares and $1.50 for half a warrant to purchase two and a half common shares. Each whole warrant entitles the holder to purchase five common shares for $65.50 on or before February 5, 1987. No warrants have been exercised to December 31, 1985. The underwriting, legal and associated costs of $6,855,000 were charged to retained earnings.

(vi) In June, 1984 the board of directors of the Corporation conditionally allotted and reserved for issue 50,000 common shares under an incentive plan for its Sudbury employees. No shares have been issued under this plan.

(vii) Subsequent to the establishment of the Corporation's stock option plan the Corporation has reserved 2,500,000 common shares for the purpose of granting options to purchase shares of the Corporation to certain employees of the Corporation, its subsidiaries or associated companies. The price for which the shares may be optioned shall not be less than the closing bid price for the common shares on the trading day immediately preceding the granting of the option less a discount of ten per cent.

Options are exercisable, over a period of ten years from the date granted, and are earned at the rate of twenty-five per cent of the shares optioned times the number of periods of twelve months which have elapsed since the date the option was granted less the aggregate number of options already exercised or surrendered. The optionee may also be given the right, at the time of exercise, to surrender the options in return for receipt of cash or shares or a combination thereof, equal to the excess of the fair market value of the shares over the option price thereof.

On November 16, 1981, options were granted to purchase 610,000 shares under the stock option plan at a price of $11.43 per share. To date 99,125 of the options have been exercised of which 39,500 were exercised during the year and 64,000 options were surrendered for cash. On August 30, 1983, options were granted to purchase 507,500 shares under the stock option plan at a price of $13.77 per share. To date 16,875 of the options have been exercised of which 15,625 were exercised during the year and 11,250 options were surrendered for cash. At December 31, 1985, the total number of common shares issuable upon the exercise of options was 763,125. In 1985, the expense was $4,138,000 (1984 – $1,452,000; 1983 - $1,200,000).

10. Interest in undistributed earnings of equity accounted for companies

Consolidated retained earnings include the Corporation's share of the undistributed earnings of its equity accounted for companies which amounted to $5,607,000 (1984 – $4,421,000; 1983 – $7,349,000).

11. Commitments and contingencies

(a) At December 31, 1985, there are commitments outstanding of approximately $14,400,000 (1984 – $3,500,000) in connection with capital expenditure programs. In addition, there are net forward purchase commitments for 408 tonnes (1984 – 516) of refined nickel at a total cost of $2,454,000 (1984 – $3,286,000).

(b) The following are under continuing study and discussion with Government officials:

(i) The Corporation has received an exemption by the Ontario Government, until December 31, 1989, from a requirement to refine in Canada ores mined from certain properties of the Corporation in Ontario, such exemption being limited to the quantity of nickel-copper matte capable of producing not more than 100,000,000 pounds of refined nickel per year; and

(ii) The Corporation has been advised by the Ontario Ministry of the Environment that an Order-in-Council has been issued requiring the Corporation to further reduce its sulphur dioxide emissions from the present allowable 154,395 tonnes per year (423 tonnes per day) to 100,000 tonnes per year (274 tonnes per day) effective January 1, 1994. The Corporation will also be required to conduct such research as is necessary to establish the best available technology to achieve even lower economically and technically feasible emission levels. Reports on the progress of such studies are to be issued every six months with the final report required by December 31, 1988. The Corporation believes that it can modify its smelter operation to comply with the regulation to reduce emissions by 1994.

(c) During 1985, accounts receivable of U.S. $97,260,000 (1984 – U.S. $104,275,000) were either sold without recourse or discounted with recourse. Discounting costs, which were charged to interest expense, amounted to $1,929,000 in 1985 (1984 – $3,151,000; 1983 – $3,241,000). As a result of these transactions, at December 31, 1985, the Corporation has a contingent liability of U.S. $23,150,000 (1984 – U.S. $38,540,000).

(d) See notes 3, 5(d), 7(b), 7(c), 7(d), 8 B(i), and 15, pages 21, 22, 23, 24, 25 and 28, respectively, which detail other commitments and contingencies.

12. Transactions with related companies

Falconbridge is a member of a group of related companies. The Corporation's holdings in this group are described in note 17, page 30.

On May 29, 1985 Dome Mines Limited (Dome) purchased from The Superior Oil Company (Superior) (a wholly-owned subsidiary of Mobil Corporation) (Mobil) and Canadian Superior Oil Ltd. (Canadian Superior) (a wholly-owned subsidiary of Superior) 50,000 and 3,213,500 respectively of the issued and outstanding shares of the Corporation (a 7.8% interest in the Corporation). In addition, Dome acquired from Superior and Canadian Superior a combined interest of 52.9% of McIntyre Mines Limited, which holds a 22.1% interest in the Corporation. Accordingly, Dome may be considered to exercise control or direction over approximately 30% of the outstanding shares of the Corporation.

Superior owns a 24% interest in Western Platinum Limited (Western Platinum).

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

(a) Matte produced from Western Platinum ore is refined on a fee basis and the refined metals are marketed on an agency basis by Falconbridge. Fees and commissions totalled $9,453,000 in 1985 (1984 – $8,602,000; 1983 – $8,755,000).

(b) In the current year, the Corporation has made purchases of products, costing $10,834,000 and received refining revenue and smelting revenues of $771,000 from companies accounted for on the equity basis.

(c) The Corporation engages in a number of mineral exploration programs with Superior and other members of the related group. The Corporation's participating interest in these projects is proportional to its share of the overall cost. The most significant of these ventures include:

(i) Exploration and development of mining claims in northern Chile pursuant to agreements between the Corporation, Superior, Canadian Superior, and the government of Chile. The Corporation's minority participation to date has been $11,422,000 of which $247,000 was expended in 1985 (1984 – $580,000; 1983 – $760,000);

(ii) Exploration for minerals in various African countries pursuant to an agreement between the Corporation and Superior. The Corporation's participating interest is proportional to its share of overall costs and to date it has expended $13,784,000 on these projects, of which $343,000 was expended in 1985 (1984 – $276,000; 1983 – $262,000). In the Republic of Botswana, De Beers Consolidated Mines Limited may acquire up to 50% of the combined interests of the Corporation and Superior in consideration of expenditures it may make in carrying out exploration work in the diamond exploration areas; and

(iii) Exploration for minerals in North America. Participation, pursuant to an agreement with Superior, is approximately 34% and to date the Corporation has expended $6,031,000, of which $30,000 was expended in 1985 (1984 – $70,000; 1983 – $80,000).

(d) During the second quarter of 1984, as a result of the public offer made by Mobil to purchase common shares of Superior, the Corporation tendered and had accepted 811,875 shares for which it received Mobil debentures (with a quoted market value of $25,395,000) and cash consideration of $21,026,000. This transaction resulted in a gain of $16,156,000 (net of income taxes of $5,385,000). At a later date these debentures were sold. In the third quarter of 1984 the Corporation sold the remainder of the Superior shares for cash consideration of $71,232,000. This transaction resulted in a gain of $25,336,000 (net of income taxes of $8,445,000).

13. Earnings (loss) per common share

Earnings (loss) per common share are based on the weighted average number of 40,718,750 common shares outstanding during the year (1984 – 36,030,650; 1983 – 33,860,270), excluding shares held by a subsidiary company. Earnings per share and share amounts have been adjusted to reflect the five-for-one share split (see note 9(b)(i), page 26).

Inclusion in the earnings (loss) per share computation of shares subject to issue under outstanding options and warrants (see note 9, page 26) results in fully diluted earnings per share before and after extraordinary items of $0.91 for 1985 (1984 – $0.78 and $2.00). The 1983 loss per common share has not been recalculated to include the unexercised common share purchase warrants since their inclusion would decrease the loss per share.

14. Other charges

Other charges of $8,871,000 in 1985 include the costs associated with a reduction in the workforce at the Corporation's Sudbury operations and the temporary shutdown at the ferronickel production operations of Falconbridge Dominicana, C. por A.

Other charges of $8,439,000 in 1984 include the write-off of development and preproduction expenditures on the closure of the Falconbridge mine, start-up costs at the Onaping mine and the ongoing shutdown costs at the Wesfrob Mining Division.

Other charges of $17,264,000 in 1983 represent employee termination and retiring allowances, costs associated with the start-up of the Corporation's Sudbury Operations, ongoing costs at Corporation Falconbridge Copper's Lake Dufault Division during the temporary suspension of operations and shutdown costs incurred during the permanent closing of the Wesfrob Mining Division.

15. Compensating balances and borrowing arrangements

None of the companies within the Falconbridge group of companies is required to maintain a compensating balance under any borrowing arrangement. Falconbridge Dominicana, C. por A. is required, under loan agreements, to keep funds on deposit with the Trustee for use in paying current debt service and other expenses (see note 8 B(i)(c), page 25). The various borrowing arrangements, which have been established over a period of years, are as follows:

Falconbridge Limited

In addition to the lines of credit detailed in note 8 A(i)(d) and (e), page 25, the Corporation has a U.S. $45,000,000 committed line of credit which expires December 31, 1989. The Corporation also has operating lines of credit aggregating $135,000,000 which may be drawn in either Canadian or U.S. dollars at the bank's prime or base lending rate and a U.S. $30,000,000 operating line of credit under which the Corporation may sell U.S. dollar accounts receivable at rates prevailing at the time of sale. There is no commitment fee on the operating lines, which may be withdrawn at the bank's discretion.

Use of these lines of credit is restricted under guarantees and covenants, (see note 8 B(ii), page 26).

Kiena Gold Mines Limited (see note 19(ii), page 31)

Kiena Gold Mines Limited (Kiena) has arranged a $30,000,000 revolving term credit and a $30,000,000 operating line of credit with a Canadian bank as described below. The aggregate credit that may be utilized under these lines is $30,000,000.

The $30,000,000 revolving term credit, due May 9, 1987, may be drawn in Canadian or U.S. dollars or gold. The loan is secured by a fixed and floating charge upon Kiena's assets. No commitment fee is payable on this term credit. Interest on this loan is payable at ⅛ of 1 per cent above the bank's prime lending rate or if drawn in U.S. dollars at rates based on LIBOR or a U.S. base rate.

The $30,000,000 operating line of credit may be drawn in Canadian or U.S. dollars. Interest on this loan is the bank's prime lending rate, or if drawn in U.S. dollars at rates based on LIBOR or a U.S. base rate.

At December 31, 1985, there was no indebtedness under these lines of credit.

