McINTYRE
MINES LIMITED

1979 ANNUAL REPORT

McINTYRE MINES LIMITED

About McIntyre

McIntyre is engaged principally in the mining, preparation and sale of metallurgical coking coal and also, through its 37.1% equity interest in Falconbridge Nickel Mines Limited, participates indirectly in the mining, processing and marketing of nickel, copper and other mineral products in Canada and other countries.

The Company's Smoky River coal properties, located near Grande Cache, Alberta, contain multiple seams of high grade, low-volatile metallurgical or coking coal used primarily in steel production. Historically, McIntyre's coal sales have been mainly for export under sales contracts with certain Japanese steel mills.

Falconbridge is one of the largest producers of nickel in the world and has been engaged in the mining business since 1928. Principal products are nickel and copper, although some thirty other mineral products, including base and precious metals, industrial minerals and manufactured goods for industrial use, are produced by Falconbridge directly or through affiliates.

Contents

Annual Meeting

The Annual and General Meeting of shareholders will be held on Monday, April 14, 1980 at 2:00 p.m. (Toronto Time) in the Embassy Room A and B, Hotel Plaza II, 90 Bloor Street West, Toronto, Ontario. A formal notice of this meeting, together with the information circular (proxy statement) and form of proxy, are being mailed with this report.

Highlights

(In thousands, except per share data)

	1979	1978
Consolidated earnings (loss)	**$43,909**	$ (904)
Per share	**$ 18.45**	$ (0.38)
Revenue	**$62,667**	$105,270
Sales volume (long tons)	**916**	1,527
Production (long tons)	**1,044**	1,316
Working capital provided from operations	**11,010**	12,244
Capital expenditures	**3,681**	9,325
Working capital at year-end	**30,560**	10,614
Long-term debt at year-end	**2,041**	68,028

To Our Shareholders

C.L. Barney
Chairman of the Board and
Chief Executive Officer

In 1979, your Company experienced continued weakness in worldwide metallurgical coal markets. This condition contributed to a loss from operations of \$2.7 million compared to a loss of \$2.3 million in 1978. On a consolidated basis, the equity ownership in the earnings of Falconbridge Nickel Mines Limited and Madeleine Mines Ltd. more than made up for this loss. Consolidated Net Income of \$43.9 million or \$18.45 per share represents the highest ever recorded by McIntyre. In 1978, McIntyre recorded a restated consolidated net loss of \$0.9 million or \$0.38 per share.

Sales of 916,000 long tons of coal from the Smoky River Mines resulted in revenues net of royalty of \$62.2 million compared to \$101.2 million from the sale of 1,527,000 long tons of coal in 1978. This reduction in sales volume resulted primarily from reduced sales to Japan. Operating costs decreased from \$76.7 million in 1978 to \$46.3 million in 1979 due to reduced sales volume.

In March 1979, the coal sales agreement between McIntyre and the Japanese steel mills was renewed for an additional two years. The volume contracted was for 800,000 long tons of coal per year. Deliveries were also made to Brazil, Argentina and eastern Canada.

During 1979, expenditures for capital equipment, deferred mine development and exploration were \$4.0 million, down from \$13.6 million during 1978. Capital expenditures for mine development were down due to the reduced production requirements resulting from decreased sales volumes. In 1979, Canadian Superior entered into an agreement to fund and manage McIntyre's exploration obligations in return for an interest in certain properties.

The mining operations at Smoky River continued to experience a shift in emphasis toward increased underground production. One new underground mine, the No. 9A-4, was opened, and operations in the No. 5-4 mine were resumed. Total underground production in 1979 was 1,127,000 long tons of raw coal while 628,000 long tons were taken from the open pit mines.

Coal shipments by CN Rail from Smoky River to the Neptune Terminal loading facility at Vancouver totalled approximately 889,000 tons in 1979. During the latter part of the year, the Second Narrows Bridge used by CN Rail over the Burrard Inlet to Vancouver Harbor was severely damaged. Shipments to the terminal continued via the British Columbia Railroad, except for periods during December 1979 and January 1980 when this railroad's crews were out on strike.

McIntyre owns a 37.1% equity interest in Falconbridge Nickel Mines Limited and a 36.4% equity interest in Madeleine Mines Ltd. In 1979, Falconbridge recorded earnings, including an extraordinary item, of \$130.6 million, of which \$46.3 million represents McIntyre's equity portion. Madeleine in 1979 reported net earnings of \$0.9 million, of which \$0.4 million was included as McIntyre's equity.

In the month of December, McIntyre offered to existing shareholders the right to purchase an additional $78 million worth of new equity. The offering was fully subscribed and the proceeds were used to retire the Company's long-term debt and to increase liquidity.

Several changes were made in the management of McIntyre during 1979. In April 1979, Edwin J. Bethell was appointed Executive Vice President of the Company with primary responsibilities for Marketing. In November 1979, Charles L. Barney and Joseph E. Reid, both officers of Superior Oil became Directors of McIntyre, and effective January 1, 1980, Mr. Barney was elected Chairman of the Board and Chief Executive Officer. In February 1980, Paul D. Bushong, Jr. and Bennett A. Thomas were elected Senior Vice Presidents of the Company.

Effective January 1, 1980, Arthur E. Feldmeyer resigned as President and Chief Executive Officer of the Company and as a Director. Mr. Feldmeyer had been a Director of McIntyre since 1967 and was appointed President and Chief Executive Officer in August 1978 following the death of Robert B. Fulton. Mr. Feldmeyer's leadership and guidance of McIntyre during 1978 and 1979 contributed greatly toward improving the outlook for McIntyre.

Mr. F. T. (Bill) McKinney, Vice President Corporate Affairs and Secretary, who had served the Company for forty-five years, retired in October, 1979.

In 1980, the focus for McIntyre's goal will be to strengthen its technical expertise and to intensify its efforts to develop long-term markets for the Company's product. In pursuit of these goals, the Company is developing a comprehensive program to optimize mine planning and pursue improvements in mining techniques. A corporate planning group has been set up to evaluate economic and financial aspects of the coal operations and several potential new markets for our coal are being investigated.

In closing, we would like to thank our employees, the Government of Alberta, and all our customers. The employees have worked hard and diligently through a period of change and uncertainty; the Government of Alberta has continued to be supportive and sympathetic; and our long-term Japanese customers have demonstrated their confidence by again renewing the Smoky River Coal contracts. In return, management is committed to an intense effort toward technical improvement in order to realize the outstanding potential of our natural resources.

