McINTYRE MINES

Annual Report 1984

Annual Meeting

The Annual Meeting of the Shareholders will be held on Thursday, May 2, 1985 at 10:00 a.m. (Calgary Time) in the Bonavista 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.

Corporate Information

Head Office
Three Calgary Place
1400 - 355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3
Telephone 1-403-267-4511

Directors

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

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

A. R. NIELSEN,
Chairman and Chief Executive Officer
Canadian Superior Oil Ltd., an oil company

J. B. REDPATH,
Retired Mining Executive

R. F. TUCKER,
President
Mobil Diversified Businesses

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

Executive Committee
E.C. MANNING
A. R. NIELSEN
J. B. REDPATH
R. F. TUCKER
P. J. URSO

Compensation Committee
E. C. MANNING
A. R. NIELSEN
R. F. TUCKER

Audit Committee
E. C. MANNING
A. R. NIELSEN
J. B. REDPATH

Share Option Committee
M. A. COOPER
E. C. MANNING
J. B. REDPATH

Officers

P. J. URSO
President, Chariman and Chief Executive Officer

E. J. BETHELL
Executive Vice-President, Finance

M. L. HENSON
Vice-President, Operations

W. M. BONE
General Counsel and Corporate Secretary

Capital Stock

Authorized:	Unlimited number of common shares without nominal or par value
Issued:	3,669,599
Authorized:	Unlimited number of preference shares without nominal or par value, issuable in series
Issued:	None

Auditors
Arthur Andersen & Co.
Chartered Accountants, Calgary, Alberta

Transfer Agents

Canada Permanent Trust Company
Toronto, Ontario; Calgary, Alberta; Montreal, Quebec; Vancouver, British Columbia

Bradford Trust Company
New York, N.Y.

Registrars

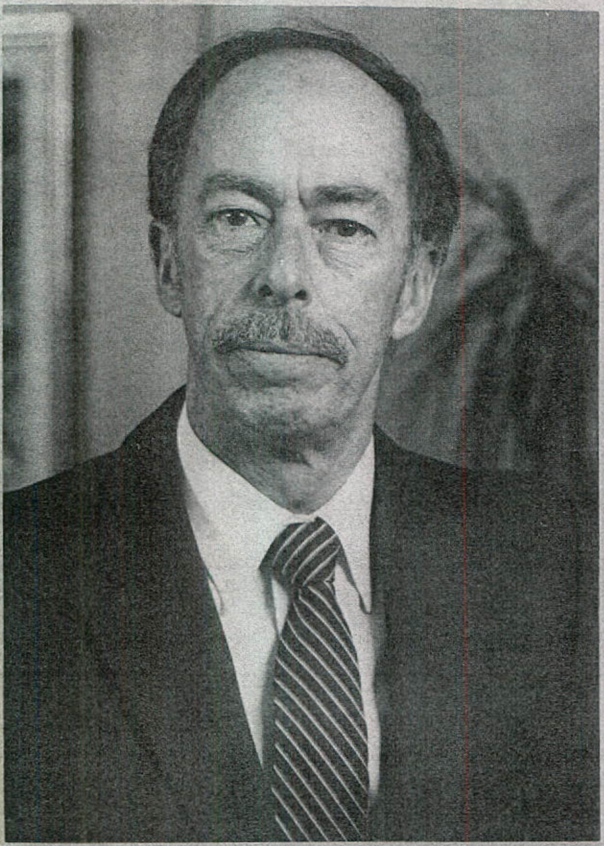
Canada Permanent Trust Company
Toronto, Ontario; Calgary, Alberta; Montreal, Quebec; Vancouver, British Columbia

The Chase Manhattan Bank
(National Association) New York, N.Y.

Stock Exchanges
The common shares of the Company are listed for trading on The Toronto Stock Exchange, Montreal Stock Exchange and the New York Stock Exchange.

Operations
Coal Division
M. L. Henson, Vice-President, Operations
Grande Cache, Alberta

Report To The Shareholders



1984 was a satisfactory year for your Company financially. McIntyre recorded a profit of $20.5 million or $5.65 per share in 1984 compared to a loss of $6.9 million, restated, or a loss of $1.92 per share in 1983. In 1984 McIntyre's 25.6% share of Falconbridge Limited's earnings contributed $20.1 million to the Company's profit compared to a $6.0 million loss, restated, in 1983.

The results from McIntyre's Smoky River coal operations yielded a net profit of $410,000 in 1984, after additional write-offs of $4.5 million during the year. Working capital increased from $23 million at the end of 1983 to $39 million at the conclusion of 1984. The improvements in efficiency which were recorded in 1983 continued in 1984, a year in which our employees achieved the highest level of productivity per manshift ever recorded at the Smoky River mine. This achievement is particularly significant in light of the fact that clean coal production, in 1984, was lower by some 25% from that in 1983, and overcame the adverse impact on efficiencies normally associated with a reduction in volume. We believe that our mine is now competitive with other Western Canadian metallurgical coal mines.

However, we look to 1985 and future years with grave concerns for our coal operations. The oversupply of metallurgical coal in the market place worldwide continues. This is particularly adverse to us at this time because whilst a rationalization and closure of coal production is taking place in Europe and the U.K., albeit slowly and with some social trauma, significantly large, new production capacity in Western Canada, Australia, and in Eastern Russia has recently come on stream either aimed at, or contracted to, the Pacific Rim market. Our sales contract with the Japanese consortium of steel mills and coke makers, traditionally our largest customer, expired in 1984.There has been uncertainty as to whether any reconnection could be made in Japan, and indeed, if possible, would the tonnage contracted, in total with others, be sufficient to sustain a viable coal mining operation at Smoky River. We currently have coal on offer to individual Japanese customers for 1985. However, our prospects in Japan are for sharply reduced volumes and prices which will result in lower sales volumes and revenues for 1985, when compared to those of 1984. At the same time, we regard 1985 as the year critical to continued viability of our coal operations. We must hold on to and improve the substantial gains in operating efficiency which we have seen over the past two years, whilst in an environment of shrinking production and reduced pricing expectations.

On the marketing side, Brazil and the Republic of Korea now represent the base source of sales for Smoky River coal. To that end, we welcome the prospects of our fourth Brazilian contract customer commencing steel production in 1985, and the start-up of our Korean customer's new steel plant at Kwangyang Bay in late 1986. We are selling to other markets both internationally and domestically and have secured sales for 1985 in Europe, the near East, and in Eastern Canada. The opportunity exists, and will be pursued, to extend these one year contracts to a longer term. Also, in late February 1985 we successfully concluded negotiations for a small tonnage sale into Japan, our first sale since the expiration of our Japanese contract in September 1984. Discussions are continuing with several other Japanese customers and we are optimistic that additional sales will be made during this year.

Falconbridge recorded a consolidated net income of $80.2 million in 1984 or $11.13 per share, compared to a consolidated loss of $16.6 million in 1983. Falconbridge's significant improvement in 1984 stems in part from extraordinary gains of $41.5 million from the sale of shares in The Superior Oil Company, and $10 million, from the recording of income tax debits previously unrecorded. Other reasons for Falconbridge's improved results were reductions in the cost of sales, improved nickel and cobalt prices and increased metal deliveries.