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

	1985 (000's)	1984 (000's)	1983 (000's)
Earnings (loss) for the year before extraordinary items, under Canadian GAAP	**$38,543**	$28,694	$(31,409)
Adjustments to accord to U.S. GAAP:			
1. Adjustments relating to foreign currency translation (i)	**(773)**	7,511	3,966
2. Adjustments relating to capitalization of interest less amortization of capitalized interest, net of income taxes (ii)	**(23)**	(16)	10,916
3. Gain on sale of shares of The Superior Oil Company (iii)		41,492	
4. Gain on Kiena share issue (iii)			14,816
5. Adjustments relating to items not from continuing operations	**(1,210)**	(2,031)	(511)
Earnings (loss) from continuing operations in accordance with U.S. GAAP	**36,537**	75,650	(2,222)
Losses from discontinued operations			
Wesfrob Mining Division			(1,909)
Extraordinary items			
Deferred income tax adjustment		10,000	
Gain on redemption of debentures	**1,210**	2,031	2,420
Earnings (loss) for the year in accordance with U.S. GAAP	**$37,747**	$87,681	$ (1,711)
Primary and fully diluted earnings (loss) per common share in accordance with U.S. GAAP:			
From continuing operations	**$ 0.86**	$ 2.08	$ (0.07)
Extraordinary items	**0.03**	0.33	0.02
For the year	**$ 0.89**	$ 2.41	$ (0.05)

(i) Under Canadian GAAP Falconbridge defers gains and losses on translation of monetary items where the foreign currency denominated item has a fixed or ascertainable original life which extends beyond one year. Such gains or losses are amortized over the remainder of the life of the item. Under U.S. GAAP such deferrals of exchange gains and losses as a result of translation are not permitted – the gains and losses are included in income for the current period.

(ii) Consistent with the Canadian mining industry's practice of capitalizing all costs incurred during the preproduction stage of a project, Falconbridge capitalizes interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt. Interest costs incurred after the commencement of commercial production are expensed.

U.S. GAAP requires the capitalization of interest costs as part of the historical cost of acquiring certain assets whether or not the assets are specifically financed by debt.

Capitalized interest costs are amortized on the same basis as the related assets.

(iii) U.S. GAAP requires that these items be included in earnings (loss) from continuing operations. See note 2, page 21 for details.

(iv) Under U.S. GAAP the Corporation's retained earnings at December 31, 1985 would be $462,946,000 (1984 – $427,926,000; 1983 – $341,307,000).

17. Investment in associated and other companies

	December 31, 1985		Market value (i) As at December 31,		Carrying value As at December 31,		Contribution to earnings (loss) for the year		
	Shares of common stock	**Beneficial interest %**	1985 (000's)	1984 (000's)	1985 (000's)	1984 (000's)	1985 (000's)	1984 (000's)	1983 (000's)
Accounted for on an equity basis:									
Akaitcho Yellowknife Gold Mines Limited	**1,198,230**	**36.7**	$ 923	$ 563	$ 140	$ 197	$ (57)		$ 4
Giant Yellowknife Mines Limited	**824,413**	**19.2**	17,313	10,717	6,186	5,029	1,157	$ 362	806
United Keno Hill Mines Limited	**1,195,989**	**42.4**	9,723	11,960	4,399	4,606	(1,564)	(3,289)	721
Other Companies			478		1,014		293		
Total on an equity basis			28,437	23,240	11,739	9,832	(171)	(2,927)	1,531
Accounted for on a cost basis:									
McIntyre Mines Limited	**175,825**	**4.8**	6,989	6,198	10,175	10,175			
The Superior Oil Company								467	377
Thompson-Lundmark Gold Mines Limited	**600,000**	**12.0**	300	252	377	377			
Other companies			714	714			29	4	5
			$36,440	$30,404	22,291	20,384	(142)	(2,456)	1,913
Investments with no quoted market value:									
Western Platinum Limited	**3,025,001**	**25.0**			10,010	10,010		725	2,357
Falconbridge Investments (Zimbabwe) (Private) Limited	**9,208**	**100.0**					1,021	1,067	2,007
Other companies					492	541			
					$32,793	$30,935	$ 879	$ (664)	$ 6,277

(i) The market values shown are based on closing bid prices at year end on a Canadian stock exchange. Because of the number of shares involved the amounts that could be realized if these securities were to be sold may be more or less than their indicated quoted market value.

18. Proposed Acquisition of Kidd Creek Minerals Ltd.

On December 18, 1985 the Corporation announced that it had reached agreement with Canada Development Corporation (CDC) concerning the acquisition of all the interests of CDC in the Kidd Creek Mining Group, the principal asset of which is all of the shares of Kidd Creek Mines Ltd. for total consideration of $615 million comprised of cash and securities. CDC and the Corporation subsequently entered into a definitive Purchase Agreement whereby the Corporation has agreed to pay to CDC $140 million in cash and to issue to CDC 10,473,568 common shares (valued at $19.50 per share) and $270,765,000 unsecured 8.5% Convertible Debentures having a term of 20 years and convertible into common shares at a conversion price of $21.95 per common share. Upon the completion of the transaction contemplated by the Purchase Agreement, CDC will own 20% of the issued common shares of the Corporation and, together with the common shares issuable upon conversion of the debentures, will have a 32.2% fully diluted interest in the shares of the Corporation.

The transaction will result in an initial dilution of the equity interest of Dome and McIntyre Mines Limited (collectively, the Dome Group) from its present holding of approximately 30% of the Corporation to 24% (17.7% on a fully diluted basis). The Corporation, CDC and the Dome Group have agreed, subject to certain conditions, to enter into an agreement (the Shareholders' Agreement), on closing, which will provide for certain mutual rights and obligations between the principal shareholders, provide a right of first refusal in the event of proposed cash sales of securities of the Corporation, provide for voting restrictions and for representation by three nominees of the Dome Group and CDC on the Board of Directors of the Corporation (which Board has been increased from 12 to 15 as a result of the transaction).

The Purchase Agreement provides as a condition of closing that the shareholders of the Corporation will approve the transaction including the Purchase Agreement, the Shareholders' Agreement, the issuance of the Corporation's common shares and debentures to CDC and the election of three nominees of CDC to the Board of Directors. If the transaction is not approved by the shareholders the Purchase Agreement will terminate.

The excess of the purchase price paid by the Corporation over the carrying value of the net assets acquired (approximating $213 million) will be allocated to property, plant and equipment and other net tangible assets. This allocation is subject to revision based on a final determination of the fair values of the assets and liabilities.

In view of the size of the transaction and its importance to the Corporation, the shareholders have been asked to approve the transaction at a special shareholders' meeting. Following the completion of the transaction and the issuance of the convertible debentures, the Corporation will be restricted from incurring additional indebtedness under certain borrowing tests in its outstanding debentures and an agreement related to the financing of Falcondo. (See note 8B(ii), page 26.)

19. Subsequent events

(i) In January 1986, Falconbridge purchased an option to convert Cdn.$419.4 million into U.S.$300 million at the rate of U.S.$1.00 equals Cdn.$1.398. This option expires on March 11, 1986. Also, Falconbridge purchased a cross currency interest swap option which, if exercised, would obligate Falconbridge to pay interest at the fixed rate of 10.39% on Cdn.$420 million and entitle Falconbridge to receive interest at the six month LIBOR rate flat, as it varies from time to time, on the U.S. dollar equivalent of Cdn.$420 million as determined at the time the option is exercised. This option expires on March 6, 1986.

(ii) On January 16, 1986, Falconbridge announced that it had arranged to sell its entire holding of 3,331,203 common shares, representing 56.7% of the outstanding shares of Kiena Gold Mines Limited to Campbell Red Lake Mines Limited (Campbell). Campbell is a subsidiary of Dome Mines Limited. (See note 12, page 27). The transaction was completed on January 24, 1986 and resulted in cash proceeds of $86.6 million and a net after-tax profit of $42 million which will be reflected in the consolidated financial statements for 1986.

(iii) On January 28, 1986 the Corporation borrowed U.S.$100 million under the terms of a revolving term credit agreement.

(iv) On February 26, 1986 the Corporation received gross proceeds of $136,950,000 from the sale of 6,600,000 common shares at $20.75 per share. The costs of the issue, estimated to be $4,300,000, will be charged to retained earnings.

20. Segmented sales data

Falconbridge operates in one industry segment – mining, processing and marketing mineral products.

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

	1985		1984		1983	
	Amount (000's)	**%**	Amount (000's)	%	Amount (000's)	%
Europe	**$291,452**	**33**	$243,640	34	$177,586	29
U.S.A.	**256,657**	**29**	205,221	28	179,701	29
Others	**99,061**	**11**	91,198	12	78,335	13
*Total foreign	**647,170**	**73**	540,059	74	435,622	71
Canada	**243,077**	**27**	193,253	26	179,765	29
*World total	**$890,247**	**100**	$733,312	100	$615,387	100
*Includes sales by Canadian operations to foreign customers of	**$259,748**		$364,118		$282,707	

(b) Producing assets by geographic location are as follows:

	1985		1984	
	Property, plant and equipment (000's)	**Development and preproduction expenditures (000's)**	Property, plant and equipment (000's)	Development and preproduction expenditures (000's)
Canada	**$233,894**	**$200,262**	$208,846	$165,383
Dominican Republic	**66,157**	**35,074**	68,058	34,707
Norway	**34,378**		28,182	
	$334,429	**$235,336**	$305,086	$200,090

(c) The following table shows sales revenues by product category.

	1985		1984		1983	
	Amount (000's)	**%**	Amount (000's)	%	Amount (000's)	%
CONSOLIDATED SUBSIDIARIES –						
* Integrated Nickel Operations and Corporate:						
Nickel	**$373,888**	**42**	$252,380	34	$212,420	35
Copper	**63,324**	**7**	62,536	9	46,924	8
Cobalt	**57,433**	**6**	32,968	4	12,030	2
Gold	**2,004**		4,797	1	2,902	
Silver	**740**		2,633		2,784	
Platinum	**5,008**	**1**	8,932	1	5,088	1
Palladium	**2,522**		4,661	1	3,146	1
Other revenues	**31,210**	**4**	29,000	4	27,685	4
	536,129	**60**	397,907	54	312,979	51
Other operations:						
Ferronickel	**160,375**	**18**	153,477	21	109,018	18
Copper	**40,326**	**5**	36,127	5	51,738	8
Zinc	**11,044**	**1**	14,647	2	3,775	1
Gold	**79,074**	**9**	62,006	8	59,179	10
Silver	**3,330**		3,885	1	5,013	1
Industrial minerals	**39,545**	**4**	43,042	6	42,512	6
Steel castings	**14,487**	**2**	16,317	2	12,906	2
Other metals and products	**5,937**	**1**	5,904	1	18,267	3
	354,118	**40**	335,405	46	302,408	49
Consolidated total	**$890,247**	**100**	$733,312	100	$615,387	100
**EQUITY ACCOUNTED FOR COMPANIES –						
Gold	**$ 66,908**	**85**	$ 61,598	82	$ 43,006	83
Silver	**10,919**	**14**	12,829	17	8,461	16
Lead	**490**	**1**	722	1	299	1
	$ 78,317	**100**	$ 75,149	100	$ 51,766	100

*Includes sales of purchased concentrates and metals of $207,112,000, $67,858,000 and $48,698,000 in 1985, 1984 and 1983 respectively.

**Includes Falconbridge Investments (Zimbabwe) (Private) Limited, wholly owned and accounted for on the cost basis but does not include amounts for companies principally involved in trading activities.

The 1985 revenues include $70,576,000, or 8% of the consolidated total, (1984 – $71,159,000, 10%; 1983 – $79,380,000, 13%) from sales by Corporation Falconbridge Copper to a single customer.