C.L. Barney
Chairman of the Board and
Chief Executive Officer

Operations Review

Smoky River Coal Division

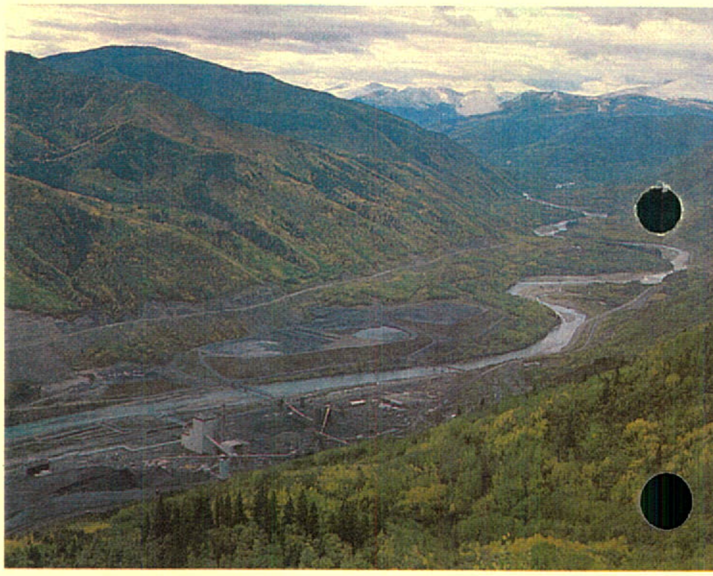
During the year 1,127,000 long tons of raw coal were mined from underground mines and 628,000 tons were mined from surface operations compared with 1,242,000 tons and 891,000 tons, respectively, in 1978. Clean coal inventories at year-end 1979 totalled approximately 327,000 long tons compared to 186,000 in 1978.

The coal preparation plant processed 1,750,000 long tons in 1979 compared with 2,030,000 tons a year ago. The clean coal yield averaged 67% in 1979 compared with 66% in 1978. Deliveries of non-metallurgical grade coal to the Alberta Power Generating Plant totalled over 412,000 long tons.

Increased production from underground mines continues to be one of the primary objectives of the Smoky River Coal division. High stripping ratios associated with the surface mine have made it more profitable to increase production from the underground operations. A major obstacle to achieving this objective is a shortage of experienced underground coal miners in Canada.

Both development and depillaring work continued in No. 2 Mine-No. 11 Seam at Smoky River during the year. In the Reiff Terrace Mine-No. 2R-4 Seam, all necessary development work had been completed by mid-year, and depillaring work continued throughout 1979. Early in the year, the Reiff Terrace-No. 11 Seam Mine reached its objective as an alternate producer and operations were suspended until production is required.

During 1979 extensive rehabilitation work was carried out in No. 5 Mine-4 Seam Smoky, and production will be initiated in 1980. Power supply, mine air heating and ventilation facilities, together with an underground conveyor system have been restored.



Smoky River coal plant site

Work commenced in late summer on a new underground operation, the No. 9A Mine-No. 4 Seam. This mine is driven in the high wall of the No. 9 Surface Center Pit, and by year-end two portals and entries had been established.

In surface operations, approximately two-thirds of the coal production from No. 9 Mine was obtained from No. 4 Seam and the remaining one-third from No. 10 Seam. Advance waste stripping continues in the West Extension.

Total waste removed in No. 9 Surface Mine during 1979 was 5,886,000 cubic yards compared with 11,207,000 cubic yards during 1978. Lower sales of clean coal by the Company contributed to the reduction.

Exploration

Participation by McIntyre in exploration projects was sharply curtailed in 1979 due to financial considerations. Exploration expenditures during 1979 totalled $0.3 million compared with $4.3 million in 1978.

In June, 1979, McIntyre and Canadian Superior Exploration Limited entered into an agreement providing for the participation by Canadian Superior in several exploration projects in which McIntyre has an interest. Major emphasis was in Alaska, the Yukon and Tasmania, Australia. Under this agreement, Canadian Superior is entitled, on a project by project basis, to earn up to a 50% interest by matching previous expenditures made by McIntyre. The status of these projects is as follows:

* **Tasminex Tungsten Prospect, Tasmania**
  General exploration drilling was continued during 1979 and a preliminary feasibility study prepared. The results of this study are under investigation.

* **Doyon Joint Venture, Alaska**
  Field work in 1979 eliminated all prospects except one in which a porphry molybdenum deposit is believed to occur. In addition, a project area has been nominated by McIntyre to cover a thermal coal deposit.

* ***Asbestos Project, Alaska***
  Results of the 1979 diamond drilling and metallurgical programs indicate potential for surface mineable reserves of asbestos fibre. In 1980 McIntyre and Canadian Superior will evaluate the results to date to determine the economic potential of this property.

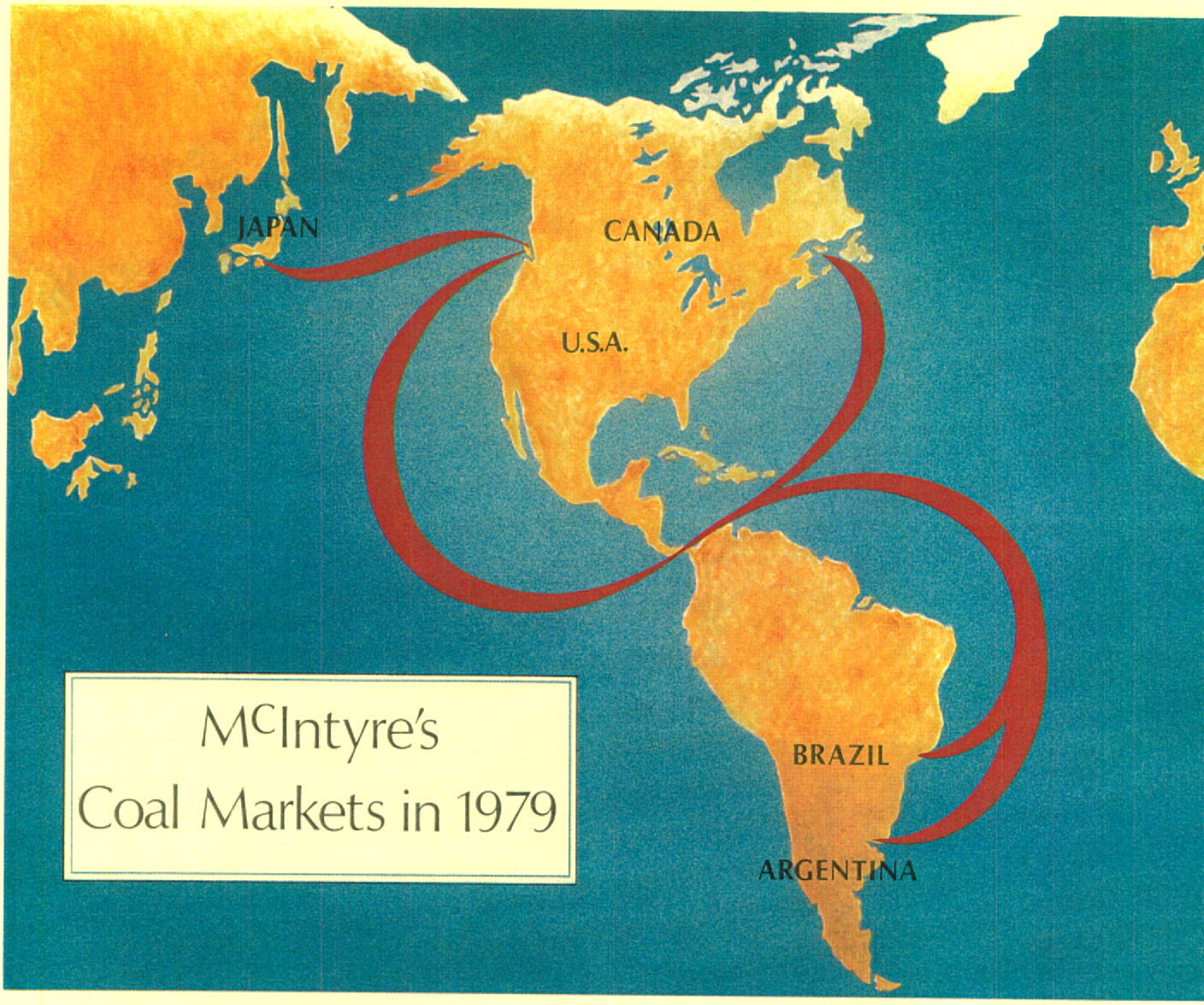
* **Craig Joint Venture, Yukon**
  A detailed mapping program was completed on this silver-lead-zinc property in 1979, and a field program including diamond drilling is contemplated for 1980.

