McINTYRE MINES

1980 ANNUAL REPORT

McINTYRE MINES

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.

Annual Meeting

The Annual Meeting of the shareholders will be held on Tuesday, May 4, 1981 at 10:00 A.M. (Calgary Time) in the Presidents Room, Calgary Petroleum Club, 319 - 5 Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with the management proxy circular and form of proxy, are being mailed with this report.

Highlights

(In thousands, except per share data)

	1980	1979	1978
Consolidated earnings (loss)	**$ 35,665**	$ 43,909	$ (904)
Per share	**$* 9.90**	$* 18.45	$* (0.38)
Revenue	**$ 115,237**	$ 62,667	$ 105,270
Working capital provided from operations	**$ 11,296**	$ 6,810	$ 12,134
Capital expenditures	**$ 11,470**	$ 3,681	$ 9,325
Working capital at year-end	**$ 41,264**	$ 31,156	$ 11,003
Long-term debt at year-end	**$ 4,594**	$ 4,712	$ 68,944
Sales volume (long tons)	**1,684**	916	1,527
Production (long tons)	**1,470**	1,044	1,316

*The weighted average number of shares used in calculation of earnings per share were 3,600,037, 2,379,733, and 2,369,213 for 1980, 1979 and 1978 respectively. In December 1979, McIntyre issued 1,218,491 common shares by way of a rights offering to its shareholders.

To Our Shareholders

In 1980 McIntyre again experienced disappointing results from the operations at its Smoky River mines. A loss from operations of $3.0 million was recorded in 1980 compared to a loss of $2.7 million in 1979. On a consolidated basis, including the earnings of Falconbridge Nickel Mines Limited and Madeleine Mines Ltd., your Company reported net income of $35.7 million or $9.90* per share down from $43.9 million or $18.45* per share in 1979. Earnings of Falconbridge were down in 1980 due to softening in demand for its products while earnings of Madeleine were up slightly from the previous year.

* *The average number of shares outstanding was increased by 1,218,491 common shares issued by way of a rights offering in December of 1979.*

Coal sales in 1980 showed considerable improvement. Sales volumes of 1,684,000 long tons of clean coal contributed revenues of $115.2 million compared to $62.7 million from sales of 916,000 long tons in 1979. This increase in sales volume and revenue was primarily the result of increased sales to our Japanese customers and additional spot sales to other customers. Operating costs increased in 1980 to $101.6 million from $45.0 million in 1979 due to higher sales volumes and increased labor materials and transportation costs.

In November, 1980 a coal sales agreement with our Japanese customers was negotiated for two years beginning April 1, 1981. The volume to be delivered under this agreement is 1,224,000 long tons of clean coal per year at a price of $74 Canadian during the first year, increasing to $78.50 during the second year.

In addition, during 1980 McIntyre reached agreement with a consortium of four Brazilian steel mills for the delivery of 3,260,000 metric tons of coal. Of this amount 500,000 tons will be delivered from January 1, 1982 to March 31, 1983, following which 460,000 tons per annum will then be delivered to March 31, 1989. Definitive contracts are to be concluded by the end of June, 1981. This is the first long term contract McIntyre has entered into with customers outside Japan and is a result of an intensive two year effort to diversify our markets.

Mining operations during 1980 began slowly with production curtailments during January, 1980 due to transportation disruptions between Smoky River and Neptune Terminals at Vancouver. The pace picked up rapidly in March with the reopening of the Second Narrows Bridge and 2,329,000 long tons of raw coal were ultimately produced in 1980, up from 1,755,000 long tons in 1979. Raw coal production from the surface mines was 1,264,000 long tons while the underground mines contributed 1,065,000 long tons.

Capital and exploration expenditures during 1980 totalled $12.8 million up from $4.0 million in 1979. Mine development expenditures in 1980 of $2.0 million included the completion of development of mines 9A-4 and 5-4, and the commencement of mine 9G-4, which will begin production in the second quarter of 1981. Exploration expenditures increased to $1.4 million in 1980 from $0.3 million in 1979 due primarily to stepped up activity on the Monkman Pass coal property in which McIntyre has a 16⅔% interest.

McIntyre and a consortium of other users acquired Neptune Terminals of North Vancouver, B.C. and all related facilities in October, 1980. The cost of McIntyre's 20% interest in the consortium was $885,000. The Terminal is to be operated on a non-profit basis for the benefit of the owners.

During 1980, Falconbridge Nickel Mines Limited, in which McIntyre owns a 37.1% equity interest, recorded earnings of $109.1 million. Included in the earnings was an extraordinary gain of $37.7 million on the sale of the capital stock of Canadian Superior Oil Ltd., owned by Falconbridge. McIntyre's equity portion of the earnings of Falconbridge amounted to $38.1 million, down from $46.3 million in 1979.

Madeleine Mines, in which McIntyre owns a 36.4% equity interest, had earnings of $1.8 million in 1980. McIntyre's share of these earnings was $0.6 million up slightly from $0.4 million in 1979.

In January, 1981 McIntyre announced the appointment of Mr. Philip J. Urso as President and Chief Operating Officer. Mr. Urso comes to McIntyre with an extensive background in Canadian coal mining operations.

In October, 1980 Mr. J.J. Crowhurst, Vice President, Operations, retired after four years with McIntyre. In November, 1980 Mr. W.M. Bone was appointed Corporate Secretary and General Counsel, and Mr. J.P.L. Bacharach was appointed Director, Operations in January, 1981.

McIntyre's excellent safety record suffered a severe setback on February 18, 1980 when four miners were killed by a roof collapse in the Reiff Terrace #2R-4 mine. An enquiry was carried out by the Provincial Government, and the report will be available in 1981. Meanwhile, the company is undertaking an intensive safety campaign with special emphasis on the underground mines.

Assured long term markets for Smoky River coal, resulting from a successful marketing campaign, have enabled management to commence a program of long term planning for a stable production level. Efforts are presently underway to enhance the engineering and management capabilities within the Company, to improve planning, to evaluate new and improved equipment and processes and to achieve more efficient extraction. In this way, we will be lowering costs over time and also be in a position to take advantage of increased sales and production opportunities as they arise.

Progress was made in 1980 toward our goals through the continued hard work of our employees, support of the Alberta Government and confidence demonstrated by our customers. Management is grateful for their support. In 1981 we hope to achieve better results with continued commitment from these people.