Notes to Segmented Information (unaudited)

The segmented information contained on pages 34 and 35, and the following notes, present a more detailed review of the various group operations. It should be read in conjunction with the preceding consolidated financial statements and notes thereto.

1. **Integrated Nickel Operations and Unallocated Corporate**

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

   The Integrated Nickel Operations' and the Corporation's Corporate financial position at December 31, 1985, includes identifiable assets of $38,075,000 in Norway (1984 – $31,058,000; and 1983 – $36,417,000).

2. **Consolidated adjustments**

   Adjustments have been made on consolidation as follows:

   (a) Falconbridge Dominicana, C. por A. (Falcondo)
   The ferronickel produced by Falcondo is purchased and marketed by the Corporation. The earnings of Falcondo include profits on all ferronickel sold to the Corporation whereas consolidated earnings exclude the profits relating to inventories of ferronickel held by the Corporation at December 31, for subsequent resale to customers.

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

3. **Market value of Falconbridge's shareholdings**

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

4. **Kiena Gold Mines Limited**

   During 1983 the company issued 1,000,000 common shares. Falconbridge did not purchase any of the shares and accordingly its percentage holding was diluted from 68.3% to 56.7%.

5. **Corporation Falconbridge Copper and Falconbridge Dominicana, C. por A.**

   During 1985 the Corporation acquired an additional 76,000 shares of Corporation Falconbridge Copper but did not participate in their flow-through share issue of 234,500 shares to now own 50.4% of the issued shares.

   During 1984 the Corporation acquired an additional 76,000 shares of Corporation Falconbridge Copper to own 50.8 per cent of the issued shares and an additional 40,776 shares of Falconbridge Dominicana, C. por A., to own 67.1 per cent of the issued shares.

6. **Indusmin Division**

   The 1985 results include the nepheline syenite operations of IMC Industry Group (Canada) Ltd. which was acquired in June 1985.

   In August 1984 the Corporation announced that it was making an offer to acquire, for $35 per share, all of the common shares of Indusmin Limited that it did not already own. By October 1, 1984 the Corporation owned 97.5 per cent of the outstanding shares. The offer expired on October 22, 1984 at which time the Corporation gave notice to Indusmin and the remaining shareholders that it had acquired, under Section 199 of the Canada Business Corporation Act, the shares not tendered. On May 31, 1985 Indusmin Limited became a division of the Corporation.

7. **Others from the segmented information on pages 34 and 35,**

   Revenues and net earnings (loss) related mainly to the operations of the Wesfrob Mining Division of the Corporation, which mined iron and copper in British Columbia before October 1983, when it ceased production because economic ore reserves were depleted.

   Property, plant and equipment, net, includes the costs relating to certain projects, the largest of which is New Quebec Raglan Mines, upon which further work has been suspended, see note 7(c)(ii), page 24.

8. Additional unaudited segmented information is included in the ten-year review, pages 38 and 39, and in the summary of 1985 and 1984 consolidated results by quarters, pages 36 and 37.

Segmented Information (Thousands of dollars)(unaudited)

December 31,	Integrated Nickel Operations	Unallocated Corporate	Corporation Falconbridge Copper	Falconbridge Dominicana, C. por A.	Indusmin Division	Kiena Gold Mines Limited	Others	Consolidation adjustments	Consolidated total
1985									
% ownership	(100%) (note 1)	(100%) (note 1)	(50.4%) (note 5)	(67.1%) (note 2)	(100%) (note 6)	(56.7%)	(note 7)	(note 2)	
Earnings									
Revenues	$531,497	$ 4,632	$102,811	$170,294	$60,780	$29,787	$ 4,297	$ (13,851)	**$890,247**
Operating expenses –									
Costs of metal and other product sales	411,048		86,198	133,123	44,359	16,778	2,940	(13,368)	**681,078**
Selling, general and administrative	27,275	6,852	1,445	8,689	7,315	886	669	(2,516)	**50,615**
Development and preproduction	19,065		4,953	2,029	32	4,129		(303)	**29,905**
Depreciation and depletion	18,673		6,153	8,393	2,924	2,091	186	520	**38,940**
Other charges	7,351			1,048			176	296	**8,871**
	483,412	6,852	98,749	153,282	54,630	23,884	3,971	(15,371)	**809,409**
Operating profit (loss)	48,085	(2,220)	4,062	17,012	6,150	5,903	326	1,520	**80,838**
Interest (net) and debt expenses	(18,231)	(9,271)	(6,578)	30,527	274	(401)		(3,661)	**(7,341)**
Exchange loss on early retirement of long-term debt	549	275							**824**
Exploration	3,624	12,272	10,210	108	172	1,127	14	6,896	**34,423**
Research and process development	4,379				227				**4,606**
	(9,679)	3,276	3,632	30,635	673	726	14	3,235	**32,512**
Earnings (loss) before investment income and taxes	57,764	(5,496)	430	(13,623)	5,477	5,177	312	(1,715)	**48,326**
Investment income (loss)		881						(2)	**879**
Earnings (loss) before taxes	57,764	(4,615)	430	(13,623)	5,477	5,177	312	(1,717)	**49,205**
Income and mining taxes	18,824	(4,930)	245		2,306	1,399	123	(6,325)	**11,64[illegible]**
Earnings (loss) for the year before other items	$ 38,940	$ 315	$ 185	$(13,623)	$ 3,171	$ 3,778	$ 189	$ 4,608	**$ 37,[illegible]**
Minority shareholders' interest in earnings (loss)			$ 1,040	$ (3,655)		$ 1,635			**$ (980)**
Falconbridge's interest in above earnings (loss) after consolidation adjustments (note 2) and before extraordinary items	$ 38,940	$ 315	$ 1,019	$ (7,148)	$ 3,086	$ 2,142	$ 189		**$ 38,543**
Financial Data (note 1):									
Working capital	$375,912		$ 79,403	$ 48,668	$26,467	$ 4,433	$ 761	$ (1,539)	**$534,105**
Property, plant and equipment									
Producing assets, at net book value	$362,393		$ 34,545	$103,185	$22,482	$45,488	$ 1,657	$ 15	**$569,765**
Non-producing assets, at cost less amounts written off	$ 9,746		$ 14,295		$ 657		$41,232	$ 5,662	**$ 71,592**
Long-term debt	$141,858			$283,235				$(141,123)	**$283,970**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND DEVELOPMENT AND PREPRODUCTION	$ 76,071		$ 9,831	$ 2,656	$ 3,485	$ 7,360	$ 309		**$ 99,712**
MARKET VALUE OF FALCONBRIDGE'S SHAREHOLDINGS (note 3)			$102,457			$84,113	$11,271		**$197,841**
PRINCIPAL LOCATION OF ASSETS	Ontario, Bermuda and Norway		Quebec	Dominican Republic	Ontario, Quebec and U.S.A.	Quebec			
PRINCIPAL PRODUCTS	Nickel, Copper and Cobalt		Copper, Zinc and precious metals	Ferronickel	Industrial minerals and metal castings	Gold			
MAJOR MARKETS FOR PRINCIPAL PRODUCTS	The Americas, Europe and Asia		Canada and Europe	The Americas, Europe and Asia	Canada and U.S.A.	Canada			

(See notes to segmented information, page 33)

...idated total	Integrated Nickel Operations (100%) (note 1)	Unallocated Corporate (100%) (note 1)	Corporation Falconbridge Copper (50.8%) (note 5)	Falconbridge Dominicana, C. por A. (67.1%) (notes 2 and 5)	Indusmin Division (100%) (note 6)	Kiena Gold Mines Limited (56.7%)	Others (note 7)	Consolidation adjustments (note 2)	Consolidated total
	1984								
247	$393,478	$ 4,429	$86,105	$157,703	$65,788	$30,560	$ 3,602	$ (8,353)	**$733,312**
078	258,714		73,540	123,674	46,830	19,582	2,049	(3,602)	**520,787**
615	24,492	6,161	2,077	14,789	7,004	866	424	(5,795)	**50,018**
905	17,254		3,517	1,924	31	1,345		(403)	**23,668**
940	17,002		3,294	8,836	2,677	1,295	150	105	**33,359**
871	6,976		394				1,069		**8,439**
409	324,438	6,161	82,822	149,223	56,542	23,088	3,692	(9,695)	**636,271**
838	69,040	(1,732)	3,283	8,480	9,246	7,472	(90)	1,342	**97,041**
341)	(9,350)	930	(6,562)	17,846	(1,861)	(1,198)		4,117	**3,922**
824	9,873	4,937							**14,810**
423	1,677	11,228	9,993	94	132	804			**23,928**
606	2,952				288				**3,240**
512	5,152	17,095	3,431	17,940	(1,441)	(394)		4,117	**45,900**
326	63,888	(18,827)	(148)	(9,460)	10,687	7,866	(90)	(2,775)	**51,141**
879		(664)							**(664)**
205	63,888	(19,491)	(148)	(9,460)	10,687	7,866	(90)	(2,775)	**50,477**
642	20,025	(4,598)	(1,039)		4,337	3,538		(102)	**22,161**
563	[illegible]63	$(14,893)	$ 891	$ (9,460)	$ 6,350	$ 4,328	$ (90)	$ (2,673)	**$ 28,316**
980)			$ 440	$ (3,923)	$ 1,230	$ 1,875			**$ (378)**
543	$ 43,863	$(14,893)	$ 499	$ (7,241)	$ 4,102	$ 2,454	$ (90)		**$ 28,694**
05	$283,178		$68,302	$ 42,864	$21,010	$ 2,671	$ 228	$ (3,592)	**$414,661**
65	$329,479		$ 9,986	$105,022	$17,836	$42,605	$ 1,561	$ (1,313)	**$505,176**
592	$ 5,148		$41,105		$ 638	$ 4,109	$43,638	$ 5,743	**$100,381**
970	$143,694			$258,993	$17,000	$ 807	$ 61	$(136,713)	**$283,842**
712	$ 45,278		$31,861	$ 2,322	$ 2,773	$18,014	$ 2,512		**$102,760**
341			$94,669			$57,047	$14,202		**$165,918**
	Ontario, Bermuda and Norway		Quebec	Dominican Republic	Ontario, Quebec and U.S.A.	Quebec			
	Nickel, Copper and Cobalt		Copper, Zinc and precious metals	Ferronickel	Industrial minerals and metal castings	Gold			
	The Americas, Europe and Asia		Canada and Europe	The Americas, Europe and Asia	Canada and U.S.A.	Canada			

