

Company Registration No. 1832198

Kidd Creek Europe Limited

Report and Financial Statements

31 December 2003



Kidd Creek Europe Limited

Report and financial statements 2003

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Kidd Creek Europe Limited

Report and financial statements 2003

Officers and professional advisers

Directors

M H S McSorley
B Meert
J K Sievwright

Secretary

J K Sievwright

Registered Office

2 Lambs Passage
London EC1Y 8BB

Bankers

National Westminster Bank Plc
36 St. James's Street
London SW1A 1JF

Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Kidd Creek Europe Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities and business review

The principal activity of the company is property investment. The turnover for the year has increased from £406,781 to £443,528 (2002 - £391,619 to £406,781). The loss for the year was £256,144 (2002 - loss of £209,391). The directors do not foresee any changes to the principal activity.

Proposed dividend

The directors do not recommend the payment of a dividend (2002 - £nil).

Directors and their interests

The directors who held office throughout the year were as follows:

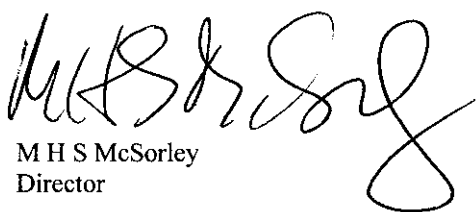
M H S McSorley (British)
B Meert (Belgian)
J K Sievwright (Canadian)

The directors have no interests that have to be recorded in the register of directors interests (2002 - £nil).

Auditors

A resolution to re-appoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



M H S McSorley
Director

Oct 13th 2004

Kidd Creek Europe Limited

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements, for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Kidd Creek Europe Limited

We have audited the financial statements of Kidd Creek Europe Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from disagreement about accounting treatment

As disclosed in note 10, the company is committed to making payments totalling £547,550 per annum in respect of an operating lease which expires in December 2004. The offices to which this relates are no longer occupied by the company and have been sub-let, yielding a rent of £339,805 in the year ended 31 December 2003. No provision has been made for the future anticipated rent shortfall or any dilapidation costs that may arise on expiry of the lease. This is not in accordance with Financial Reporting Standard 12 "Provisions, Contingent Liabilities and Contingent Assets." In our opinion therefore, a provision of approximately £208,000 should be made in the financial statements in respect of the rent shortfall. If the company had provided for the rent shortfall, in accordance with that accounting standard, the company profit and loss account would have decreased by £208,000 and the reserves, as shown in the balance sheet, would have decreased by £208,000. In addition, unprovided dilapidation costs may arise under the lease, although we have been unable to quantify the adjustment, if any, that might arise.

Except for the absence of the provisions described above, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

18 October 2004

Kidd Creek Europe Limited

Profit and loss account Year ended 31 December 2003

	Note	2003 £	2002 £
Turnover	1	443,528	406,781
Cost of sales		(652,666)	(572,163)
Gross loss		(209,138)	(165,382)
Administrative expenses		(47,006)	(44,009)
Operating loss and loss on ordinary activities before and after taxation	2,5	(256,144)	(209,391)
Profit and loss account brought forward		(3,776,856)	(3,567,465)
Profit and loss account carried forward		(4,033,000)	(3,776,856)

All turnover and operating loss is derived from continuing operations.

There were no recognised gains or losses apart from the loss for the year and prior year and therefore no separate statement of recognised gains or losses has been prepared.