In early March 1985 Falconbridge issued a further 1 million common shares. The Company did not acquire any of these shares and accordingly its interest in Falconbridge has been diluted to 22.2%. If all the warrants which were issued in 1983 are exercised the Company's interest in Falconbridge will be diluted to 19.8%.

We are at a pivotal point in the life of the Smoky River Coal operation. The efficiency of operations at Smoky River have improved significantly over the past two years. However, we are unable to say with certainty when the difficult marketing situation for metallurgical coal will change. We do expect that for 1985, at least, the Company will experience lower sales volumes and revenues and in all likelihood losses from its operations. It is our determination to maintian as efficient an operation as possible in 1985, so as to be positioned to participate in the recovery when it occurs. Great strides have been made in improving the efficiency of our mining operation, however many challenges continue to face it. We believe that with the continued support of our employees and our shareholders we will be able to meet these challenges.

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

Operations Review

In order to maintain the significant efficiency improvements achieved in 1983, and to overcome the unfavorable effects on costs associated with declining production, Smoky River Coal Limited continued to focus on improving productivity and reducing operating costs throughout 1984.

The 1984 production of 1.2 million long tons clean (LTC) was processed from 1.7 million long tons raw (LTR). Production was significantly lower than the 1.7 million LTC processed in 1983, and well below the processing plant operating capacity of 2.1 million LTC. Production was decreased in 1984 to meet decreased sales resulting from expiration of the Japanese contract.

No. 9 Surface Mine production was 1.1 million LTR compared to 1.5 million LTR in 1983. Production from underground operations was 0.6 million LTR in 1984 compared to 0.7 million LTR in 1983. With the improved operating efficiencies, total property productivity was 11.2 LTC/manshift in 1984. This compares very favourably to the previous record productivity of 10.8 LTC/manshift in 1983 when the production level was 40% higher than in 1984.

Surface Mining

Surface Mining continued to be concentrated at No. 9 Mine, which is located on the north side of Sheep Creek. Mining operations were carried out in four distinct pits. Waste removal of 6.9 million bank cubic yards (BCY) yielded a stripping ratio of 6.0:1 (BCY per LTR). This compared favourably to the 8.0:1 stripping ratio achieved in 1983.

Waste removal equipment consisted of two 15-cubic yard electric shovels and a fleet of thirteen 150-ton trucks. Waste was hauled to nearby dump sites with the start of major backfilling of mined-out areas during the last half of the year.

13.5 cubic yard front-end loaders and track dozers were used to load coal into the coal haul fleet consisting of four 85-ton coal trucks. During the year, the coal haul fleet of eight Caterpillar trucks was completely replaced by four Unit Rig trucks. This fleet hauled all coal from the Surface Mine and the Underground Mines' stockpiles to the Sheep Creek Breaker Station. From this point, the coal was transferred through the mountain on an underground tunnelway conveyor to the coal preparation plant.

Reclamation and environmental control activities continued in 1984. The Company is satisfied it is in compliance with applicable government regulations.

Underground Mining

Total production from the Underground Mines was 0.6 million LTR. This production was split 57% from 9-A Mine and 43% from 9-B Mine. During 1984, the major developments within 9B-4 Mine were installation of conveyors, a mine drainage system and the introduction of belt conveyor manriding. 9A-4 Mine was completed in November 1984, with 9B-4 Mine now our only producing underground facility. Continued improvements in productivity and costs were achieved in 1984.

9G-4 Mine will remain on a care and maintenance basis until the depletion of other mining areas. Conditions in this mine remain excellent.

Coal Preparation

During 1984 the coal preparation plant processed 1.7 million LTR to produce 1.2 million LTC. With the conclusion of the Japanese two-year contract which for the first time had required the production of 8% ash coal, the plant returned to the traditional 7% ash specifications in 1984. Yield from the plant for the 7% ash product was 72.5% which represents a 5% improvement over our historic yields for this quality of production.

Mine Planning

During 1984, all active pits and pits proposed for immediate development were redesigned to reduce strip ratios and increase operating efficiency through improved waste haul profiles. These changes resulted in no significant loss in reserves, and substantially reduced requirements for waste removal. Notwithstanding the new criteria, development drilling and increased coal recovery from previously designed pits resulted in an actual increase in the reserves in the active pits.

During late 1984, Smoky River Coal successfully bid for the fraction leases adjacent to No. 9 Mine known as the No. 12 Mine area. Emphasis was moved from grassroots geological work on potential mine areas distant from No. 9 Mines to proving up reserves within and adjacent to existing infrastructure. As a result of the geological work, economic surface mineable reserves within and adjacent to No. 9 Mine are estimated to be in excess of 20 million LTR.

No major planning changes or developments occurred in 1984 related to underground mine planning.

Human Resources

The overall manpower at Smoky River decreased to 423 as of December 31, 1984 from 559 people at the start of the year. This manpower reduction occurred as a result of attrition and a layoff of employees primarily in the second quarter of 1984. There have been further manpower reductions in 1985. A two-year Collective Agreement with the United Steelworkers of America was entered into on October 1, 1984, calling for a minimal increase in wages and benefits (3.5%) in the first year and monetary items only to be negotiated for the second year.

Affiliated Company

Falconbridge Limited

Falconbridge Limited (Falconbridge) in which the Company held a 25.6% interest, recorded a consolidated net income of $80.2 million ($11.13 per share) compared to a consolidated loss of $16.6 million in 1983. The 1984 income included an extraordinary gain of $41.5 million from the sale of The Superior Oil Company shares and $10.0 million from recording income tax debits previously unrecorded. The 1983 results included an extraordinary gain of $14.8 million resulting from a $25 million equity issue by Kiena Gold Mines Limited in which Falconbridge did not participate. The improved operating results for 1984 were due to reductions in production and sales costs, increased nickel prices, higher cobalt prices and greater metal deliveries.

Stainless steel production, which accounts for more than half of the world's nickel consumption, performed particularly well, reaching record output levels in several countries. That strong performance along with high demand from the high alloy and electroplating sectors helped push Non-Communist World nickel consumption to 1,240 million pounds, a 12 per cent increase from 1983 levels and only 5 per cent below the peak set in 1979. As a result the earnings of the Integrated Nickel Operations increased to $43.9 million in 1984 from a loss of $6.8 million in 1983.

Indusmin Limited, a wholly owned subsidiary of Falconbridge, produces and markets mineral aggregates and alloy steel castings. In 1984 Falconbridge acquired all of the remaining shares of Indusmin.

Falconbridge Limited's interest in the 1984 loss of Falconbridge Dominicana, C. por A., was $7.2 million, compared with a loss of $27.1 million in 1983. The improvement in the 1984 results was due to lower production costs, the sale of excess power and favourable exchange rates.

As a result of public offerings of Falconbridge shares over the past few years the Company's interest has been diluted to a holding of 22.2%.

Management's Discussion

and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Operations continued to provide positive cash flow throughout 1984. Working capital increased $15.9 million in 1984 to $39.0 million from $23.1 million at December 31, 1983. Operations provided $16.2 million in cash flow compared to $19.7 million in 1983. A coal inventory financing arrangement with an affiliate on which $27.9 million was outstanding on December 31, 1983 was repaid in 1984. This was the primary reason for the reduction in the cash balance from 1983.