Integrated Nickel Operations (100%) (note 1)	Unallocated Corporate (100%) (note 1)	Corporation Falconbridge Copper (50.2%)	Falconbridge Dominicana, C. por A. (65.7%) (note 2)	Indusmin Division (70.8%)	Kiena Gold Mines Limited (56.7%) (note 4)	Others (note 7)	Consolidation adjustments (note 2)	Consolidated total
1983								
$309,979	$ 3,000	$ 84,230	$114,415	$60,315	$31,522	$19,434	$ (7,508)	**$615,387**
258,832		73,455	109,938	40,978	18,327	14,696	(6,273)	**509,953**
22,192	6,033	1,917	8,757	7,031	964	588	(4,712)	**42,770**
11,690		2,921	1,832	32	832		(422)	**16,885**
15,596		2,712	8,508	2,793	778	1,993	257	**32,637**
11,479		1,511				3,469	805	**17,264**
319,789	6,033	82,516	129,035	50,834	20,901	20,746	(10,345)	**619,509**
(9,810)	(3,033)	1,714	(14,620)	9,481	10,621	(1,312)	2,837	**(4,122)**
(831)	(431)	(8,506)	25,915	(75)	23	157	3,716	**19,968**
2,243	1,121							**3,364**
1,180	5,165	11,682	240	108	150	440		**18,965**
3,189				205				**3,394**
5,781	5,855	3,176	26,155	238	173	597	3,716	**45,691**
(15,591)	(8,888)	(1,462)	(40,775)	9,243	10,448	(1,909)	(879)	**(49,813)**
	6,277							**6,277**
(15,591)	(2,611)	(1,462)	(40,775)	9,243	10,448	(1,909)	(879)	**(43,536)**
(8,825)	587	(1,423)		4,183	4,700	62	(100)	**(816)**
$ (6,766)	$(3,198)	$ (39)	$ (40,775)	$ 5,060	$ 5,748	$ (1,971)	$ (779)	**$ (42,720)**
		$ (19)	$ (14,396)	$ 1,475	$ 1,629			**$ (11,311)**
$ (6,766)	$(3,198)	$ 28	$ (27,071)	$ 3,533	$ 4,036	$ (1,971)		**$ (31,409)**
$309,476		$ 91,014	$ 34,411	$20,855	$12,697	$ 3,697	$ 18	**$472,168**
$224,290		$ 16,174	$107,415	$17,723	$26,508	$ 2,397	$ (4,920)	**$389,587**
$104,592		$ 9,895		$ 638	$ 4,912	$41,832	$ 5,663	**$167,532**
$345,805			$234,992	$ 1,200	$ 3,228	$ 3,529	$(102,619)	**$486,135**
$ 26,938		$ 11,054	$ 22	$ 1,386	$ 6,454	$ 595		**$ 46,449**
		$123,684		$19,029	$79,949	$22,812		**$245,474**
Ontario, Bermuda and Norway		Quebec	Dominican Republic	Ontario, Quebec and U.S.A.	Quebec			
Nickel, Copper and Cobalt		Copper, Zinc and precious metals	Ferronickel	Industrial minerals and metal castings	Gold			
The Americas, Europe and Asia		Canada and Europe	The Americas, Europe and Asia	Canada and U.S.A.	Canada			

Summary of 1985 and 1984 consolidated results by quarters (Unaudited)(000's omitted except per share data)

	Three month period ended March 31	June 30	Sept. 30	Dec. 31	1985 (note 1) Year
Metal sales (pounds):					
Integrated Nickel Operations (note 6) –					
Nickel	28,914	31,599	24,659	35,200	120,372
Copper	17,700	16,523	19,294	18,719	72,236
Cobalt	853	868	1,037	1,053	3,811
Corporation Falconbridge Copper –					
Copper	13,278	10,896	10,066	10,628	44,868
Gold and silver revenues	$ 12,180	$ 12,428	$ 12,564	$ 14,269	$ 51,441
Falconbridge Limited –					
Ferronickel	13,352	13,863	12,244	12,731	52,190
Inventories of finished nickel – all forms (pounds)	35,181	39,619	43,549	34,001	34,001
Earnings:					
Revenues	$216,299	$245,063	$205,943	$222,942	$890,247
Interest, investment and other income, net	10,625	12,505	13,265	11,864	48,259
	226,924	257,568	219,208	234,806	938,506
Costs other than the undermentioned	171,999	202,798	173,409	183,487	731,693
Depreciation, depletion, development and preproduction	15,940	17,625	17,572	17,708	68,845
Exploration, research and process development	8,439	9,012	8,470	13,108	39,029
Interest and debt expenses	10,857	9,049	9,612	10,521	40,039
Foreign exchange loss on early retirement of long-term debt	753	2	12	57	824
Other charges			6,583	2,288	8,871
Income and mining taxes	7,139	4,626	(803)	680	11,642
Minority interest in earnings (losses) of subsidiaries	(431)	(584)	678	(643)	(980)
	214,696	242,528	215,533	227,206	899,963
Earnings for the period before extraordinary items	12,228	15,040	3,675	7,600	38,543
Extraordinary items (note 3)					
Earnings	$ 12,228	$ 15,040	$ 3,675	$ 7,600	$ 38,543
Earnings (loss) per share:					
Before extraordinary items	$ 0.30	$ 0.37	$ 0.09	$ 0.19	$ 0.95
Extraordinary items					
For the period (note 4)	$ 0.30	$ 0.37	$ 0.09	$ 0.19	$ 0.95
Earnings (loss) contributions:					
Corporation Falconbridge Copper	$ (269)	$ (250)	$ 931	$ 607	$ 1,019
Falconbridge Dominicana, C. por A.	(1,192)	(1,873)	(726)	(3,357)	(7,148)
Giant Yellowknife Mines Limited	163	281	334	379	1,157
Indusmin Division	(279)	1,186	921	1,258	3,086
Kiena Gold Mines Limited	589	800	194	559	2,142
United Keno Hill Mines Limited	(745)	86	(378)	(527)	(1,564)
Other controlled companies	12	(71)	180	1,511	1,632
	(1,721)	159	1,456	430	324
Wesfrob Mining Division				(155)	(155)
Integrated Nickel Operations, net of allocated Corporate costs	14,541	13,811	2,023	8,565	38,940
Unallocated Corporate costs, net (note 5)	(592)	1,070	196	(1,240)	(566)
Earnings (loss) for the period before extraordinary items	$ 12,228	$ 15,040	$ 3,675	$ 7,600	$ 38,543
Market price and dividend information about the Corporation's shares					
Sales prices for common shares –					
High ($)	20.00	21.13	21.50	21.00	
Low ($)	16.00	18.25	17.50	15.50	
Dividends Paid	Nil	Nil	Nil	Nil	

				1984
Three month period ended				(note 2)
March 31	June 30	Sept. 30	Dec. 31	Year
20,041	22,711	18,555	25,601	86,908
21,795	19,278	16,885	23,039	80,997
613	574	835	721	2,743
12,781	11,731	9,910	11,758	46,180
$ 9,663	$ 9,459	$ 7,624	$ 8,585	$ 35,331
12,253	12,959	14,030	13,089	52,331
25,988	28,776	30,623	33,179	33,179
$168,188	$187,696	$173,007	$204,421	$733,312
15,312	15,673	12,475	8,970	52,430
183,500	203,369	185,482	213,391	785,742
135,978	141,646	132,638	160,543	570,805
13,700	14,296	16,496	12,535	57,027
4,730	4,764	7,766	9,908	27,168
16,053	16,598	13,213	11,152	57,016
	8,097	5,839	874	14,810
	3,456	2,399	2,584	8,439
5,888	6,381	2,726	7,166	22,161
(760)	(219)	1,003	(402)	(378)
175,589	195,019	182,080	204,360	757,048
7,911	8,350	3,402	9,031	28,694
	23,133	28,359		51,492
$ 7,911	$ 31,483	$ 31,761	$ 9,031	$ 80,186
$ 0.22	$ 0.23	$ 0.10	$ 0.25	$ 0.80
	0.64	0.79		1.43
$ 0.22	$ 0.87	$ 0.89	$ 0.25	$ 2.23
$ 471	$ 43	$ 94	$ (109)	$ 499
(3,145)	(2,559)	602	(2,139)	(7,241)
111	(82)	101	232	362
436	1,427	1,086	1,153	4,102
403	714	276	1,061	2,454
207	(366)	(1,925)	(1,205)	(3,289)
581	962	229	1,278	3,050
(936)	139	463	271	(63)
(230)	(255)	(389)	(50)	(924)
10,444	12,486	11,387	9,546	43,863
(1,367)	(4,020)	(8,059)	(736)	(14,182)
$ 7,911	$ 8,350	$ 3,402	$ 9,031	$ 28,694
14.85	14.30	16.00	17.60	
12.30	11.60	11.15	15.65	
Nil	Nil	Nil	Nil	

Notes:

1. The major factor relating to the decline in the earnings of the Integrated Nickel Operations was the writedown in the valuation of the purchased product inventory. However, the effect of the writedown was reduced due to slightly higher realized prices in Canadian dollars for nickel, copper and cobalt along with higher sales volumes. The major reasons for the decline in Unallocated Corporate costs, net, relates to the large reduction in interest expense due to the repayment of a portion of the long-term debt in 1984, increased interest income due to higher cash balances net of large exchange losses on the early repayment of long-term debt in 1984.
2. The major factors contributing to the improvement in earnings over 1983 results (a loss of $31,409,000) were reductions in the cost of production, higher nickel and cobalt prices received by the Corporation and increased sales volumes. Lower copper and precious metals prices, however, offset this gain to a certain extent.
3. See note 2, page 21, of the notes to the consolidated financial statements.
4. Based on the weighted average number of shares outstanding during the year. Earnings per share and share amounts have been adjusted to reflect the share split (see note 9(b)(i), page 26).
5. Unallocated Corporate shown in the segmented information, page 34, for 1985, is after reflecting the interest in earnings, before extraordinary items, of significantly influenced companies, which are accounted for on the equity basis (Giant Yellowknife Mines Limited, earnings – $1,157,000; United Keno Hill Mines Limited, loss – $1,564,000, included herein with "other controlled companies", earnings – $236,000), and dividends of $1,052,000 included herein with "other controlled companies".
6. Includes metals refined and sold as agent and metals purchased for resale.