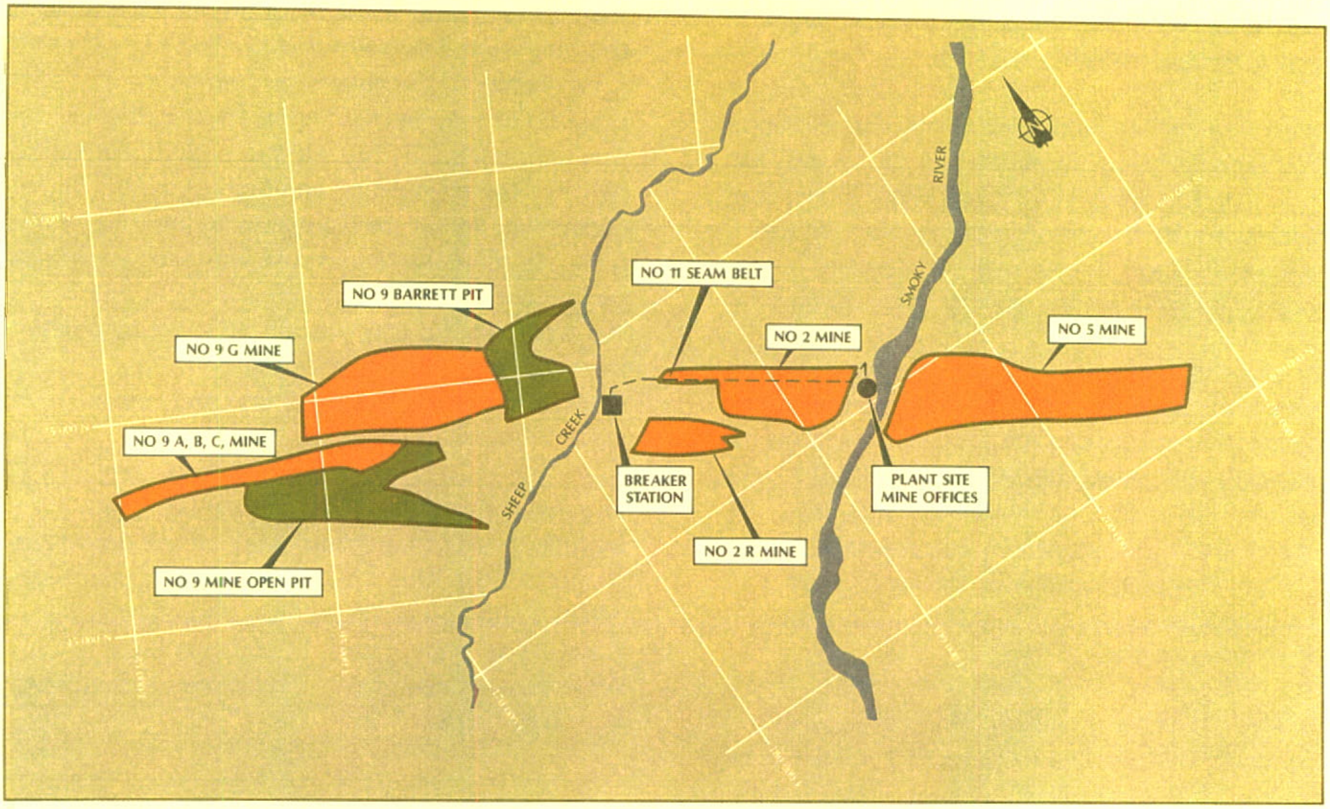
C L Barney

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

P.J. Urso
President and
Chief Operating Officer

Operations Review

Production of raw metallurgical coal during 1980 totalled 2,329,000 long tons or 33% over the level of 1979. Production from the surface mine of 1,264,000 long tons of raw coal was more than double the 1979 level while production from the underground mines of 1,065,000 long tons of raw coal was down slightly from 1979.



Underground Mines:

Mine 2R-4

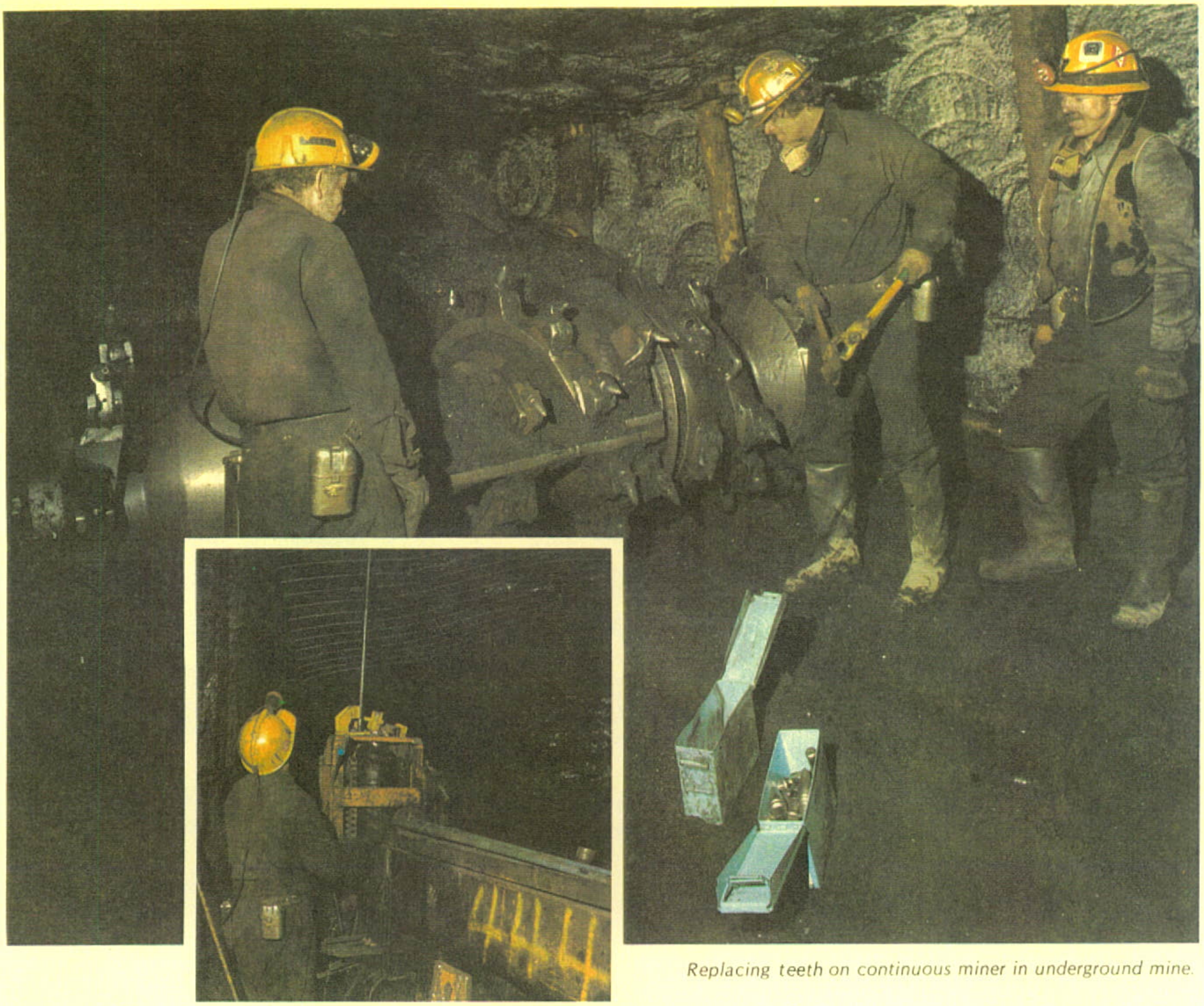
The 2R-4 mine, located on the southeast side of Sheep Creek and producing from the No. 4 seam, was the main underground producer at Smoky River during 1980. Production from this mine, which was in the depillaring phase throughout 1980, totalled 525,000 long tons of raw coal or 49% of the total underground production. This mine was closed prematurely in October, 1980 due to a fire which resulted in the abandonment of 97,000 long tons of clean coal.

Mine 2R-11

The 2R-11 mine is located adjacent to the 2R-4 mine and produces coal from the No. 11 seam. This mine was reactivated in October, 1980 and produced 77,000 long tons of raw coal. Operations during 1981 will include both development and depillaring activity as this mine is brought up to full production.

Mine 2-11

This mine is located between the Sheep Creek and Smoky River Valleys and is the conduit for the tunnel conveyor roadways which connect the Sheep Creek mines with the coal preparation plant in the Smoky River Valley. A combination of development and depillaring resulted in 239,000 long tons of raw coal production during 1980. All activity during the last three quarters of 1980 was focused on developing a new mining district which will be completed with depillaring commencing in the third quarter of 1981.



Replacing teeth on continuous miner in underground mine.

Placing Roof Bolt in Underground Mine

Mine 5-4

This mine is located on the southeast side of the Smoky River Valley opposite the coal preparation plant. The mine operated from mid-1969 to February, 1973 when operations were suspended. In February, 1979 the mine was reopened and a program of rehabilitation has been in progress since that time. Drivages have been established through rehabilitated roadways into previously unworked coal areas and 115,000 long tons of raw coal were produced during 1980. Operations during 1981 will see continued development of new coal areas as roadways are driven forward beyond the old workings.