Capital expenditures to replace equipment for surface and underground mining were $1.1 million in 1984, compared to $2.2 million and $6.1 million in 1983 and 1982, respectively. Major expenditures during 1984 were not required as a result of the excess productive capacity at Smoky River.

McIntyre's assets are unencumbered and it has $10.2 million long-term debt, which includes housing mortgages, capital leases and damages payable on settlement of litigation with Alberta Power. The Company has available a $30 million line of credit.

Results of Operations

The Company reported an operating profit of $.4 million in 1984 compared to a loss of $1.0 million in 1983 and $42.7 million in 1982. The improvement in operating results has been achieved primarily by continued cost cutting and the highest level of productivity per manshift in recent years. Sales and average prices have declined from 1983 to the 1982 levels as a result of the expiry of the Japanese contract in September of 1984. The 1984 results included $4.5 million in write-offs of mining assets at Smoky River.

Improvement in unit production costs peaked mid year and declined due to reduced production. Overall unit costs were lower in 1984 than 1983. Shut downs of 6 weeks in the third quarter and 2 weeks in the fourth quarter to reduce coal inventories also increased unit costs. As a result of this reduced output the workforce was reduced by an additional 136 employees. Clean coal production for 1984 was 1,220,000 tons compared to 1,665,000 and 1,226,000 tons for 1983 and 1982 respectively. It is expected that production levels for 1985 will be reduced to be consistent with expected sales volumes.

Results of operations in 1984 were enhanced by administrative overhead reductions; interest income of $1.0 million compared to interest expense of $2.1 million in the prior year.

Although significant cost reductions were made in 1983 and 1984 the decline in volume and prices received for Smoky River coal will prevent the realization of income from operations in 1985.

The Japanese customers have accounted for 57%, 76% and 76% of McIntyre's revenues during the fiscal years ended December 31, 1984, 1983, 1982 respectively. This group did not renew its purchase contract after its expiry in October 1984. The company is continuing its efforts to secure sales contracts with individual Japanese customers at competitive prices and in late February 1985 signed a one year contract for 25,000 long tons clean with one such customer.

The cessation of a long-term contractually assured market represented by the Japanese contracts discussed above is an extremely serious matter. The Company has taken and continues to take action to address this problem, including the implementation of operating strategies to reduce unit costs and enhance productivity and to develop alternative markets. The Company has been successful in previous years in obtaining long-term contractual commitments from steelmakers in Brazil and the Republic of Korea, with shorter term commitments from customers in Europe and North America, and is endeavouring to broaden its geographical customer mix. Replacement tonnage has been sold at prices substantially below those prevailing under the expired Japanese agreement in recognition of current market conditions. In view of the major significance of the Japanese market to western Canadian coal producers generally, as discussed below, management believes that the achievement of an acceptable level of profitability over the long term will ultimately require the re-establishment of a significant presence in the Japanese market. That, in turn, will depend on improved world economic conditions affecting the demand for metallurgical coal.

Consistent with industry practice, McIntyre has entered into long-term sales commitments with its customers which provide for annual negotiation of prices and volumes. McIntyre will be settling the prices for 1985 deliveries under those contracts during the current year. In view of the continued soft market in world wide demand and the oversupply of available metallurgical coal, there has been a further deterioration in coal prices, and it is expected that this will be reflected in the price settlements.

The Company continues to review and evaluate its long-term options with respect to the Smoky River coal operations in view of the economic and marketing uncertainties described herein. The alternatives being considered include the possible disposition of all or a portion of such operations or possible curtailment of the scope or termination of such operations.

If the Company cannot obtain sufficient sales to maintain an economic mining operation the Company may consider, among other things, reducing operations to a care and maintenance basis, until markets improve.

Management believes that the Company is positioned to maintain operations for a reasonable period of time pending any such development.

Any decision with respect to such alternatives may result in the Company being unable to realize its investment in property, plant and equipment, deferred mine development, mine supplies and other assets and may accelerate reclamation and other obligations.

Although it is not possible to determine when conditions will improve substantially, the Company is of the opinion that the investment in Smoky River Coal Limited will be recovered eventually and has decided not to make any provision in the consolidated financial statements related to those costs.

In addition to the operating results described above, the Company recognized income of $20.1 million attributable to its equity in Falconbridge's income, which resulted in a consolidated net income of $20.5 million compared to a net loss of $6.9 million in 1983 and a net loss of $73.5 million in 1982. Historically, the equity in the earnings of Falconbridge has impacted the Company's results of operations in a significant way and it is expected that it will continue to do so.

Included in Falconbridge earnings for 1984 are extraordinary gains from the sale of The Superior Oil Company shares and from recording previously unrecorded tax debits. McIntyre's share of these extraordinary items amounted to $12.7 million.

As a result of a public offering of common shares by Falconbridge in early 1983, McIntyre's interest in Falconbridge was reduced from 37.1% to 26.5%. Falconbridge issued an additional 230,000 common shares in January of 1984 which further diluted the Company's equity interest to 25.6%. In 1985 Falconbridge has issued an additional 1.0 million common shares by way of a public offering and 75,000 shares to fund its 1984 exploration program. This has resulted in an equity dilution to 22.2% with a potential dilution to 19.8% if outstanding warrants are exercised.

Consolidated Statements

of Income (Loss) and Retained Earnings

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

	Year Ended December 31		
	1984	**1983**	**1982**
		(Restated)	(Restated)
Revenue (Note 3)	**$ 94,986**	$118,644	$ 97,531
Cost of sales:			
Operating costs (Note 8)	**77,746**	95,814	111,874
Depreciation	**7,962**	9,075	10,065
Amortization	**2,177**	2,856	2,012
Reclamation	**867**	1,092	714
Write-off of mining assets (Note 3)	**4,535**	5,800	10,195
	93,287	114,637	134,860
Gross profit (loss)	**1,699**	4,007	(37,329)
Corporate expenses (income):			
Administration	**2,106**	2,732	4,564
Exploration	**199**	115	518
Interest	**(1,016)**	2,133	309
	1,289	4,980	5,391
Income (loss) from operations	**410**	(973)	(42,720)
Equity in income (losses) of affiliates	**7,352**	(9,892)	(30,762)
Income (loss) before extraordinary items	**7,762**	(10,865)	(73,482)
Extraordinary items (Note 11)	**12,725**	3,924	—
Net income (loss)	**$ 20,487**	$ (6,941)	$ (73,482)
Per share (Note 12):			
Income (loss) before extraordinary items	**$ 2.14**	$ (3.00)	$ (20.39)
Extraordinary items	**3.51**	1.08	—
	$ 5.65	$ (1.92)	$ (20.39)
Retained earnings, beginning of year			
As previously reported	**$130,470**	$134,070	$208,570
Retroactive adoption (Note 2) by Falconbridge Limited of:			
—FIFO method of inventory valuation	**6,079**	9,091	7,328
—Foreign currency translation	**(2,242)**	(1,913)	(1,168)
As restated	**134,307**	141,248	214,730
Net income (loss)	**20,487**	(6,941)	(73,482)
Retained earnings, end of year	**$154,794**	$134,307	$141,248

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

Consolidated Balance Sheets

(in thousands of Canadian dollars)