Ten-Year Review (unaudited)

		1985	198
Revenues and Earnings (Loss) ($000's except per share data)	Revenues	**890,247**	733,312
	Earnings (loss) before extraordinary items	**38,543**	28,694
	Per common share (note 1)	**0.95**	0.80
	Extraordinary items		51,492
	Per common share (note 1)		1.43
Earnings (Loss) Contributions – after consolidation adjustments, before extraordinary items ($000's)	Corporation Falconbridge Copper	**1,019**	499
	Falconbridge Dominicana, C. por A.	**(7,148)**	(7,241)
	Giant Yellowknife Mines Limited	**1,157**	362
	Indusmin Division	**3,086**	4,102
	Integrated Nickel Operations	**38,940**	43,863
	Kiena Gold Mines Limited	**2,142**	2,454
	Oamites Mining Company (Proprietary) Limited (note 2)		
	United Keno Hill Mines Limited	**(1,564)**	(3,289)
	Wesfrob Mining Division	**(155)**	(924)
	Unallocated Corporate (note 3)	**(566)**	(14,182)
	Others	**1,632**	3,050
	Earnings (loss) before extraordinary items	**38,543**	28,694
Financial Position ($000's)	Total assets	**1,351,378**	1,165,550
	Working capital –		
	Integrated Nickel Operations (note 4)	**375,999**	283,441
	Falconbridge Dominicana, C. por A.	**48,668**	42,864
	Corporation Falconbridge Copper	**79,403**	68,302
	Consolidated total	**534,105**	414,661
	Property, plant, and equipment, net –		
	Producing	**569,765**	505,176
	Non-producing	**71,592**	100,381
	Long-term debt	**283,970**	283,842
	Deferred exchange loss	**10,399**	1,893
Shareholders' Data	Shareholders' equity (000's)	**$ 786,185**	635,994
	Amount per common share (note 1)	**$ 18.76**	17.58
	Dividends paid per common share (note 1)	**$**	
	Number of common shares issued at end of year (notes 1 and 5) (000's)	**41,894**	36,335
	Number of common shareholders	**4,579**	4,31
	Toronto Stock Exchange quotes, (TSE) High (note 1)	**$ 21.50**	17.60
	Low (note 1)	**$ 15.50**	11.15
	Close (note 1)	**$ 20.50**	15.90
	Volume of shares traded on TSE (000's) (note 1)	**15,210**	9,695
	Volume of warrants traded on TSE (000's)	**1,634**	1,012
	Preference shares (000's)	**$**	
	Dividends paid per preference share	**$**	
Exploration, Research and Process Development ($000's)	Exploration	**34,423**	23,928
	Research and process development	**4,606**	3,240
Capital Expenditures ($000's)	Expenditures on property, plant, equipment, development and preproduction –		
	Integrated Nickel Operations (note 4)	**76,071**	45,278
	Corporation Falconbridge Copper	**9,831**	31,861
	Consolidated total	**99,712**	102,760
Metal Sales (000's pounds)	Integrated Nickel Operations –		
	Nickel (note 6)	**120,372**	86,908
	Copper (note 6)	**72,236**	80,997
	Falconbridge Limited –		
	Nickel in ferronickel (note 7)	**52,190**	52,331
	Corporation Falconbridge Copper –		
	Copper	**44,868**	46,180
	Zinc	**19,857**	23,707
Ore Reserves (000's tons)	Falconbridge Limited	**63,649**	69,491
	Falconbridge Dominicana, C. por A.	**30,700**	41,310
	Corporation Falconbridge Copper (note 8)	**2,485**	3,586

Notes:
1. Per share amounts and the number of shares outstanding and traded have been adjusted to reflect the division of the common shares on a five-for-one basis which took effect at the close of business May 3, 1985.
2. Investment sold in 1982.
3. Before interest in earnings of equity accounted for companies.
4. Includes both the Integrated Nickel Operations and Corporation's Corporate operations, see note 1, page 33, of the notes to segmented information.
5. Includes shares held by consolidated subsidiaries.
6. Includes metals refined and sold as agent and metals purchased for resale.
7. Ferronickel sales to customers, see note 2, page 33, of the notes to segmented information.
8. Does not include drill indicated reserves at the Ansil, Lac Shortt and Winston Lake deposits.

34	1983	1982	1981	1980	1979	1978	1977	1976
12	615,387	483,126	712,952	757,815	789,418	508,211	381,684	483,480
94	(31,409)	(81,279)	1,443	74,980	105,163	14,878	(18,629)	16,150
30	(0.93)	(3.26)	0.06	2.75	3.99	0.41	(0.82)	0.65
92	14,816		(5,122)	37,700	6,131		20,238	
43	0.44		(0.21)	1.51	0.25		0.82	
99	28	(1,012)	266	15,152	23,277	7,498	2,913	1,637
41)	(27,071)	(44,071)	(21,316)	(5,378)	3,496	(7,670)	2,399	9,033
62	806	135	161	1,150	1,492	613	368	(137)
02	3,533	882	2,037	2,398	2,714	2,027	1,251	2,019
63	(6,766)	(20,223)	38,191	61,917	58,005	16,879	(10,883)	6,206
54	4,036	2,647	6					
		(434)	(593)	909	1,360	405	(336)	128
89)	721	(2,615)	(1,488)	3,718	10,035	1,825	1,168	841
24)	(1,909)	(214)	(1,089)	1,503	4,597	551	(2,211)	(337)
32)	(5,054)	(15,373)	(12,734)	(5,275)	(585)	(7,315)	(16,284)	(5,765)
50	267	(1,001)	(1,998)	(1,114)	772	65	2,986	2,525
94	(31,409)	(81,279)	1,443	74,980	105,163	14,878	(18,629)	16,150
50	1,262,579	1,165,235	1,335,255	1,231,341	1,129,110	939,976	934,037	764,485
41	309,118	248,936	375,132	237,688	264,798	200,597	204,202	116,345
64	34,411	25,237	35,226	52,144	56,030	44,578	42,785	37,410
02	91,014	101,133	103,703	106,983	85,194	45,525	32,696	24,409
61	472,168	407,035	540,053	418,400	424,845	306,006	290,743	188,036
76	389,587	415,231	437,591	408,949	380,960	387,539	313,455	250,750
31	167,532	144,340	128,525	115,632	105,747	89,092	150,380	167,672
42	486,135	502,262	490,295	315,311	315,094	328,570	306,580	221,995
93	9,299	12,598	7,223	8,743	9,577	12,537	6,615	922
94	532,285	445,040	523,271	534,954	519,199	429,402	414,472	337,861
58	15.24	17.84	20.95	21.42	20.79	17.22	16.67	13.62
			0.30	0.70	0.60		0.10	0.20
5	35,140	25,124	25,124	25,124	25,124	25,122	25,050	25,043
4	4,762	5,169	5,542	5,908	7,362	8,351	9,150	9,788
0	17.60	14.75	23.20	32.20	18.35	7.25	7.95	9.00
5	9.48	6.50	11.40	15.80	6.40	3.33	3.30	5.85
0	14.20	9.70	14.80	20.50	18.30	6.50	4.15	7.10
5	15,440	6,640	6,180	14,100	10,750	7,115	3,020	2,820
2	1,913							
					75,000	75,000	75,000	
				2.158	1.970	1.577	0.564	
28	18,965	28,806	37,964	28,284	14,297	7,662	9,726	8,325
0	3,394	5,769	11,105	6,636	3,960	3,086	3,844	3,769
8	26,938	34,401	70,927	64,946	37,008	30,429	63,762	33,201
1	11,054	5,368	8,119	9,306	10,489	8,543	7,720	10,775
0	46,449	46,122	104,817	90,995	58,352	42,964	81,701	50,252
8	85,412	57,718	65,629	59,771	89,649	74,884	34,887	83,615
7	56,680	51,482	59,412	57,352	44,733	32,076	44,949	36,081
1	45,058	18,327	43,776	34,567	47,628	43,477	43,394	59,781
0	55,305	52,642	56,324	69,172	83,547	87,555	92,369	82,939
7	6,926	2,538	7,591	50,984	91,710	85,337	89,032	73,430
1	73,628	77,314	79,161	78,649	75,771	78,808	80,670	83,405
0	43,659	45,955	63,800	66,000	68,700	68,500	70,000	72,500
6	3,496	4,799	5,654	6,725	8,565	9,235	8,653	7,187

Analysis of Financial Condition

Liquidity and Capital Resources

On December 31, 1985, working capital amounted to $534,105,000, an increase of $119,444,000 from a year earlier. The overall increase in working capital is primarily due to increases of $92,558,000 in the Integrated Nickel Operations (INO) and Unallocated Corporate (from $283,441,000 to $375,999,000); $1,762,000 in Kiena Gold Mines Limited (from $2,671,000 to $4,433,000); $11,101,000 in Corporation Falconbridge Copper (from $68,302,000 to $79,403,000); and $5,802,000 in Falconbridge Dominicana, C. por A. (from $42,866,000 to $48,668,000).

Cash and temporary investments of $310,602,000 have increased to 47 per cent of current assets at the end of 1985, up from $190,374,000 or 37 per cent of current assets at the end of 1984. The $120,228,000 increase includes: An increase in the Integrated Nickel Operations and Unallocated Corporate of $105,056,000 (from $118,975,000 to $224,031,000); a decrease in the Indusmin Division of $3,098,000 (from $3,437,000 to $339,000); an increase in Kiena Gold Mines Limited of $643,000 (from $2,569,000 to $3,212,000); and an increase in Corporation Falconbridge Copper of $20,221,000 (from $46,095,000 to $66,316,000).

Transactions which reduced Falconbridge's cash included: $12,923,000 for the repayment of long-term debt; $43,476,000 for expenditures on property, plant and equipment; $56,236,000 for development and preproduction expenditures; and $7,867,000 for investment in subsidiary companies.

Items which increased Falconbridge's cash included: $126,812,000 generated from operating activities; $111,227,000 from the issue of units and common shares; and $4,033,000 from the proceeds of sale of fixed assets.

Expenditures for the INO in 1986 for capital, preproduction and development are expected to be approximately $77,000,000 at the Sudbury operations and $38,000,000 at the Norwegian refinery, all of which the Corporation intends to finance from internal sources.

Since July 1980, the Corporation and the other sponsor have been required by the provisions of financing agreements to meet the cash deficiencies of Falconbridge Dominicana, C. por A. (Falcondo). To the end of 1985, the total cash provided to Falcondo (translated at 1985 year end rates of exchange) has amounted to $163,088,000, of which $3,041,000 was provided in 1985, $5,873,000 in 1984, and $41,949,000 in 1983. The Corporation is required to provide 60 per cent of the cash to meet these requirements. It is anticipated cash deficiencies could continue in 1986 and that additional advances may be required by Falcondo; however, recent cost-management measures combined with productivity improvements and favourable exchange rates will keep any such payments to a minimum.

At December 31, 1985 the Corporation had available long-term lines of credit and operating lines of credit as shown in note 15 on page 28.

Restrictions contained in the Indenture with respect to the Corporation's 8.85 per cent sinking fund debentures and an agreement entered into by the Corporation in connection with the financing of Falcondo prohibit the Corporation from defined borrowings in excess of 45 per cent of its defined net tangible assets. At December 31, 1985, the Corporation had available borrowing capacity of approximately $503 million. When the purchase of Kidd Creek is completed and the Debentures are issued, the Corporation and certain of its subsidiaries will be unable to incur additional debt under the foregoing restrictions. In light of the Corporation's current and anticipated cash resources and the amount outstanding under the foregoing indebtedness, management does not believe that this limitation on the Corporation's borrowing capacity will adversely affect its operations. However, if necessary the Corporation may pursue a number of alternatives, including accelerated repayment of its outstanding debentures and Falcondo related indebtedness, further borrowings to the extent permitted by borrowing covenants, the sale of assets, or the public or private sale of common or preference shares. Any sale of voting shares during the period ended March 1, 1988 will require prior approval of the Canada Development Corporation, Dome Mines Limited and McIntyre Mines Limited.

Analysis of Results of Operations

The details of the 1985, 1984 and 1983 contributions to consolidated earnings (loss) are shown in the Ten-Year Review, pages 38 and 39.