Mine 9A-4

This mine was opened in 1979 and is located adjacent to the surface mine with the portals having been driven in the high wall of the surface center pit. Development work proceeded on the two main roadways during 1980 and 109,000 long tons of raw coal were produced. During 1981 development of the two mining districts will be completed and depillaring should commence during the third quarter in 1981.

Mine 9G-4

Development of this new mine commenced late in 1980 with two entrances being established and two rock declines driven downward to gain access to No. 4 seam reserves. Production in this mine is expected to commence late in 1981 from the No. 4 seam and experimental drivages in the No. 10 seam to test the feasibility of long wall mining are to be made.

Overburden Removal at #9 Surface Mine

No. 9 Surface Mine

The No. 9 surface mine is located on the north side of Sheep Creek approximately five miles from the entrance to the tunnel conveyor in No. 2-11 mine which transports the coal to the preparation plant. Production by the conventional shovel-truck mining system is being employed to mine Nos. 4 and 10 seam reserves.

Activity at the surface mine increased significantly during 1980 as demand for Smoky River coal increased. Over 1,264,000 long tons of raw coal were produced compared to 628,000 long tons raw in 1979. The workforce at the surface mine was increased by approximately 76% throughout the year and production levels were at near capacity by year end. Approximately 11,500,000 bank cubic yards of material were moved during 1980 and coal was produced at an average stripping ratio of 9 bank cubic yard of waste per ton of raw coal.

In late December an agreement was reached with the United Steelworkers of America, the Union representing the labor force at Smoky River, to implement a seven day per week, 24 hour per day work schedule at the surface mine. This shift change should allow higher production levels and better utilization of existing equipment and facilities in 1981.

Coal Preparation Plant

The coal preparation plant is located in the Smoky River Valley adjacent to the H.E. Milner generating station owned and operated by Alberta Power. Coal is cleaned by heavy-medium cyclones and froth flotation after which it is mechanically and thermally dried prior to shipment to Neptune Terminals in North Vancouver. During 1980 the preparation plant processed over 2,329,000 long tons of raw coal to recover 1,470,000 long tons of clean coal at an average yield of 63.1%.

Smoky River Coal Plant Site

Neptune Bulk Terminals (Canada) Limited

During 1980 McIntyre joined a consortium which purchased Neptune Bulk Terminals Limited from Federal Industries Limited. The consortium includes all of the commodity users of the Terminal with coal representing approximately 60% of the Terminal's volume. McIntyre has a 20% ownership of the new company, Neptune Bulk Terminals (Canada) Limited, and is represented on the Board of Directors. Participation in the consortium should allow McIntyre flexibility and low cost port facilities.

McIntyre shipped 1,684,002 long tons of metallurgical coal through the terminal in 1980 and ended the year with an inventory of 70,000 long tons at Neptune.

Exploration

Exploration expenditures during 1980 totalled $1.4 million compared to $0.3 million in 1979. The increase was primarily the result of stepped up activity on the Monkman Pass Coal Project and included a payment for past expenditures made by Canadian Superior Oil Ltd. on behalf of McIntyre Mines.

Monkman Pass Coal Project, British Columbia

McIntyre Mines Limited holds a 16.7% interest in the Monkman Pass Coal Project. The remaining interest is held by Canadian Superior Oil Ltd. (33.3%) and Petro-Canada (50%), who is the operator of the project.

The Monkman Pass Project is one of the most promising of the properties in northeastern British Columbia. The property consists of leases covering approximately 37,400 hectares along a 75 kilometre stretch of Rocky Mountain foothills, following the northwest/southeast trend of the coal-bearing strata. Exploration has been carried out since 1975 with emphasis on the northern end of the property, where medium volatile bituminous coal has been demonstrated to exist in substantial quantity.

Loading Overburden at #9 Surface Mine

The Stage I preliminary environmental assessment document was submitted to the Environmental and Land Use Committee (ELUC) in July, 1979. The Stage II document, a detailed impact assessment, is expected to be filed in 1981.

Copton Coal Property, Alberta
Activity on the property remained at a relatively low level throughout the year. Results of washability and petrographic tests as well as coking tests by Japanese and Canadian steel companies indicate that alternative uses for this coal to that of a coking coal should be explored. A study will be conducted in 1981 to assess the development of the Copton property as a producer of thermal coal and the market scope for the thermal coal product.

Golden Offsets, Ontario
McIntyre Mines has a 20% interest in a gold property controlled by Golden Offsets Mines Limited located in Tully Township in Northern Ontario. A drilling program has been completed with positive results and the property will be brought into production in the near future.

Effective January 1, 1979, McIntyre and Canadian Superior Exploration entered into an agreement promoting further participation by Canadian Superior in several exploration projects in which McIntyre has an interest. 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 and drilling continued during 1980. A feasibility study was completed and a report was prepared on the property. McIntyre and Canadian Superior are evaluating the results to determine their participation in 1981.

Doyon Joint Venture, Alaska
A surface mapping and prospecting project was completed on the coal deposit during 1980.
A drilling program will be carried out in 1981 to test the quality and continuity of this thermal coal prospect. A minimum work program is planned for the phorphyry molybdenum project in 1981.

Asbestos Project, Alaska
Participation in this asbestos prospect was discontinued in 1980.

Craig Joint Venture, Yukon
The diamond drilling program was completed in 1980 with disappointing results. No further exploration activities are anticipated.

Bretz Prospect, Oregon
The results of the drilling program outlined a zone of uranium mineralization that is uneconomic at the present time. Assessment work will be done to keep the prospect in good standing.

Ruth Prospect, British Columbia
A minimum mapping and sampling program was carried out in 1980 to maintain the property.

Coal Handling Facilities at Neptune Bulk Terminals (Canada) Ltd.

Marketing

During 1980, McIntyre sold 1,684,000 tons of its coal, an increase of approximately 84% over coal sales for the year 1979.

The principal market for McIntyre's production continues to be the Japanese steel industry. During the year, McIntyre was in a position to take advantage of disruptions to Japan's coal supplies from other sources to supply 430,000 tons to Japan in excess of its basic contract. In November, McIntyre concluded an agreement with the Japanese to supply 1,224,000 tons of coal in each of the two years commencing on April 1, 1981 and April 1, 1982 respectively.

The major effort, commenced by McIntyre in 1979, to secure markets for its coal outside Japan paid significant dividends in 1980. A total of 337,000 tons of coal was sold to customers in Brazil, Argentina, Eastern Canada, the Republic of Korea and Taiwan.

In August, a contract was signed with a consortium of Brazilian steel mills providing for McIntyre to commence in January 1982, delivery of approximately 460,000 tons per year of coal to that country for a seven year period.

In spite of the generally depressed state of the steel industry worldwide, 1980 has seen a strong demand for coking coal, which is likely to continue. McIntyre foresees no difficulty in maintaining sales of coal at a level which will ensure that the mine operates at full capacity for the foreseeable future.

Falconbridge Nickel Mines Limited

Surface Facilities of Falconbridge's Westfrob Mining Division Located in the Queen Charlotte Islands of British Columbia.

In 1980 Falconbridge recorded the second highest consolidated earnings in its history. These results were particularly gratifying because they were achieved in spite of the unfavourable impact of inflation on operating costs, increased exploration and development expenses, and a sudden downturn in metal markets that began in April and continued throughout the balance of the year. Consolidated earnings were $109,122,000 including an extraordinary credit of $37,700,000 resulting from the acceptance of a public offer by The Superior Oil Company to purchase all of the capital stock of Canadian Superior Oil Ltd. In 1979, consolidated earnings were $130,561,000 including an extraordinary credit of $20,000,000 due to a deferred tax credit arising from prior years' losses.

