McINTYRE MINES
1981 Annual Report

McIntyre Mines

Head Office

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355 Fourth Avenue S.W.
Calgary, Alberta T2P 0J3

Telephone 1-403-267-4511

Directors

F.C. Ackman
President, Chairman and Chief Executive Officer
The Superior Oil Company
an oil company

M.A. Cooper,
M.A. Cooper Consultants Inc.
independent consultant

The Hon. E.C. Manning,
Chairman, Manning Consultants Limited
independent consultant

A.R. Nielsen,
President and Chief Executive Officer
Canadian Superior Oil Ltd.
an oil company

J.B. Redpath,
Director, Dome Mines Limited
a mining company

P.J. Urso
President, Chairman and Chief Executive Officer
McIntyre Mines Limited
a coal producer

Executive Committee

F.C. Ackman
E.C. Manning
A.R. Nielsen
J.B. Redpath
P.J. Urso

Compensation Committee

F.C. Ackman
A.R. Nielsen
E.C. Manning

Audit Committee

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

Officers

P.J. Urso
President, Chairman and Chief Executive Officer

E.J. Bethell
Executive Vice-President, Marketing

J.P.L. Bacharach
Vice-President, Operations and Engineering

J.C. Poss
Vice-President, Finance & Planning

W.M. Bone
General Counsel & Corporate Secretary

Capital Stock

Authorized:	Unlimited number of common shares without nominal or par value
Issued:	3,669,573
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:
K. Forgaard, General Manager,
Grande Cache, Alberta

About McIntyre

McIntyre Mines Limited (the Company) has been engaged in mining since 1911, and in the mining, preparation and sale of coal since 1969. The Company's Smoky River coal properties contain multiple seams of high grade, low-volatile coking coal used primarily in steel production. McIntyre's principal coal customers have historically been certain Japanese steel mills. In 1980, McIntyre moved its head office to Calgary, Alberta from Toronto to bring management and the administrative functions closer to the Company's coal operations at Grande Cache, Alberta.

McIntyre has further involvement in the mining industry through its 37.1 percent equity interest in Falconbridge Nickel Mines Limited which operates both in Canada and worldwide. Falconbridge is a world-scale producer of nickel, as well as copper and thirty other minerals and mineral products, industrial minerals and manufactured goods for industrial use either directly or through affiliates. McIntyre also owns a 3[illegible] percent interest in Madeleine Mines Ltd., which produces copper and silver concentrates.

Timber head frame No. 1 shaft at the McIntyre Porcupine Property circa 1911.

Annual Meeting

The Annual Meeting of the Shareholders will be held on Monday, May 3, 1982, at 10:00 a.m. (Calgary Time) in the Banff Room, of The Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with the management proxy circular and a form of proxy, are being mailed to shareholders with this report.

No. 9 surface mine and coal haul road to the Sheep Creek Breaker Station.

To our Shareholders

Despite a loss from operations before income taxes in 1981 of $6.16 million compared to a loss of $3.49 million in 1980, McIntyre Mines Limited made significant progress towards achieving the goal of establishing a profitable Coal Division.

Our three-year program, which began in 1980 and is designed to turn the coal activities into a consistently profitable situation, has made progress. Production figures have increased significantly, relations with our Japanese customers have improved, and efforts to diversify markets are succeeding.

During 1981, the Smoky River Coal Division achieved a record production level of 2.1 million long tons of clean coal (LTC) and set a sales record of 1.9 million LTC.

McIntyre reported improved financial performance in the second half of 1981. At June 30, the Company had reported losses from operations of $5.19 million. By year-end the loss had been reduced to $4.34 million before accounting for $1.82 million to write off unamortized deferred development costs related to our 5-4 mine. The write-off resulted from a decision to close this underground operation to reduce overall mining costs.

On a consolidated basis, including the losses of Falconbridge Nickel Mines Limited and Madeleine Mines Ltd., the Company reported a net loss of $9.7 million or $2.70 per share, down from consolidated income of $35.7 million or $9.90 per share reported in 1980.

Earnings of Falconbridge and Madeleine were down significantly in 1981 due to depressed metal sales and prices; in addition the Company's share of an extraordinary item relating to the write-off, in 1981, of Falconbridge's investment in United Keno Hill Mines Limited's Venus Mine project amounted to $1.9 million.

Diversified Markets A Priority

McIntyre is continuing efforts to diversify markets. In 1981 we successfully negotiated a seven-year contract with a consortium of four Brazilian steel mills calling for delivery of about 450,000 LTC per year beginning April 1, 1982.

Five-year contracts were also successfully negotiated with customers in the Republic of Korea and Taiwan calling for deliveries of 180,000 LTC and 50,000 LTC per year respectively.

Left to right; Philip J. Urso, President; John C. Poss, Vice-President, Finance and Planning; Edwin J. Bethell, Executive Vice-President, Marketing; John P. L. Bacharach, Vice-President, Operations and Engineering.

These new contracts combined with existing agreements with Japanese steel mills provide McIntyre with sales commitments of more than 1.8 million LTC annually. Spot market sales in 1981 accounted for about 250,000 LTC and are expected to continue at this level in 1982.

Last year we reported the successful negotiation of a two-year contract with a consortium of Japanese steel mills calling for 1.2 million LTC per year at $74.00 per ton in 1981 and $78.50 in 1982; deliveries began on April 1, 1981. The agreement was a major step forward in re-establishing strong working relationships with our major Japanese customers who account for over 60 percent of our sales. The prices negotiated in 1980 were consistent with the prices prevailing in the world coal markets at that time.

Coal Prices Strengthen

Since that pricing agreement was negotiated there has been a significant upward trend in coal prices. In August, 1981 a consortium of Australian coking coal producers negotiated a 28 percent price increase with Japanese customers. The increase was justified by rising demand for thermal coal, an alternate market for many metallurgical coal producers and the overall erosion of metallurgical coal prices in real terms that has occurred since 1975.

In 1981 McIntyre negotiated both spot and contract sales well above the Japanese price with several price agreements in excess of $80 per LTC. Two major Canadian coal producers are currently negotiating 1982 prices with Japanese steel mills and it is expected that significant increases will be obtained. While this trend may not immediately benefit McIntyre with regard to its existing contracts, it will serve as a basis for our efforts towards securing at the earliest possible date prices for Smoky River coal that reflect current world values.

Production Records Broken

Record-breaking production figures were set in 1981 as total production at Smoky River was 3.1 million long tons raw (LTR). More than 2.1 million LTR was produced by our surface mine and 0.95 million LTR from underground operations. The 3.1 million LTR produced equates to 2.1 million LTC once the coal has been processed through the coal preparation plant.

Mining plans drawn up in 1981 call for production of 2.0 million LTC annually for the next ten years. About 75 percent is planned to be produced from the surface mine and the remainder from underground operations.

McIntyre's good relations with its hourly employees continues to contribute significantly to the Company's progress. In October, 1981 we reached agreement on a two-year contract with Local 7621 of the United Steel Workers of America. Achievement of this settlement meant that McIntyre maintained an 11-year record of no legal labor disruptions, a record of which we are all proud. To the best of our knowledge, McIntyre is the only coal supplier in the free world to have sustained this level of reliability for such an extended period of time.

In November, McIntyre announced the appointment of Mr. Philip J. Urso as Chairman of the Board and Chief Executive Officer. Mr. Urso will also retain his duties as President. In January, 1982 Mr. J.P.L. Bacharach was appointed Vice-President, Operations and Engineering, and Mr. J. C. Poss was appointed Vice-President, Finance and Planning.

The significant progress achieved by McIntyre in 1981 was largely due to the continued dedication and hard work of our employees, the support of the Alberta Government, and the confidence demonstrated by our customers.

Management is grateful for this support and we will continue to emphasize efforts to contain mining costs and capture the maximum benefits as world coal prices strengthen.

P. J. Urso
President, Chairman of the Board
and Chief Executive Officer

Financial Highlights

(in thousands of Canadian dollars)

	1981	1980	1979
Consolidated earnings (loss)	$ (9,733)	$ 35,665	$43,909
Per share	$ (2.70)*	$ 9.90*	$ 18.45*
Revenue	$140,294	$115,237	$62,667
Working capital provided from operations	$ 8,957	$ 11,296	$ 6,810
Capital expenditures	$ 19,854	$ 11,470	$ 3,681
Working capital at year-end	$ 32,142	$ 41,264	$31,156
Long-term debt at year-end	$ 6,742	$ 5,313	$ 5,436
Sales volume (in thousands of long tons)	1,899	1,684	916
Production (in thousands of long tons)	2,065	1,470	1,044

* The weighted average number of shares used in calculation of earnings per share was 3,603,620, 3,600,037, and 2,379,733 for 1981, 1980 and 1979 respectively. In December, 1979 McIntyre issued 1,218,491 common shares through a rights offering to its shareholders.

Marketing

Sales in 1981 increased 13 percent over 1980 to 1.9 million LTC as we continued to broaden our market base to countries in the Pacific Rim and Latin America.

The consistent high quality of Smoky River coal allowed us to diversify our markets beyond the major Japanese steel mills. About 25 percent of total sales in 1981 were placed with manufacturers of merchant blast furnace coke and foundry coke.

Over 60 percent of total sales continue to be with Japanese steel mills. These contracts call for deliveries of more than 1.2 million LTC annually until March 31, 1983.

A seven-year contract was successfully negotiated with a consortium of four Brazilian steel mills for about 450,000 LTC annually beginning April 1, 1982. Three of the Brazilian mills had purchased a total of 183,000 LTC from us on a spot basis in 1981.