Assets

	December 31		
	1984	**1983**	**1982**
		(Restated)	(Restated)
Current:			
Cash and short-term investments	**$ 9,934**	$ 20,147	$ 14,939
Accounts receivable	**1,331**	6,343	2,095
Coal inventory (Note 15)	**26,772**	26,038	16,431
Mine supplies	**7,643**	9,976	11,956
	45,680	62,504	45,421
Investments (Note 2):			
Falconbridge Limited	**157,505**	137,338	142,225
Neptune Bulk Terminals (Canada) Limited	**885**	885	885
	158,390	138,223	143,11[illegible]
Property, plant and equipment (Note 4)	**29,175**	37,518	48,008
Deferred mine development (Note 5)	**20,337**	23,603	32,120
Other (Note 6)	**13,543**	17,295	12,978
	$267,125	$279,143	$281,637

The accompanying notes to consolidated financial

Liabilities and Shareholders' Equity

	December 31		
	1984	**1983**	**1982**
		(Restated)	(Restated)
Current liabilities:			
Bank indebtedness	$ —	$ —	$ 9,864
Accounts payable and accrued liabilities	**6,115**	10,992	12,106
Current portion of long-term debt	**524**	524	288
Due to affiliate (Note 15)	**—**	27,864	18,160
	6,639	39,380	40,418
Long-term debt (Note 7)	**10,180**	10,900	7,589
Provision for reclamation	**10,247**	9,381	8,289
Commitments and contingencies (Notes 3 and 8)			
Shareholders' equity:			
Share capital (Notes 9 and 10)	**87,871**	87,871	87,870
Retained earnings	**154,794**	134,307	141,248
	242,665	222,178	229,118
Less: Shares held by Falconbridge Limited, at cost (Note 2)	**2,606**	2,696	3,777
	240,059	219,482	225,341
	$267,125	$279,143	$281,637

APPROVED BY THE BOARD

Director

Director

statements form an integral part of these statements.

Consolidated Statements

of Changes in Financial Position

(in thousands of Canadian dollars)

	Year Ended December 31		
	1984	**1983**	**1982**
		(Restated)	(Restated)
Funds provided:			
Operations (Note 17)	**$ 16,162**	$ 19,742	$ —
Dividends from affiliates	**171**	—	171
Employee housing (Note 6)	**6**	845	126
Proceeds from asset disposals	**1,071**	33	731
Issuance of common shares	**—**	1	—
	17,410	20,621	1,028
Funds applied:			
Operations (Note 17)	**—**	—	20,421
Property, plant and equipment	**1,116**	2,153	6,095
Deferred mine development	**11**	139	1,502
Increase in security deposits	**232**	48	24
Reduction of long-term debt	**125**	160	139
Other	**9**	—	(14)
	1,493	2,500	28,167
Increase (decrease) in working capital	**15,917**	18,121	(27,139)
Working capital, beginning of year	**23,124**	5,003	32,142
Working capital, end of year	**$ 39,041**	$ 23,124	$ 5,003
Changes in components of working capital:			
Increase (decrease) in current assets			
Cash and short-term investments	**$(10,213)**	$ 5,208	$ 947
Accounts receivable	**(5,012)**	4,248	(1,814)
Coal inventory	**734**	9,607	(1,801)
Mine supplies	**(2,333)**	(1,980)	1,471
	(16,824)	17,083	(1,197)
Increase (decrease) in current liabilities:			
Bank indebtedness	**—**	(9,864)	9,864
Accounts payable and accrued liabilities	**(4,877)**	(1,114)	(2,146)
Current portion of long-term debt	**—**	236	64
Due to affiliate	**(27,864)**	9,704	18,160
	(32,741)	(1,038)	25,942
Increase (decrease) in working capital	**$ 15,917**	$ 18,121	$(27,139)

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

1. Accounting policies:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles consistently applied and conform in all material respects with the standards of the International Accounting Standards Committee. In these statements, references to the Company mean McIntyre Mines Limited.

(i) Basis of consolidation—

The consolidated financial statements include the accounts of McIntyre Mines Limited and all companies which are more than 50% owned. All companies which are less than 50% owned but over which the Company exercises significant influence are accounted for on the equity method. All significant intercompany accounts and transactions have been eliminated on consolidation.

(ii) Short-term investments—

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

(iii) Inventories—

Coal inventory is recorded 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 (moving average) and net realizable value.

(iv) Property, plant and equipment—

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

(v) Deferred mine development—

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

(vi) Reclamation—

The estimated costs of reclaiming acreage which has been disturbed are provided primarily on a unit of production basis.

(vii) Exploration—

Exploration costs which relate to new properties where an underlying economic value has not 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, at which time the costs are transferred to deferred mine development.

(viii) Foreign exchange—

Assets and liabilities to be settled in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rates prevailing during the year.

For financial statements of consolidated foreign subsidiaries, assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Shareholders' equity accounts are translated using the historical blend of exchange rates in effect at the time of each transaction. Revenues and expenses are translated at the average rates prevailing during the year.

Gains and losses on translation are immaterial and are included in administration expenses.

2. Investments:

Falconbridge

Changes in the investment in Falconbridge are as follows (in thousands of dollars):

	1984	1983	1982
Investment, beginning of year as previously reported	**$133,501**	$135,047	$166,694
Inventory restatement	**6,079**	9,091	7,328
Foreign exchange restatement	**(2,242)**	(1,913)	(1,168)
	137,338	142,225	172,854
Adjustment to reciprocal shareholding	**90**	1,081	—
Equity in earnings (losses):			
Before extraordinary items	**7,352**	(9,892)	(30,629)
Extraordinary items (Note 11)	**12,725**	3,924	—
Investment, end of year	**$157,505**	$137,338	$142,225

The investment in Falconbridge Limited (25.6% year end equity interest) is accounted for on the equity method which reflects the investment at cost plus its interest in undistributed earnings. In February, 1983, Falconbridge issued an additional 2,000,000 common shares with warrants to purchase an additional 1,000,000 common shares. Falconbridge issued an additional 230,000 common shares in January of 1984. In February of 1985 Falconbridge issued 75,000 common shares subscribed for in 1984. An additional 1,000,000 common shares were issued in March 1985 by way of a public offering. The Company did not purchase any of the shares or warrants issued. Accordingly, the Company's equity interest in Falconbridge has been reduced from 37.1% to 25.6% in January 1984 and to 22.2% in February 1985 (see Note 18). In addition, the shares held by Falconbridge shown on the balance sheet (reciprocal shareholding) have been reduced by this dilution. The Company's equity interest could be diluted to 19.8% if all warrants are exercised.

In 1984 Falconbridge retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants for foreign currency translation; in addition Falconbridge changed to the "first-in, first-out" basis for inventory valuation. Previously Falconbridge used the current/non current method of foreign currency translation and the "last-in, first-out" basis for inventory valuation.

The effect of these two accounting policy changes was to decrease the Company's equity in Falconbridge's earnings by $715,000 in 1984 and increase the equity loss by $3,341,000 in 1983 and decrease the 1982 equity loss by $1,018,000.

In January, 1982, Falconbridge Dominicana, C. por A. (Falcondo), a 65.7% owned subsidiary of Falconbridge, temporarily shut down its ferronickel production operations in the Dominican Republic because of the uncertain demand for ferronickel. Falcondo resumed limited production operations in September, 1982 after certain steps, including a substantial reduction in workforce, had been taken to reduce costs. Under current market conditions Falcondo will be dependent on the continued financial support of its sponsors. Although it is not possible to determine when conditions will improve sufficiently for the achievement of a self-sustaining operation, management of Falconbridge is of the opinion that the net aggregate carrying value of its property, plant, equipment, preproduction and other deferred charges will be recovered eventually. 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 was approximately $26.3 million at December 31, 1984.