The strong improvement in nickel markets that helped the company to achieve record earnings in 1979 was not sustained in 1980. Sales of nickel in all forms by Falconbridge during 1980, including nickel refined and delivered on a commission basis, were 94,338,000 pounds compared with 137,277,000 pounds in 1979. This significant decrease in shipments reflected the sharp recession in the United States, beginning in the second quarter, and the subsequent decline in economic activity in Europe and Japan during the second half of the year. Moreover, while nickel shipments were decreasing, production of nickel within the non-Communist world was increased by about 15 per cent. As a result, producer inventories of nickel come to approximately 400 million pounds at year end. Falconbridge inventory of nickel in all forms increased by year end to 45,833,000 pounds from 27,217,000 pounds at the end of 1979. With no substantial improvement in the economy anticipated before the second half of 1981, nickel demand is expected to remain at about current levels and then increase in the latter part of the year.

The average selling price per pound received by Falconbridge for refined nickel products in 1980 was U.S. $3.25 compared with U.S. $2.31 in 1979. The average price per pound received for ferronickel products in 1980 was U.S. $3.18 compared with U.S. $2.41 in 1979.

In November, 1980, a temporary six per cent discount on all nickel orders placed for the first quarter of 1981 was adopted by the major producers. Although this discount was rescinded effective February 28, 1981, it continued to apply on orders received before that date for delivery before June 30, 1981.

At Sudbury Operations, nickel production was increased to about 70 per cent of capacity.

The Falconbridge, East Lockerby, Onaping and Strathcona Mines were in operation throughout the year, and North Mine was re-activated during the third quarter. Development continued at the Fraser Mine, with production scheduled to begin in 1981. A new circuit was installed in the Strathcona Mill for the production of a high-grade copper concentrate commencing in December, 1980 and an agreement was concluded for the treatment of the concentrate and refining of the copper in Ontario. The second roaster-electric furnace in the smelter was put on line in January, 1980. There were 3,886 employees at year end, an increase of 244 over the 1979 level.

The integrated nickel operations earnings of $57,372,000 in 1980 were 8 per cent lower than in 1979, reflecting a 36 per cent lower volume of nickel sales and increased costs, partially offset by the impact of a higher nickel selling price and increase in the volume of copper sales.

Falconbridge Dominicana, C. por A. incurred a loss of U.S. $8,578,000 in 1980 compared with a profit of U.S. $8,572,000 in 1979. Costs were sharply higher and demand for ferronickel weakened dramatically late in the second quarter of the year. In order to maintain inventories at reasonable levels it was necessary to suspend production operations from August 1 to December 31, 1980. Production was resumed in January, 1981, by which time inventories of ferronickel had approached normal operating levels. Total sales of ferronickel to Falconbridge Nickel Mines Limited in 1980 were 36,491,000 pounds of contained nickel compared with 54,130,000 pounds in 1979. As a result of reduced shipments of ferronickel, the company required additional funding during 1980 in the amount of U.S. $14,223,000 which, pursuant to its financing agreement, was provided by Falconbridge Nickel Mines Limited and the other project sponsor.

Further financial support from these sources will be required in 1981. The financing agreements require Falconbridge to provide 60 per cent of the funds required by Falconbridge Dominicana, C. por A. which it is not able to generate from operations.

The earnings of $30,333,000 by Corporation Falconbridge Copper (formerly Falconbridge Copper Limited) in 1980 were 35 per cent lower than in 1979. The main factors in this decrease were lower metal production, greater operating and exploration expenditures, the transition to lower grade ore at Corbet Mine compared with that at Millenbach Mine, and closure of the Sturgeon Lake Mine, all of which were partly offset by higher prices for gold and copper.

Madeleine Mines Limited

In 1980, Madeleine earned $1.8 million, up from $0.9 million in 1979. Mine operations resumed on July 2, 1979 after being suspended since November, 1976. Production in 1980 was 10,941,000 pounds of copper and 87,000 ounces of silver from 622,500 tons of ore. Copper grade averaged .94% and mill recovery was 94%. The mill operated at full capacity throughout the year. Copper concentrates are sold under an agreement with Noranda Mines Limited and trucked to Noranda's smelter at Murdochville, Quebec.

The first quarter of 1980 saw a significant surge in the prices of copper and silver, which reached approximately $1.67 per pound and $56.00 per ounce, respectively. However, prices declined during the remainder of the year. The average prices realized by Madeleine were $1.14 per pound of copper and $23.29 per ounce of silver.

During 1980, underground and surface exploration programs were conducted on the property. The underground program produced disappointing results and will not be continued in 1981. However, trenching in late fall uncovered an area of oxidized mineralization on the surface. This area, along with several geological anomalies occurring elsewhere on the property, will be drilled in the spring of 1981 as soon as weather conditions permit.

MCINTYRE MINES

Consolidated Statements of Income

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

	Year ended December 31		
	1980	1979	1978
Revenue:	$115,237	$ 62,667	$105,270
Cost of Sales:			
Operating costs	101,599	44,958	76,429
Depreciation	9,309	9,005	9,083
Depletion	4,032	1,909	1,945
Reclamation	3,130	1,345	232
Coal royalties	24	442	4,118
	118,094	57,659	91,807
Gross Profit	(2,857)	5,008	13,463
Corporate Expenses (Income)			
Administration	5,085	1,504	2,000
Exploration	1,353	333	4,279
Interest	(3,679)	8,620	6,310
Gain on insurance settlement	(2,124)	—	—
Foreign exchange	—	(402)	2,426
	635	10,055	15,015
Loss from operations before income taxes	3,492	5,047	1,552
Deferred income taxes (Note 7)	(500)	(2,306)	712
Loss from operations	2,992	2,741	2,264
Equity in earnings of affiliates	24,662	39,226	(94)
Income before extraordinary items	21,670	36,485	(2,358)
Extraordinary items (Note 8)	13,995	7,424	1,454
Net income	$ 35,665	$ 43,909	$ (904)
Per share (Note 9):			
Income before extraordinary items	$ 6.02	$ 15.33	$ (0.99)
Extraordinary items	3.88	3.12	0.61
	$ 9.90	$ 18.45	$ (0.38)

The accompanying notes to consolidated financial statements form an integral part of these statements.

McINTYRE MINES

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

	Year ended December 31		
	1980	1979	1978
Balance - beginning of year	**$182,638**	$138,729	$140,817
Net income	**35,665**	43,909	(904)
	218,303	182,638	139,913
Dividends	**—**	—	1,184
Balance - end of year	**$218,303**	$182,638	$138,729

The accompanying notes to consolidated financial statements form an integral part of these statements.

McINTYRE MINES

Consolidated Balance Sheets
(in thousands of Canadian dollars)

ASSETS

	December 31		
	1980	1979	1978
Current:			
Cash and short term investments	$ 32,318	$ 12,199	$ —
Accounts receivable	5,911	4,042	6,156
Inventories of metallurgical coal	6,978	17,687	9,811
Inventories of mine supplies	8,089	7,355	6,191
	53,296	41,283	22,158
Investments (Note 2):			
Falconbridge Nickel Mines Limited	172,817	141,181	100,454
Madeleine Mines Ltd.	630	934	556
Neptune Bulk Terminals (Canada) Limited	885	—	—
	174,332	142,115	101,010
Property, plant and equipment:			
Plant and equipment, at cost (Note 3)	99,048	93,128	91,517
Less: Accumulated depreciation	52,409	45,678	37,067
	46,639	47,450	54,450
Deferred mine development, net of accumulated depletion (Note 4)	42,238	44,262	44,492
	88,877	91,712	98,942
Other (Note 5):	8,379	9,361	6,869
	$324,884	$284,471	$228,979

The accompanying notes to consolidated finan

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31		
	1980	1979	1978
Current liabilities:			
Accounts payable and accrued liabilities	$ 11,313	$ 9,403	$ 10,501
Current portion of long-term debt	719	724	654
	12,032	10,127	11,155
Long-term debt (Note 6)	4,594	4,712	68,944
Accrued Reclamation	5,991	2,863	1,518
Deferred income taxes (Note 7)	—	500	2,806
Commitments and contingencies (Note 10)			
Shareholders' equity:			
Capital stock (Note 11)	87,741	87,408	9,604
Retained earnings	218,303	182,638	138,729
	306,044	270,046	148,333
Less: Shares held by affiliate, at cost	3,777	3,777	3,777
	302,267	266,269	144,556
	$324,884	$284,471	$228,979

APPROVED BY THE BOARD

C L Berry Director

A R Nelson Director

atements form an integral part of these statements.