On the Pacific Rim, a major steel producer in the Republic of Korea has agreed to buy 900,000 LTC of McIntyre coal during the next five years. The same producer purchased about 100,000 LTC from us on a spot basis in 1981.

Our success on the Pacific Rim continued with agreement on a five-year contract with a foundry coke manufacturer in Taiwan calling for deliveries of about 50,000 LTC annually.

An additional 250,000 LTC were sold on a spot basis to four customers in Canada, Argentina and Mexico.

In 1981 there was an upward trend in the world price for metallurgical coal. McIntyre has been able to obtain prices reflecting this price improvement on sales negotiated during the year.

Coal destined for export is shipped by rail from the minesite to the Port of Vancouver where it is loaded into ocean carriers through Neptune Terminals. In 1980 McIntyre purchased 20 percent of Neptune Terminals. To minimize potential port handling constraints we contracted for our required capacity until 1987. A major maintenance and equipment upgrading program is being conducted by Neptune to provide additional throughput capacity to accommodate increased future sales.

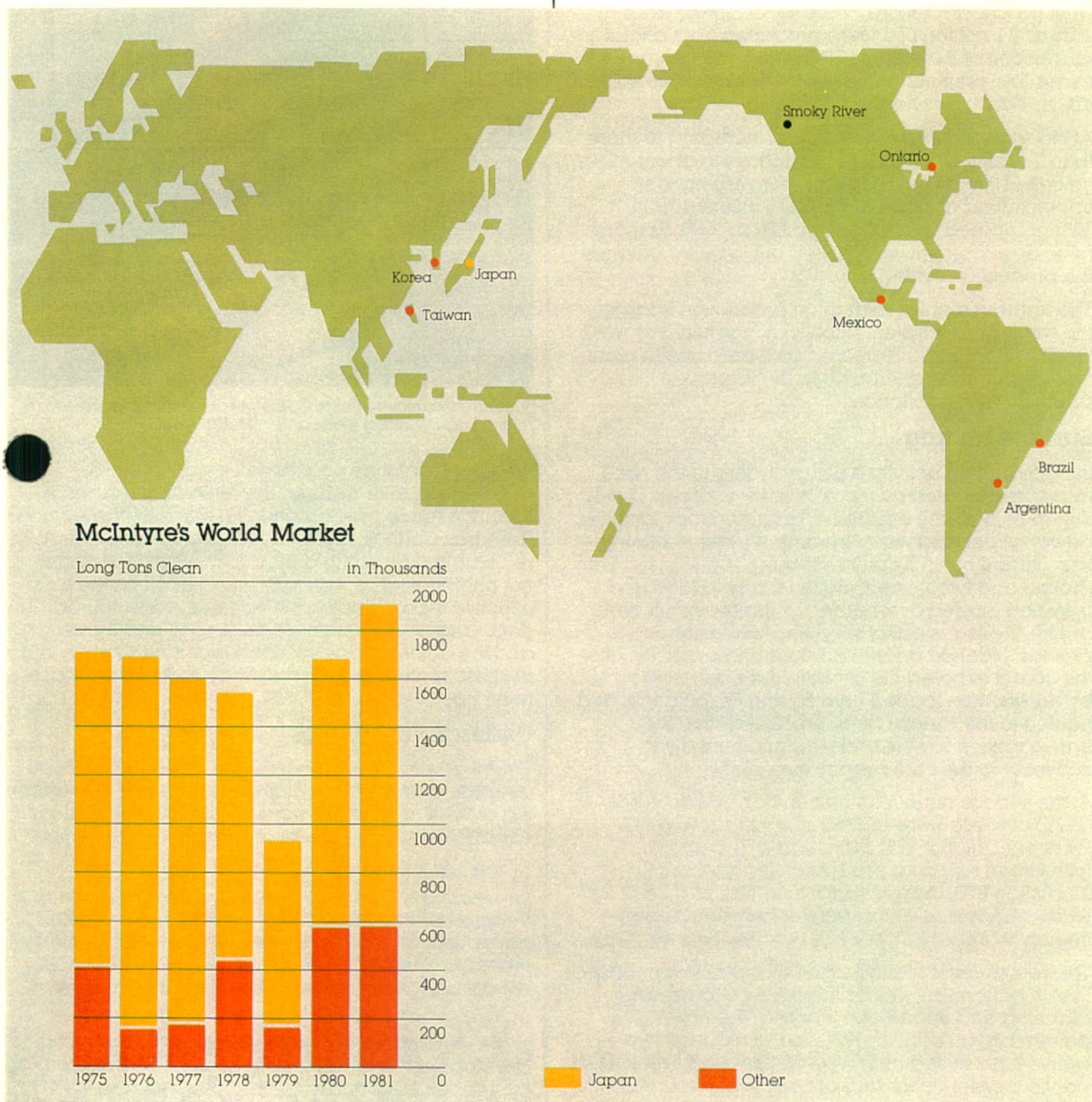
The world's steel industry is suffering from excess capacity and with depressed world economic conditions we anticipate strong competition. We expect an overall drop in world steel output and thus a reduction in metallurgical coal demand. However, the diversification of our markets, linked with the unique quality of Smoky River coal, will enable us to continue to successfully market our total mine output.

CNR train carrying coal.

Metallurgical Coal Sales

Year	Long Tons Clean*	Japan	Other
1975	1,705	1,302	403
1976	1,690	1,547	143
1977	1,594	1,429	165
1978	1,527	1,103	424
1979	916	755	161
1980	1,684	1,116	568
1981	1,899	1,330	569

*LTC 000's


Smoky River
Ontario
Korea
Japan
Taiwan
Mexico
Brazil
Argentina
McIntyre's World Market
Long Tons Clean
in Thousands
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1975
1976
1977
1978
1979
1980
1981
Japan
Other

Operations Review

Production

New production records were set at Smoky River in 1981 as 2.1 million LTC were processed from a total production of 3.1 million LTR from all the operating mines. The previous best performance was 1.86 million LTC in 1976.

At No. 9 surface mine, production increased to more than 2.1 million LTR in 1981, compared to about 1.26 million LTR in 1980. Production from McIntyre's underground operations was 0.95 million LTR in 1981 compared with 1.0 million LTR in 1980, as more mine development was carried out to better balance the production cycle.

The improvement in total mine production is largely the result of the implementation of a seven-day work week at No. 9 mine. Increased coal preparation plant throughput also contributed to the improved production performance.

Surface Mining

Surface mining activity is concentrated in the No. 9 mine area located on the north side of Sheep Creek. The mine has well established maintenance facilities, power, water and water treatment systems. Mining was carried out in six pit areas using five 15 cubic yard shovels and twenty-four 150 ton trucks to load and transport blasted overburden to designated dumps. In 1981 the major out-of-pit dump was extended to provide planned additional dumping capacity. After the coal is exposed it is broken and positioned by dozers, then loaded onto 55 and 85 ton trucks and hauled to the Sheep Creek breaker station for transportation via the underground tunnelway conveyor to the coal preparation plant.

At the surface mine, 20.4 million bank cubic yards (BCY) of waste were moved at a ratio of 9.46 BCY for every LTR. For 1981 there was a 71 percent increase in raw coal production for a record 2.1 million LTR. Current surface mining plans call for waste removal at a strip ratio of between approximately 9 and 12 BCY per LTR over the next ten years.

The record level of production was due to a change in shift patterns as well as improved engineering, planning and operational control. The new shift pattern began early in 1981 and introduced two twelve-hour shifts during a seven-day work week. The previous system consisted of three eight-hour shifts in a five-day work week.

Underground mine surveyor laying out development roadway.
Facing Page: Loading waste at No. 9 surface mine.

As part of McIntyre's continued commitment to reclamation, 1981 marked the tenth anniversary of McIntyre-funded reclamation research by the Alberta Research Council. This is the longest running reclamation research project in the Province and is not only providing valuable information on the most effective topsoil depths, the optimum recontoured slope angles on reclaimed mine spoil and fly ash and the ability of raw spoil to support vegetation, but also has served as a model for other Alberta surface mine operations.

Underground Mines

The year was characterized by a need for an above average amount of development driveage. The opening of 9G-4 mine in the summer of 1981 replaced lost capacity resulting from the closure of the 2R-4 mine.

In 1981 9A-4 mine was fully developed and by year-end depillaring had commenced. Depillaring is the process that follows after development entries have been driven into the coal seam to form pillars that are mined in sequence, moving from the most distant part of the mine back to the starting point.

In August, 1981 9G-4 mine access tunnels to No. 4 seam were completed and planning for balanced development and depillaring was well advanced by year-end. Production from both 9G-4 and 9A-4 was 402,000 LTR in 1981.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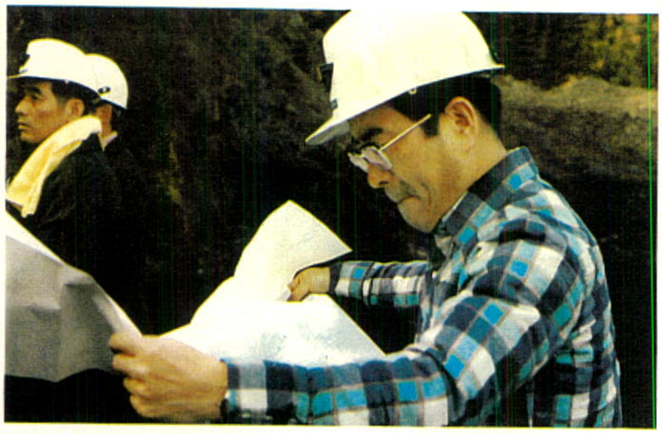
By the end of 1981 2-11 and 2R-11 mines were in the final stages of depillaring. Total production from the two mines was 465,000 LTR while the remaining underground production of 83,000 LTR came from 5-4 mine where geological problems and difficult mining conditions forced its closure in November.