Neptune

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

Madeleine

In 1982, Madeleine Mines Ltd. (36.4% equity interest) ceased operations. The profit (loss) attributable to common shares was $(186,000) in 1984, $113,000 in 1983 and $(1,534,000) in 1982. At December 31, 1984, the net assets of Madeleine were $1,452,000. Financial information for Madeleine is not presented below as the company is in the process of disposing of its plant and equipment. McIntyre's carrying value of Madeleine was reduced to zero after reporting $133,000 of losses in 1982. Effective March 19, 1985 the Company sold its entire 36.4% equity interest in Madeleine at a net price of $787,615 (see Note 18).

Summarized financial information for Falconbridge and Neptune is as follows (in thousands of dollars):

	Falconbridge			Neptune		
	1984	**1983**	**1982**	**1984**	**1983**	**1982**
		(Restated)	(Restated)			
Current assets	**$ 521,372**	$ 595,073	$ 494,481	**$ 3,859**	$ 2,985	$ 2,552
Property, plant and equipment, net	**605,557**	557,119	559,571	**22,750**	22,443	22,508
Other assets	**38,621**	110,387	111,183	**93**	100	95
	$1,165,550	$1,262,579	$1,165,235	**$26,702**	$25,528	$25,155
Current liabilities	**$ 106,711**	$ 122,905	$ 87,446	**$ 3,585**	$ 5,014	$ 4,015
Long-term liabilities	**283,842**	486,135	502,262	**19,117**	16,514	17,140
Deferred income taxes	**88,956**	59,840	69,063	**—**	—	—
Minority interest	**50,047**	61,414	61,424	**—**	—	—
Shareholders' equity	**635,994**	532,285	445,040	**4,000**	4,000	4,000
	$1,165,550	$1,262,579	$1,165,235	**$26,702**	$25,528	$25,155
Income (loss) before extraordinary items	**$ 28,694**	$ (31,409)	$ (81,279)	**$ —**	$ —	$ —
Extraordinary items	**$ 51,492**	$ 14,816	$ —	**$ —**	$ —	$ —
Dividends paid on common shares	**$ —**	$ —	$ —	**$ —**	$ —	$ —

Consolidated retained earnings include the Company's share of the undistributed earnings of Falconbridge, which amounted to $102,891,000 (1983 - $85,540,000; 1982 - $128,456,000).

3. Mining operations:

The Company's primary activity is to mine, process and sell high grade metallurgical coking coal. This activity, formerly carried on by the Company's Mining Division, was transferred to a wholly-owned subsidiary, Smoky River Coal Limited, (SRC) incorporated in 1982. A condensed balance sheet for SRC as of December 31, 1984, 1983 and 1982 is as follows (in thousands of dollars):

	1984	1983	1982
Current assets	**$43,202**	$ 63,590	$ 22,313
Investment in Neptune	**885**	885	—
Property, plant and equipment, net	**29,173**	37,393	47,481
Deferred mine development, net	**11,657**	14,937	23,591
Other	**13,287**	16,951	12,181
	$98,204	$133,756	$105,566
Current liabilities	**$ 6,271**	$ 42,332	$ 17,868
Due to parent	**14,000**	14,000	14,000
Long-term debt	**10,180**	10,900	7,589
Provision for reclamation	**10,248**	9,381	8,289
Shareholders' equity	**57,505**	57,143	57,820
	$98,204	$133,756	$105,566

The following summarizes the results of the Company's coal mining operations for the current and prior two years (in thousands of long tons and thousands of dollars):

	1984	1983	1982
Clean coal produced	**1,220**	1,665	1,226
Clean coal sold	**1,168**	1,413	1,237
Revenue	**$94,986**	$118,644	$ 97,531
Cost of sales	**93,287**	114,637	134,860
Gross profit (loss)	**$ 1,699**	$ 4,007	$ (37,329)

Included in the 1984 results is a write-off of $3,435,000 of housing costs and $1,100,000 of underground deferred mine development. In 1983 and 1982, $5,800,000 and $10,195,000 of deferred mine development was written-off.

Coal operations are governed by the Ministry of Energy and Natural Resources of Alberta. A waiver has been received in respect of the fixed minimum rate of 5% of minesite revenue until March 1986, and instead the Company is subject to coal royalties based on a formula. For 1984, 1983 and 1982, calculations based on the formula resulted in no royalty expense.

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 and revenues (in thousands of long tons and thousands of dollars):

	1984	1983	1982
Major customers			
Sales	**618**	1,043	945
Revenue	**$53,870**	$ 89,405	$74,500
Others			
Sales	**550**	370	292
Revenue	**$39,288**	$ 29,239	$23,031
Thermal Coal Revenue	**$ 1,828**	$ —	$ —
Total			
Sales	**1,168**	1,413	1,237
Revenue	**$94,986**	$118,644	$97,531

(i) At the present time the Company has contracted for the annual delivery of coal as follows (in thousands of long tons):

	1985	1986	1987	1988	1989
Japan	—	—	—	—	—
Other Pacific Rim	280	255	65	—	—
South America	450	450	450	450	450
	730	705	515	450	450

The Japanese customers have accounted for 57%, 76% and 76% of McIntyre's revenues during the fiscal years ended December 31, 1984, 1983 and 1982. This group did not renew its purchase contract after its expiry in October 1984. The company is continuing its efforts to secure sales contracts with individual mills.

Although significant cost reductions were made in 1983 and 1984 the decline in volume and prices received for Smoky River coal will prevent the realization of income from operations in 1985.

The cessation of a long-term contractually assured market represented by the Japanese contracts discussed above is an extremely serious matter. The Company has taken and continues to take action to address this problem, including the implementation of operating strategies to reduce unit costs and enhance productivity and to develop alternative markets. The Company has been successful in previous years in obtaining long-term contractual commitments from steelmakers in Brazil and Korea, with shorter term commitments from customers in Europe and North America, and is endeavouring to broaden its geographical customer mix. Replacement tonnage has been sold at prices substantially below those prevailing under the expired Japanese agreement in recognition of current market conditions. In view of the major significance of the Japanese market to western Canadian coal producers generally, management believes that the achievement of an acceptable level of profitability over the long term will ultimately require the re-establishment of a reasonable presence in the Japanese market. That, in turn, will depend on improved world economic conditions affecting the demand for metallurgical coal.

Consistent with industry practice, McIntyre has entered into long term purchase commitments with its customers which provide for annual negotiation of prices and volumes. McIntyre will be settling the prices for 1985 deliveries under those contracts during the current year. In view of the continued soft market in world wide demand and the oversupply of available metallurgical coal, there has been a further deterioration in coal prices, and it is expected that this will be reflected in the price settlements.

The Company continues to review and evaluate its long-term options with respect to the Smoky River coal operations in view of the economic and marketing uncertainties described herein. The alternatives being considered include the possible disposition of all or a portion of such operations or possible curtailment of the scope or termination of such operations.

