McINTYRE MINES LIMITED

ANNUAL REPORT 1985

COMPARATIVE HIGHLIGHTS

(thousands of dollars, except per share)

	1985	1984	1983
Financial Results			
Revenue	$52,356	$94,986	$118,644
Gross profit (loss)	$(18,961)	$6,234	$9,807
Income (loss) before Falconbridge	$(35,850)	$410	$(973)
Falconbridge —			
Share of income (loss)	$9,595	$7,352	$(9,892)
Share of extraordinary items	$ —	$12,725	$3,924
Net income (loss)	$(26,255)	$20,487	$(6,941)
Net income (loss) per share	$(7.23)	$5.65	$(1.92)
Financial Position			
Cash and short-term investments	$4,103	$9,934	$20,147
Investment in Falconbridge	$167,463	$157,505	$137,338
Total assets	$241,982	$267,125	$279,143
Shareholders' equity	$214,165	$240,059	$219,482
Sales			
Long tons of clean coal	679,000	1,168,000	1,413,000
Revenue per long ton	$63.81	$79.76	$83.97

Amounts in this Annual Report are expressed in Canadian dollars, unless otherwise stated.

THE COMPANY

McIntyre Mines Limited's principal operating activity is the mining, preparation and sale of metallurgical coal at its Smoky River mine located near Grande Cache, Alberta. Smoky River Coal Limited, McIntyre's wholly owned subsidiary, is responsible for all mining operations with McIntyre providing senior management and marketing functions. McIntyre's principal asset is its 15.7% equity interest in Falconbridge Limited, through which McIntyre participates indirectly in the mining, processing and marketing of nickel, copper and other mineral products. McIntyre also holds an interest in other undeveloped coal properties in western Canada.

Dome Mines Limited beneficially owns approximately 53% of the outstanding Common Shares of McIntyre.

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REPORT OF THE DIRECTORS TO THE SHAREHOLDERS


Michael L. Henson and C. Henry Brehaut

Due to a significant operating loss, including the write-off of certain mining assets, McIntyre recorded a loss of $26.3 million or $7.23 per share in 1985 compared to a profit of $20.5 million or $5.65 per share in 1984. In 1985, McIntyre's equity accounted share of Falconbridge's earnings was $9.6 million compared to $20.1 million in 1984.

The Company reported an operating loss of $35.8 million in 1985 compared to a profit of $0.4 million in 1984. The 1985 operating loss was primarily caused by reduced sales volumes and prices for coal, higher costs due to extended shutdowns and reduced production levels, a charge of $7.1 million to operating costs relating to the revaluation of clean coal and mining supplies inventories and a $16.3 million write-off of mining assets. The 1984 results included $4.5 million in write-offs of mining assets at Smoky River.

During 1985, 679,000 long tons of clean coal were sold with the revenue per long ton averaging $63.81. In comparison, 1,168,000 long tons of clean coal were sold in 1984 at an average price of $79.76 per long ton. The drop in sales volume reflects the continued worldwide oversupply of metallurgical coal which has affected most producers and the termination, in October 1984, of the Company's sales contract with a consortium of Japanese steel mills. Sale prices in 1985 were affected by the termination of the contract with the Japanese steel mills, the continued drop in long-term contract prices and an increased proportion of sales into the spot market.

In 1985, McIntyre's major customer was a consortium of Brazilian steel mills. The Company continued to sell clean coal in Brazil and Korea under contract and obtained short term sales in Europe and North America. Short term sales of 64,000 long tons of clean coal were also made to Japan.

In 1986, the Company is planning its operations on the basis of sales of 510,000 long tons of clean coal to customers in the steel industry, 327,000 long tons of raw coal to thermal plants and spot sales of 325,000 long tons of clean coal from inventory. McIntyre's major customer will continue to be a consortium of Brazilian steel mills. Agreements with these mills have recently been concluded for the 1986 coal year providing for prices slightly lower than 1985, reflecting the continued decline in worldwide metallurgical coal prices. The volume of sales to Brazil in 1986 has been set approximately 20% higher than in 1985. Additional sales commitments for clean coal have been received from Korea, Japan and Europe. Efforts are continuing to expand sales to the Japanese market on a long-term basis.