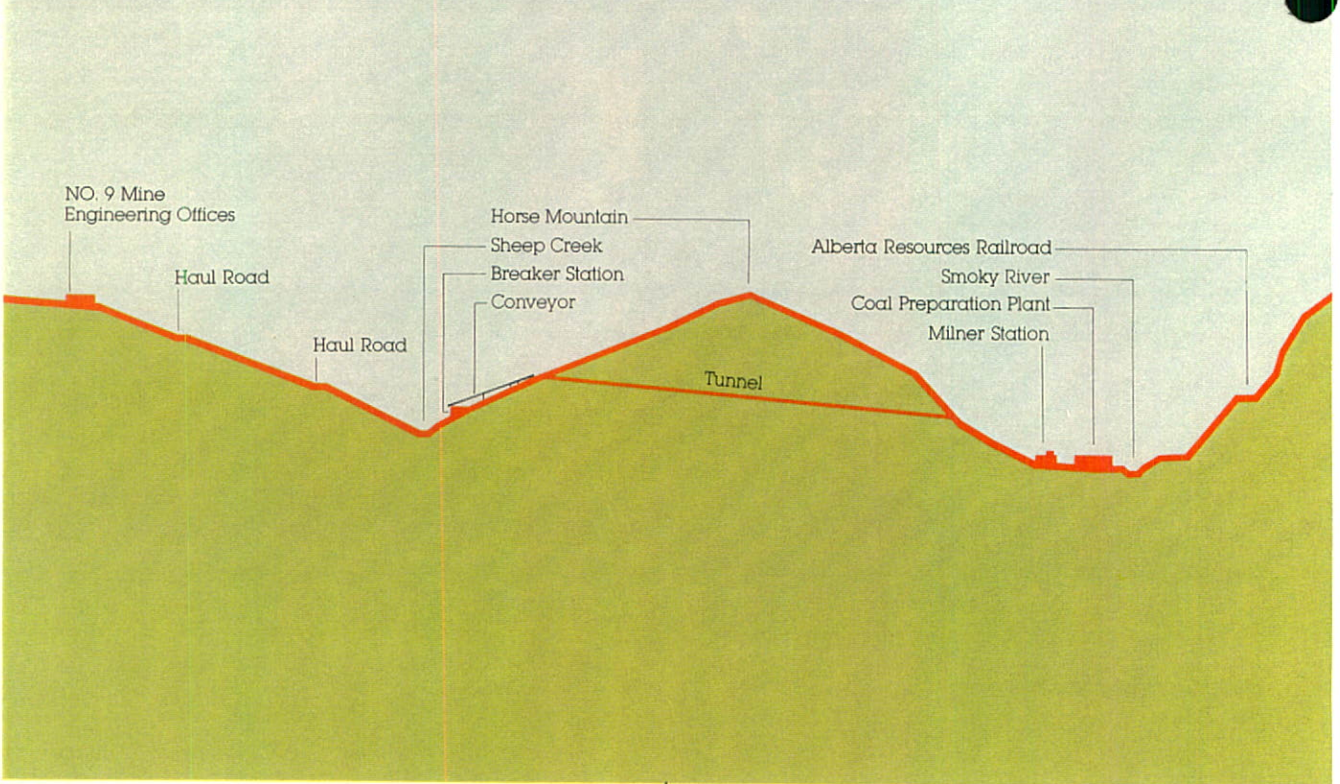
Coal Preparation

During 1981 McIntyre's coal preparation plant processed more than 3.0 million LTR, extracting a record 2.1 million LTC. Work will continue in 1982 to upgrade the plant's throughput and yield. Throughput is limited by the amount of fine coal that can be handled by the plant. Modified coal handling and loading methods are now being developed at the surface mine to reduce the amount of fine coal in the feed to the plant.



T. Sugino of the 1981 Japanese steel mills' technical delegation reviewing McIntyre's mine plans at Campbell Flats.

Cross Section of McIntyre's Smoky River Property



Mine Planning

Throughout the year the process of reviewing and improving mining plans continued. Our ability to produce 2.0 million LTC annually for the next 10 years from existing proven reserves, using known technology, has been confirmed.

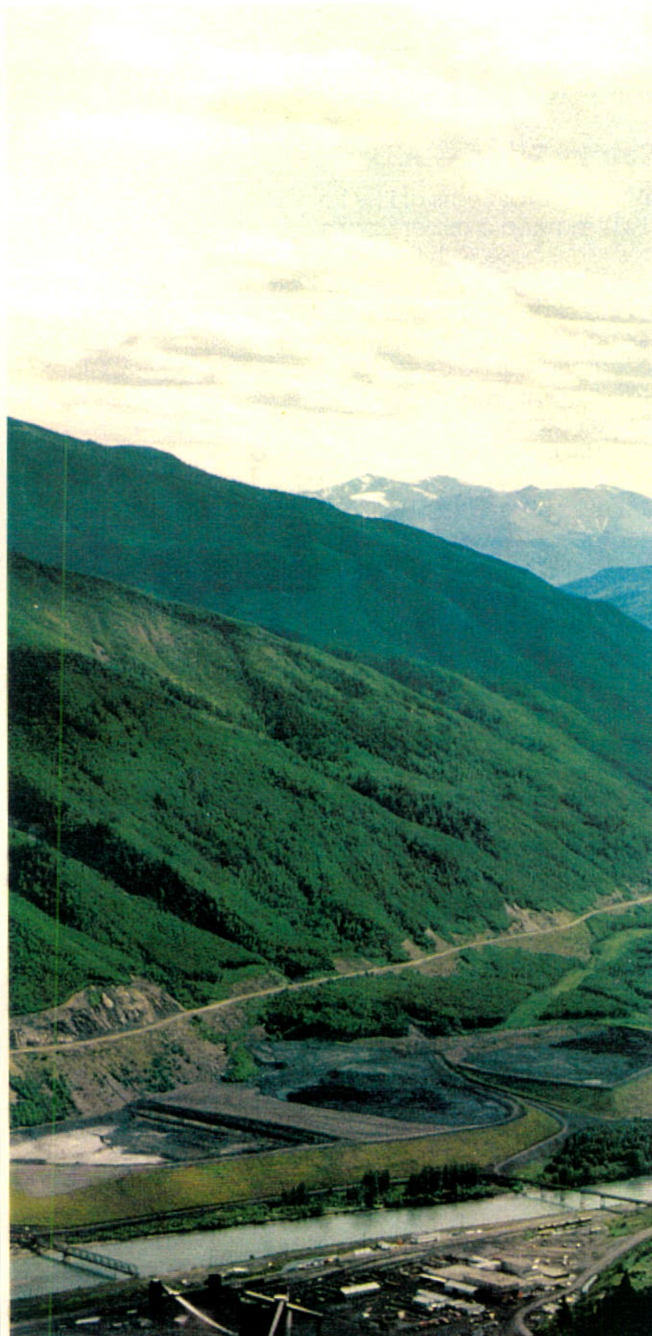
Additional potential reserves, adjacent to the existing operation, have been identified and geological and engineering work has commenced to assess each area with a view to incorporating them into our mine plan.

Human Relations

Record production levels and favourable market conditions for Smoky River coal have contributed significantly to improving morale at the mine site and in the town of Grande Cache.

In October, 1981 negotiations were satisfactorily concluded with Local 7621 of the United Steel Workers of America and a two-year contract was signed. At year-end McIntyre's Smoky River operations included [illegible] staff and 960 hourly paid personnel. All management positions at the mine are now filled, and a strong, cohesive management team is developing.

Considerable pressure has been placed on the housing resources of Grande Cache because of the expanding workforce at the mine. McIntyre contracted for the construction and sale of 50 new homes in 1981.



Smoky River Valley with the coal preparation plant and administrative offices.

Exploration

McIntyre continued its investment in coal exploration both on and off the Smoky River property. Total exploration expenditures in 1981 were $2.9 million compared to $1.6 million in 1980.

Smoky River — Alberta

After several years of low level exploration activity 1981 marked a major upgrading of our geological resource base with the expenditure of $1.8 million compared to $0.2 million in 1980. The major portion of the expenditure was the drilling of 35,500 feet in 48 holes to outline accurately the coal resource in areas we will be developing in 1982 and 1983. Other exploration work involved three test adits in the No. 7 mine (Campbell Flats) area and a test of the use of seismic in coal resource evaluation.

Monkman Pass Project — British Columbia

McIntyre holds a 16⅔ percent interest in the Monkman Pass Project together with the project operator Petro-Canada (50 percent) and Canadian Superior Oil Ltd. (33⅓ percent).

We believe the project is one of the most promising coal properties in Western Canada and should be the next major coal development in northeastern British Columbia. The property consists of leases covering more than 38 000 hectares along a 75 km stretch of the Rocky Mountain foothills.

Exploration began in 1975. Increasing emphasis has been placed on the Duke Mountain Block at the north end of the property where significant quantities of medium volatile bituminous coal with good coking qualities have been outlined.

In December, 1981 a preliminary environmental impact assessment document was filed with the B.C. Government. The document represented Stage II of a three-phase approval process required by the province. A preliminary mine design was completed for the development of a portion of the Duke Mountain Block using the open pit mining system.

More detailed engineering studies are continuing along with a marketing effort involving potential Japanese customers as the next step towards winning a long term contract for coal from this property.