McINTYRE MINES

Consolidated Statements of Changes in Financial Position

(in thousands of Canadian dollars)

	Year ended December 31		
	1980	1979	1978
Source of working capital:			
Operations	**$ 11,296**	$ 6,810	$ 12,134
Dividends from affiliates	**7,325**	5,545	342
Proceeds on insurance settlement	**2,805**	—	—
Settlement of long-term account receivable	**2,000**	—	—
Issuance of common shares	**333**	77,804	—
Other	**170**	399	—
	23,929	90,558	12,476
Use of working capital:			
Plant and equipment	**9,462**	2,002	1,723
Deferred mine development	**2,008**	1,679	7,602
Reduction of long-term debt	**118**	64,232	4,222
Investment in Neptune Bulk Terminals	**885**	—	—
Dividends paid to shareholders	**—**	—	1,184
Other	**1,348**	2,492	968
	13,821	70,405	15,699
Increase (decrease) in working capital	**10,108**	20,153	(3,223)
Working capital, beginning of year (Note 19)	**31,156**	11,003	14,226
Working capital, end of year	**$ 41,264**	$ 31,156	$ 11,003
Changes in components of working capital:			
Increase (decrease) in current assets –			
Cash and short-term investments	**$ 20,119**	$ 12,199	$ —
Accounts receivable	**1,869**	(2,114)	4,417
Inventories of metallurgical coal	**(10,709)**	7,876	(11,360)
Inventories of mine supplies	**734**	1,164	(13)
	12,013	19,125	(6,956)
Increase (decrease) in current liabilities –			
Accounts payable and accrued liabilities	**1,910**	(1,098)	(2,670)
Current portion of long-term debt	**(5)**	70	(1,063)
	1,905	(1,028)	(3,733)
Increase (decrease) in working capital	**$ 10,108**	$ 20,153	$ (3,223)

The accompanying notes to consolidated financial statements form an integral part of these statements.

Notes to Consolidated Financial Statements

1. **Accounting Policies:**

(a) Principles of consolidation –

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

(b) Short term investments –

Short term investments are valued at cost which approximates market value.

(c) Inventories –

The Company values its coal inventory at the lower of cost and net realizable value, cost being determined on the basis of current production cost including depreciation and depletion.

Mine supplies are valued at the lower of cost and net realizable value.

(d) Investments –

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 less prior years' writedown plus its interest in undistributed earnings. The above equity interest percentages are as of December 31, 1978, 1979 and 1980.

During 1980 McIntyre purchased a 20% interest in Neptune Bulk Terminals (Canada) Limited. This investment is accounted for on the equity basis.

(e) Property, plant and equipment –

Plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated productive lives, which range from four to twenty years. Maintenance and repair expenditures are expensed as incurred.

Development and preproduction expenditures relating to each mine are capitalized at cost until the mine is brought into production, at which time the costs are amortized on a unit of production basis. Costs which are not considered economically recoverable through mining operations or through sale of reserves are written off.

(f) Reclamation –

The Company provides for the estimated costs of reclaiming acreage which has been disturbed, over the remaining lives of the respective mines, primarily on a unit of production basis.

(g) Exploration –

Exploration costs are charged against earnings as incurred.

(h) Foreign exchange –

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. Revenues and expenses are translated at the average rate prevailing during the period.

Unrealized gains or losses are included in earnings in the current year.

2. **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)					
	1980	1979	1978	**1980**	1979	1978
Investment, beginning of period	**$ 141,181**	$ 100,454	$ 100,239	**$ 934**	$ 556	$ 1,163
Equity in earnings:						
Before extraordinary items	**24,110**	38,848	215	**552**	378	(265)
Extraordinary items	**13,995**	7,424	—	**—**	—	—
	179,286	146,726	100,454	**1,486**	934	898
Deduct dividends received	**6,469**	5,545	—	**856**	—	342
Investment, end of period	**$ 172,817**	$ 141,181	$ 100,454	**630**	$ 934	$ 556
Shares held	**1,848,414**	1,848,414	1,848,414	**1,712,208**	1,712,208	1,712,208
Market value at December 31	**$ 189,462**	$ 169,130	$ 60,536	**$ 4,709**	$ 3,219	$ 993

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

	Falconbridge			Madeleine		
	(in thousands of dollars)					
	1980	1979	1978	**1980**	1979	1978
Current assets	**$ 548,325**	$ 536,366	$ 352,235	**$ 5,683**	$ 4,914	$ 862
Property, plant and equipment, net	**506,131**	470,379	456,514	**2,278**	2,391	3,360
Other assets	**104,638**	62,626	59,776	**—**	—	632
	$1,159,094	$1,069,371	$ 868,525	**$ 7,961**	$ 7,305	$ 4,854
Current liabilities	**$ 186,206**	$ 155,483	$ 97,451	**$ 1,659**	$ 942	$ 80
Long-term liabilities	**285,801**	287,170	295,003	**681**	334	—
Deferred income taxes	**85,284**	41,973	23,687	**210**	129	—
Minority interest	**95,662**	88,824	66,183	**—**	—	—
Shareholders' equity:						
Preference	**—**	75,000	75,000	**—**	—	—
Common	**506,141**	420,921	311,201	**5,411**	5,900	4,774
	$1,159,094	$1,069,371	$ 868,525	**$ 7,961**	$ 7,305	$ 4,854
Earnings attributable to common shares:						
Before extraordinary items	**$ 64,947**	$ 104,650	$ 1,086	**$ 1,864**	$ 662	$ (618)
Extraordinary items	**$ 37,700**	$ 20,000	$ —	**$ —**	$ 250	$ —
Dividends paid on common shares	**$ 17,427**	$ 14,938	$ —	**$ 2,353**	$ —	$ 941

3. Plant and equipment:

Plant and equipment are as follows –

	1980	1979	1978
		(in thousands of dollars)	
Underground mine equipment	**$17,979**	$16,278	$15,248
Surface mine equipment	**40,986**	40,595	40,429
Coal preparation plant	**21,327**	20,890	20,835
Other equipment	**18,756**	15,365	15,005
	99,048	93,128	91,517
Less: Accumulated depreciation	**52,409**	45,678	37,067
	$46,639	$47,450	$54,450

4. Deferred mine development:

Deferred mine development, net of accumulated depletion, is as follows –

	1980	1979	1978
Producing properties, Smoky River –			
Surface mine	**$20,607**	$21,837	$23,371
Underground mines	**3,933**	3,358	2,168
Start-up costs	**9,140**	9,883	10,385
Non-producing properties –			
Copton (i)	**6,923**	6,923	6,874
Smoky River	**1,635**	2,261	1,694
	$42,238	$44,262	$44,492

(i) Exploration of the Copton properties, which are situated adjacent to the Smoky River property, indicates that substantial quantities of proven coal resources exist. The costs have been capitalized with the intention that they will be amortized by charges against income from future mining operations. Studies are continuing on the feasibility of developing this property as a producer of coking or thermal coal. Profits commensurate with the risks of operating in this location must be indicated before further development to production.