* **Flat Prospect, Alaska**
  Following disappointing results on this gold property in 1979, the project has been abandoned.

* **Bretz Prospect, Oregon**
  Exploration drilling by the Cordex Syndicate in 1979 outlined minimal zones of uranium mineralization and work has been terminated pending review of results to date. All other activity of the Cordex Syndicate has terminated.

* **Ruth Prospect, British Columbia**
  A minimum work program is planned for this copper prospect in 1980.

McIntyre also participated in exploration prospects outside its agreement with Canadian Superior including three gold prospects in British Columbia. Surface evaluation and diamond drilling will be conducted during 1980.



Marketing

McIntyre has traditionally sold the bulk of its coal production to the Japanese steel industry. A world-wide decline in sales of steel products, together with improved technology, have resulted in reduced demand for metallurgical coal in Japan and particularly for McIntyre's premium low-volatile coal.

Even with the lower requirement, Japan continues to be the Company's major customer. In 1979, a two-year contract for 800,000 long tons of clean coal per year was signed with various steel companies.

During 1979, your Company conducted a program to identify and develop new markets in other steel-producing countries. Particular emphasis was placed on Brazil, Argentina, Mexico, South Korea and Taiwan. Spot sales were made to Argentina and Brazil.

Falconbridge Nickel Mines Limited

Stronger market demand and higher metal prices in 1979 contributed to Falconbridge's record level earnings of $130.6 million, including an extraordinary credit of $20 million for deferred income taxes arising from prior years' losses. Earnings in 1978 were $5.8 million. Nickel, gold, silver and platinum attained record price levels during the year and the price of copper showed significant improvement. Sales of Falconbridge nickel in all forms, including metals sold as agents for the owners, were 137.3 million pounds during 1979 compared with 118.4 million pounds in 1978. The volume of copper sales also increased.

The Integrated Nickel Operations contributed earnings of $65.0 million in 1979 compared with $6.6 million the previous year. The recovery in the demand for nickel which began in 1978 became stronger in 1979. Most nickel producers continued to operate in 1979 at a rate substantially below capacity. However, there were periods during the year when demand exceeded supply, a situation caused in part by a loss of production within the nickel-producing industry. The improved level of demand during the year enabled producers and consumers to reduce their inventory to normal operating levels. While it is unlikely that the accelerated rate of growth in demand experienced in 1978 and 1979 will be sustained in the present decade, the current balance between supply and demand is encouraging.

At Sudbury Operations, the Falconbridge and Strathcona Mines operated at full capacity throughout 1979, and the East, Onaping and Lockerby Mines were reactivated during the year. Production was gradually stepped up to about 60% of capacity. This increased activity permitted the hiring of 758 additional employees, including all employees laid off in 1978 who wished to return. The second roaster-electric furnace line in the smelter at Sudbury Operations, which was being readied for production at year-end, was placed in operation in January 1980.

Inventories of nickel in all forms had declined by year-end to 27.2 million pounds from 44.0 million pounds at the end of 1978.

Falconbridge Dominicana contributed earnings of $4.5 million compared with a loss of $6.6 million in 1978. An increased volume of shipments and a higher net realized price for ferronickel accounted for this improvement even though the continuing rise in fuel oil prices adversely affected operating costs. A second electric furnace was recommissioned in the first quarter of the year in order to meet market demand. Total sales of ferronickel in 1979 were 47.6 million pounds of contained nickel compared with 43.5 million pounds in 1978.

Fraser Mine in the Onaping Area of Falconbridge Nickel Mines' Sudbury operations

The contribution of Falconbridge Copper Limited in 1979 was $23.3 million, significantly higher than $7.5 million in 1978 because of higher metal prices and improved operating efficiency. Production of copper, silver and gold decreased slightly while zinc production increased. In the Lake Dufault Division, preproduction development work on the Corbet copper-zinc mine was completed by year-end and production commenced in January 1980. Falconbridge Copper's ore reserves decreased during 1979 by 670,000 tons to 8.6 million tons.

Sales revenues and earnings of Indusmin Ltd. set new records in 1979. Modernization and expansion programs were carried out at the Fahramet Steel Castings Foundry and at the nepheline syenite and Québec silica operations.

Revenue from metal shipments of United Keno Hill Mines Ltd. more than doubled in 1979 compared with 1978 and earnings increased fivefold due to the higher price of silver. However, production of silver and lead in 1979 resulted from lower head grade from open-pit operations. Ore reserves at the property have been increased.