The 1985 earnings of the INO were $38,940,000 compared with $43,863,000 in 1984. Revenues and cost of sales both increased significantly due to the sales volumes of purchased products. Realized metal prices in Canadian dollars for nickel, copper and cobalt increased over 1984. The major reason for the decline relates to the writedown in the valuation of the purchased product inventory, being the difference between the cost of the product and its net realizable value.

The 1984 earnings of the INO of $43,863,000 compared with a loss of $6,766,000 in 1983. The improvement in results is largely due to improvements in the cost of production.

Unallocated Corporate costs, net, were $566,000 compared with $14,182,000 in 1984. The significant decline in these costs relates to the large reduction in interest expense due to the repayment of the long-term debt in 1984 (using the proceeds from the sale of the shares of Superior), increased interest income due to higher cash balances net of large exchange losses on the early repayment of the long-term debt in 1984.

Unallocated Corporate costs, net, were $14,182,000 in 1984, compared with $5,054,000 in 1983. The major reasons for the increase were the increased exploration expenditures under the flow-through share program and the 1984 exchange loss on the early retirement of long-term debt.

The interest in the 1985 earnings of Corporation Falconbridge Copper (CFC) was $1,019,000 compared with an earnings contribution of $499,000 in 1984. The 1985 contribution was favourably affected by the Corporation's share ($960,000) of CFC's favourable tax reassessment. Revenues from operations increased over 1984 due to the commencement of commercial production of the Lac Shortt Division. However the increased operating profit was adversely affected by increased writeoffs of development and preproduction, depreciation charges and increased exploration expenditures under the flow-through share program. The interest in the 1984 earnings of CFC was $499,000 compared with an earnings contribution of $28,000 in 1983. The improved results in 1984 related to reduced expenditures on exploration and development and lower operating costs which were partially offset by lower operating revenues and reduced investment income.

The Corporation's share of Falcondo's losses was $7,148,000 in 1985 compared with $7,241,000 in 1984. Sales volumes declined slightly in 1985 but the realized average price per pound of ferronickel in Canadian dollars increased slightly. The 1985 results were adversely affected by shutdown costs incurred during a temporary curtailment of operations. The shutdown, which commenced December 20, 1985, lasted until January 27, 1986 and allowed Falcondo to take advantage of the Christmas period to carry out needed plant maintenance and ore development in conjunction with the scheduled changeover of melting furnaces. Production costs are being continually monitored but an increase in realized selling prices is required in order to improve operating results. The Corporation's share of the 1984 loss of Falcondo, was $7,241,000 compared with $27,071,000 in 1983. The improvement in the 1984 results was due to lower production costs, the sale of excess electrical power and favourable exchange rates.

The interest in the 1985 earnings of Giant Yellowknife Mines Limited was $1,157,000 compared with $362,000 in 1984. Increased bullion production during the year offset a decline in gold prices. The interest in the 1984 earnings of Giant Yellowknife Mines Limited was reduced to $362,000, compared with $806,000 in 1983 largely due to lower gold prices.

The interest in the 1985 earnings of the Indusmin Division was $3,086,000 compared with $4,102,000 in 1984. The reduction in the operating earnings relates to lower sales volumes. The interest in the 1984 earnings of the Indusmin Division was $4,102,000, compared with $3,533,000 in 1983. The major reason for the increase in the 1984 contributions was due to the increased level of ownership.

The interest in the 1985 earnings of Kiena Gold Mines Limited (Kiena) was $2,142,000 compared with $2,454,000 in 1984. The decline in earnings is due primarily to the decline in the selling price realized for gold. The interest in the 1984 earnings of Kiena was $2,454,000, compared with $4,036,000 in 1983. The decline was mainly due to a lower average gold price and the decreased 1984 ownership caused by Kiena's 1983 common share issue.

The Corporation's share of the losses of United Keno Hill Mines Limited was $1,564,000 in 1985 compared with $3,289,000 in 1984. The 1985 share of the loss includes a gain of $960,000 relating to the Corporation's share of damages plus accrued interest in an action for breach of contract against a customer. The 1985 results were adversely affected by the decline in the realized silver price. The Corporation's interest in the 1984 loss of United Keno Hill Mines Limited was $3,289,000, compared with an earnings contribution of $721,000 in 1983. The decrease in the contribution was largely due to lower silver prices and increased exploration expenditures.

See pages 33 to 35 for certain segmented data. Further discussions and analysis of results of operations of the Corporation and its operating subsidiaries are also contained throughout the annual report.

The Impact of Inflation

The data on page 42, prepared in accordance with the Canadian Institute of Chartered Accountants (CICA) recommendations, provides estimates of the impact on the financial position and operating results of Falconbridge of changes in prices of specific goods and services purchased, produced and used by Falconbridge (current cost data) and changes in the general purchasing power of the dollar (general inflation – as measured by the Canadian Consumer Price Index, base 1971 – 100).

The current cost amounts are based on judgments by management involving choices of methods within the CICA recommendations. As such the estimates and judgments may differ from those chosen by other companies and may not represent the actual costs that would be incurred if the related assets were to be, or could be, replaced. No comparisons of the adjusted costs of property, plant and equipment, development and preproduction expenditures were made with a prediction of the current worth of the net amount of cash expected to be recoverable from the use or sale of these assets because such a comparison would involve the use of highly subjective estimates and forecasts. The disclosure of current cost amounts does not necessarily indicate Falconbridge's intention to replace existing assets.

Discussion

The earnings statement items which are affected most by changing prices are cost of sales and depreciation, depletion and amortization of fixed assets. These items have been adjusted for the impact of current costs while income taxes have not.

To arrive at current cost of inventories, the most recent production costs were used for estimating the value of metal inventories. The replacement costs for supplies inventories were based on current acquisition costs. Methods used to derive the current cost of property, plant and equipment include applying current costs per unit of production, preparing engineering estimates of replacement costs and using indices published by government and private organizations. Development and preproduction expenditure estimates were based on similar methods. The related depreciation, depletion and amortization amounts were based upon the expired service potential as determined from the historic cost records.

The 1985 consolidated profit of $39 million decreased to a loss of $44 million when adjusted to reflect current costs. Inventories increased by $19 million to $200 million on a current cost basis. The depreciation, depletion and amortization increase for 1985 relates to net property, plant, equipment, development and preproduction values of $1,189 million expressed on a current cost basis compared to $641 million in historical dollars.

Because Falconbridge is partly financed by borrowed funds, a financing adjustment is required. This adjustment provides a measure of the increases in current costs that are financed by debt, based on the debt-to-equity ratio.

Supplementary Information (unaudited)

	1985			1984 (ii)		
	Integrated Nickel Operations and Corporate (millions)	Other Operations (millions)	Consolidated total (millions)	Integrated Nickel Operations and Corporate (millions)	Other Operations (millions)	Consolidated total (millions)
Earnings (loss):						
Earnings (loss) before extraordinary items	$ 39	$	$ 39	$ 30	$	$ 30
Adjustments to restate historical costs to current costs —						
Cost of sales	6	(13)	(7)	2		2
Depreciation, depletion and amortization (increase)	(49)	(27)	(76)	(52)	(32)	(84)
Earnings (loss) before extraordinary items, adjusted for changes in cost	$ (4)	$ (40)	$ (44)	$ (20)	$ (32)	$ (52)
Asset Values:						
1. Carrying value, at December 31						
(a) Inventories —						
Historic cost, as reported	$ 145	$ 36	$ 181	$ 136	$ 35	$ 171
Current cost basis	160	40	200	136	42	178
(b) Net property, plant and equipment (i)						
Historic cost, as reported	$ 373	$ 268	$ 641	$ 347	$ 281	$ 628
Current cost basis	695	494	1,189	720	552	1,272
(c) Net assets (common shareholders' equity) —						
Historic cost, as reported			$ 786			$ 659
Current cost basis			1,353			1,311
2. Increase (decrease) during the year in the current cost amounts of inventory and property, plant and equipment (i)	$ 33	$ 27	$ 60	$ 14	$ 41	$ 55
Effect of general inflation	31	24	55	35	28	63
Excess of increase (decrease) in current cost over the effect of general inflation	$ 2	$ 3	$ 5	$ (21)	$ 13	$ (8)
Other Data:						
1. Financing adjustment on current cost increases of inventory and property, plant and equipment (i)			$ 2			$ 2
Financing adjustment based on the current cost adjustments made to earnings (loss) during the year			$ 2			$ 7
2. General purchasing power gain (loss) on net monetary liabilities (assets)	$ 2	$ (2)	$ 0	$ (3)	$ (2)	$ (5)

(i) Net property, plant and equipment includes development and preproduction expenditures.

(ii) The 1984 asset and liability values have been restated in December 1985 dollars. Income statement amounts have been restated at the average rate for 1985 dollars.

Information relating to ore reserves can be found in other sections of the Annual Report.

Pro Forma Financial Information (unaudited)

Pro Forma Condensed Consolidated Capitalization
(unaudited)

The following pro forma condensed consolidated capitalization table gives effect to the purchase of Kidd Creek and related financing transactions. This table is prepared assuming that the transaction, accounted for as a purchase and related financing transactions, occurred at December 31, 1985. The table should be read in conjunction with the pro forma financial statements and accompanying notes and the consolidated financial statements including notes thereto of Falconbridge included elsewhere in this Annual Report.

	Historical		Purchase transaction		Related financings	Pro Forma
	Falconbridge	Kidd Creek	Add (Deduct)	Subtotal	Add (Deduct)	Consolidated
			(Dollars in Thousands)			
Current portion of long-term debt	$ 14,274	$ 56,609		$ 70,883		$ 70,883
Long-term debt (excluding current maturities):						
Falconbridge Limited and its wholly-owned subsidiaries	141,858			141,858	$140,000 (4)	281,858
Falconbridge Dominicana, C. por A.	142,112			142,112		142,112
Advances under long-term silver contract		85,017		85,017		85,017
Bank loans		658,162		658,162		658,162
8.5% convertible debentures			$ 270,765 (1)	270,765		270,765
Total long-term debt	283,970	743,179	270,765	1,297,914	140,000	1,437,914
Shareholders' equity:						
Common stock – issued	318,512 (3)		204,235 (1)	522,747	136,950 (5)	659,697
– to be issued	2,541			2,541		2,541
Shareholder's investment, net		403,002	(403,002)(2)			
Retained earnings	437,734			437,734	41,961 (6) (2,058)(7)	477,637
Cumulative translation adjustment	30,144			30,144		30,144
Less – Shares held by a subsidiary at its cost	(2,746)			(2,746)		(2,746)
	786,185	403,002	(198,767)	990,420	176,853	1,167,273
Total capitalization	$1,084,429	$1,202,790	$ 71,998	$2,359,217	$316,853	$2,676,070

Notes to Pro Forma Condensed Consolidated Capitalization

(1) Reflects issuance of 10,473,568 Falconbridge common shares valued at $19.50 per share and Falconbridge 8.5% convertible debentures valued at $270,765,000.

(2) Eliminates equity accounts of Kidd Creek.

(3) Reference should be made to note 9 to the consolidated financial statements of Falconbridge on page 26 which discloses details of outstanding warrants and options that may result in the issue of further shares.