5. Other assets:

Other assets are as follows –

	1980	1979	1978
Houses for sale to employees, at the lower of cost and net realizable value	**$ 5,233**	$ 4,247	$ 1,480
Employee housing loans	**2,224**	1,909	2,123
Security deposit	**922**	762	565
Long-term account receivable	**—**	2,443	2,701
	$ 8,379	$ 9,361	$ 6,869

6. Long-term debt:

Long-term debt is as follows –

	1980	1979	1978
		(in thousands of dollars)	
Mortgages on houses for sale to employees	**$ 3,286**	$ 2,756	$ 945
Capital leases	**2,027**	2,680	3,602
Bank debt	**—**	—	65,051
	5,313	5,436	69,598
Less current portion	**719**	724	654
	$ 4,594	$ 4,712	$68,944

7. Income taxes:

Deferred income taxes result from timing differences between accounting and taxable income. The source of these timing differences has been the excess of depreciation and depletion claimed for income taxes over similar items recorded in the financial statements.

At December 31, 1980 the tax basis of property, plant and equipment, including exploration and deferred mine development costs, was approximately $5,000,000 greater than the net carrying value in the financial statements. In addition, the Company has earned depletion allowances of approximately $9,000,000 at December 31, 1980 which are available to reduce future taxable income, within the limitations prescribed by the Income Tax Act.

A reconciliation of the amount of income tax computed by applying the statutory Canadian income tax rate to the Company's loss before income taxes is presented below:

	1980	1979	1978
		(in thousands of dollars)	
Loss from operations before income taxes	**$ 3,492**	$ 5,047	$ 1,552
Statutory tax rate	**49%**	47%	47%
Loss multiplied by tax rates	**$ 1,711**	$ 2,372	$ 729
Adjust for tax effect of –			
Resource, inventory and earned depletion allowances	**260**	639	2,589
Non-claimable expenses	**(11)**	(208)	(3,020)
Stock issue costs deducted for tax purposes	**—**	719	—
Compensation for expropriated Crown leases	**—**	—	(683)
Rate differential in deferred tax drawdown	**—**	(1,279)	—
Unrecorded deferred tax benefit	**(1,460)**	—	—
Other	**—**	(63)	(327)
	$ 500	$ 2,306	$ (712)

No income taxes have been provided on the undistributed earnings of affiliates since dividends received are not subject to tax. The Company has no material foreign tax liability.

8. Extraordinary items:

Extraordinary items consist of the following –

	1980	1979	1978
		(in thousands of dollars)	
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge	**$13,995**	$ —	$ —
Company's equity in reduction in income taxes of Falconbridge arising from its prior years' losses	**—**	7,424	—
Compensation for expropriated Crown leases	**—**	—	1,454
	$13,995	$ 7,424	$ 1,454

9. Earnings per share and dividends paid:

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

Years	Weighted average total shares outstanding	Deduct proportionate investment in shares held by an affiliate	Number of shares used in calculation of earnings per share and dividends paid
1978	2,434,482	65,269	2,369,213
1979	*2,445,002	65,269	2,379,733
1980	*3,665,306	65,269	3,600,037

Exercise of the share options outstanding at the balance sheet dates would not materially affect the earnings per share.

*In December 1979, McIntyre issued 1,218,491 common shares by way of a rights offering to its shareholders.

10. Commitments and contingencies:

(i) The Company has guaranteed mortgages amounting to $2,721,000 at December 31, 1980.

(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 $2,083,000 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 82.7% owned subsidiary of McIntyre (82.5% at December 31, 1979; 81.1% 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 82.7% owned subsidiary of McIntyre (82.5% at December 31, 1979 and 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, Messrs. Campbell, Godfrey and Lewtas, 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 that the current fair market value of that property is nominal in relation to the damages pleaded by Meadowlark in the litigation. Examinations for discovery in that action have now been substantially completed and Copton is denying the claims made against it. Based on the opinion of its counsel, Messrs. Campbell, Godfrey and Lewtas, the Company maintains that there is no justification for any claims against it and, accordingly, no provision for damages has been made in the accounts.

(vi) On December 5, 1980, Neptune Bulk Terminals Ltd. filed a Statement of Claim in the Supreme Court of British Columbia, alleging that it had suffered damages by reason of breach of contract, negligent misrepresentation, and negligence on the part of the Company, in connection with the sale of a stacker-reclaimer by the Company to Neptune Bulk Terminals Ltd.

There are numerous other defendants in this action.

Demands for discovery of documents are being given by the parties. A tentative trial date has been set for February, 1982. In its Statement of Claim, the plaintiff has not stated what quantum of damages it is seeking against the Company. In the opinion of counsel, it is too early to evaluate fully this claim.

11. Capital stock:

The capital stock of McIntyre consists of:

	1980	1979	1978
Authorized –			
Preference shares			
Number of shares	**unlimited**	4,000,000	—
Par value	**none**	$25	—
Common shares			
Number of shares	**unlimited**	5,000,000	3,000,000
Par value	**none**	none	none
Issued –			
Common shares	**3,666,073**	3,655,973	2,434,482

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 McIntyre issued 1,218,491 common shares at $65.00 per share by way of a rights offering to its shareholders. The proceeds of the issue, net of related expenses, were $77,672,000.

On May 1, 1980 McIntyre was continued under the Canada Business Corporations Act and its authorized capital consists of an unlimited number of common shares and preference shares, each without nominal or par value.

12. Stock Option Plans:

In 1958, the Company established the Executive and Key Employee Stock Option Plan which set aside 175,000 common shares for granting of options to purchase shares at not less than 95% of the average market value on the date granted. In April 1980, the shareholders approved the 1980 Executive and Key Employee Share Option Plan which permits the Board of Directors to grant options for terms up to five years to purchase shares at a price of not less than 90% of the average market value of such shares on the preceding trading date. Options on up to 150,000 shares may be granted under this plan which also provides for stock appreciation rights in tandem with the options.

		Option price		**Market value**	
	Number of shares	**Per share**	**Total** (in thousands of dollars)	**Per share**	**Total** (in thousands of dollars)
Options outstanding					
December 31, 1977	18,000	$25.18 to 41.80	$619	$25.63	$ 461
December 31, 1978	18,000	25.18 to 41.80	619	24.50	441
Activity during 1979					
Granted	13,100	44.06 to 52.73	595	46.38 to 55.50	627
Exercised	(3,000)	44.06	(132)	56.25 to 68.00	177
Expired	(10,000)	41.80	(418)	45.50	455
Options outstanding					
December 31, 1979	18,100	25.18 to 52.73	664	66.50	1,204
Activity during 1980					
Granted	10,500	56.00	588	61.00	641
Exercised	(10,100)	25.18 to 52.73	(332)	71.75 to 98.00	817
Options Outstanding					
December 31, 1980	18,500	25.18 to 56.00	920	70.00	1,295

Options outstanding at December 31, 1980 include options on 8,000 common shares under the 1958 plan and five year options on 10,500 common shares under the 1980 plan. The five year options become exercisable after one year from the date of grant in cumulative increments of 25% per year.

Upon the exercise of options, the full amount received is credited to capital stock. No amounts are charged to earnings except upon the exercise of stock appreciation rights under the 1980 plan.

13. Pension Plans:

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 1½% of the average annual earnings during the best three years of the final ten years of employment. The hourly plan is non-contributory.

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 covered by the surplus in the plan. Due to the surplus in the plan the Company did not make any contributions in 1980. The Company's costs were $164,000 in 1979 and $288,000 in 1978.

14. Reconciliation of net income prepared in accordance with generally accepted accounting principles in Canada to conform with accounting principles which are generally accepted in the United States (U.S. GAAP): (In thousands of dollars except per share data).