1981 exploration drilling in the Campbell Flats area of No. 7 mine.

Tully Township — Ontario

McIntyre's 20 percent carried interest in a gold property operated by Nickel Offsets Ltd., in Tully Township in northern Ontario continues to look promising. Drilling results have been encouraging and underground development will begin in 1982.

Copton Coal Property — Alberta

The Copton coal property in which the Company has an interest is located about five miles from our Smoky River operations. The property's potential competitive advantages include a low strip ratio and its proximity to Grande Cache, which should minimize requirements for a mining infrastructure. Further details of activity relating to the Copton coal property can be found in notes four and eight to the financial statements.

Doyon Joint Venture — Alaska

The drilling program carried out in 1981 has proved the continuity of a coal deposit in central Alaska. Quality and washability tests are currently underway.

Kara Tungsten Prospect — Tasmania

General exploration and drilling progressed through 1981 on McIntyre's Tasmanian property. Metallurgical testing is being performed to study ways to improve ore yield and product quality.

Affiliated Companies

Falconbridge Nickel Mines Limited

Falconbridge Nickel Mines Limited (Falconbridge), in which the Company owns a 37.1 percent interest, recorded a consolidated loss of $9.0 million ($1.81 per common share) including an extraordinary charge of $5.1 million ($1.03 per common share) resulting from the write-off of United Keno Hill Mines Limited's Venus Mine project costs. As a result of the significant decline in consolidated results, a dividend was not paid for the fourth quarter of 1981.

The sharp decrease in 1981 was due primarily to higher unit production costs and to lower nickel, cobalt and copper prices, which reflected the downturn in the business cycle in Europe and North America. This was the second consecutive year that nickel consumption declined, a situation that has not occurred in more than thirty years.

In November, 1980 the major nickel producers adopted a temporary six percent discount, which effectively lowered the published producer price for refining grade nickel to U.S. $3.24 per pound. Although the discount was rescinded as of February 28, 1981, nickel prices realized by the major producers remained at discounted levels or lower for the balance of the year.

Nickel production from Sudbury Operations fell in 1981 to 62.7 million pounds from 66.5 million pounds in 1980. This decline reflects adjustments during the second half of the year to bring production levels into closer balance with deliveries.

The Falconbridge, East, Lockerby, Onaping, North and Strathcona Mines operated throughout the year, and the Fraser Mine was officially opened on September 12, 1981. The number of employees at Sudbury Operations increased by 148 in 1981 to a total of 4,034 at year-end.

The Falconbridge refinery in Norway operated at 80 percent of installed nickel refining capacity during 1981. On October 27, the matte leach plant used to produce granular and active nickel was damaged by fire. Insurance is adequate to repair the damage and production is expected to resume in March, 1982.

Earnings of the Integrated Nickel Operations, which include Sudbury Operations, the refinery in Norway, and the Marketing Division, amounted to $31.1 million in 1981, down 46 percent from the 1980 earnings of $57.4 million.

During 1982, Falconbridge plans to reduce exploration and capital development expenditures and operating costs and to maintain a favourable cash balance. These measures should place Falconbridge in an advantageous position to emerge successfully from the current economic situation.

Falconbridge Dominicana reported a net loss in 1981 of RD$28.1 million (RD$1 equals U.S. $1), compared with a net loss of RD$8.6 million in 1980. On January 11, 1982 Falconbridge announced the suspension of production by Falconbridge Dominicana until there is an improvement in world prices and demand for ferronickel. In the meantime, Falconbridge will continue to meet all of its financial obligations to this subsidiary.

Corporation Falconbridge Copper reported a profit of $0.3 million in 1981, compared with earnings of $15.2 million in 1980.

Madeleine Mines Ltd.

For 1981 Madeleine Mines Ltd. reported a loss of $0.7 million compared to earnings of $1.8 million in 1980. The loss is largely due to a severe softening in the metals market, particularly for copper and silver. Madeleine's exploration program totalled more than 10,000 feet of drilling in 1981. No additional reserves of economic value were established.

At December 31, 1981 ore reserves were calculated at 746,000 tons grading 0.98 percent copper, which represents approximately one year's mining activity at the operation. Current mining plans call for the cessation of production by 1983.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Working capital decreased in 1981 by $9.1 million to $32.1 million from $41.2 in 1980. This decrease resulted from the loss from operations of $6.2 million and from increased capital expenditures at the Company's Smoky River operation.

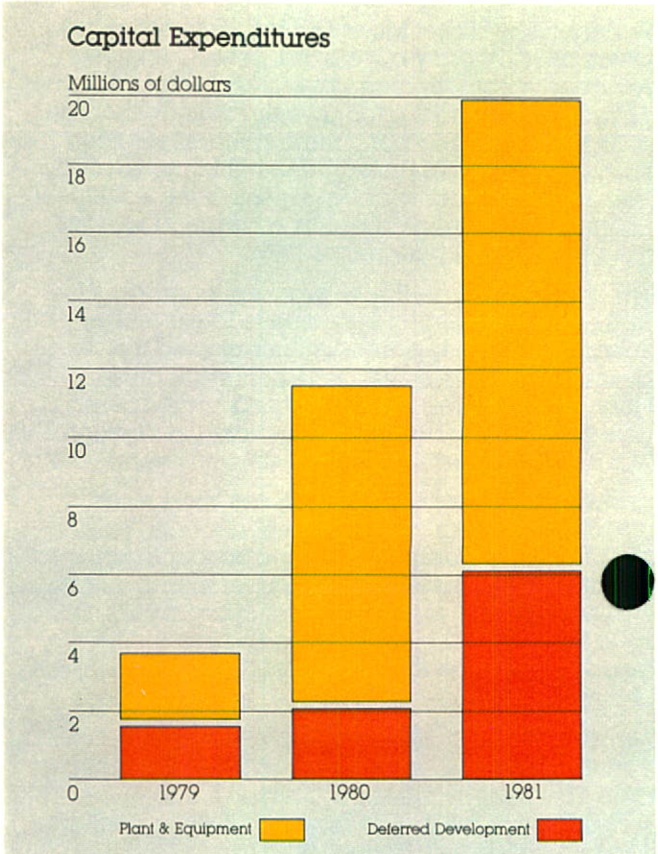
Capital expenditures in 1981 were $19.9 million, compared to $11.5 million and $3.7 million in 1980 and 1979, respectively. These expenditures were made to modernize and upgrade equipment for surface and underground mining as well as to develop new mines to sustain productive capacity. In 1981, the Company also completed development of 9A-4 underground mine and commenced development of 9G-4 underground mine, which together contain recoverable reserves of approximately 7.0 million LTR (over 4.0 million LTC). These additional reserves will help sustain our underground production for several years.

Falconbridge Nickel Mines Limited (Falconbridge), in which the Company owns a 37.1 percent interest, reported a loss in 1981 of $9.0 million and did not pay a dividend in the fourth quarter. This loss was primarily due to higher unit production costs and lower nickel, cobalt and copper prices. Because of the possibility of continuing weak metal markets there is no assurance that the Company can anticipate receiving dividends from Falconbridge in 1982.

The Company now has a contractual commitment to supply 1.2 million LTC per annum for a two-year period commencing April 1, 1981 to a consortium of Japanese customers. This contract accounts for over 60% of the Company's coal sales. Currently, the Company has no commitments from these customers for sales after March 31, 1983.

During the first year of this contract, which commenced on April 1, 1981, coal has been delivered at a price of $74.00 LTC. On April 1, 1982 the contract price will increase to $78.50, which represents an increase of only 6.1 percent. Coal production costs on a unit basis have increased at a rate in excess of 12 percent. Thus, the projected cost increases in 1982 will be in excess of the contracted price increases on 60 percent of the Company's sales.

In order to alleviate the business risks associated with the problems of expiring coal contracts and inadequate price increases during 1982, the Company is making efforts to reduce all capital expenditures to minimum levels, reduce coal and mine supplies inventory levels to improve liquidity and is continuing efforts to reduce production costs.



The Company will also conduct intensive marketing efforts aimed at obtaining long-term contracts at prices more consistent with those currently prevailing in world coal markets.