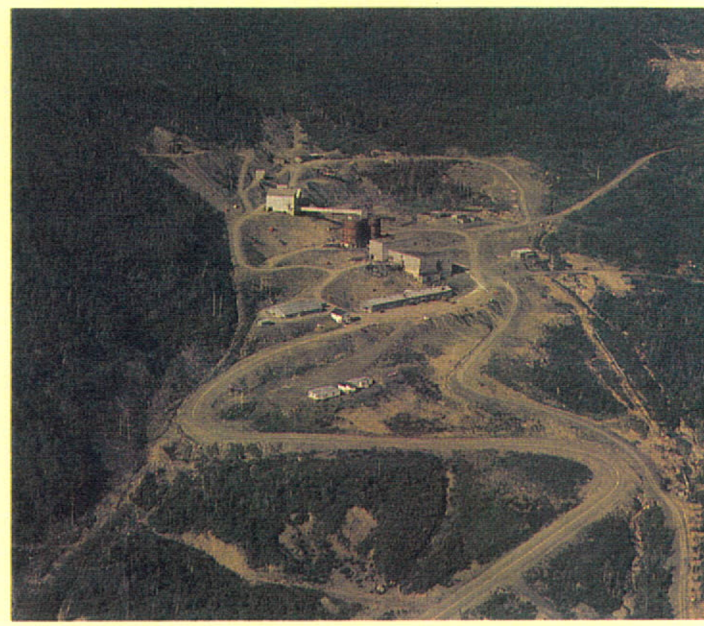
Madeleine Mines Ltd.

Operations at Madeleine Mines Ltd. resumed on July 2, 1979, after being suspended since November, 1976. Mine tonnage is now approximately 2,500 tons per day which represents the plant's capacity. Earnings in 1979 were $912,000 and the Company had working capital of $3,424,000 at the end of the year.

When the mine was re-opened, it was anticipated that it could be operated economically for only about eighteen months. However, if the prices of copper and silver sustain their recent healthy levels, the ore reserves at Madeleine will last until around mid 1983. Reserves at January 1, 1980 were approximately 2,308,000 tons containing approximately 23,487 tons of copper. A program of further exploration on the property, both surface and underground, will commence this summer.

Ore milled during the last six months of the year totalled 328,000 tons having an average grade of .98% copper. Production amounted to 9,736 tons of concentrate containing 5,974,000 pounds of copper and 48,300 ounces of silver. Copper recovery averaged 93.2% for the period. Copper concentrates are trucked to the smelter at Gaspé Copper Mines and sold under agreement with Noranda Mines Limited.

Ore production was primarily from stopes in the Main Zone on the 2900′ and 2720′ levels. Stope development was kept at a minimum. No exploration work was conducted during the period.



Aerial view of Madeleine Mines' operation at Ste. Anne des Monts, Québec

McINTYRE MINES LIMITED

Consolidated Statement of Earnings (Loss)

(in thousands of Canadian dollars, except per share data)

	Year ended December 31	
	1979	1978 (restated)
Revenue:		
Coal sales	$62,667	$105,270
Less: Coal royalty	(442)	(4,118)
	62,225	101,152
Expenses:		
Operating costs	46,303	76,661
Administration	1,504	2,000
Exploration	333	4,279
Interest	8,620	6,310
Depreciation	9,005	9,083
Amortization of deferred development	1,909	1,945
Foreign exchange loss (gain) relating to Euro-U.S. dollar loan	(402)	2,426
	67,272	102,704
Loss from operations before deferred income taxes	5,047	1,552
Deferred income taxes (recovery) (Note 8)	(2,306)	712
Loss from operations	2,741	2,264
Equity in earnings of affiliates	39,226	(94)
Earnings (loss) before extraordinary items	36,485	(2,358)
Extraordinary items (Note 9)	7,424	1,454
Consolidated earnings (loss)	$43,909	$ (904)
Per share (Note 10):		
Earnings (loss) before extraordinary items	$ 15.33	$ (0.99)
Extraordinary items	3.12	0.61
	$ 18.45	$ (0.38)

McINTYRE MINES LIMITED

Consolidated Statement of Retained Earnings
(in thousands of Canadian dollars)

	Year ended December 31	
	1979	1978 (restated)
Balance - beginning of year as previously reported	**$138,007**	$140,213
Retroactive adjustment to earnings of affiliate (Note 13)	**722**	604
As restated	**138,729**	140,817
Consolidated earnings (loss)	**43,909**	(904)
	182,638	139,913
Dividends	**—**	(1,184)
Balance - end of year	**$182,638**	$138,729

McINTYRE MINES LIMITED

Consolidated Balance Sheet
(in thousands of Canadian dollars)

ASSETS

	December 31	
	1979	**1978**
Current:		
Cash and short term deposits	**$ 12,199**	$ —
Accounts receivable (Note 2)	**4,733**	6,721
Inventories and mine supplies (Note 3)	**26,807**	16,778
	43,739	23,499
Investments (Notes 4 and 13):		
Falconbridge Nickel Mines Limited	**141,181**	100,454
Madeleine Mines Ltd.	**934**	556
	142,115	101,010
Properties and plant:		
Plant and equipment at cost (Note 5)	**93,128**	91,517
Less: Accumulated depreciation	**45,678**	37,067
	47,450	54,450
Deferred mine development less amortization (Note 6)	**44,262**	44,492
	91,712	98,942
Other:		
Long-term account receivable	**2,514**	2,701
Employee housing loans	**1,909**	2,123
	4,423	4,824
	$281,989	$228,275

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	1979	1978
Current liabilities:		
Accounts payable	$ 6,303	$ 7,042
Accrued liabilities	6,237	5,218
Current portion of long-term debt	639	625
	13,179	12,885
Long-term debt less current portion (Note 7)	2,041	68,028
Deferred income taxes (Note 8)	500	2,806
Shareholders' equity:		
Capital stock (Note 12) –		
Authorized –		
4,000,000 Preference shares with a par value of $25 each (nil in 1978)		
5,000,000 Common shares without par value (3,000,000 in 1978)		
Issued –		
3,655,973 Common shares (2,434,482 in 1978)	87,408	9,604
Retained earnings	182,638	138,729
	270,046	148,333
Less: Equity in own shares held by affiliate	3,777	3,777
	266,269	144,556
Commitments and contingencies (Note 11)		
	$281,989	$228,275

APPROVED BY THE BOARD

C. L. Berry Director

A R Nielsen Director

McINTYRE MINES LIMITED

Consolidated Statement of Changes in Financial Position

(in thousands of Canadian dollars)