In accordance with its sales targets for 1986, the Company has restructured its mining operations and is revising its mining plans with the objective of developing an economically viable operation, based on current market conditions. Under the present plans, open pit mining will be phased out at the No. 9 Mine over the next two years and the underground mine will be continued on a break-even basis. The commencement of the development of an open pit operation at the No. 12 Mine is planned for the second half of 1986.

As a result of these changes, it was determined that mining assets valued at $16.3 million were not economically recoverable and were charged against operating income in 1985. In addition, a charge of $6.1 million was made to operating costs to reflect a reduction in the value of coal inventories based on prices received for spot sales and there was a further $1.0 million write-down of parts and supplies inventory as a provision for obsolescence.

Operating costs in 1985 were also adversely affected as a result of placing the operation on a stand-by basis at times during the year and by termination costs associated with workforce reductions. These steps were required to balance production with the lower level of sales. The restructuring of the operation during the first quarter of 1986 should largely eliminate such costs for the rest of the year.

McIntyre's principal objective is to establish an economically viable operation at the Smoky River Mine. As the Company has adjusted to reduced demand and sales, significant productivity improvements have been achieved in all areas. From the beginning of 1982 to the end of 1985, employment at the Smoky River Mine decreased by 75% while clean coal production dropped only 50%. During the same period the number of employees at head office has been reduced from 45 to 7. Further productivity improvements have been made in 1986.

The Company continues to review and evaluate its long-term options with respect to the Smoky River coal operation in view of the wordwide oversupply of metallurgical coal. Accordingly, McIntyre has retained the services of an investment dealer to advise it and assist in the possible disposition of Smoky River. It is not yet possible to predict if or in what time frame such a disposition might be completed.

In 1985, the Company recognized $9.6 million as its equity accounted share of Falconbridge's income before extraordinary items compared to $7.4 million in 1984. Falconbridge's earnings for 1984 also included extraordinary gains from the sale of shares of The Superior Oil Company and from recording previously unrecorded tax debits. McIntyre's share of these extraordinary items amounted to $12.7 million.

In February and March, 1986, Falconbridge issued 17.1 million common shares of which 6.6 million shares were used to finance a substantial amount of the cash portion of the acquisition of the Kidd Creek Mining Group on March 10, 1986, with the remaining shares being issued as part of the purchase price of that acquisition. The Company did not acquire any of these shares and accordingly its interest in Falconbridge has been diluted to 15.7%.

Upon the acquisition by Dome Mines Limited of its 52.9% interest in McIntyre in May, 1985, Messrs. A. R. Nielsen, R. F. Tucker and J. B. Redpath resigned as directors of the Company and were replaced by Messrs. Fraser M. Fell, Q.C., C. Henry Brehaut and Robert M. Franklin.

On January 13, 1986, Mr. Phil Urso retired as Chairman, President and Chief Executive Officer of McIntyre. His many years of dedicated service to the Company are recognized. On Mr. Urso's retirement, Mr. Henry Brehaut, President and Chief Operating Officer of Dome Mines Limited, was appointed Chairman and Chief Executive Officer of the Company and Mr. Michael Henson, formerly Vice President Operations of McIntyre, was appointed President and Chief Operating Officer and elected a director of the Company.

The past year has been difficult for the Company, its employees and its shareholders. With the support and understanding of all involved, a new mining plan at the Smoky River coal operation has been developed which is expected to provide the basis for survival in the short term and the opportunity to participate in market improvements in the future.

C Henry Brehaut

M. L. Henson

C. Henry Brehaut
Chairman and
Chief Executive Officer

Michael L. Henson
President and
Chief Operating Officer

April 21, 1986

Smoky River Coal Limited

The Smoky River coal property, located near Grande Cache, Alberta, contains multiple seams of high grade, low-volatile metallurgical coal used primarily in steel production. Development of the two initial underground mines at Smoky River commenced in 1968 and the first surface mine at the facility commenced production in 1971. Since that time, coal has been produced primarily from a series of eight underground and two surface mines that operate in three major coal seams. At the present time, Smoky River operates one underground mine and one major surface mine having three pit areas.

Production

In 1985, the Company produced 686,000 long tons of raw coal from the open pit mine and 486,000 long tons from the underground mine compared with 1,155,000 and 577,000 long tons, respectively in 1984 and 1,457,000 and 733,000 long tons, respectively, in 1983. In terms of clean coal, the Company produced 681,000 long tons in 1985 compared to 1,220,000 long tons in 1984 and 1,665,000 long tons in 1983.