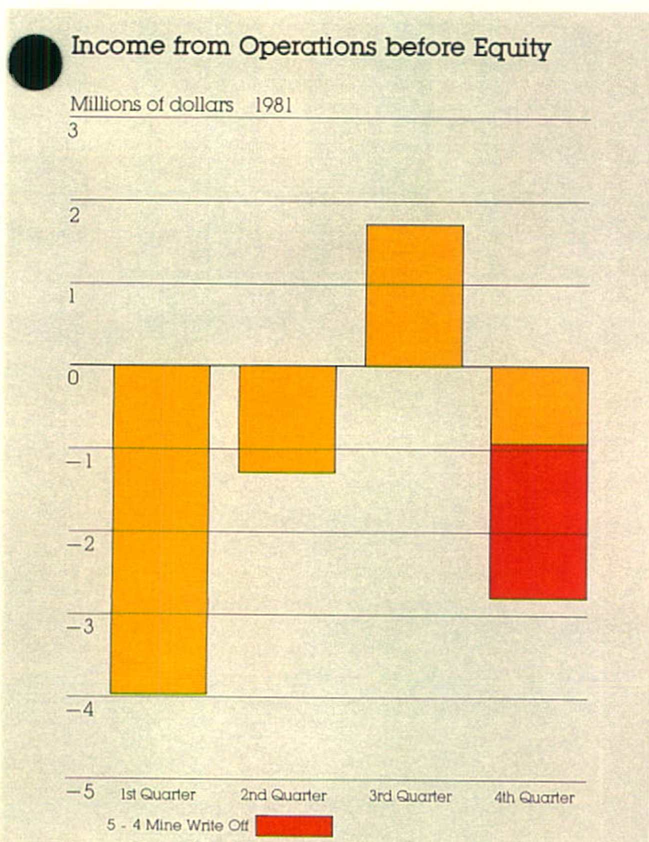
Results of Operations

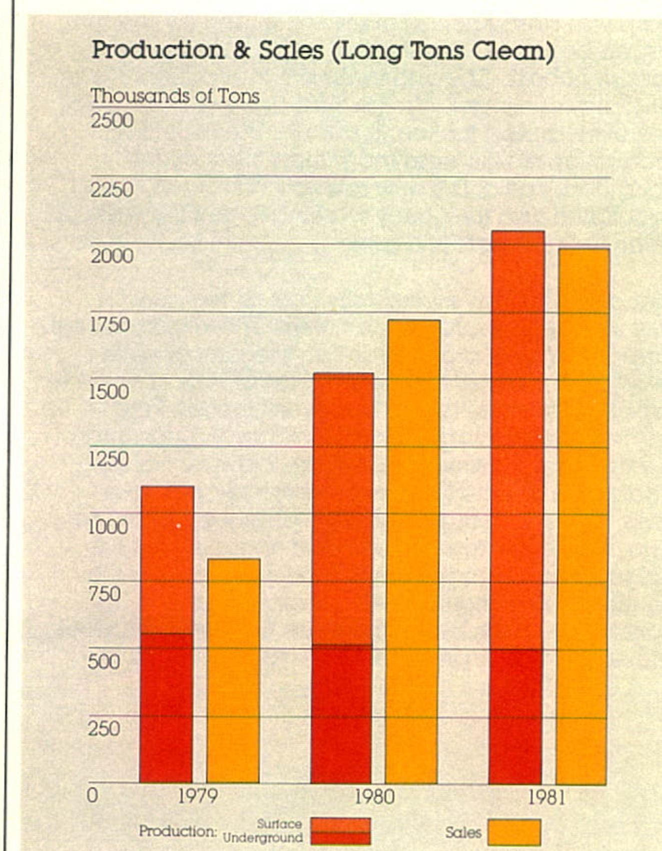
The Company's 1981 loss from operations of $6.16 million included the write-off of $1.82 million for the 5-4 underground mine which will not be developed further due to uneconomic mining conditions. After excluding this write-off, the loss from operations for 1981 of $4.34 million can be compared with the loss from operations recorded in 1980 of $2.99 million.

In conjunction with increasing capital expenditures the Company has made strenuous efforts to increase both production and sales over the last three years. Extensive marketing efforts have helped diversify our market base on the Pacific Rim and South America, and actual sales achieved in 1981 are in excess of two times the 1979 level. The Company was also able to negotiate several contracts, notably with steel mills in Brazil and the Republic of Korea, as well as with foundry coke manufacturers in Taiwan.

Production increased 37.5 percent from 1979 to 1980, and then increased an additional 37.1 percent from 1980 to 1981. The production for 1981 of 2.1 million LTC was the highest level ever achieved at the Smoky River Operation. When the relatively fixed costs associated with many of the mining, coal preparation, and administration areas at the mine are considered, the increase in production levels has somewhat off-set the rapid cost inflation that has affected both the Company and other coal producers.

The proportions of production achieved by surface vs underground mines has increased sharply in the last two years. Whereas in 1979 the proportion was 46 percent surface and 54 percent underground, in 1981 the proportion was 75 percent surface and 25 percent underground. The change in production mix was based on a decision by the Company to capitalize on the improved efficiency being achieved by surface operations, while underground operations re-established the appropriate development to depillaring ratio. The mix of development to depillaring in the underground mines is now close to the desired



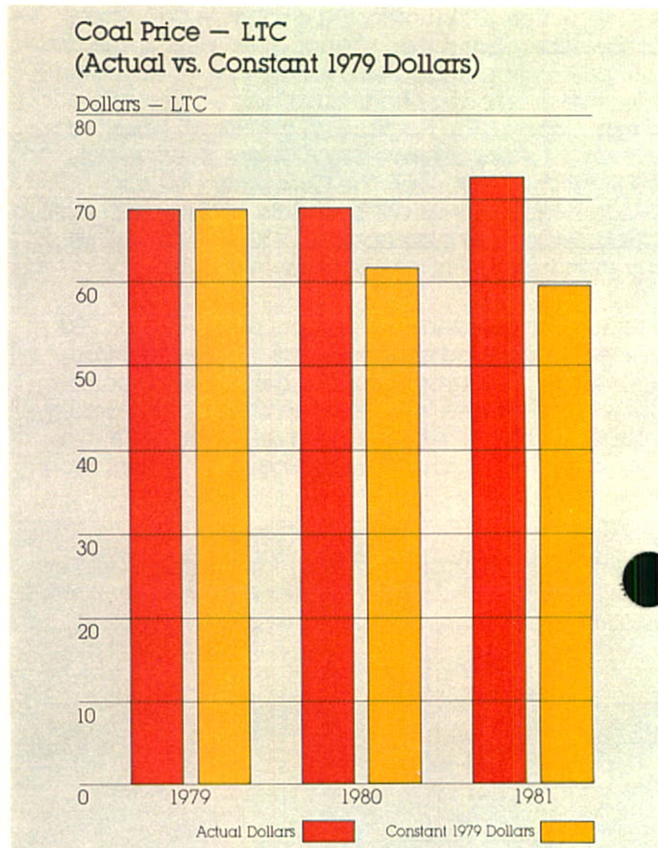


proportions, which will help ensure balanced underground mining, and more reasonable underground mining costs in 1982.

The modest selling price increases achieved over the last two years have not kept pace with rising costs; this factor has had an adverse impact on earnings in both 1980 and 1981. However, in 1981 significantly higher prices were obtained on sales in the spot market. These sales at higher prices, combined with the recent contract price increases of up to 30 percent gained by the Company's Australian competitors, indicate significant upward pressure on current world coal prices. The Company believes that this upward trend should lead to improved earnings in the future.

After a disappointing first quarter, results began to improve in the second quarter as the management team was strengthened at the mine, and production targets began to be achieved and exceeded on a consistent basis. The improvement in production and efficiency continued into the third and fourth quarters; however, during the fourth quarter the excellent production results were more than offset by the additional cost of the new labour contract that was negotiated with the hourly workforce, and the write-off of the 5-4 underground mine.

Management has successfully completed several major steps to improve operations. These include: the strengthening of managerial and technical skills; re-establishment of commercial relationships with the Japanese steel mills; market diversification; and improvements in operating efficiency through productivity improvements. The steps currently being addressed are the further reduction of operating costs, which is being assisted by engineering studies and additional cost analysis and controls, and the achievement of more realistic coal prices through continued negotiations with major customers. The continuing efforts being made on these key activities should lead to improvements in operating results.



McIntyre Mines

Consolidated Statements of Income (Loss) and Retained Earnings

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

Year ended December 31	1981	1980	1979
Revenue (Note 18)	$140,294	$115,237	$ 62,667
Cost of Sales:			
Operating costs	130,904	101,599	44,958
Depreciation	8,046	9,309	9,005
Amortization	5,560	4,032	1,909
Reclamation	1,649	3,130	1,345
Coal royalties (Note 21)	—	24	442
	146,159	118,094	57,659
Gross Profit (Loss)	(5,865)	(2,857)	5,008
Corporate Expenses (Income):			
Administration	5,023	5,085	1,504
Exploration	521	1,353	333
Interest	(5,231)	(3,679)	8,620
Foreign exchange	(22)	—	(402)
Gain on insurance settlement	—	(2,124)	—
	291	635	10,055
Loss from operations before income taxes:	6,156	3,492	5,047
Income taxes (Note 7)	—	(500)	(2,306)
Loss from operations	6,156	2,992	2,741
Equity in earnings (losses) of affiliates	(1,676)	24,662	39,226
Income (loss) before extraordinary items:	(7,832)	21,670	36,485
Extraordinary items (Note 11)	(1,901)	13,995	7,424
Net income (loss)	$ (9,733)	$ 35,665	$ 43,909
Per share (Note 12):			
Income (loss) before extraordinary items	$ (2.17)	$ 6.02	$ 15.33
Extraordinary items	(0.53)	3.88	3.12
	$ (2.70)	$ 9.90	$ 18.45

	1981	1980	1979
Retained earnings — beginning of year	$218,303	$182,638	$138,729
Net income (loss)	(9,733)	35,665	43,909
Retained earnings — end of year	$208,570	$218,303	$182,638

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	1981	1980	1979
Current:			
Cash and short-term investments	$ 13,992	$ 32,318	$ 12,199
Accounts receivable	3,909	5,911	4,042
Inventories of metallurgical coal	18,232	6,978	17,687
Inventories of mine supplies	10,485	8,089	7,355
	46,618	53,296	41,283
Investments (Note 2):			
Falconbridge Nickel Mines Limited (Note 19)	166,694	172,817	141,181
Madeleine Mines Ltd.	146	630	934
Neptune Bulk Terminals (Canada) Limited	885	885	—
	167,725	174,332	142,115
Property, plant and equipment (Note 3)	52,195	46,639	47,450
Deferred mine development (Note 4)	42,824	42,238	44,262
Other (Note 5)	11,870	8,379	9,361
	$321,232	$324,884	$284,471