If the Company cannot obtain sufficient sales to maintain an economic mining operation the Company may consider, among other things, reducing operations to a care and maintenance basis, until markets improve.

Management believes that the Company is positioned to maintain operations for a reasonable period of time pending any such development.

Any decision with respect to such alternatives may result in the Company being unable to realize its investment in property, plant and equipment, deferred mine development, mine supplies and other assets and may accelerate reclamation and other obligations.

Although it is not possible to determine when conditions will improve substantially, the Company is of the opinion that the investment in SRC will be recovered eventually and has decided not to make any provision in the consolidated financial statements related to those costs.

4. Property, plant and equipment:

Property, plant and equipment is as follows (in thousands of dollars):

	1984	1983	1982
Surface mine equipment	**$42,034**	$44,323	$44,267
Underground mine equipment	**22,933**	23,542	23,595
Coal preparation plant	**20,507**	20,201	21,951
Other equipment	**20,191**	24,186	26,138
	105,665	112,252	115,951
Less: Accumulated depreciation	**76,490**	74,734	67,943
	$29,175	$37,518	$48,008

5. Deferred mine development:

Deferred mine development, net of accumulated amortization, is as follows (in thousands of dollars):

	1984	1983	1982
Producing properties:			
Surface mine	**$ 6,456**	$ 8,213	$16,886
Underground mines	**4,724**	6,055	5,883
Non-producing properties:			
Copton (i)	**7,192**	7,181	7,121
Monkman (ii)	**1,485**	1,485	1,408
Smoky River	**480**	669	822
	$20,337	$23,603	$32,120

(i) Copton Excol Limited, an 82.9% owned subsidiary, has properties situated adjacent to the Smoky River property. Exploration of these properties indicates substantial quantities of coal exist. The Company intends to defer expenditures on these properties until such time as a market can be found for production from the Copton properties.

(ii) Exploration of the Monkman Property (16 2/3% ownership) has outlined significant quantities of coking coal. In 1983 the participants in the Monkman Joint Venture entered into a farm-in agreement whereby Sumitomo Corporation can earn up to a 12% interest in the total project by spending $10 million. This agreement received FIRA approval in 1984. Profits commensurate with the risk of operating must be indicated before a decision is made to proceed with development to production.

6. Other assets:

Other assets are as follows (in thousands of dollars):

	1984	1983	1982
Employee housing loans	**$ 1,778**	$ 3,460	$ 6,161
Houses for sale to employees	**7,163**	9,098	6,659
Security deposits	**438**	206	158
Capital recovery due from Alberta Power (Note 8)	**4,164**	4,531	—
	$13,543	$17,295	$12,978

Funds recovered from employee housing were as follows (in thousands of dollars):

	1984	1983	1982
Houses for sale to employees			
Net funds applied to purchase houses from employees	**$(1,500)**	$(2,439)	$(3,638)
Mortgages on houses for sale to employees			
Increase (decrease) in mortgages payable by the Company	**(218)**	(154)	1,210
Employee housing loans			
Mortgages repaid by employees	**1,682**	2,701	2,554
Staff houses transferred to houses for sale	**42**	737	—
Funds from employee housing	**$ 6**	$ 845	$ 126

Due to the depressed economic conditions, houses for sale to employees have been valued at the lower of cost and current market value on a house by house basis. As a result $3.4 million of housing costs were written-off in the fourth quarter of 1984. These houses were carried at cost in 1983 and 1982.

To attract and retain employees, mortgage assistance and loans have been provided to enable employees to purchase local housing. In addition, certain housing mortgages amounting to $1,243,000 at December 31, 1984 have been guaranteed.

7. Debt:

(i) Borrowing arrangements:

The Company has available a line of credit of $30,000,000 with a Canadian bank. The line of credit is available 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 Bank's prime lending rate. The interest rate on U.S. loans is the London Interbank Offered Rate (LIBOR) plus ¾% and the stamping fee at the Company's Banker's acceptance rate. There are no commitment fees and a compensating balance is not required.

(ii) Long-term debt is as follows (in thousands of dollars):

	1984	1983	1982
Mortgages on houses for sale to employees	**$ 6,235**	$ 6,454	$6,608
Capital leases	**969**	1,095	1,269
Damages payable to Alberta Power (Note 8)	**3,500**	3,875	—
	10,704	11,424	7,877
Less current portion:	**524**	524	288
	$10,180	$10,900	$7,589

Long-term debt is repayable in the next five years as follows (in thousands of dollars):

	1985	1986	1987	1988	1989
Mortgages	$153	$197	$218	$241	$265
Capital leases	121	141	152	165	160
Damages payable to APL	250	250	250	250	250

Interest rates vary from 8.0% to 19.5%. Interest on long-term debt amounted to $775,000, $891,000 and $795,000 in 1984, 1983 and 1982 respectively.

8. Commitments and contingencies:

(i) The Company has a long-term operating lease agreement for the supply of rail cars for the transportation of coal. The minimum rental charge for 1985 will be $877,000 with rental charges over the next four years dependent on operating levels at the mine. The overall lease agreement, which expires in 1990, includes several sub-contracts which will be renegotiated as they expire. This is the only significant operating lease agreement of the Company.

(ii) A guarantee, secured by a letter of credit, of $6,974,700 for the performance of reclamation work has been provided to the Government of Alberta.

(iii) Under certain housing agreements the Company may be required to repurchase houses from employees. The estimated cost to repurchase these houses would be $4.0 million. (See also Note 6.)

(iv) In 1983, the Company and Alberta Power Limited (APL) entered into an agreement whereby the action which had been commenced in 1973 by APL against the Company was discontinued. Under the terms of this agreement, McIntyre's wholly-owned subsidiary, SRC, entered into a 20 year agreement to supply coal by-products and thermal coal to APL's Milner Generating Station. As part of this agreement, McIntyre agreed to guarantee the performance by SRC of all of its obligations under the agreement for a period of three years commencing January 1, 1983, and it guaranteed the payment by SRC of damages of $4.0 million over a 16 year period. As part of this agreement APL will pay $4.9 million to SRC over twenty years for equipment installed for the benefit of APL. The net effect of the settlement resulted in a charge of $1,456,000 to operating costs in 1983.

9. Share capital:

The authorized capital consists of an unlimited number of preference and common shares without nominal or par value. The Company had 3,669,599, 3,669,599 and 3,669,573 common shares outstanding as of December 31, 1984, 1983 and 1982, respectively.

There are no preference shares outstanding.

10. Share option plans:

In 1958, the Executive and Key Employee Stock Option Plan was established. This plan expired in 1982. 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. In May of 1984, the Board of Directors amended the plan by providing for the administration of the plan to be under a committee of the Board of Directors called the Share Option Committee.