Surface mining continued to be concentrated at the No. 9 Mine, which is located on the north side of Sheep Creek. The surface mine operated for only nine months in 1985 in order to balance production with sales.

In 1985, mining operations were carried out in four distinct pits in the No. 9 Mine area. Waste removal of 3.8 million bank cubic yards yielded a stripping ratio of 5.5:1 bank cubic yards per long ton of raw coal in comparison to 6.0:1 in 1984 and 8.0:1 in 1983. Waste was hauled to nearby dump sites and used primarily to backfill mined-out areas.

Total production from the No. 9-B Underground Mine, which operated for nine months in 1985, was 0.5 million long tons of raw coal. In 1984, 0.6 million long tons of raw coal were produced from the 9-A and 9-B underground mines. Continued improvements in productivity and costs were achieved in 1985. The 9G-4 Underground Mine remains on a care and maintenance basis and conditions in the mine remain excellent.

The clean coal being produced by Smoky River is ranked low-volatile bituminous and is classified as metallurgical grade or coking coal. Coal from the Smoky River property is processed at its preparation plant which has heavy media and flotation cleaning circuits and utilizes a thermal drying process. The plant has an annual clean coal capacity of approximately 2 million long tons of clean coal. In 1985, the plant was operated for seven months and processed 1.0 million long tons of raw coal to produce 0.7 million long tons of clean coal. Based on this performance, the indicated annual capacity of the preparation plant is estimated to be 2.2 million long tons of clean coal. The plant yield was 68% in 1985 to produce 7% ash product. This plant yield is slightly higher than the long-term average for this quality of coal. In 1984, when the plant was producing both 8% and 7% ash products, the average yield was 72.5%. Clean coal production for each of 1984 and 1983 was 1.2 million and 1.7 million long tons of clean coal, respectively.

Reserves

For the purposes of the following reserve estimates, which were prepared by Smoky River, proven and probable recoverable reserves of raw metallurgical coal are reserves which, on the basis of geological, engineering and financial data, are considered to be economically recoverable from known coal areas using current mining practices and techniques. At the end of 1985, all reserves were re-examined based on current market and operating conditions. Basic parameters for the evaluation of open pit reserves include economic stripping ratios related to each pit and the proximity of each area to the infrastructure established in the No. 9 Mine area.

As of January 1, 1986, proven and probable open pit reserves were 22.0 million tons with a stripping ratio of 6.6:1 bank cubic yards per long ton of raw coal. Underground reserves were 10.5 million tons based on the criterion that they be recoverable through existing mine facilities. Details are as follows:

	Long tons	Stripping ratios
Surface mines		
No. 9	4,032,000	6.7:1
12	8,550,000	5.4:1
8	9,423,000	7.6:1
Total	22,005,000	Weighted average 6.6:1
Underground mines		
No. 9 B	3,136,000	
9 C	2,233,000	
9 G	5,161,000	
Total	10,530,000	
Total property	32,535,000	

The total proven and probable reserves of 32.5 million long tons are significantly lower than the 109.0 million long tons reported as of January 1, 1985. While this reduction reflects current economic conditions, the open pit and underground coal resources at the Smoky River mine, which cannot be currently classified as reserves based on economic criteria, are substantial and are available for mining in the future if coal prices or sales volumes improve. An independent consultant has estimated the resource base (including proven and probable reserves) to be 1.1 billion long tons of raw coal in place. This estimate includes areas requiring further geologic and economic evaluation.

The No. 12 Mine, located approximately 2 miles south of the No. 9 Mine, has been drilled sufficiently in 1985 for it to be included in Smoky River's reserves. Because of its low stripping ratio and accessibility to the No. 9 Mine infrastructure, commencement of the development of the No. 12 Mine is planned for the second half of 1986.

Capital expenditures

Capital expenditures for McIntyre's coal operation during the last three fiscal years were as follows (in thousands of dollars):

	Years ended December 31		
	1985	1984	1983
Plant and equipment	$1,586	$1,116	$2,153
Deferred mine development	369	11	139
	$1,955	$1,127	$2,292

The capital expenditures made in 1985 were primarily to replace existing capital equipment. McIntyre estimates that capital expenditures for its coal operations in 1986 will be approximately $2.6 million, primarily for road construction.