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

LIABILITIES AND SHAREHOLDERS' EQUITY

December 31	1981	1980	1979
Current			
Accounts payable and accrued liabilities	$ 14,252	$ 11,313	$ 9,403
Current portion of long-term debt	224	719	724
	14,476	12,032	10,127
Long-term debt (Note 6)	6,518	4,594	4,712
Provision for reclamation	7,575	5,991	2,863
Income taxes (Note 7)	–	–	500
Commitments and Contingencies (Note 8)			
Shareholders' equity:			
Capital stock (Notes 9 and 10)	87,870	87,741	87,408
Retained earnings	208,570	218,303	182,638
	296,440	306,044	270,046
Less: Shares held by affiliate, at cost	3,777	3,777	3,777
	292,663	302,267	266,269
	$321,232	$324,884	$284,471

APPROVED BY THE BOARD

A B Nelson Director

[illegible] Director

McIntyre Mines

Consolidated Statements of Changes in Financial Position

(in thousands of Canadian dollars)

Year ended December 31	1981	1980	1979
Source of working capital:			
Operations (Note 20)	$ 8,957	$ 11,296	$ 6,810
Dividends from affiliates	3,030	7,325	5,545
Decrease in security deposits	788	—	—
Proceeds on asset disposals	248	—	—
Issuance of common shares	129	333	77,804
Proceeds on insurance settlement	—	2,805	—
Settlement of long-term account receivable	—	2,000	—
Other	—	170	399
	13,152	23,929	90,558
Use of working capital:			
Plant and equipment	13,708	9,462	2,002
Deferred mine development	6,146	2,008	1,679
Employee housing (Note 20)	2,231	771	742
Other	189	577	1,750
Reduction of long-term debt	—	118	64,232
Investment in Neptune Bulk Terminals	—	885	—
	22,274	13,821	70,405
Increase (decrease) in working capital	(9,122)	10,108	20,153
Working capital, beginning of year (Note 22)	41,264	31,156	11,003
Working capital, end of year	$ 32,142	$ 41,264	$31,156
Changes in components of working capital:			
Increase (decrease) in current assets			
Cash and short-term investments	$(18,326)	$ 20,119	$12,199
Accounts receivable	(2,002)	1,869	(2,114)
Inventories of metallurgical coal	11,254	(10,709)	7,876
Inventories of mine supplies	2,396	734	1,164
	(6,678)	12,013	19,125
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	2,939	1,910	(1,098)
Current portion of long-term debt	(495)	(5)	70
	2,444	1,905	(1,028)
Increase (decrease) in working capital	$ (9,122)	$ 10,108	$20,153

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

1. **Accounting policies:**

The consolidated financial statements of McIntyre Mines Limited have been prepared in accordance with accounting principles generally accepted in Canada, consistently applied. In these statements, references to the Company mean McIntyre Mines Limited.

All dollar amounts in tables are stated in thousands of Canadian dollars except per share data.

(a) Basis of consolidation —

The consolidated financial statements include the accounts of McIntyre Mines Limited and all companies which are more than 50% owned. All significant intercompany accounts and transactions have been eliminated on consolidation.

(b) Short-term investments —

Short-term investments are recorded at cost which approximates market value.

(c) Inventories —

The Company records 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 amortization.

Mine supplies are recorded 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, 1981, 1980 and 1979.

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 —

Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated productive lives, which range from three to twenty-five 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 which relate to new properties where an underlying economic value has not yet been established or which are incurred to better define known coal limits and structure are expensed as incurred.

Exploration costs which relate to new properties which have an underlying economic value, and which have proven mineral deposits, are capitalized until the mine reaches an economic production level.

(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 year.

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

(i) 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 amortizaton claimed for income taxes over similar items recorded in the financial statements.

2. **Investments:**

(i) Changes in the Company's investments in affiliates are as follows:

	FALCONBRIDGE			MADELEINE		
	1981	1980	1979	1981	1980	1979
Investment, beginning of year	$172,817	$141,181	$100,454	$ 630	$ 934	$ 556
Equity in earnings (losses):						
Before extraordinary items	(1,449)	24,110	38,848	(227)	552	378
Extraordinary items	(1,901)	13,995	7,424	—	—	—
	169,467	179,286	146,726	403	1,486	934
Deduct: dividends received	2,773	6,469	5,545	257	856	—
Investment, end of year	$166,694	$172,817	$141,181	$ 146	$ 630	$ 934
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	$136,783	$189,462	$169,130	$1,199	$4,709	$3,219

At December 31, 1981 the carrying value of the Company's investment in Falconbridge was approximately $29,911,000 in excess of its market value, based upon the quoted market price for Falconbridge stock on The Toronto Stock Exchange. However, in the opinion of the Company, the Company's equity in the realizable value of the underlying net assets of Falconbridge is in excess of its investment.

The Company purchased a 20% equity interest in Neptune Bulk Terminals (Canada) Limited in 1980 at a cost of $885,000. Since Neptune operates on a Cost of Service basis, all costs are passed through to the Company and the other shareholders, based on contracted and actual capacity used, and charged to earnings as incurred.

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

	FALCONBRIDGE			MADELEINE			NEPTUNE
	1981	1980	1979	1981	1980	1979	1981
Current assets	$ 601,160	$ 548,325	$ 536,366	$4,235	$5,683	$4,914	$ 5,005
Property, plant and equipment, net	550,011	506,131	470,379	1,792	2,278	2,391	18,424
Other assets	101,867	104,638	62,626	—	—	—	1,500
	$1,253,038	$1,159,094	$1,069,371	$6,027	$7,961	$7,305	$24,929
Current liabilities	$ 127,990	$ 186,206	$ 155,483	$2,026	$1,659	$ 942	$ 5,213
Long-term liabilities	465,386	285,801	287,170	—	681	334	15,716
Deferred income taxes	87,375	85,284	41,973	—	210	129	—
Minority interest	82,639	95,662	88,824	—	—	—	—
Shareholders' equity	489,648	506,141	495,921	4,001	5,411	5,900	4,000
	$1,253,038	$1,159,094	$1,069,371	$6,027	$7,961	$7,305	$24,929
Income (loss) attributable to common shares: Before extraordinary items	$ (3,902)	$ 64,947	$ 104,650	$ (704)	$1,864	$ 662	$ —
Extraordinary items	$ (5,122)	$ 37,700	$ 20,000	$ —	$ —	$ 250	$ —
Dividends paid on common shares	$ 7,469	$ 17,427	$ 14,938	$ 706	$2,353	$ —	$ —

3. **Property, plant and equipment**:
Property, plant and equipment are as follows —

	1981	1980	1979
Underground mine equipment	$ 22,923	$17,979	$16,278
Surface mine equipment	43,418	40,986	40,595
Coal preparation plant	21,844	21,327	20,890
Other equipment	23,081	18,756	15,365
	111,266	99,048	93,128
Less: Accumulated depreciation	59,071	52,409	45,678
	$ 52,195	$46,639	$47,450

4. **Deferred mine development:**

Deferred mine development, net of accumulated amortization, is as follows —

	1981	1980	1979
Producing properties, Smoky River —			
Surface mine	$18,270	$20,607	$21,837
Underground mines	5,444	3,933	3,358
Start-up costs	8,773	9,140	9,883
Non-producing properties —			
Copton (i)	6,989	6,923	6,923
Monkman (ii)	857	—	—
Smoky River	2,491	1,635	2,261
	$42,824	$42,238	$44,262

(i) Exploration of the Copton property, situated adjacent to the Smoky River property, indicated that substantial quantities of proven coal reserves 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.

(ii) Exploration of the Monkman property has outlined significant proven coal reserves. Mining feasibility studies, environmental submissions and market research are now in an advanced stage. The expenditures have been capitalized with the intention that they will be amortized by charges against earnings from future mining operations. Studies are continuing to establish further that the earnings will be commensurate with the risks of, and the investment in, this property.

5. **Other assets:**

Other assets are as follows —

	1981	1980	1979
Employee housing loans	$ 5,511	$2,224	$1,909
Long-term accounts receivable	3,204	—	2,443
Houses for sale to employees, at the lower of cost and net realizable value	3,021	5,233	4,247
Security deposits	134	922	762
	$11,870	$8,379	$9,361

6. **Long-term debt:**

Long-term debt is as follows —

	1981	1980	1979
Mortgages on houses for sale to employees	$5,334	$3,286	$2,756
Capital leases	1,408	2,027	2,680
	6,742	5,313	5,436
Less: Current portion	224	719	724
	$6,518	$4,594	$4,712

Long-term debt is repayable as follows —

	1982	1983	1984	1985	1986
Mortgages	$ 86	$ 95	$104	$117	$173
Capital leases	138	150	147	130	142

Interest rates vary from 7.6% to 18.75%.

7. **Income taxes:**

At December 31, 1981 the tax basis of property, plant and equipment, including exploration and deferred mine development costs, was approximately $11,000,000 greater than the net carrying value in the financial statements. In addition, the Company has earned depletion allowances of approximately $10,000,000 at December 31, 1981 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:

	1981	1980	1979
Loss from operations before income taxes	$ 6,156	$ 3,492	$ 5,047
Statutory tax rate	49%	49%	47%
Loss multiplied by tax rate	$ 3,016	$ 1,711	$ 2,372
Adjust for tax effect of —			
Unrecorded deferred tax benefit	(3,118)	(1,460)	—
Resource, inventory and earned depletion allowances	102	260	639
Non-claimable expenses	—	(11)	(208)
Stock issue costs deducted for tax purposes	—	—	719
Rate differential in deferred tax drawdown	—	—	(1,279)
Other	—	—	63
	$ —	$ 500	$ 2,306

Income taxes have not 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. **Commitments and contingencies:**

(i) The Company has guaranteed housing mortgages amounting to $3,388,000 at December 31, 1981.