	Year ended December 31 1979	1978 (restated)
Source of working capital:		
Operations –		
Earnings (loss) before extraordinary items	**$36,485**	$ (2,358)
Items not affecting working capital:		
Depreciation and amortization	**10,914**	11,028
Deferred income taxes (recovery)	**(2,306)**	712
Foreign exchange loss (gain) relating to Euro-U.S. dollar loan	**(402)**	2,426
Reduction (increase) in equity in undistributed earnings of affiliates	**(33,681)**	436
	11,010	12,244
Issue of common shares	**77,804**	—
Other	**800**	2,223
	89,614	14,467
Use of working capital:		
Plant and equipment	**2,002**	1,723
Deferred mine development	**1,679**	7,602
Reduction of long-term debt	**65,987**	5,275
Dividends paid to shareholders	**—**	1,184
Dividends paid on own shares held by affiliate	**—**	33
Other	**—**	219
	69,668	16,036
Increase (decrease) in working capital	**19,946**	(1,569)
Working capital, beginning of year	**10,614**	12,183
Working capital, end of year	**$30,560**	$10,614
Changes in components of working capital:		
Increase (decrease) in current assets –		
Cash	**$12,199**	$ —
Accounts receivable	**(1,988)**	4,614
Inventories and mine supplies	**10,029**	(10,697)
	20,240	(6,083)
Increase (decrease) in current liabilities –		
Accounts payable and accrued liabilities	**280**	(2,795)
Current portion of long-term debt	**14**	(1,719)
	294	(4,514)
Increase (decrease) in working capital	**$19,946**	$ (1,569)

Notes to Consolidated Financial Statements

December 31, 1979

1. Accounting Policies:

(a) Principles of consolidation –

The consolidated financial statements include the accounts of all companies which are more than 50% owned.

Investments in affiliates, Falconbridge Nickel Mines Limited (37.1% equity interest) and Madeleine Mines Ltd. (36.4% equity interest), are accounted for by the equity method which reflects the Company's investment at cost plus its interest in undistributed earnings, less writedown in 1977 of $13,450,000 of which $11,300,000 relates to Falconbridge and $2,150,000 to Madeleine because of the uncertainty in the recovery of underlying mining assets. The above equity interest percentages are as of both December 31, 1978 and December 31, 1979.

(b) Inventories –

(i) Metallurgical coking coal –
The Company values its coal inventory at the lower of cost or realizable value, cost being determined on the basis of current production cost including depreciation and amortization of plant and properties.

(ii) Mine supplies –
Mines supplies are valued at cost.

(iii) Houses for sale to employees –
Houses for sale to employees are valued at the lower of cost or estimated net realizable value, less mortgages thereon.

(c) Depreciation and amortization –

(i) Assets covered by leases that transfer to the lessee substantially all the benefits and risks incident to ownership of property are accounted for as an acquisition of an asset and the incurrence of an obligation which is reduced by monthly lease payments net of imputed interest. All other leases are accounted for as operating leases wherein lease payments are expensed as incurred.

(ii) Plant, equipment and equipment under capital lease are being depreciated on a straight-line basis over their productive lives, or in the case of mining equipment over the productive life of the mine in terms of proven coal reserves, whichever is less.

(iii) Maintenance, repair and renewal expenditures are expensed as incurred. Betterments are capitalized and included as additions to fixed assets.

(iv) Gains or losses on the sale or retirement of material items are taken into earnings. Gains or losses on other items are recorded as an adjustment of accumulated depreciation, in accordance with McIntyre's depreciation policy.

(v) Development and preproduction expenditures relating to each mine are capitalized until the property is brought into production at or near its designated rate at which time the costs are amortized on a unit of production basis. The initial costs of the Smoky River Coal Division including infrastructure and start-up expenses are being amortized on a unit of production basis over the estimated life of total proven coal reserves at the outset of operations.

(vi) Overburden removal costs, except to the extent they are included in development costs of new mines, are charged to operating costs as incurred or at the average cost per ton based on the recoverable reserves of the specific mining units.

(d) Reclamation –

The estimated cost of reclamation approved by provincial authorities at the outset of mining operations is provided for on a unit of production basis. Additional expenditures incurred after the cessation of mining operations due to changes in the initial approved plan are expensed as incurred.

(e) Exploration –

Exploration costs are charged against earnings as incurred.

(f) Foreign exchange –

The Company's revenue from coal sales, which since April 1, 1978 are based on U.S. dollar prices, is reflected in the statement of consolidated earnings at the Canadian dollar exchange equivalent which has for the most part been fixed by forward exchange contracts.

Assets and liabilities to be settled in foreign currencies are translated to Canadian dollars at the rate of exchange prevailing at the balance sheet date. Unrealized gains or losses are included in earnings in the current year.

(g) Pensions –

Current service costs are charged against earnings. Past service costs are amortized and funded over periods not exceeding fifteen years.

2. Accounts receivable:

These are as follows –

	1979	1978
	(in thousands of dollars)	
Coal settlements receivable	**$ 2,616**	$ 3,458
Other receivables	**2,117**	3,263
	$ 4,733	$ 6,721

3. Inventories and mine supplies:

These are as follows –

	1979	1978
	(in thousands of dollars)	
Metallurgical coking coal	**$17,687**	$ 9,811
Mine supplies	**7,355**	6,191
Houses for sale to employees less mortgages thereon	**1,765**	776
	$26,807	$16,778

4. Investments:

(i) Changes in the Company's investments in affiliates, accounted for by the equity method, are as follows:

	Falconbridge		Madeleine	
	(in thousands of dollars)			
	1979	1978	**1979**	1978
Investment, beginning of period:				
As previously reported	**$ 99,732**	$ 99,635	**$ 556**	$ 1,163
Retroactive adjustment to earnings (Note 13)	**722**	604	**—**	—
As restated	**100,454**	100,239	**556**	1,163
Equity (reduction) in earnings:				
Before extraordinary items	**38,848**	215	**378**	(265)
Extraordinary items	**7,424**	—	**—**	—
	146,726	100,454	**934**	898
Deduct dividends received	**5,545**	—	**—**	342
Investment, end of period	**$ 141,181**	$ 100,454	**$ 934**	$ 556
Shares held	**1,848,414**	1,848,414	**1,712,208**	1,712,208
Market value at December 31	**$ 169,130**	$ 60,536	**$ 3,219**	$ 993

(ii) Summarized financial information for these two companies is presented below:

	Falconbridge 1979	Falconbridge 1978	Madeleine 1979	Madeleine 1978
	(in thousands of dollars)			
Current assets	**$ 536,366**	$ 352,235	**$ 4,744**	$ 862
Other assets	**533,005**	516,290	**2,391**	3,992
	$1,069,371	$ 868,525	**$ 7,135**	$ 4,854
Current liabilities	**$ 155,483**	$ 97,451	**$ 1,320**	$ 80
Long-term liabilities	**417,967**	384,873	**129**	—
Shareholders' equity:				
Preference	**75,000**	75,000	**—**	—
Common	**420,921**	311,201	**5,686**	4,774
	$1,069,371	$ 868,525	**$ 7,135**	$ 4,854
Earnings (loss) attributable to common equity:				
Before extraordinary items	**$ 104,650**	$ 1,086	**$ 662**	$ (618)
After extraordinary items	**$ 124,650**	$ 1,086	**$ 912**	$ (618)
Dividends paid on common shares	**$ 14,938**	$ —	**$ —**	$ 941