	Year Ended December 31		
	1980	1979	1978
Loss from operations, as reported	**$ (2,992)**	$ (2,741)	$ (2,264)
Equity in earnings of affiliates, as reported	**$ 24,662**	$ 39,226	$ (94)
Adjustments to conform with U.S. GAAP			
Increase (decrease) in Company's equity in Falconbridge to reflect the adjustments to:			
1. Record long-term debt at exchange rate current at the end of each year (i)	**(427)**	1,502	(5,058)
2. Record gains which were deferred on translation of foreign subsidiaries accounts for consolidation purposes (i)	**587**	(541)	1,835
3. Adjust income tax assessments (ii)	**—**	1,223	(43)
4. Record capitalization of interest costs (iii)	**1,234**	—	—
Equity in earnings of affiliates, as adjusted	**$ 26,056**	$ 41,410	$ (3,360)
Income from continuing operations in accordance with U.S. GAAP	**$ 23,064**	$ 38,669	$ (5,624)
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge (iv)	**13,995**	—	—
Extraordinary items under U.S. GAAP	**—**	7,424	1,454
Net income in accordance with U.S. GAAP	**$ 37,059**	$ 46,093	$ (4,170)
Earnings per share in accordance with U.S. GAAP			
Continuing operations	**$ 6.41**	$ 16.25	$ (2.37)
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge	**3.88**	—	—
Extraordinary items	**—**	3.12	0.61
	$ 10.29	$ 19.37	$ (1.76)

(i) Under Canadian GAAP Falconbridge translates long-term debt into Canadian dollars at rates of exchange prevailing when the debts were incurred and defers net unrealized gains on translation of foreign subsidiaries' financial statements for consolidation purposes. U.S. GAAP requires recognition of all gains or losses resulting from translation of foreign currencies at year-end exchange rates.

(ii) Under Canadian GAAP Falconbridge gives retroactive accounting treatment to reassessments of prior years' tax. For fiscal years beginning 1978, the U.S. professional pronouncements require that the cumulative effect of the tax reassessments be given recognition in current income.

(iii) Consistent with the Canadian mining industry's policy 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 capital. Interest costs incurred after the commencement of commercial production are expensed.

For fiscal years beginning 1980 U.S. GAAP require 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.

(iv) See note 8.

15. Mining Operations:

The following summarizes the results of coal mining operations for the current and prior two years:

	1980	1979	1978
		(in thousands of dollars)	
Clean coal produced, in thousands of long tons	**1,470**	1,044	1,316
Clean coal sold, in thousands of long tons	**1,684**	916	1,527
Sales	**$115,237**	$ 62,667	$105,270
Cost of sales	**118,094**	57,659	92,807
Gross profit	**$ (2,857)**	$ 5,008	$ 13,463

At the present time the Company has contracts for the annual delivery of 1,224,000 tons of coal to March 31, 1983 and 460,000 tons from January 1, 1982 to March 31, 1989. Prices for coal sold under these contracts will be approximately 6% higher in 1981 and approximately 13% higher in 1982, compared to the average selling price in 1980. The average selling price remained relatively constant throughout 1978, 1979 and 1980.

Despite the fact that price increases noted above may not fully cover expected cost increases in the short-term, the Company believes that the long-term outlook for coal markets is favourable and that further operating efficiencies will be achieved. Accordingly, the Company believes that its investment in property, plant and equipment will be realized from the cash flow from mining the coal reserves of the Smoky River property.

16. Related party transactions:

Effective January 1, 1979, McIntyre entered into a three year agreement with Canadian Superior Oil Ltd. providing for the participation of Canadian Superior in certain of McIntyre's exploration properties. Canadian Superior is entitled, on a project by project basis, to earn up to a 50% interest by matching previous expenditures by McIntyre. To December 31, 1980 Canadian Superior had expended $4.1 million under this agreement.

17. Borrowing arrangements:

During 1980, McIntyre negotiated lines of credit totalling $20,000,000 with two Canadian banks. The lines of credit can be utilized by way of direct Canadian or U.S. dollar loans or by way of Banker's Acceptances at the option of McIntyre. The interest rate for Canadian dollars drawn under both lines of credit is the prime lending rate of each bank, or the London Interbank Offer Rate plus 3/8 of 1%, at the option of McIntyre. McIntyre pays 3/8 of 1% to each bank for their Acceptance. There are no commitment fees and neither line of credit may be withdrawn by the bank. A compensating balance is not required under either line of credit. No drawings were made under either line of credit during 1980.

18. Segment information:

All sale of coal are made to unaffiliated customers, the major ones being a group of ten Japanese steel mills. The following is an analysis of sales (in thousands of long tons of coal) and revenue (in thousands of dollars):

	1980	1979	1978
Major Customers			
Sales	**1,116**	718	1,103
Revenue	**$ 76,482**	$ 49,121	$ 76,381
Others			
Sales	**568**	198	424
Revenue	**$ 38,755**	$ 13,546	$ 28,889
Total			
Sales	**1,684**	916	1,527
Revenue	**$115,237**	$ 62,667	$105,270

19. Restatement of 1978 and 1979 financial statements:

Certain of the 1979 and 1978 figures have been restated to conform with the 1980 presentation and as a result working capital reported as $30,560,000 in 1979 and $10,614,000 in 1978 has been restated to $31,156,000 and $11,003,000 respectively.

Auditors' Report

To the Shareholders of
McINTYRE MINES LIMITED:

We have examined the consolidated balance sheet of McIntyre Mines Limited (a Canada corporation and a subsidiary of The Superior Oil Company) as at December 31,1980 and the related consolidated statements of income, 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.

In our opinion, these consolidated financial statements present fairly the financial position of McIntyre Mines Limited as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 5, 1981

ARTHUR ANDERSEN & CO.
Chartered Accountants

Auditors' Report

To the Shareholders of
McINTYRE MINES LIMITED:

We have examined the consolidated balance sheets of McIntyre Mines Limited as at December 31, 1979 and 1978 and the consolidated statements of income, retained earnings and changes in financial position for the two years then ended. 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. 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 1978 and the results of its operations and the changes in its financial position for the two years then ended in accordance with generally accepted accounting principles consistently applied.

Calgary, Alberta
February 15, 1980

PRICE WATERHOUSE & CO.
Chartered Accountants

Quarterly financial data (unaudited):
(in thousands of dollars)

	Quarter Ended			
	March 31 1980	June 30 1980	September 30 1980	December 31 1980
Coal revenue	$25,866	$36,176	$32,527	$20,668
Coal gross profit (loss)	(109)	3,872	3,105	(9,725)
Corporate expenses	274	511	1,902	(2,452)
Income taxes (recovery)	(380)	1,046	658	(1,824)
Income (loss) from operations	(3)	2,315	545	(5,849)
Equity in earnings of affiliates	12,283	6,468	2,791	3,120
Income before extraordinary items	12,280	8,783	3,336	(2,729)
Extraordinary items	13,995	—	—	—
Net income	$26,275	$ 8,783	$ 3,336	$ (2,729)
Earnings per share				
Before extraordinary items	$ 3.41	$ 2.44	$ 0.93	$ (0.76)
Total	$ 7.30	$ 2.44	$ 0.93	$ (0.76)

	Quarter Ended			
	March 31 1979	June 30 1979	September 30 1979	December 31 1979
Coal revenue	$12,820	$17,858	$21,152	$10,837
Coal gross profit	2,415	1,536	1,336	(279)
Corporate expenses	1,914	2,721	2,301	3,119
Income taxes	(400)	(457)	(475)	(974)
Income (loss) from operations	901	(728)	(490)	(2,424)
Equity in earnings of affiliates	5,815	9,030	8,530	15,851
Income before extraordinary items	6,716	8,302	8,040	13,427
Extraordinary items	1,536	3,149	891	1,848
Net income	$ 8,252	$11,451	$ 8,931	$15,275
Earnings per share				
Before extraordinary items	$ 2.84	$ 3.50	$ 3.39	$ 5.60
Total	$ 3.49	$ 4.83	$ 3.76	$ 6.37