(ii) The Company has a long-term operating lease agreement for the supply of unit-train rail cars for the transportation of coal. The minimum rental charges for the next two years will be $1,144,000; the overall lease agreement, which expires in 1990, includes several sub-contracts which will be re-negotiated as they expire. This is the only significant operating lease agreement that the Company has.

(iii) On June 1, 1974 Copton Excol Limited (Copton), an 82.9% owned subsidiary of the Company (82.7% owned at December 31, 1980 and 82.5% owned at December 31, 1979), 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 the Company 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.

On January 27, 1982 Copton and Meadowlark entered into a letter of intent which, if the agreements contemplated therein are executed, Copton believes will form the basis upon which all outstanding litigation will be terminated. The letter of intent provides for the parties to enter into a joint venture agreement to explore, develop and, if warranted, bring into production Copton's coal properties which are the subject of the outstanding litigation.

(iv) The Company is obligated to pay approximately $500,000 for the balance of the purchase price of the shares of Copton in the event that Copton secures a contract for the sale of coal from its property.

(v) 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. The Company 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.

(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.

There are numerous other defendants in this action.

Examinations for Discovery have commenced but are not yet completed. 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.

(vii) The Company has provided the Alberta Government with a guarantee, secured by a letter of credit, for the performance of reclamation work.

9. **Capital stock:**

Capital stock consists of:

	1981	1980	1979
Authorized —			
Preference shares —			
Number of shares	unlimited	unlimited	4,000,000
Par value	nil	nil	$25
Common shares —			
Number of shares	unlimited	unlimited	5,000,000
Par value	nil	nil	nil
Outstanding December 31 —			
Common shares	3,669,573	3,666,073	3,655,973

On May 1, 1980 the Company was continued under the Canada Business Corporations Act.

The Board of Directors of the Company 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 $65.00 per share through a rights offering to its shareholders. The proceeds of the issue, net of related expenses, were $77,672,000.

10. **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.

	Number of shares	Option price Per share	Option price Total	Market value Per share	Market value Total
Options outstanding 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	(333)	71.75 to 98.00	817
Expired	(1,000)	56.00	(56)	69.56	69
Options Outstanding December 31, 1980	17,500	25.18 to 56.00	863	70.00	1,225
Activity during 1981					
Granted	17,000	56.00 to 62.00	1,012	62.13 to 68.75	1,122
Exercised	(3,500)	25.18 to 52.73	(129)	61.50 to 66.00	227
Surrendered or Expired	(5,000)	56.00	(280)	36.75 to 68.00	276
Options Outstanding December 31, 1981	26,000	44.06 to 62.00	1,466	42.00	1,092

Options outstanding at December 31, 1981 include options on 4,500 common shares under the 1958 plan and five-year options on 21,500 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.

11. **Extraordinary items:**
Extraordinary items consist of the following —

	1981	1980	1979
Company's equity in Falconbridge's write-off of its investment in United Keno Hill Mines Limited's Venus project	$(1,901)	$ —	$ —
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
	$(1,901)	$13,995	$7,424

12. **Earnings per share:**

For calculation of earnings per share, the number of total shares outstanding has been reduced by the Company'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
1979	2,445,002	65,269	2,379,733
1980	3,665,306	65,269	3,600,037
1981	3,668,889	65,269	3,603,620

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

In December, 1979 the Company issued 1,218,491 common shares through a rights offering to its shareholders.

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 and provides for an annual pension equivalent to 1¾% of the total earnings while a participant of the plan; this was increased from 1½% on October 1, 1981.

The most recent actuarial valuation for the salaried plan was July 1, 1979 and for the hourly plan was January 1, 1981. Total unfunded past service liability for the salaried plan was $265,000.

Due to the surplus in the plan, the Company did not make any contributions in 1981 or 1980. The Company's costs were $164,000 in 1979.

14. Reconciliation of net income (loss) prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) to conform with generally accepted accounting principles in the United States (U.S. GAAP):

	Year Ended December 31		
	1981	1980	1979
Loss from operations, as reported	$ (6,156)	$ (2,992)	$ (2,741)
Equity in earnings (losses) of affiliates before extraordinary items, as reported	$ (1,676)	$ 24,662	$ 39,226
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 at the end of each year (i)	973	(427)	1,502
2. Record gains (losses) on translation of foreign subsidiaries' accounts which were deferred for consolidation purposes (i)	(1,049)	587	(541)
3. Adjust income tax assessments (ii)	—	—	1,223
4. Record capitalization and amortization of interest costs (iii)	2,175	1,234	[illegible]
Equity in earnings of affiliates, as adjusted	$ 423	$ 26,056	$ 41,410
Income (loss) from continuing operations in accordance with U.S. GAAP	$ (5,733)	$ 23,064	$ 38,669
Company's equity in write-off of Venus Mine project (iv)	(1,901)	—	—
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
Net income (loss) in accordance with U.S. GAAP	$ (7,634)	$ 37,059	$ 46,093
Earnings (loss) per share in accordance with U.S. GAAP			
Continuing operations	$ (1.59)	$ 6.41	$ 16.25
Company's equity in write-off of Venus Mine project	(0.53)	—	—
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge	—	3.88	—
Extraordinary items	—	—	3.12
	$ (2.12)	$ 10.29	$ 19.37

(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 (FASB 8) 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' income taxes. The U.S. professional pronouncements require that the cumulative effect of the tax reassessments be given recognition in the current year.

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

(iv) See note 11.

15. **Mining operations:**

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

	1981	1980	1979
Clean coal produced, in thousands of long tons	2,065	1,470	1,044
Clean coal sold, in thousands of long tons	1,899	1,684	916
Sales	$140,294	$115,237	$ 62,667
Cost of sales	146,159	118,094	57,659
Gross profit (loss)	$ (5,865)	$ (2,857)	$ 5,008

At the present time the Company has contracted for the annual delivery of coal as follows:

1) 1,224,000 long tons from April 1, 1981 to March 31, 1983;
2) 100,000 long tons from April 1, 1982 to March 31, 1983;
3) 200,000 long tons from April 1, 1983 to March 31, 1987;
4) 50,000 metric tonnes from July 1, 1982 to June 30, 1986;
5) 460,000 metric tonnes from April 1, 1982 to March 31, 1989;
6) 15,000 metric tonnes from July 1, 1982 to June 30, 1983;
7) 30,000 metric tonnes from July 1, 1983 to June 30, 1987.

Prices for coal sold under these contracts will be higher in 1982 than in 1981. Prices beyond that period are subject to annual negotiation.

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:**

The Superior Oil Company owns 26.6% and Canadian Superior Oil Ltd. (a wholly owned subsidiary of The Superior Oil Company) owns 26.4% of the Company. The following transactions of an ongoing nature occurred between the Company and other members within the group:

(i) Pursuant to an agreement between the Company and Canadian Superior Exploration Limited (Canadian Superior), effective January 1, 1979, Canadian Superior has earned interests, up to a maximum of 50%, in certain of the Company's exploration properties by matching previous expenditures by the Company.

(ii) Pursuant to an agreement between the Company, Canadian Superior Oil Ltd. and another party pertaining to the exploration and development of the Monkman Pass Coal Project, the Company expended $857,000 during 1981.

(iii) Pursuant to the Neptune Bulk Terminals (Canada) Limited Shareholders' Agreement, the Company has advanced funds to Neptune to offset specific insurance claims receivable relating primarily to the coal commodity users' group. The amount advanced in 1981 was $262,000 and it is anticipated that this will be repaid to the Company as the claims are finalized.

17. Borrowing arrangements:

During 1981, the Company had lines of credit totalling $20,000,000 with two Canadian banks. The lines of credit can be utilized at the option of the Company by way of direct Canadian or U.S. dollar equivalent loans or by way of Banker's Acceptances. The interest rate for Canadian loans is the prime lending rate at each bank. The interest on U.S. loans is the London Interbank Offer Rate (LIBOR) plus ⅜ of 1%, with the stamping fee for Banker's Acceptances set at ⅜ of 1%. There are no commitment fees and a compensating balance is not required under either line of credit. All borrowings are to be evidenced by demand promissory notes and, as such, are subject to periodic review by the banks.

18. Segment information:

All sales of coal are made to unaffiliated customers, the major ones being a group of eight Japanese steel mills and five Japanese gas/coke companies. The following is an analysis of sales (in thousands of long tons of clean coal) and revenue (in thousands of dollars):

	1981	1980	1979
Major Customers			
Sales	1,330	1,116	755
Revenue	$ 96,707	$ 76,482	$ 51,650
Others			
Sales	569	568	161
Revenue	$ 43,587	$ 38,755	$ 11,017
Total			
Sales	1,899	1,684	916
Revenue	$140,294	$115,237	$ 62,667

19. Subsequent event:

In January, 1982 Falconbridge Dominicana, C. por A., ("Falcondo"), a 65.7% owned subsidiary of Falconbridge Nickel Mines Limited, ("Falconbridge"), shut down temporarily its ferronickel production operations in the Dominican Republic as a measure designed to minimize supplementary financing by the project sponsors during a period of uncertain demand for ferronickel.

Under the present economic conditions, Falcondo is dependent upon continued financial support from its sponsors in accordance with the terms of the project financing agreements, which obligate Falconbridge to provide 60% of the funds required by Falcondo to enable it to meet its operating costs and debt service obligations in the event receipts from the sale of ferronickel produced by Falcondo and other receipts are insufficient.