	Number of Shares	Option Price Per Share
Options outstanding, December 31, 1981	26,000	44.06 to 62.00
Granted	28,500	29.25
Surrendered or expired	(10,500)	29.25 to 56.00
Options outstanding, December 31, 1982	44,000	29.25 to 62.00
Granted	39,500	23.35 to 34.90
Surrendered or expired	(24,302)	23.35 to 56.00
Exercised	(73)	29.25
Options outstanding, December 31, 1983	59,125	23.35 to 62.00
Granted	24,000	34.20
Surrendered or expired	(14,375)	23.35 to 29.25
Options outstanding, December 31, 1984	68,750	23.35 to 62.00

Options outstanding at December 31, 1984 relate only to the five-year options on 68,750 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 share capital. 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 (in thousands of dollars):

	1984	1983	1982
Equity in Falconbridge's gain on sale of The Superior Oil Company shares	$10,622	$ —	$ —
Equity in Falconbridge's recognition of previously unrecorded tax debits	2,560	—	—
McIntyre's equity reduction from Falconbridge's share issue	(457)	—	—
Equity in Falconbridge's gain resulting from the issue of shares by Kiena Gold Mines Limited	—	3,924	—
	$12,725	$ 3,924	$ —

12. Earnings per share:

For calculating per share amounts, the number of total shares outstanding has been calculated as follows:

Year	Weighted average shares outstanding	Deduct proportionate investment in shares held by Falconbridge	Number of shares used in calculation of earnings per share
1984	3,669,599	45,011	3,624,588
1983	3,669,573	46,565	3,623,008
1982	3,669,573	65,269	3,604,304

Exercise of the share options outstanding would not materially affect the calculations.

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.

The most recent actuarial valuations for the plans were January 1, 1982 and January 1, 1984. Due to the actuarial surplus in each plan, contributions were not required in 1984, 1983 or 1982.

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) is as follows (in thousands of dollars):

	1984	1983 (Restated)	1982 (Restated)
Income (loss) from operations, as reported	$ 410	$ (973)	$(42,720)
Equity in income (losses) of affiliates before extraordinary items, as reported	7,352	(9,892)	(30,762)
Increase (decrease) in Company's equity in Falconbridge to reflect the adjustments:			
1. Relating to foreign currency translation (i)	1,923	1,051	(1,965)
2. Relating to capitalization and amortization of interest costs (ii)	(4)	2,893	2,556
3. Adjustments relating to items not from continuing operations	(520)	(135)	—
4. Relating to Company's equity in gain resulting from the issue of shares by Kiena Gold Mines Limited (iii)	—	3,926	—
5. Gain on sale of shares of The Superior Oil Company (iii)	10,622	—	—
Equity in earnings (losses) of affiliates, as adjusted	$19,373	$(2,157)	$(30,171)
Income (loss) from continuing operations in accordance with U.S. GAAP	$19,783	$(3,130)	$(72,891)
Company's equity in loss from discontinued operations—Wesfrob Mines	—	(506)	—
Extraordinary Items			
Company's equity in gain on redemption of debentures	520	641	—
Company's equity in deferred tax adjustments (iii)	2,560	—	—
Income (loss) in accordance with U.S. GAAP	$22,863	$(2,995)	$(72,891)
Income (loss) per share in accordance with U.S. GAAP			
Continuing operations	$ 5.46	$ (.86)	$ (20.22)
Total	$ 6.31	$ (.83)	$ (20.22)

(i) Under Canadian GAAP Falconbridge defers gains and losses on translation of monetary items where the foreign currency denominated item has a fixed or ascertainable original life which extends beyond one year. The gains or losses are then amortized over the remainder of the life of the item. Under U.S. GAAP no deferral of exchange gains and losses as a result of translation is permitted—the gains and losses are included in income for the current period.

(ii) Consistent with the Canadian mining industry's practice of capitalizing all costs incurred during the preproduction stage of a project, Falconbridge capitalizes interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt. Interest costs incurred after the commencement of commercial production are expensed. U.S. GAAP requires the capitalization of interest costs as part of the historical cost of acquiring certain assets whether or not the assets are specifically financed by debt. Capitalized interest costs are amortized on the same basis as the related assets.

(iii) See Note 11.

15. Related party transactions:

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

(i) Pursuant to a 1979 agreement, CSO has earned a 50% participation in the Company's interest in the Kara Project, a tungsten property in Australia.

(ii) The Company and CSO are participants in the Monkman Pass joint venture.

(iii) In December 1982, the Company entered into an agreement with CSO whereby CSO purchased all production at Smoky River, incurred all transportation costs and resold the product to the Company at Neptune Terminals as the Company's customers take delivery of the coal. Interest was charged on the amounts advanced by CSO at prime less 1½%; $587,000 in 1984 and $2,535,000 in 1983. This agreement was terminated in 1984.

(iv) In 1983 CSO entered into agreements with three officers and one employee of the Company whereby it agreed to pay bonuses, based on a formula, upon the sale of all the shares of the Company owned by CSO and Superior, or upon the sale by the Company of all of the shares of SRC, in either case to a non-affiliated party during the term of employment.

16. Income taxes:

At December 31, 1984, the Company and its subsidiaries had $35.3 million in tax loss carry-forwards and $90.0 million of aggregate unused capital cost allowance and exploration and development deductions that are available to offset future income from certain activities or mining properties.

The right to use the tax loss carry-forwards will expire as follows:

1987	$14.9 million
1990	20.4 million
	$35.3 million

17. Working capital:

Funds were provided from (applied to) operations as follows (in thousands of dollars):

	1984	1983	1982
		(Restated)	(Restated)
Income (loss) before extraordinary items	**$ 7,762**	$(10,865)	$(73,482)
Items not affecting working capital			
Depreciation	**8,073**	9,483	10,065
Amortization	**2,177**	2,856	2,012
Write-off of mining assets	**4,535**	5,800	10,195
Equity in (income) losses of affiliates before extraordinary items	**(7,352)**	9,892	30,762
Reclamation	**866**	1,092	714
Loss (gain) on disposal of assets	**272**	28	(516)
Dividends from affiliates	**(171)**	—	(171)
APL damages, net (Note 8)	**—**	1,456	—
Total provided from (applied to) operations	**$16,162**	$ 19,742	$(20,421)

18. Subsequent events: (see Note 2)

In February of 1985 Falconbridge issued 75,000 common shares subscribed for in 1984. An additional 1,000,000 common shares were issued in March 1985 by way of public offering. The Company did not purchase any of the shares issued.

Effective March 19, 1985 the Company sold its entire 36.4% equity interest in Madeleine at a net price of $787,615.

Auditors' Report

To the Shareholders of
McINTYRE MINES LIMITED:

We have examined the consolidated balance sheets of McIntyre Mines Limited (a Canada corporation) as of December 31, 1984, 1983 and 1982 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 as of December 31, 1984, 1983 and 1982 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change, with which we concur, in the inventory valuation method used by Falconbridge Limited and method of accounting for foreign currency translation all as set forth in Note 2.

Calgary, Alberta
January 31, 1985
(except as to Note 18 which is as of March 19, 1985).

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 uncertainty relating to Smoky River Coal Limited, (a subsidiary of McIntyre Mines Limited) and Falconbridge Dominicana, C. por A. (a subsidiary of Falconbridge Limited), referred to in Note 3 and Note 2 respectively, to the accompanying financial statements.

The opinion in our report to the shareholders, dated January 31, 1985, is expressed in accordance with Canadian standards and is not qualified with respect to, and provides no reference to, these uncertainties 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.

Calgary, Alberta
January 31, 1985.