(4) Represents the Corporation's borrowing of U.S. $100 million under the terms of a revolving term credit agreement.

(5) Represents the proposed issue of an additional 6,600,000 common shares at an assumed price of $20.75 per share.

(6) Represents the gain on the sale of Kiena Gold Mines Limited, see note 19, page 31.

(7) Represents costs of the proposed share issue net of the related income tax recovery.

Pro Forma Condensed Consolidated Balance Sheet

(unaudited)

The following pro forma condensed consolidated balance sheet gives effect to the purchase of Kidd Creek and related financing transactions. This financial statement is prepared assuming that the transaction, accounted for as a purchase and the related financing transactions, occurred at December 31, 1985. The financial statement should be read in conjunction with the other pro forma financial statements including accompanying notes and the consolidated financial statements including notes thereto of Falconbridge included elsewhere in this Annual Report.

	Historical		Purchase transaction		Related financings	Pro Forma
	Falconbridge	Kidd Creek	Add (Deduct)	Subtotal	Add (Deduct)	Consolidated
	(Dollars in Thousands except per share amounts)					
ASSETS						
Cash and temporary investments	$ 310,602	$ 44,483	$(140,000)(1)	$ 215,085	$ 132,750 (4) 140,000 (5) 83,399 (6)	$ 571,234
Accounts and metal settlements receivable	169,270	70,190		239,460	(1,469)(6)	237,991
Inventories	180,731	97,629	(19,584)(2)	258,776	(1,843)(6)	256,933
Total current assets	660,603	212,302	(159,584)	713,321	352,837	1,066,158
Property, plant and equipment	641,357	1,062,983	259,827 (2)	1,964,167	(45,488)(6)	1,918,679
Investment in associated and other companies	32,793			32,793		32,793
Deferred exchange loss, net of amortization	10,399	110,607	(110,607)(2)	10,399		10,399
Other non current assets	6,226	4,945		11,171		11,171
	$1,351,378	$1,390,837	$ (10,364)	$2,731,851	$ 307,349	$3,039,200
LIABILITIES AND SHAREHOLDERS' EQUITY						
Accounts payable and accrued charges	$ 101,824	$ 87,637	$ 800 (1)	$ 190,261	$ (1,948)(6)	$ 188,313
Income and other taxes payable	10,400	17,248		27,648	(145)(6)	27,503
Current portion of long-term debt	14,274	56,609		70,883		70,883
Total current liabilities	126,498	161,494	800	288,792	(2,093)	286,699
Long-term debt	283,970	743,179	270,765 (1)	1,297,914	140,000 (5)	1,437,914
Deferred income and mining taxes	107,610	83,162	(83,162)(2)	107,610	(2,142)(4) 12,451 (6)	117,919
Minority interest	47,115			47,115	(17,720)(6)	29,395
Shareholders' equity	786,185	403,002	(403,002)(3) 204,235 (1)	990,420	134,892 (4) 41,961 (6)	1,167,273
	$1,351,378	$1,390,837	$ (10,364)	$2,731,851	$ 307,349	$3,039,200
Book value of shareholders' equity per common share	$ 18.76			$ 18.91		$ 19.79

Notes to Pro Forma Condensed Consolidated Balance Sheet

The acquisition cost of $615.8 million (including estimated legal and other costs) represents an excess of $212.8 million over the book value of Kidd Creek's net assets which amounted to $403.0 million at December 31, 1985. This excess cost has been allocated to net tangible assets acquired on the basis of management's best estimate of their fair values at December 31, 1985. The allocation is subject to revision based on a final determination of the fair values of the assets and liabilities.

(1) Represents the purchase price of the Kidd Creek shares and legal and other costs associated with the purchase.

(2) Represents the allocation of the excess of the purchase price over the net assets acquired.

(3) Represents the elimination of shareholder's equity of Kidd Creek.

(4) Represents the proposed issue of an additional 6,600,000 common shares at an assumed price of $20.75 per share and share issue costs net of the related income tax recovery.

(5) Represents the Corporation's borrowing of U.S. $100 million under the terms of a revolving term credit agreement.

(6) Represents the adjustments relating to the deconsolidation and sale of Kiena Gold Mines Limited.

Pro Forma Condensed Consolidated Statement of Operations
(unaudited)

The following pro forma condensed consolidated statement of operations for the year ended December 31, 1985 gives effect to the purchase of Kidd Creek and related financing transactions. This financial statement is prepared assuming that the transaction, accounted for as a purchase and the related financing transactions, occurred at the beginning of 1985. Accordingly, it has been assumed that all economic conditions prevailing at December 31, 1985 relating to this transaction (for example, foreign exchange rates on long-term debt, interest rates, etc.) also prevailed at January 1, 1985, and consequently no adjustments have been made herein to reflect actual conditions in effect at that date, or, except as specifically noted, to the actual results of Falconbridge or Kidd Creek for the year ended December 31, 1985. The statement should be read in conjunction with the other pro forma financial statements including the accompanying notes and the consolidated financial statements including notes thereto of Falconbridge included elsewhere in this Annual Report. Pro forma earnings are presented for comparative purposes only and are not necessarily indicative of what actual earnings will be in the future nor do they necessarily indicate what the combined operating results of the two entities would have been for 1985 had the transaction actually occurred at the beginning of the year.

	Historical		Purchase transaction		Related financings	Pro Forma
	Falconbridge	Kidd Creek	Add (Deduct)	Subtotal	Add (Deduct)	Consolidated
	(Dollars in Thousands except per share amounts)					
Revenues	$ 890,247	$ 544,267	$ 13,867 (1)	$1,448,381	$ (29,658)(8)	$1,418,723
Operating expenses, other than depreciation and depletion	770,469	371,247	4,031 (1)	1,145,747	(21,663)(8)	1,124,084
Depreciation and depletion	38,940	57,287	6,500 (2)	102,727	(2,091)(8)	100,636
	809,409	428,534	10,531	1,248,474	(23,754)	1,224,720
Operating profit	80,838	115,733	3,336	199,907	(5,904)	194,003
Interest and other income	47,380	1,396	(11,200)(3)	37,576	10,620 (6) 7,000 (7) (400)(8) 11,200 (9)	65,996
	128,218	117,129	(7,864)	237,483	22,516	259,999
Interest and debt expenses, including exchange loss on early retirement of debt	40,863	79,936	(6,839)(1) 23,015 (4)	136,975	11,200 (9)	148,175
Exploration and research	39,029	10,561		49,590	(1,127)(8)	48,463
	79,892	90,497	16,176	186,565	10,073	196,638
	48,326	26,632	(24,040)	50,918	12,443	63,361
Income from investment in associated and other companies	879			879		879
Earnings before taxes and other items	49,205	26,632	(24,040)	51,797	12,443	64,240
Income and mining taxes:						
Current	4,661	7,400		12,061		12,061
Deferred	6,981	5,878	3,014 (1) (17,450)(5)	(1,577)	5,416 (10) 3,600 (10) (1,400)(8)	6,039
	11,642	13,278	(14,436)	10,484	7,616	18,100
Earnings before minority interest	37,563	13,354	(9,604)	41,313	4,827	46,140
Minority shareholders' interest in earnings (losses) of subsidiary companies	(980)			(980)	(1,635)(8)	(2,615)
Earnings for the year	$ 38,543	$ 13,354	$ (9,604)	$ 42,293	$ 6,462	$ 48,755(11)(1
Average shares outstanding (000's)	40,719			51,192		57,792
Earnings per share						
— basic	$0.95			$0.83		$0.84
— fully diluted	$0.91			$0.81		$0.82

Notes to Pro Forma Condensed Consolidated Statement of Operations

(1) Represents adjustments made to amounts reported by Kidd Creek to reflect the accounting policies followed by Falconbridge. These adjustments:
   (a) gross-up revenues and operating expenses for by-product sales which are netted against expenses by Kidd Creek;
   (b) eliminate the effect of depreciation included in inventories by Kidd Creek which are charged directly to operations by Falconbridge;
   (c) eliminate the carrying value of unprocessed ore stockpiles from Kidd Creek's inventories which Falconbridge does not value until treatment of the ore commences;
   (d) eliminate the amount of realized foreign exchange losses recorded by Kidd Creek under its exchange translation accounting policy which recognizes that long-term U.S. dollar denominated liabilities are effectively hedged by future U.S. dollar revenues (revenue hedge)(under Falconbridge's policy the realized exchange adjustment on a pro forma basis was insignificant); and
   (e) provide for income and mining taxes applicable to the foregoing adjustments.

(2) Represents the additional charge required to depreciate property, plant and equipment on a straight-line basis over 20 years, being management's best estimate of the average useful lives of the assets acquired. The period of amortization is subject to revision based on a final determination of the fair values of these assets and their useful economic lives. The adjustment consists of a charge of $13.0 million representing amortization of the $259.8 million excess cost of the acquisition attributed to property, plant and equipment and a credit of $6.5 million being the net reduction in depreciation and depletion resulting from the assumption that the average lives of the assets will be 20 years.

(3) Represents interest income foregone on the $140 million cash portion of the purchase price from January 1, 1985.

(4) Represents the 8.5% debenture interest expense.

(5) Reflects the tax effect of reduced interest income and increased interest expense.

(6) Represents the interest income earned on the share issue proceeds.

(7) Represents the interest income earned from the proceeds of the sale of Kiena Gold Mines Limited.

(8) Represents the adjustments relating to the deconsolidation and sale of Kiena Gold Mines Limited.

(9) Represents interest income and expense relating to the borrowing of U.S.$100 million under the revolving line of credit.

(10) Represents the tax effects of increased interest income.

(11) Reconciliation of pro forma amounts from generally accepted accounting principles (GAAP) in Canada to United States GAAP.

	1985 (000's except per share data)
Pro forma earnings for the year, under Canadian GAAP	$48,755
Adjustments to accord to U.S. GAAP:	
– adjustments relating to foreign currency translation	(773)
– adjustments relating to capitalization of interest	(23)
– adjustments relating to pension expense	(968)
– adjustments relating to items not from continuing operations	(1,210)
Pro forma earnings from continuing operations for the year, under U.S. GAAP	45,781
Gain on redemption of debentures, an extraordinary item under U.S. GAAP	1,210
Pro forma earnings for the year under U.S. GAAP	$46,991
Primary and fully diluted earnings per share:	
From continuing operations	$ 0.77
For the year	$ 0.79

Under U.S. GAAP, at December 31, 1985, the Corporation's pro forma shareholders' equity would be $1,192,485,000, and total assets would be $3,055,454,000.

(12) The pro forma earnings for the year do not include the gain realized on the sale of the shares in Kiena Gold Mines Limited (see note 19, page 31).

Board of Directors

*†**William James**
Chairman of the Board, President and Chief Executive Officer

H. T. Berry
Consulting Metallurgist

*†‡**Marsh A. Cooper**
President, M. A. Cooper Consultants Inc.