Falconbridge management has stated that while it is difficult to determine when conditions will improve sufficiently to warrant resumption of the production operations, it is their opinion that the net aggregate carrying value of Falcondo's property, plant and equipment, pre-production and other deferred charges will be recovered over the longer term. Based upon such opinion, which the Company considers reasonable, the Company has decided not to make any provision in the Company's accounts relating to Falcondo. The Company's proportionate share of the net aggregate carrying value of Falcondo is approximately $35.0 million.

20. **Selected components relating to consolidated statements of changes in financial position:**

(i) Working capital was derived from operations as follows:

	1981	1980	1979
Income (loss) before extraordinary items	$ (7,832)	$ 21,670	$ 36,485
Items not affecting working capital:			
Depreciation	8,046	9,309	9,005
Amortization	5,560	4,032	1,909
Equity in earnings of affiliates	1,676	(24,662)	(39,226)
Reclamation	1,649	1,004	1,345
Deferred taxes	–	(500)	(2,306)
Neptune loss	–	443	–
Gain on disposal of assets	(142)	–	–
Other	–	–	(402)
Total from operations	$ 8,957	$ 11,296	$ 6,810

(ii) Net change in employee housing was as follows:

	1981	1980	1979
Houses for sale to employees:			
Net funds derived from (applied to) sale or purchase of houses to/from employees	$ 2,212	$ (986)	$ (2,767)
Mortgages on houses for sale to employees:			
Increase in mortgages payable by the Company	2,048	530	1,811
Employee housing loans:			
Mortgages (advanced to) repaid by employees	(3,287)	(315)	214
Long term accounts receivable:			
Housing loans advanced to employees	(3,204)	–	–
Change in employee housing	$ (2,231)	$ (771)	$ (742)

21. **Waiver of coal royalties:**

The Company's coal operation is governed by the Ministry of Energy and Natural Resources of Alberta. The Company has received a waiver in respect of the fixed minimum rate of 5% of minesite revenue until March 31, 1983, and is instead subject to coal royalties based on a formula. For 1981, calculations based on the formula resulted in no royalty expense.

22. **Restatement of 1979 financial statements:**

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

Auditors' Report

To the Shareholders of
McIntyre Mines Limited:

We have examined the consolidated balance sheets of McIntyre Mines Limited (a Canada corporation and subsidiary of The Superior Oil Company) and subsidiaries as of December 31, 1981 and 1980 and the related consolidated statements of income (loss) and retained earnings and changes in financial position for the 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.

In our opinion, these consolidated financial statements present fairly the financial position of McIntyre Mines Limited and subsidiaries as of December 31, 1981 and 1980 and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
February 4, 1982

ARTHUR ANDERSEN & CO.
Chartered Accountants

Comment by Auditors on Differences in Canada - United States Reporting Standards

In the United States, reporting standards for auditors require the expression of an opinion qualified as being subject to the outcome of significant uncertainties affecting the financial statements such as the 1981 uncertainty relating to Falconbridge Dominicana, C. por A. (a subsidiary of Falconbridge Nickel Mines Limited), referred to in Note 19 to the accompanying financial statements.

The opinion in our report to the shareholders, dated February 4, 1982, is expressed in accordance with Canadian standards and is not qualified with respect to, and provides no reference to, this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements. No such reporting standards conflict existed in 1980.

Calgary, Alberta
February 4, 1982

ARTHUR ANDERSEN & CO.
Chartered Accountants

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 statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. 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 on a basis consistent with that of the preceding year.

Calgary, Alberta
February 15, 1980

PRICE WATERHOUSE & CO.
Chartered Accountants

McIntyre Mines

Quarterly financial data (unaudited):

(in thousands of dollars)

Quarter Ended	Mar. 31, 1981	June 30, 1981	Sept. 30, 1981	Dec. 31, 1981
Coal revenue	$25,736	$45,393	$34,519	$ 34,646
Coal gross profit (loss)	(3,527)	(1,829)	1,511	(2,020)
Corporate expenses	290	(456)	(208)	665
Income (loss) from operations	(3,817)	(1,373)	1,719	(2,685)
Equity in earnings (losses) of affiliates	3,235	2,888	141	(7,940)
Income (loss) before extraordinary items	(582)	1,515	1,860	(10,625)
Extraordinary items	—	—	—	(1,901)
Net income (loss)	$ (582)	$ 1,515	$ 1,860	$(12,526)
Earnings (loss) per share:				
Before extraordinary items	$ (0.16)	$ 0.42	$ 0.52	$ (2.95)
Total	$ (0.16)	$ 0.42	$ 0.52	$ (3.48)

Quarter Ended	Mar. 31, 1980	June 30, 1980	Sept. 30, 1980	Dec. 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	(2,052)
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 (loss) before extraordinary items	12,280	8,783	3,336	(2,729)
Extraordinary items	13,995	—	—	—
Net income (loss)	$26,275	$ 8,783	$ 3,336	$ (2,729)
Earnings (loss) per share:				
Before extraordinary items	$ 3.41	$ 2.44	$ 0.93	$ (0.76)
Total	$ 7.29	$ 2.44	$ 0.93	$ (0.76)

Quarter Ended	Mar. 31, 1979	June 30, 1979	Sept. 30, 1979	Dec. 31, 1979
Coal revenue	$12,820	$17,858	$21,152	$ 10,837
Coal gross profit (loss)	2,415	1,536	1,336	(279)
Corporate expenses	1,914	2,721	2,301	3,119
Income taxes (recovery)	(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

Selected Financial Data

		1981	1980	1979	1978	1977
Production (in thousands of long tons)						
Raw coal		3,108	2,329	1,755	2,133	2,944
Clean coal		2,065	1,470	1,044	1,316	1,740
Earnings (000's omitted, except per share data)						
Revenue (a)						
— Coal sales	$	140,294	115,237	62,667	105,270	—
— Coal production	$	—	—	—	—	123,873
Exploration	$	521	1,353	333	4,279	3,220
Interest	$	(5,231)	(3,679)	8,620	6,310	4,287
Depreciation	$	8,046	9,309	9,005	9,083	8,413
Amortization	$	5,560	4,032	1,909	1,945	3,567
Income taxes	$	—	(500)	(2,306)	712	2,920
Earnings (loss) from operations	$	(6,156)	(2,992)	(2,741)	(2,264)	4,983
Equity in earnings (losses) of affiliates	$	(1,676)	24,662	39,226	(94)	(11,513)
Reduction in valuation of coal inventory	$	—	—	—	—	(3,003)
Extraordinary items	$	(1,901)	13,995	7,424	1,454	(5,915)
Consolidated earnings (loss)	$	(9,733)	35,665	43,909	(904)	(15,448)
Per share (b)	$	(2.70)	9.90	18.45	(0.38)	(6.52)
Dividends paid	$	—	—	—	1,184	2,369
Per share (b)	$	—	—	—	0.50	1.00
Dividends received from affiliates	$	3,030	7,325	5,545	342	924
Financial Position (000's omitted, except per share data)						
Working capital	$	32,142	41,264	31,156	11,003	12,183
Investments	$	167,725	174,332	142,115	101,010	101,402
Property, plant, equipment and deferred development	$	95,019	88,877	91,712	98,942	100,425
Long-term debt	$	6,518	4,594	4,712	68,944	70,876
Shareholders' equity	$	292,663	302,267	266,269	144,556	146,633
Per share (b)	$	81.21	83.96	111.89	61.01	61.90
Shareholders and Employees — December 31						
Total shares outstanding		3,669,573	3,666,073	3,655,973	2,434,482	2,434,482
Shareholders		1,891	1,980	2,134	2,513	2,737
Employees		1,275	1,060	790	822	998

(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.

Share Price Information

The following table shows the high and low sale prices of the common shares for each calendar quarter since the beginning of 1980.

	NEW YORK COMPOSITE ($ U.S.)		THE TORONTO STOCK EXCHANGE ($ CDN)	
	High	Low	High	Low
1980				
First Quarter	89	35½	103	46½
Second Quarter	80⅜	40¾	92	49¾
Third Quarter	84¾	65	98½	76½
Fourth Quarter	62¼	52½	80	62
1981				
First Quarter	62½	46	73½	55
Second Quarter	66¾	47	78½	58
Third Quarter	53	29	63¾	35½
Fourth Quarter	42	27½	50	32

Glossary

Adit

A tunnel driven from the surface to gain access to a coal seam.

Bank Cubic Yard

A cubic yard of rock measured in-place.

Coking Coal

Coal which has properties to allow agglomerating during burning to provide coke.

Deferred Development

The costs associated with the development of a new mine which are capitalized and amortized over the life of the mine.

Development

The forming of roadways to gain access to coal reserves.

Driveage

A roadway formed underground in association with the working of a coal seam.

Foundry Coke

Coke refined in foundries to increase the melting quality of metal.

Long Tons Clean (LTC)

2240 pounds of coal after processing to remove waste material.

Long Tons Raw (LTR)

2240 pounds of material as delivered to the preparation plant for processing.

Strip Ratio

A ratio used to describe the amount of overburden which has to be moved to release the coal expressed as the cubic yards of overburden to release 1 cubic yard of coal.

Low Volatile

Coal containing 14 to 22 percent dry volatile matter.

Medium Volatile Bituminous

Coal containing 22 to 31 percent dry volatile matter.

Merchant Blast Furnace Coke

Coke produced for sale to steel makers.

Mill Recovery

The percentage of valuable metal in the ore that is recoverable by metallurgical treatment.

Spot Market Sales

Coal sold to customers other than under a long term contract.

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