Plant and equipment:

Plant and equipment at cost are as follows –

	1979	1978
	(in thousands of dollars)	
Underground plant and equipment	**$16,278**	$15,248
Surface plant and equipment	**70,231**	69,534
Equipment under capital lease	**6,217**	5,952
Other	**402**	783
	93,128	91,517
Less: Accumulated depreciation	**45,678**	37,067
	$47,450	$54,450

6. Deferred mine development:

Unamortized mine development costs are as follows –

	1979	1978
	(in thousands of dollars)	
Producing properties –		
Surface mines	**$21,837**	$23,371
Underground mines	**3,358**	2,168
Non-producing properties –		
Copton properties (i)	**6,923**	6,874
Other properties	**2,261**	1,694
Initial costs, including infrastructure and start-up expenses	**9,883**	10,385
	$44,262	$44,492

(i) Exploration activities to-date indicate that the Copton properties may contain substantial quantities of coal, which cannot be mined economically at the present time (See Note 11 (v)).

7. Long-term debt:

Long-term debt is as follows –

	1979	1978
	(in thousands of dollars)	
Bank debt –		
Euro-U.S. dollar loan –		
U.S. $31,561,824	$ —	$37,426
Canadian dollar loan	—	27,625
	—	65,051
Obligation under capital lease	**2,680**	3,602
	2,680	68,653
Less current portion	**639**	625
	$ 2,041	$68,028

The Euro-U.S. dollar loan and the Canadian dollar loan bore interest at the London Interbank offer rate plus ¾ of 1% and the minimum lending rate of the Canadian Imperial Bank of Commerce plus ¼ of 1%, respectively.

8. Deferred income taxes:

Accumulated earned depletion allowances, which are available to reduce future income taxes, amounted to approximately $13,000,000 at December 31, 1978 and $13,500,000 at December 31, 1979.

The difference between the amount of reported total income tax expense and the amount computed by multiplying the consolidated earnings before income taxes by the applicable tax rate was as follows:

	1979	1978
	(in thousands of dollars)	
Loss from operations before income taxes	**$ (5,047)**	$ (1,552)
Tax rate	**47%**	47%
Loss multiplied by tax rate	**$ (2,372)**	$ (729)
Increase to be reconciled	**66**	1,441
Deferred income taxes reported in the financial statements	**$ (2,306)**	$ 712

Reconciliation:

Increase (decrease) in taxes resulting from items that are not deductible for tax purposes –		
Coal royalty	**$ 208**	$1,935
Possible future exchange loss	—	1,085
Compensation for expropriated Crown leases	—	683
Rate differential in deferred tax drawdown	**1,279**	—
Stock issue costs	**(719)**	—
Other	**(63)**	327
	705	4,030
Resource, inventory and earned depletion allowances	**(639)**	(2,589)
Net increase	**$ 66**	$1,441

Deferred income taxes result from timing differences between financial and taxable income. The source of these timing differences in each of the above periods was from the excess of depreciation, amortization of deferred development, and exploration expense claimed for income taxes over similar items recorded in the financial statements.

The Company has no material foreign tax liability.

No income taxes have been provided on undistributed earnings of affiliates as dividends received from Falconbridge and Madeleine are not subject to tax.

9. Extraordinary items:

Extraordinary items consist of the following –

	1979	1978
	(in thousands of dollars)	
Compensation for expropriation of certain Crown coal leases	$ —	$ 1,454
Company's equity in the reduction in income taxes of Falconbridge arising from its prior years' losses	7,424	—
	$ 7,424	$ 1,454

10. Earnings (loss) per share and dividends paid:

For calculation of earnings (loss) per share and dividends paid, the number of total shares outstanding has been reduced by McIntyre's equity in its own shares held by an affiliate as follows –

Years	Weighted average total shares outstanding	Deduct equity in own shares held by an affiliate	Number of shares used in calculation of earnings (loss) per share and dividends paid
1978	2,434,482	65,269	2,369,213
1979	2,445,002	65,269	2,379,733

Exercise of the share options outstanding at the balance sheet dates would not affect to any extent the earnings (loss) per share.

11. Commitments and contingencies:

(i) The Company has guaranteed mortgages amounting to $4,840,000 at December 31, 1979 ($11,503,000 at December 31, 1978) in respect of employee housing in Grande Cache.

(ii) A long-term operating lease agreement for the supply of unit-train rail cars for the transportation of coal provides for minimum rental charges of $1,090,000 for each of the next five years and a total of $2,665,000 during the subsequent five-year period. This is the only significant operating lease agreement that the Company is involved in.

(iii) The Company is obligated to pay approximately $500,000 for the balance of the purchase price of the shares of Copton Excol Limited, an 82.5% owned subsidiary of McIntyre (81.1% owned at December 31, 1978), in the event that Copton Excol secures a contract for the sale of coal from its property.

(iv) In 1969 the Company contracted to supply coal to Canadian Utilities Limited, to provide its requirements for fuel of contract specification at its thermal power generating plant at Smoky River, Alberta, for a period of fifteen years commencing December 1972 at a price of approximately $0.32 per long ton. It was initially anticipated that these annual requirements would be in the range of 600,000 short tons per year. The contract is renewable at the option of the purchaser at a nominal price for a further fifteen years.

Alberta Power Limited, the assignee of Canadian Utilities, in 1973 commenced an action against the Company in the Supreme Court of Alberta claiming damages in the amount of $804,000 for costs allegedly incurred by it in connection with the supply and use of coal supplied by the Company during 1973, and requesting certain declaratory and injunctive relief. The Company is defending the action. In the opinion of the Company's counsel, the plaintiff will not be successful in obtaining judgment in the amount of damages presently claimed or in obtaining an injunction. No provision therefor has been made in the accounts.

The plaintiff's claim as presently pleaded covers only the year 1973. Claims in respect of subsequent years may be made but the Company is not currently in a position to determine the amount of the damages, if any, which might be sustained with respect to those years.

The Company maintains that it is legally bound under the contract to supply only by-product coal from its metallurgical coal mining and processing operations. It believes, on the basis of its by-product coal production since its metallurgical coal mining operation at Smoky River commenced in 1970, that there will not be sufficient amounts of specification by-product coal available to fulfill the requirements of Alberta Power. The Company is presently delivering by-product coal to Alberta Power on a month to month basis, at cost. McIntyre understands that Alberta Power has also been purchasing and utilizing and continues to purchase and utilize additional fuel. The parties are currently engaged in discussions with a view to a possible settlement which may contemplate, among other things, long-term undertakings by the Company regarding delivery of minimum quantities of by-product coal from its Smoky River operation as well as other financial commitments.