Human resources

During 1985, the number of employees of McIntyre decreased from 423 to 332 by year end. This manpower reduction occurred as a result of attrition and of employee layoffs effected primarily in the first and fourth quarters of 1985. There have been further manpower reductions in 1986 and, as of the date hereof, there are 275 employees at the Smoky River Mine.

A two-year collective labour agreement between Smoky River and Local 7621 of the United Steelworkers of America, covering all hourly workers at the Smoky River Mine, was ratified effective October 1, 1984. The agreement provided for an extension of the previous collective agreement with increases in wage rates of 3.5% in the first year of the contract and for the reopening of monetary issues only in the second year thereof. The settlement reached for the second year of the contract provided for no wage increases but each unionized employee received a $500 bonus.

Early in 1986, Smoky River and the union agreed to changes in working conditions which have enabled further productivity improvements. These changes will reduce the likelihood of temporary layoffs, thus benefitting both Smoky River and the unionized employees. The co-operation of the union in effecting these changes is appreciated by the Company.

Reclamation

Reclamation and environmental control activities continued in 1985. The Company believes that it is in compliance with applicable government regulations. Compliance with these standards has required expenditures by the Company of $130,000 in 1985, $428,000 in 1984 and $497,000 in 1983 and it is anticipated that additional expenditures of $211,000 will be required in 1986. As of the end of 1985, the provision for reclamation totalled $10.8 million. It is not possible to predetermine the exact dollar amount that would be required to cover the actual costs of reclamation in the event that the Smoky River Mine were to be closed permanently.

Other Coal Properties

McIntyre holds a 16.1% interest in the Monkman Pass Project with other interests held by the project operator, Petro-Canada Inc. (48.2%), Canadian Superior Oil Ltd. (32.1%) and Sumitomo Corporation (3.6%). The property consists of undeveloped leases covering more than 38,000 hectares along a 75 km stretch of the Rocky Mountain foothills. In 1983, the parties entered into a farm-in agreement with Sumitomo Corporation, a Japanese trading company. The agreement provides for Sumitomo to earn an approximate 12% participating interest in the Monkman Pass Project by spending the next $10.0 million that the project requires. No major exploration or engineering programs are currently underway.

Copton Excol Limited, an 83.2% owned subsidiary of the Company, has undeveloped coal properties situated adjacent to the Smoky River property that are owned jointly with Meadowlark Farms Limited, a subsidiary of Amax Inc. Exploration of these properties indicates that 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.

McIntyre's interest in Falconbridge Limited represents its principal asset and, historically, its equity participation in Falconbridge's earnings and losses has significantly affected the consolidated earnings and losses of McIntyre. On December 31, 1985, McIntyre held 9,242,070 or 22.1% of the outstanding common shares of Falconbridge.

Falconbridge is one of the largest producers of refined nickel in the non-communist world and has been engaged in mining, processing and marketing mineral products since 1928. Principal products are nickel, ferronickel, copper, cobalt and other base metals, gold, silver and platinum group metals, industrial minerals and steel castings. The principal operations of Falconbridge are located in Canada, Norway and the Dominican Republic.

Falconbridge reported earnings of $38,543,000 in 1985, $28,694,000 in 1984 and a loss of $31,409,000 in 1983 before extraordinary items. McIntyre's share of the earnings of Falconbridge, before extraordinary items was $9,595,000 in 1985 and $7,352,000 in 1984 and its share of Falconbridge's 1983 loss was $9,892,000 before extraordinary items.

On December 18, 1985, Falconbridge agreed to acquire Kidd Creek Minerals Ltd. and its subsidiaries ("Kidd Creek") from Canada Development Corporation ("CDC") for a total consideration of $615 million payable as follows: $140 million cash; 10,473,568 common shares of Falconbridge (valued at $19.50 per share, being the market value on December 18, 1985); and, $270.8 million principal amount of 8½% convertible debentures of Falconbridge, maturing in 20 years and convertible into common shares of Falconbridge at a conversion price of $21.95 per share. The Kidd Creek acquisition was completed on March 10, 1986.

As a condition of the closing of the Kidd Creek acquisition, Dome Mines Limited and McIntyre (the "Dome Group"), Falconbridge and CDC entered into a shareholders' agreement which provides that each of the Dome Group and CDC will limit to a maximum of 40% its beneficial ownership of Falconbridge voting securities (except in certain limited circumstances including a third party take-over bid) and confers upon CDC and the Dome Group certain reciprocal rights of first refusal in the event that either wishes to dispose of any of their Falconbridge voting securities.