Pierre Côté
Chairman of the Board, Canada Development Corporation

*†‡**Fraser M. Fell, Q.C.**
Chairman and Chief Executive Officer, Dome Mines Limited

*‡**H. Anthony Hampson**
President and Chief Executive Officer, Canada Development Corporation

*‡**R. E. Harrison**
Corporate Director

W. F. James
Consulting Geologist

Brian M. King
Senior Vice President, Canada Development Corporation

†**D. E. Lewis, Q. C.**
Barrister and Solicitor

J. Howard Macdonald
Chairman and Chief Executive Officer, Dome Petroleum Limited

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Consulting Geologist

Victor A. Rice
Chairman and Chief Executive Officer, Massey-Ferguson Limited

Valentine N. Stock
Chairman and Chief Executive Officer, Canada Packers Inc.

Eivind Wigstol
Managing Director, Falconbridge Nikkelverk Aktieselskap

*Member of the Executive Committee
†Member of the Audit Committee
‡Member of the Nominating Committee

Officers and Corporate Management

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Chairman of the Board, President and Chief Executive Officer

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Vice-President Marketing and Sales

J. M. Donovan
Vice-President, Treasurer

J. F. Gillies
Vice-President, Controller and Chief Financial Officer

L. C. Kilburn
Vice-President Exploration, Development and Precious Metals Operations

F. G. T. Pickard
Vice-President Metallurgy and Engineering

G. B. Reed
General Manager, Sudbury Operations

J. T. H. Clelland
General Manager, Ferronickel Operations

E. A. Seth
General Counsel and Secretary

R. D. Burrow
Assistant Controller

T. J. Desanti
Assistant Vice-President Commodity Marketing

G. D. Gordon
Assistant General Counsel

D. C. Hambley
Director Employee Relations

Peter McBride
Director Public Affairs

K. B. Morley
Assistant Treasurer

J. G. Wilson
Assistant Controller

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Senior Vice-President, Operations
Michael C. Hughes
Vice-President, Sales

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and Chief Executive Officer
Brian Ferguson, President and Chief
Operating Officer
William James, Vice-Chairman
M. J. Knuckey, Vice-President
Exploration
D. D. Tolgyesi, Manager,
Opemiska Division
and Lac Shortt Division
L. P. Gignac, Manager,
Lake Dufault Division

Indusmin Division
J. C. Cowan, Chairman of the Board
C. M. Woodruff, President and
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S. B. Goss, Vice-President,
Corporate Affairs
R. Lavertu, Senior Vice-President,
Minerals Division
G. G. Jacox, Vice-President,
Fahramet Division

Falconbridge Dominicana, C. por A.
J. T. H. Clelland, President and
General Manager
R. J. McAllister, Manager Operations

Giant Yellowknife Mines Limited
D. J. Emery, President and
Managing Director
K. Blower, General Manager

United Keno Hill Mines Limited
L. C. Kilburn, Chairman of the Board
J. C. Cowan, President and
Chief Executive Officer
T. P. Riordon, Mine Manager

Falconbridge Investments (Zimbabwe) (Private) Limited
A. Ryan, Managing Director
P. E. Griffiths, General Manager

Western Platinum Limited
C. P. Beatty and T. A. Wilkinson
Joint Managing Directors
A. A. Saffy, General Manager

Auditors
Clarkson Gordon, Toronto

Transfer Agents and Registrars
The Canada Trust Company,
Toronto, Montreal,
Vancouver and Calgary
Registrar and Transfer Company
New York, N. Y. and
Cranford, N. J., U. S. A.

Stock Exchanges
The shares and warrants of
Falconbridge Limited are
listed on the Toronto, Montreal
and Vancouver stock exchanges.
The shares are also traded
Over-the-Counter in the
United States.

Investing in our Future
Photo on the opposite page shows Bi[…] Reid, development leader, working o[…] a development heading underground at the 4,000-foot level of Lockerby Mine in the Sudbury Basin. Fa[…]bridge Limited continues to d[…]strate its strong commitment [...] Sudbury Operations, by spending mo[…] than $66.8 million on preproduction, development and plant and equipme[…] in 1985 as part of a total three-year budget of approximately $216 millio[…]

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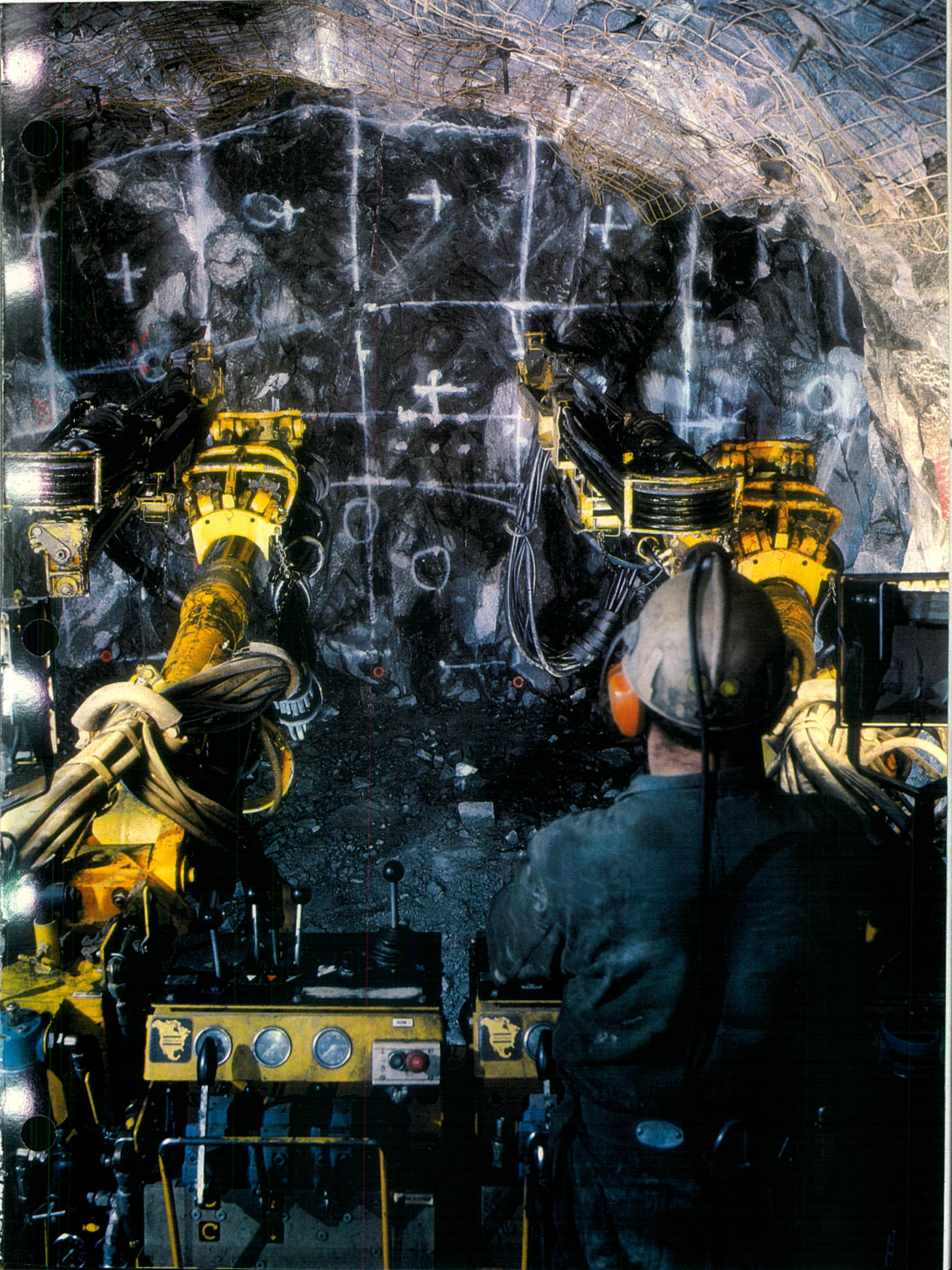

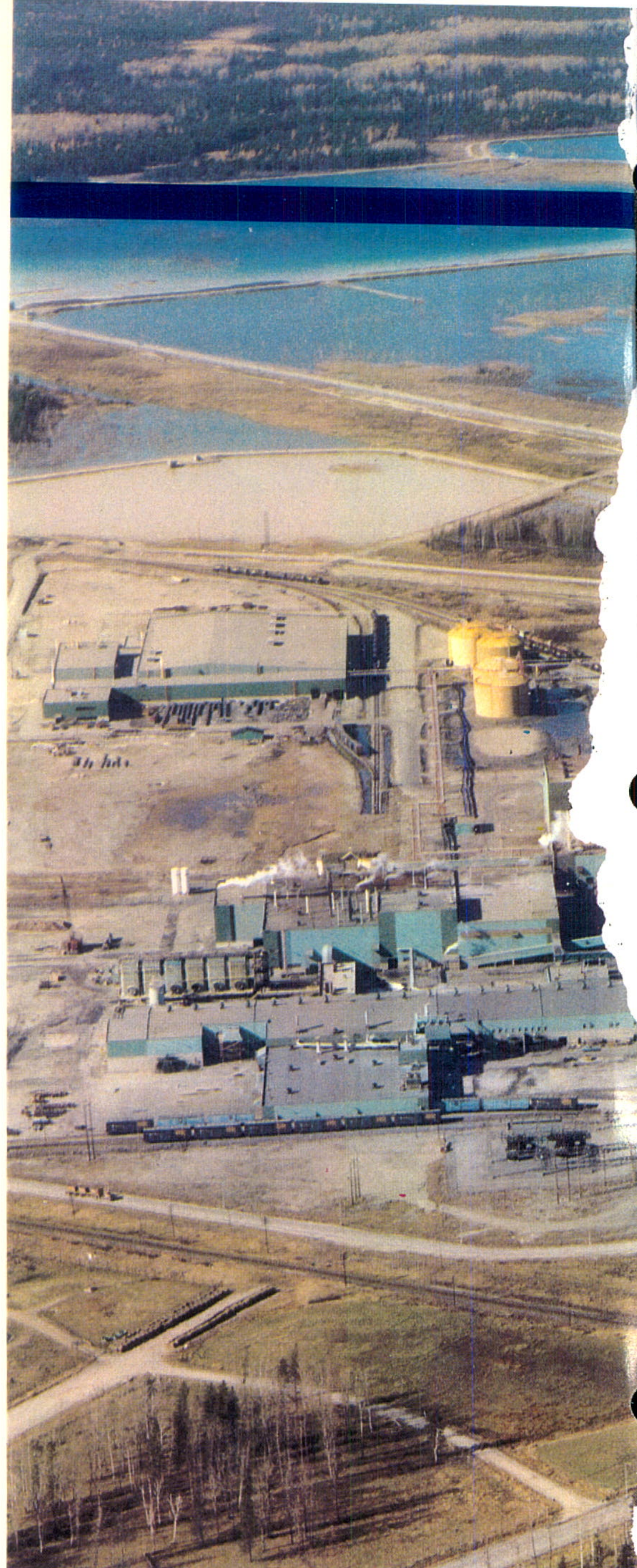

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