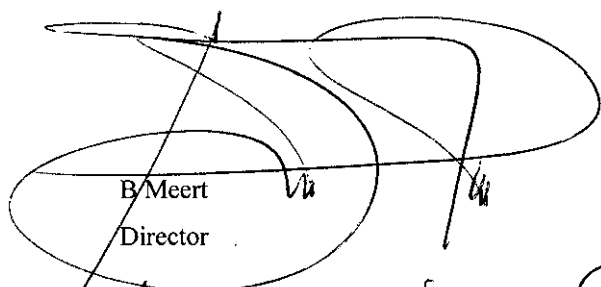
Kidd Creek Europe Limited

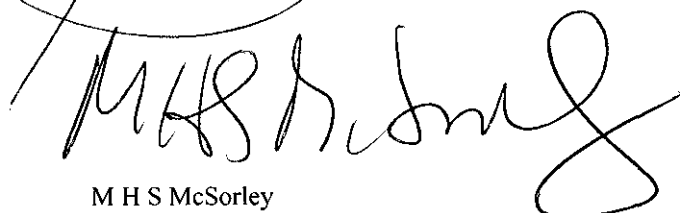
Balance sheet 31 December 2003

	Note	2003 £	2002 £
Current assets			
Debtors	6	99,607	118,850
Cash at bank and in hand		10,252	10,314
		<u>109,859</u>	<u>129,164</u>
Creditors: amounts falling due within one year	7	<u>(83,296)</u>	<u>(57,375)</u>
Net current assets		26,563	71,790
Creditors: amounts falling due after more than one year	8	<u>(3,513,367)</u>	<u>(3,302,449)</u>
Net liabilities		<u>(3,486,804)</u>	<u>(3,230,660)</u>
Capital and reserves			
Called up share capital	9	100	100
Share premium account		546,096	546,096
Profit and loss account		<u>(4,033,000)</u>	<u>(3,776,856)</u>
Equity shareholders' deficit		<u>(3,486,804)</u>	<u>(3,230,660)</u>

These financial statements were approved by the Board of Directors on *October 13/* 2004.

Signed on behalf of the Board of Directors


B Meert
Director


M H S McSorley
Director

Kidd Creek Europe Limited

Notes to the accounts

Year ended 31 December 2003

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The accounts have been prepared in accordance with applicable United Kingdom accounting standards with the exception of Financial Reporting Standard 12 "Provisions, Contingent Liabilities and Contingent Assets", under the historical cost accounting rules.

Turnover

Turnover represents rental income.

Operating lease rental

Rentals payable under operating leases are charged to the profit and loss account when incurred.

Deferred tax

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. On this basis, no recognition has been made of the deferred tax asset as there is no certainty of appropriate future taxable profits against which to realise the asset.

Deferred tax assets and liabilities are not discounted.

2. Operating loss and loss on ordinary activities before and after taxation

	2003 £	2002 £
Loss on ordinary activities before taxation is stated after charging:		
Operating lease rentals	547,500	466,000
Auditors' remuneration		
- Audit	6,500	5,200
- Other services	700	1,600

Kidd Creek Europe Limited

Notes to the accounts

Year ended 31 December 2003

3. Staff numbers and costs

Other than the directors the company employed no staff during the year £nil (2002 – £nil).

4. Emoluments of directors

The directors received no emoluments during the year £nil (2002 – £nil).

5. Taxation

There was no charge or credit for taxation during the year as tax losses of £3,928,881 (2002 - £3,667,000) have been carried forward.

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
UK corporation tax at 30 % (2002 – 30%)	-	-

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK. The differences are as follows:

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Loss on ordinary activities before tax	256,144	209,391
Tax at 30% thereon	(76,843)	(62,817)
Utilisation of tax losses	76,843	62,817
Current tax charge for the period	-	-

A deferred tax asset of £1,178,665 (2002: £1,100,303) comprising revenue losses and other short term timing differences has not been recognised as realisation of this asset is dependent on suitable taxable profits being available in future periods.

6. Debtors

	2003 £	2002 £
Trade debtors	99,607	118,850

Kidd Creek Europe Limited

Notes to the accounts Year ended 31 December 2003

7. Creditors: amounts falling due within one year

	2003 £	2002 £
Accruals and deferred income	<u>83,296</u>	<u>57,375</u>

8. Creditors: amounts falling due after more than one year

	2003 £	2002 £
Amount owed to parent undertaking	<u>3,513,367</u>	<u>3,302,449</u>

9. Called up share capital

	2003 £	2002 £
Authorised:		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Called up, allotted and fully paid:		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

10. Commitments on operating leases

	2003 £	2002 £
Land and buildings		
Operating lease expiring in December 2004 – amounts payable	<u>547,500</u>	<u>466,000</u>

Support from the parent undertaking, Falconbridge Limited, is necessary as the company has entered into a lease in respect of 9 Park Place, London of at least £547,500 per annum until 25 December 2004 and does not expect to generate sufficient rental income to cover the rent and service charges due in respect of these premises for the foreseeable future. The parent undertaking has confirmed that it will provide additional finance to the company to allow it to meet its obligations as they fall due for a period of at least twelve months from the date of approval of the financial statements.

11. Ultimate parent undertaking and controlling entity

The ultimate and immediate parent undertaking and controlling entity is Falconbridge Limited, a company incorporated in Canada.

The smallest and largest group in which the results of the company are consolidated is that headed by Falconbridge Limited.

The consolidated accounts of Falconbridge Limited are available to the public and may be obtained from BCE Place, 181 Bay Street, Suite 200, Toronto, Canada M5J 2T3.

Kidd Creek Europe Limited

Notes to the accounts

Year ended 31 December 2003

12. Related party transactions

As permitted under Financial Reporting Standard 8 "Related Party Disclosures" paragraph 3(c) transactions with entities that are part of Falconbridge Limited have not been disclosed.