Kidd Creek is a fully integrated mining enterprise which sells its products on a worldwide basis. It owns and operates mining and metallurgical facilities in Timmins, Ontario. The Kidd Creek ore body yields substantial quantities of zinc, copper and silver. Kidd Creek owns and operates the Owl Creek gold mine which commenced operations in early 1982 and the Hoyle Pond gold mine which came into production in 1985. It also has an interest in a number of exploration properties.

In February, 1986, Falconbridge issued 6.6 million common shares the proceeds of which were used to finance a portion of the acquisition cost of Kidd Creek. McIntyre Mines did not participate in the offering. As a result of the issuance of Falconbridge common shares and the Kidd Creek acquisition, as of the date hereof, McIntyre's holding of 9,242,070 common shares represents 15.7% of Falconbridge.

Due to a significant operating loss, including the write-off of certain mining assets, McIntyre recorded a loss of $26.3 million or $7.23 per share in 1985 compared to a profit of $20.5 million or $5.65 per share in 1984 and a loss of $6.9 million or $1.92 per share in 1983. In 1985, McIntyre's equity accounted share of Falconbridge's earnings contributed $9.6 million to the Company's profit compared to $20.1 million in 1984 and a loss of $5.9 million in 1983.

Results of Operations

Coal Operations

The Company reported an operating loss of $35.8 million in 1985 compared to a profit of $0.4 million in 1984 and a loss of $1.0 million in 1983. The 1985 operating loss was primarily caused by reduced sales volumes and prices for coal, higher costs due to extended shutdowns and reduced production levels, a charge of $7.1 million to operating costs relating to the revaluation of clean coal and mining supplies inventories and a $16.3 million write-off of mining assets. The 1984 results included $4.5 million in write-offs of mining assets at Smoky River. In 1983, $5.8 million of deferred mine development was written off.

During 1985, 679,000 LTC were sold with the revenue per LTC averaging $63.81. In comparison, 1,168,000 LTC were sold in 1984 at an average price of $79.76 per LTC and 1,413,000 LTC were sold in 1983 at an average price of $83.97 per LTC. The drop in sales volumes and prices reflects the continued worldwide oversupply of metallurgical coal which has affected most producers and the termination, in October of 1984, of the Company's sales contract with a consortium of Japanese steel mills. The concluding agreement negotiated with the Japanese steel mills in 1982 provided for a fixed price of $87.50 per LTC during the final 18 months of the two year contract. This price, which reflected the existing prices in 1982, proved to be very favourable in 1983 and 1984 as coal prices declined markedly. Average sale prices in 1985 were also affected by the continued drop in long-term contract prices as well as sales into the spot market.

In 1985, McIntyre's major customer was a consortium of Brazilian steel mills. The Company continued to sell clean coal in Brazil and Korea under contract and obtained short-term sales in Europe and North America. Short-term sales of 64,000 LTC were also made to Japan.

In addition to clean coal sales in 1985, 370,000 long tons of raw coal were sold to thermal generating plants.

Falconbridge

In 1985, the Company recognized income of $9.6 million as its equity accounted share of Falconbridge's income compared to a profit of $7.4 million in 1984 and a loss of $9.9 million in 1983. In 1985, Falconbridge recorded consolidated net income of $38.5 million, or $0.95 per share, compared to consolidated net income of $80.2 million in 1984. Included in Falconbridge's 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. Falconbridge's performance in 1985 was consistent with 1984, with the exception of 1984's extraordinary gains of $41.5 million from the sale of shares in The Superior Oil Company and $10 million from income tax debits previously unrecorded.

As a result of the issue by Falconbridge of an additional 17.1 million common shares in February and March, 1986 (see "Investment in Falconbridge"), the Company's equity interest in Falconbridge has been reduced to 15.7%.

Financial Condition

Cash used in operating activities was $6,129,000 in 1985 and $10,200,000 in 1984. In 1983, $14,953,000 of cash was provided by operating activities. Cash at the end of 1985 was $4,103,000, compared to $9,934,000 at the end of 1984 and $20,147,000 at the end of 1983. Major expenditures on capital and deferred mine development in 1985 were $1,955,000 compared to $1,127,000 in 1984 and $2,292,000 in 1983. In 1985, $2,237,000 was realized as proceeds on the disposal of investments.