(v) On June 1, 1974 Copton Excol Limited, an 82.5% owned subsidiary of McIntyre (81.1% owned at December 31, 1978), entered into an agreement with Meadowlark Farms Inc., a wholly owned subsidiary of Amax, Inc., to further explore and evaluate Copton's coal properties in the Smoky River region of Alberta in order to determine the economic feasibility of developing the properties for production. Under the terms of the agreement Meadowlark was to acquire a 50% interest in Copton's coal properties if, among other things, it delivered to Copton prior to May 31, 1976 a complete and detailed economic feasibility study in respect of Copton's coal properties on the basis of which it had to be prepared to proceed with the development of the properties to production. If it failed to do so, the agreement terminated.

Prior to May 31, 1976 Meadowlark delivered to Copton a purported feasibility study which was reviewed by Copton with the assistance of independent engineering consultants. Based upon the opinions and information provided by these parties at that time, the Company's counsel were of the opinion that the study submitted by Meadowlark did not qualify as a complete and detailed economic feasibility study within the terms of the agreement. Accordingly, on June 8, 1976 Meadowlark was advised in writing that the agreement had terminated.

In a counterclaim filed by Meadowlark in an action commenced by Copton on August 3, 1976, Meadowlark claims damages against Copton in the amount of $308,382,000 and also alleges, among other things, that McIntyre induced Copton to breach the agreement. The Company believes that the Copton property is not a commercially feasible coal operation at the present time, and hence the current fair market value of that property is nominal in relation to the damages pleaded by Meadowlark in the litigation. (See Note 6). Examinations for discovery in that action have now been substantially completed and Copton is denying the claims made against it. Based on the opinions of its counsel, McIntyre maintains that there is no justification for any claims against it and, accordingly, no provision for damages has been made in the accounts.

(vi) Company pension contribution costs, including past service costs, were $164,000 in 1979 ($288,000 in 1978).

Total unfunded past service liability at July 1, 1979 (the date of the most recent actuarial valuation) amounted to $265,000, relating to improvements in plan benefits made in 1973 and 1975. The liability is being amortized by annual payments of $33,000.

The Company has two pension plans, one for salaried and the other for hourly employees. The salaried plan is contributory and provides for an annual pension equivalent to the number of years of service times 1-1/2% of the average annual earnings during the best three years of the final ten years of employment. The hourly plan is non-contributory and provides for an annual pension of 1-1/2% of total earnings while an employee.

12. Capital stock:

By Certificate of Amendment of Articles dated May 22, 1979, the authorized capital of the Company was increased by the creation of 4,000,000 preference shares with a par value of $25 each issuable in series and the creation of an additional 2,000,000 common shares without par value. The Board of Directors of McIntyre is authorized to fix by resolution the rights, conditions, restrictions, limitations and prohibitions to be attached to the preference shares.

In December, 1979 the Company issued 1,218,491 common shares at $65 per share by way of a rights offering to its shareholders. The proceeds of the issue, net of related expenses, were $77,672,000.

The following table summarizes information relating to 175,000 common shares which have been set aside under the Executive and Key Employee Stock Option Plan:

		Option price		Market value (at date of grant)	
	Number of shares	Per share	Total	Per share	Total
Options outstanding at December 31, 1979:					
Granted in 1977 (expire February 28, 1980)	4,000	25.18	$100,720	27.38	$109,520
Granted in 1977 (expire October 19, 1987)	4,000	25.18	100,720	27.38	109,520
Granted in 1979 (expire April 22, 1989)	8,000	44.06	352,480	46.38	371,040
Granted in 1979 (expire November 19, 1989)	2,100	52.73	110,733	55.50	116,550
	18,100				
Options outstanding at December 31, 1978:					
Granted in 1973 (expired May 19, 1979)	10,000	41.80	418,000	43.00	430,000
Granted in 1977 (expire February 28, 1980)	4,000	25.18	100,720	27.38	109,520
Granted in 1977 (expire October 19, 1987)	4,000	25.18	100,720	27.38	109,520
	18,000				
Options exercised:					
1979 (granted in 1979)	3,000	44.06	132,180	46.38	139,140

Date options exercisable:

			Option price		Market value (at date of grant)	
Year Granted	Date exercisable	Number of shares	Per share	Total	Per share	Total
1973	January 25, 1973	10,000	41.80	418,000	43.00	430,000
1977	October 20, 1977	8,000	25.18	201,440	27.38	219,040
1979	April 23, 1979	11,000	44.06	484,660	46.38	510,180
1979	November 20, 1979	2,100	52.73	110,733	55.50	116,550

Upon exercise of options on the capital stock, the full amount received is credited to the capital stock account. No charge is made against earnings.

The number of shares available for grant at December 31, 1979 was 18,450 (21,550 at December 31, 1978).

13. Restatement of consolidated earnings (loss):

In the first quarter of 1979, Falconbridge adopted the equity method of accounting for investments in companies over which it exercises significant influence and which were previously carried at cost. In addition, Falconbridge received reassessments of prior years' taxes. Both of these matters were accounted for retroactively and resulted in an increase of $722,000 in McIntyre's reported retained earnings at January 1, 1979.

14. Quarterly financial data (unaudited):

	Quarter Ended			
	March 31 1979	June 30 1979	September 30 1979	December 31 1979
	(in thousands of dollars, except per share data)			
Net revenue	$12,722	$17,718	$21,024	$10,761
Earnings (loss) from operations	$ 901	$ (728)	$ (490)	$ (2,424)
Earnings before extraordinary items	$ 6,716	$ 8,302	$ 8,040	$13,427
Consolidated earnings	$ 8,252	$11,451	$ 8,931	$15,275
Earnings per share – Before extraordinary items	$ 2.84	$ 3.50	$ 3.39	$ 5.60
Consolidated earnings	$ 3.49	$ 4.83	$ 3.76	$ 6.37

Auditors' Report

To the Shareholders of
McINTYRE MINES LIMITED:

We have examined the consolidated balance sheet of McIntyre Mines Limited as at December 31, 1979 and the consolidated statement of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The investment in Falconbridge Nickel Mines Limited has been accounted for on the equity basis, and we have relied on the report of the auditors who have examined its financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving effect to the retroactive adjustments made by Falconbridge Nickel Mines Limited as described in Note 13, on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants
PRICE WATERHOUSE & CO.