ARTHUR ANDERSEN & CO.
Chartered Accountants

The Impact of Inflation

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

The current cost amounts are based on judgments by management involving choices of methods within the CICA Guidelines. As such the estimates and judgments may differ from those chosen by other companies and may not represent the actual costs that would be incurred if the related assets were to be, or could be, replaced. As reported in Note 3, McIntyre does not expect to realize income in 1985 but believes that the investment in net property, plant and equipment will be recovered eventually. Consequently the current cost data for 1983 and 1984 are limited to the recoverable amount which is estimated at the historic cost amount. The disclosure of current cost amounts does not necessarily indicate McIntyre's intention to replace existing assets.

Methods used to derive the current costs of property, plant and equipment included preparing engineering estimates of replacement costs and using indices published by government organizations. Current cost estimates for development and preproduction expenditures were based solely on the use of government indices. The related depreciation and amortization amounts were based upon the expired service potential as determined from the historical cost records.

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

The following table sets out the current cost and general inflation adjustment related to the property, plant and equipment of the Company for the years ended December 31, 1984 and 1983 (in thousands of Canadian dollars):

	1984	1983 (Restated)
NET INCOME (LOSS):		
Net Income (Loss), before extraordinary items, as reported	$ 7,762	$ (11,332)
Adjustment to restate historical costs to current costs—		
Depreciation and amortization	—	—
Net Income (Loss) adjusted for changes in costs	$ 7,762	$ (11,332)
ASSET VALUES:		
1. Carrying value at December 31		
Net property, plant and equipment (i)		
Historic cost	$ 49,512	$ 63,778
Current cost basis	$ 95,975	$ 111,159
Reduction to recoverable amount	46,463	47,381
Net	$ 49,512	$ 63,778
Net assets (common shareholders' equity)		
Historic cost	$240,059	$229,025
Current cost basis	$286,522	$276,406
Reduction to recoverable amount	46,463	47,381
Net	$240,059	$229,025
2. Increase during the year in the current cost amounts of property, plant and equipment that is attributable to the effects of general inflation	$ 2,395	$ 3,327
OTHER DATA:		
1. General purchasing power gain on net monetary liabilities	$ 950	$ 1,698
2. Financing adjustment on current cost increases of property, plant and equipment	$ —	$ —
Financing adjustment based on the current adjustments made to net income (loss) for the year	$ —	$ —

(i) Development and preproduction expenditures are included as part of property, plant and equipment.

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 1982.

	New York Composite (U.S.$)		The Toronto Stock Exchange (CDN.$)	
	High	**Low**	**High**	**Low**
1982				
First Quarter	35	23¼	42	28
Second Quarter	27¾	17¼	34	22½
Third Quarter	25¾	17¾	31¼	22½
Fourth Quarter	26	19⅞	32	25
1983				
First Quarter	28½	21½	35¼	27
Second Quarter	32	20½	39½	25
Third Quarter	38⅛	28½	46½	35
Fourth Quarter	34½	27	42½	33½
1984				
First Quarter	**33¾**	**27⅜**	**42**	**34½**
Second Quarter	**31⅛**	**22¼**	**39½**	**30**
Third Quarter	**27¾**	**19¾**	**36½**	**25¾**
Fourth Quarter	**29½**	**25⅞**	**38¼**	**33½**

McIntyre has not paid dividends on its common shares since 1978. While any future dividends will be determined by the Board of Directors after consideration of McIntyre's earnings, financial condition and other relevant factors, it is presently expected that available cash flow will be utilized in McIntyre's coal operations and it is not anticipated that cash dividends on McIntyre shares will be paid in the foreseeable future.

Selected Financial Data

	1984	1983 (Restated)	1982 (Restated)	1981 (Restated)	1980 (Restated)
Production (000's omitted)					
Raw coal (long tons)	**1,727**	2,190	1,798	3,108	2,329
Clean coal (long tons)	**1,220**	1,665	1,226	2,065	1,470
Earnings ($000's omitted)	**$**	$	$	$	$
Revenue	**94,986**	118,644	97,531	140,294	115,213
Exploration	**199**	115	518	521	1,353
Interest (Income)	**(1,016)**	2,133	309	(5,231)	(3,679)
Depreciation	**7,962**	9,075	10,065	8,046	9,309
Amortization and write-off of mining assets	**6,712**	8,656	12,207	5,560	4,032
Income tax recovery	**—**	—	—	—	500
Income (loss) from operations	**410**	(973)	(42,720)	(6,156)	(2,992)
Equity in earnings (losses) of affiliates	**7,352**	(9,892)	(30,762)	308	28,384
Extraordinary gains (losses)	**12,725**	3,924	—	(1,901)	13,995
Consolidated earnings (losses)	**20,487**	(6,941)	(73,482)	(7,749)	39,387
Per share (a)	**5.65**	(1.92)	(20.39)	(2.15)	10.94
Dividends received from affiliates	**171**	—	171	3,030	7,325
Financial position					
Working capital	**39,041**	23,124	5,003	32,142	41,264
Investments	**158,390**	138,223	143,110	173,872	175,465
Property, plant, equipment and deferred development	**49,512**	61,121	80,128	95,019	88,877
Long-term debt	**10,180**	10,900	7,589	6,518	4,594
Shareholders' equity	**240,059**	219,482	225,341	298,823	306,572
Per share (a)	**$66.23**	$60.58	$62.52	$82.91	$85.15
Shareholders and Employees—December 31					
Total shares outstanding	**3,669,599**	3,669,599	3,669,573	3,669,573	3,666,073
Shareholders	**1,319**	1,542	1,733	1,891	1,980
Employees	**423**	572	697	1,275	1,060

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

Quarterly Financial Data (Unaudited)

(in thousands of Canadian dollars)

1984	Quarter Ended March 31	June 30	Sept. 30	Dec. 31
Coal revenue	$ 29,232	$ 29,933	$ 17,322	$ 18,499
Gross profit (loss)	5,560	3,138	867	(7,867)
Corporate expenses	467	205	324	293
Income (loss) from operations	5,093	2,933	543	(8,160)
Equity in earnings of affiliates	2,296	1,872	871	2,312
Income (loss) before extraordinary items	7,389	4,805	1,414	(5,848)
Extraordinary items	(457)	5,922	7,260	—
Net income (loss)	$ 6,932	$ 10,727	$ 8,764	$ (5,848)
Earnings (loss) per share				
Before extraordinary items	$ 2.04	$ 1.33	$ 0.39	$ (1.61)
Total	$ (1.91)	$ 2.96	$ 2.39	$ (1.61)

The Company wrote off $4,535,000 of mining assets in the fourth quarter (see Note 3). In addition $1,656,000 of mine supplies was written-off in the fourth quarter.

1983 (Restated)	Quarter Ended March 31	June 30	Sept. 30	Dec. 31
Coal revenue	$ 17,606	$ 35,780	$ 35,058	$ 30,200
Coal gross profit (loss)	676	457	(3,548)	6,422
Corporate expenses	1,371	1,745	1,112	752
Income (loss) from operations	(695)	(1,288)	(4,660)	5,670
Equity in earnings of affiliates	(8,496)	(3,620)	(472)	2,696
Income (loss) before extraordinary items	(9,191)	(4,908)	(5,132)	8,366
Extraordinary items	—	3,924	—	—
Net income (loss)	$ (9,191)	$ (984)	$ (5,132)	$ 8,366
Earnings (loss) per share				
Before extraordinary items	$ (2.53)	$ (1.35)	$ (1.42)	$ 2.30
Total	$ (2.53)	$ (0.27)	$ (1.42)	$ 2.30

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