The Company's long-term obligations are $9.8 million which is primarily made up of mortgages on houses located in Grande Cache, capital leases and amounts payable as a result of the settlement of litigation with Alberta Power Limited in 1983. The Company's assets are otherwise unencumbered and it has a line of credit available to it of $30 million.

Outlook

In 1986, the Company is planning its operations on the basis of sales of 510,000 LTC to customers in the steel industry, 327,000 long tons of raw coal to thermal plants and 325,000 LTC of spot sales from inventory. At the end of 1985, the inventory totalled 504,000 LTC which was essentially the same as at the end of 1984. It is anticipated that the inventory of clean coal will be reduced significantly by the end of 1986.

In 1986, McIntyre's major customer will continue to be a consortium of Brazilian steel mills. Consistent with industry practice, the agreements with these mills provide for annual negotiation of prices and volumes which have recently been concluded for the 1986 coal year. Under these agreements, 1986 prices will be slightly lower than 1985 prices, reflecting the continued decline in worldwide metallurgical coal prices. The volume of sales to Brazil in 1986 has been set approximately 20% higher than the level achieved in 1985 and an option has been granted to the Brazilian steel mills for the purchase of additional tonnage. Additional sales commitments for clean coal have been received from Korea, Japan and Europe. Efforts are continuing to expand sales to the Japanese market on a long-term basis.

In accordance with its sales targets for 1986, the Company has restructured its mining operations and is revising its mining plans with the objective of developing an economically viable operation, based on current market conditions. Under the present plans, open pit mining will be phased out at the No. 9 Mine over the next two years and the underground mine will be continued on a break-even basis. The commencement of the development of an open pit operation at the No. 12 Mine is planned for the second half of 1986.

However, the Company continues to review and evaluate its long-term options with respect to the Smoky River coal operation in view of the worldwide oversupply of metallurgical coal. Accordingly, McIntyre has retained the services of an investment dealer to advise it and assist in the possible disposition of Smoky River. It is not yet possible to predict if or in what time frame such a disposition might be completed.

In the event that the Smoky River operations are not sold and the continuing operations are not economic, McIntyre may consider reducing operations to a care and maintenance basis until markets improve or the possible termination of operations. 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, mines supplies and other assets and may accelerate reclamation and other obligations.

Disclosure of the differences between Canadian and United States generally accepted accounting principles is included in note 11 to the Consolidated Financial Statements. For a discussion of the effects of changing prices, see heading "Unaudited Supplementary Information — Effects of Changing Prices".

**To the Shareholders of
McIntyre Mines Limited:**

We have examined the consolidated balance sheet of McIntyre Mines Limited as at December 31, 1985 and the consolidated statements of operations, retained earnings and cash flows for the year ended December 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and changes in its financial position for the year then ended in accordance with accounting principles generally accepted in Canada applied on a basis consistent with that of the preceding year.

The accompanying consolidated financial statements of McIntyre Mines Limited as at and for the years ended December 31, 1984 and 1983 were examined by other auditors.

Calgary, Canada
March 14, 1986.

Chartered Accountants

Comment by Auditors for United States Readers on Differences between Canadian and United States Reporting Standards.

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 uncertainties related to the Company's future coal mining operations and Falconbridge Dominicana, C. por A. (a subsidiary of Falconbridge Limited), described in notes 1 and 2(a) respectively to the accompanying consolidated financial statements. The above opinion is expressed in accordance with Canadian reporting 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 when the uncertainties are adequately disclosed in the financial statements.

The other auditors who examined the consolidated financial statements of the Company as at and for the years ended December 31, 1984 and 1983 have, in conjunction with their report on such financial statements dated January 31, 1985, made comments substantially the same as those in the preceding paragraph.

Calgary, Canada
March 14, 1986.

Chartered Accountants

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, in the Company's case, conform in all material respects with those generally accepted in the United States except as disclosed in note 11. The significant accounting policies are as follows:

Basis of consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Smoky River Coal Limited ("Smoky"), and Copton Excol Limited (83.2% owned).

Short-term investments

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

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.