	Quarter Ended			
	March 31 1978	June 30 1978	September 30 1978	December 31 1978
Coal revenue	$32,871	$16,553	$33,759	$22,087
Coal gross profit (loss)	4,646	2,942	4,156	1,719
Corporate expenses	3,125	2,451	5,472	3,967
Income taxes (recovery)	723	176	(253)	66
Income (loss) from operations	798	315	(1,063)	(2,314)
Equity in earnings of affiliates	(1,381)	314	(3,016)	3,989
Income before extraordinary items	(583)	629	(4,079)	1,675
Extraordinary items	—	—	—	1,454
Net income	(583)	629	(4,079)	3,129
Earnings per share				
Before extraordinary items	$ (0.24)	$ 0.26	$ (1.72)	$ 0.71
Total	(0.24)	0.26	(1.72)	1.32

Selected Financial Data

	1980	1979	1978	1977	1976
Production (000's omitted)					
Raw coal (long tons)	**2,329**	1,755	2,133	2,944	3,162
Clean coal (long tons)	**1,470**	1,044	1,316	1,740	1,865
Earnings ($000's omitted)	$	$	$	$	$
Revenue (a)					
- Coal sales	**115,237**	62,667	105,270	—	—
- Coal production	—	—	—	123,873	121,911
Exploration	**1,353**	333	4,279	3,220	1,690
Interest	**(3,679)**	8,620	6,310	4,287	4,024
Depreciation	**9,309**	9,005	9,083	8,413	6,589
Depletion	**4,032**	1,909	1,945	3,567	3,281
Deferred income taxes	**(500)**	(2,306)	712	2,920	3,026
Earnings (loss) from operations	**(2,992)**	(2,741)	(2,264)	4,983	8,162
Equity in earnings (losses) of affiliates	**24,662**	39,226	(94)	(11,513)	5,014
Reduction in valuation of coal inventory	—	—	—	(3,003)	—
Extraordinary items	**13,995**	7,424	1,454	(5,915)	2,741
Consolidated earnings (loss)	**35,665**	43,909	(904)	(15,448)	15,917
Per share (b)	**$9.90**	$18.45	$(0.38)	$(6.52)	$6.72
Dividends paid (b)	—	—	1,184	2,369	2,369
Per share (b)	—	—	$0.50	$1.00	$1.00
Dividends received from affiliates	**7,325**	5,545	342	924	2,448
Financial Position ($000's omitted)					
Working capital	**41,264**	31,156	11,003	12,183	1,000
Investments	**174,332**	142,115	101,010	101,402	119,682
Property, plant and equipment	**88,877**	91,712	98,942	100,425	91,810
Long-term debt	**4,594**	4,712	68,944	70,876	49,858
Shareholders' equity	**302,267**	266,269	144,556	146,633	164,512
Per share (b)	**$83.96**	$111.89	$61.01	$61.90	$69.44
Shareholders and Employees - December 31					
Total shares outstanding	**3,666,073**	3,655,973	2,434,482	2,434,482	2,434,482
Shareholders	**1,980**	2,134	2,513	2,737	2,720
Employees	**1,060**	790	822	998	950

(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

Liquidity

During the past three years cash flow from operations has been sufficient to fund expenditures for property, plant and equipment and miscellaneous capital items. Working capital has increased over the period due to dividends from affiliates, capital receipts and proceeds from the issue of common shares in 1979 that exceeded repayment of debt.

A material change in liquidity position is not expected in the near future. At December 31, 1980, the Company had $32.3 million in cash and committed operating lines of credit totalling $20 million with two Canadian chartered banks.

Capital Resources

Capital expenditures for the past three years have been entirely to maintain the existing capital base and productive capacity of the mine. It is expected that this situation will largely continue in 1981, with the required funds coming from the sources mentioned above. However, the Company intends to make moderate expenditures in 1981 to investigate the potential of alternate technology for underground mining, particularly the longwall and hydraulic methods. Should one or both of these methods prove feasible, large capital expenditures would be required to put them into production. Financing would be obtained initially from liquid resources. If further funds were required, the Company's low debt-to-equity ratio would likely make external financing easily obtainable.

Results of Operations

During the past three years the average selling price has remained relatively constant due to the generally soft conditions in metallurgical coal markets. The average price for 1980 was $68.43 per long ton. Primarily because operating costs have been steadily increasing during this period, gross profit has declined from $13,463,000 in 1978 to $5,008,000 in 1979 to a loss of $2,857,000 in 1980.

The price that the Company receives under its contracts with Japanese steel mills will increase to $74.00 per long ton on April 1, 1981 and to $78.50 on April 1, 1982.

The Company suffered a major decline in coal sales in 1979, rebounding in 1980 to approximately the levels achieved in 1978 and prior years. The contract with Japanese steel mills was reduced from 1,500,000 to 800,000 long tons per year on April 1, 1978 due to a prolonged recession in world steel markets and a general decline in the use of low volatile metallurgical coal. Later that year spot sales also fell off. Total deliveries in 1979 were only slightly greater than the Japanese contract volume.

In the first quarter of 1980 the Company experienced renewed demand for its product despite continued recession in steel markets. Other major coal producers suffered interruptions in deliveries due to work stoppages and port congestion. Continued increases in the world price of oil have caused thermal generating companies and, to a lesser extent, steel mills, to seek stable long-term sources of coal. At the request of the Japanese steel mills, contract deliveries for the year ended March 31, 1981 were increased from 800,000 to 1,230,000 long tons. This increase combined with renewed spot sales allowed the Company to gradually resume production near capacity levels.

The contract with the Japanese mills has been renewed until March 31, 1983, for deliveries of 1,224,000 long tons per year. Commitments for spot orders and a seven year contract with Brazilian mills for approximately 460,000 metric tons per year starting January 1, 1982 have virtually assured that substantially all mine output can be sold in 1981 and 1982. The Company is confident that the trend toward stronger coal markets will continue and will begin to impact on the price of high-grade coal in the near future.

The large increase in administration costs in 1980 reflected the effort made to upgrade all Company functions, particularly engineering, planning, marketing, and cost control. Exploration expenditures also increased as McIntyre resumed carrying its interest in the Monkman Pass and Tasminex projects, which had been farmed out to Canadian Superior Oil Ltd. on January 1, 1979. The Company had interest income in 1980, rather than interest expense in 1978 and 1979, because capital stock issued in December, 1979 was more than sufficient to repay all bank debt.

McINTYRE MINES

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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,
M.A. Cooper Consultants Inc.

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

A.R. NIELSEN,
President
Canadian Superior Oil Ltd.

J.B. REDPATH,
Director
Dome Mines Limited

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

P.J. URSO,**
President & Chief Operating Officer
McIntyre Mines Limited

Executive Committee

J.E. Reid
C.L. Barney
M.A. Cooper
J.B. Redpath

Compensation Committee

A.R. Nielsen
E.C. Manning
J.E. Reid

Audit Committee

A.R. Nielsen
J.B. Redpath
E.C. Manning

• Resigned effective March 13, 1981
•• Appointed effective March 13, 1981

Officers

C.L. BARNEY,
Chairman & Chief Executive Officer

P.J. URSO,
President & Chief Operating Officer

B.A. THOMAS,*
Senior Vice-President

E.J. BETHELL,
Executive Vice-President, Marketing

P.L. MITCHELL,
Treasurer & Comptroller

W.M. BONE,
Corporate Secretary & General Counsel

Capital Stock

Authorized:	Unlimited Number of Shares without par value
Issued:	3,666,073 shares
Authorized:	Unlimited number of preference shares without par value
Issued:	None

Auditors

Arthur Andersen & 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.

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, Quebec

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