February 15, 1980

Five Year Summary

	1979	1978	1977	1976	1975
Production ($000's omitted)					
Raw coal (long tons)	**1,755**	2,133	2,944	3,162	2,588
Clean coal (long tons)	**1,044**	1,316	1,740	1,865	1,680
Earnings ($000's omitted)	$	$	$	$	$
Revenue (a)					
- Coal sales	**62,667**	105,270	—	—	—
- Coal production	—	—	123,873	121,911	95,736
Less coal royalty	**(442)**	(4,118)	(5,036)	(2,602)	(206)
	62,225	101,152	118,837	119,309	95,530
Exploration	**333**	4,279	3,220	1,690	1,980
Interest expense	**8,620**	6,310	4,287	4,024	4,329
Depreciation	**9,005**	9,083	8,413	6,589	5,209
Amortization of deferred development	**1,909**	1,945	3,567	3,281	2,993
Deferred income taxes (recovery)	**(2,306)**	712	2,920	3,026	4,600
Earnings (loss) from operations	**(2,741)**	(2,264)	4,983	8,162	11,683
Equity earnings (losses) of affiliates	**39,226**	(94)	(11,513)	5,014	893
Reduction in valuation of coal inventory	—	—	(3,003)	—	—
Extraordinary gains (losses)	**7,424**	1,454	(5,915)	2,741	4,600
Consolidated earnings (loss)	**43,909**	(904)	(15,448)	15,917	17,176
Per share (b)	**$18.45**	$(0.38)	$(6.52)	$6.72	$7.25
Dividends paid (b)	—	1,184	2,369	2,369	1,184
Per share (b)	—	$0.50	$1.00	$1.00	$0.50
Dividends received from affiliates	**5,545**	342	924	2,448	2,277
Financial Position ($000's omitted)					
Working capital (deficiency)	**30,560**	10,614	12,183	1,000	(4,167)
Investments	**142,115**	101,010	101,402	119,682	117,401
Properties and plant	**91,712**	98,942	100,425	91,810	83,605
Long-term debt	**2,041**	68,028	70,876	49,858	47,931
Shareholders' equity	**266,269**	144,556	146,633	164,512	150,965
Per share (b)	**$74.16**	$61.01	$61.90	$69.44	$63.73
Shareholders and Employees - December 31					
Total shares outstanding	**3,655,973**	2,434,482	2,434,482	2,434,482	2,434,482
Shareholders	**2,134**	2,513	2,737	2,720	2,819
Employees	**790**	822	998	950	850

(a) Beginning January 1, 1978, coal sales revenues were calculated on a coal sales basis as compared to a coal production basis in prior years.

(b) Per share figures calculated on the basis of average shares outstanding during the year less equity in own shares held by affiliate.

Management's Discussion and Analysis of Operations

Coal sales for 1979 decreased to $62.7 million (916,000 long clean tons) from $105.3 million (1,527,000 long clean tons) due primarily to lower contracted sales volumes and lower spot sales. Since April 1, 1978, the Company has been operating under contracts with a group of Japanese steel manufacturers calling for deliveries of 800,000 tons per year as compared to the prior level of 1,500,000 tons per year. The average revenue per ton of coal sold in 1979 was $68.41, down slightly from $68.94 in 1978.

Operating costs for 1979 decreased by $30.4 million from 1978, due primarily to the decline in sales discussed above.

Exploration expenses decreased by $4.0 million in 1979. McIntyre's exploration projects were carried on in 1979 by a subsidiary of Canadian Superior Oil Ltd., with McIntyre retaining an interest in the projects through appropriate dilution formulae.

Despite the reduced level of bank debt outstanding during the period, interest expense increased $2.3 million in 1979 due to higher bank interest rates.

A higher rate of exchange for the Canadian dollar at December 28, 1979, the date the Euro-U.S. dollar loan was repaid, compared to December 31, 1978 resulted in a foreign exchange gain of $0.4 million.

The Company recorded a reduction in deferred taxes of $2.3 million in 1979 compared to a provision of $0.7 million in 1978. This resulted from lower coal royalties and other expenditures which are not deductible for income tax purposes.

McIntyre's equity in the earnings of its affiliates increased by $39.3 million in 1979, of which $38.7 million related to Falconbridge and $0.6 million to Madeleine. The increase in earnings of both companies was primarily attributable to favourable conditions in world nickel, cobalt, copper and other metals markets during 1979.

In addition, an extraordinary income tax credit resulting from prior years' losses was recorded by Falconbridge in 1979, of which McIntyre's share was $7.4 million.

McINTYRE
MINES LIMITED

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M5K 1C5

EXECUTIVE OFFICES
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355 Fourth Avenue S.W.
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T2P 0J3

Directors

C.L. BARNEY,
Senior Vice-President,
The Superior Oil Company

M.A. COOPER,
President & Managing Director,
Falconbridge Nickel Mines Limited

THE HON. E.C. MANNING,
Chairman,
Manning Consultants Limited

A.R. NIELSEN,
President & Chief Executive Officer,
Canadian Superior Oil Ltd.

L.T. POSTLE,
Consulting Engineer

J.B. REDPATH,
Director,
Dome Mines Limited

J.E. REID,
President & Chief Operating Officer,
The Superior Oil Company

Officers

C.L. BARNEY,
Chairman of the Board & Chief Executive Officer

P.D. BUSHONG,
Senior Vice-President

B.A. THOMAS,
Senior Vice-President

E.J. BETHELL,
Executive Vice-President

J.J. CROWHURST,
Vice-President – Operations

P.L. MITCHELL,
Treasurer & Comptroller

[illegible].G. PITTET,
Corporate Secretary & Legal Counsel

Capital Stock

Authorized: 5,000,000 shares without par value
Issued: 3,655,973 shares

Authorized: 4,000,000 preference shares
Issued: none

Auditors

PRICE WATERHOUSE & CO.
Chartered Accountants, Calgary, Alberta

Transfer Agents

CANADA PERMANENT TRUST COMPANY,
Toronto, Ontario and Calgary, Alberta

BRADFORD TRUST COMPANY,
New York, N.Y.

Registrars

CROWN TRUST COMPANY,
Toronto, Ontario and Calgary, Alberta

THE CHASE MANHATTAN BANK
(National Association) New York, N.Y.

Executive Committee

C.L. BARNEY
M.A. COOPER
L.T. POSTLE
J.B. REDPATH
J.E. REID

Compensation Committee

C.L. BARNEY
E.C. MANNING
A.R. NIELSEN
J.E. REID

Audit Committee

A.R. NIELSEN
L.T. POSTLE
J.B. REDPATH

Stock Exchanges

The stock of the Company is listed for trading on the Toronto Stock Exchange, Montreal Stock Exchange and the New York Stock Exchange

Operations

Coal Division	R.F. Lambert, General Manager, Grande Cache, Alberta
Madeleine Mines	J. Faubert, General Manager, Ste. Anne des Monts, Québec