Investments

Falconbridge Limited —

The investment in Falconbridge Limited ("Falconbridge") is accounted for by the equity method whereby the investment is carried at cost plus the Company's share of earnings of Falconbridge since the dates of acquisition. Since the Company owned, at December 31, 1985, 9,242,070 or approximately 22.1% of the common shares of Falconbridge (December 31, 1984 — 25.6%) and Falconbridge owned approximately 4.8% or 175,825 common shares of the Company, the Company has a 1% pro rata interest in its own shares. Accordingly, the investment in Falconbridge and shareholders' equity are reduced by the 1% pro rata interest in the cost to Falconbridge of its McIntyre shares.

Neptune Bulk Terminals (Canada) Limited —

The Company owns a 20% equity interest in Neptune Bulk Terminals (Canada) Limited ("Neptune") which was acquired at a cost of $885,000. Neptune operates on a cost-of-service basis and costs are passed on to McIntyre and other shareholders on a contracted usage basis and are charged to income as incurred.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method based on estimated economic life which ranges from three to twenty years.

Upon the sale or retirement of capital assets, their cost and related depreciation or amortization are removed from the accounts and any gain or loss is taken into income. Repairs and maintenance are charged to operations; major betterments and replacements are capitalized.

Deferred mine development

Development and preproduction expenditures are deferred until the start of commercial production and then amortized on the unit-of-production basis over the estimated economic life of the producing property. Costs which are not economically recoverable are charged to income.

Reclamation

A provision for the costs of reclaiming property which has been environmentally disturbed is recorded on the unit-of-production basis.

Exploration

Exploration costs incurred prior to establishing that a property has the potential for economically recoverable reserves or which are incurred as on-going expenditures on producing properties are expensed as incurred.

Exploration costs related to the development of mine properties with the potential for economically recoverable reserves are deferred until the start of commercial production and then amortized over the estimated economic life of the property.

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 historical average exchange rates. Revenues and expenses are translated at the average exchange rates prevailing during the year.

Gains and losses on translation are immaterial and have been included in administration expense.

CONSOLIDATED BALANCE SHEETS
(thousands of Canadian dollars)

Assets	December 31	
	1985	1984
Current assets:		
Cash and short-term investments	$ 4,103	$ 9,934
Accounts receivable	5,129	1,331
Coal inventory	17,665	26,772
Mine supplies	6,641	7,643
	33,538	45,680
Investments:		
Falconbridge (note 2)	167,463	157,505
Neptune	885	885
	168,348	158,390
Property, plant and equipment (note 3)	19,571	29,175
Deferred mine development (note 4)	9,048	20,337
Other (note 5)	11,477	13,543
	$241,982	$267,125

(See accompanying accounting policies and notes)

Liabilities and Shareholders' Equity	December 31	
	1985	1984
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,614	$ 6,115
Current portion of long-term obligations	608	524
	7,222	6,639
Long-term obligations (note 6)	9,832	10,180
Provision for reclamation	10,763	10,247
Commitments and contingencies (notes 1, 2(a) and 7)		
Shareholders' equity:		
Share capital (note 8):		
Authorized — an unlimited number of common shares and an unlimited number of preference shares, both without par value		
Issued — 3,669,599 common shares	87,871	87,871
Retained earnings	128,539	154,794
	216,410	242,665
Less pro-rata cost of own shares held by Falconbridge	2,245	2,606
	214,165	240,059
	$241,982	$267,125

On behalf of the Board:

C. Henry Bechard

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS
(thousands of Canadian dollars, except per share)

	Years ended December 31		
	1985	1984	1983
Revenue:			
Foreign	$ 41,680	$ 93,158	$118,644
Domestic	10,676	1,828	—
	52,356	94,986	118,644
Cost of sales:			
Operating costs (note 1)	62,475	77,746	95,814
Depreciation	6,913	7,962	9,075
Amortization	1,415	2,177	2,856
Reclamation	514	867	1,092
	71,317	88,752	108,837
Gross profit (loss)	(18,961)	6,234	9,807
Other costs (income):			
Write-off of mining assets (note 1)	16,346	4,535	5,800
Administration	2,974	2,305	2,847
Interest	(194)	(1,016)	2,133
Gain on disposal of investments (note 2(b))	(2,237)	—	—
	16,889	5,824	10,780
Income (loss) before the following	(35,850)	410	(973)
Equity in income (losses) of Falconbridge	9,595	7,352	(9,892)
Income (loss) before extraordinary items	(26,255)	7,762	(10,865)
Extraordinary items — equity in extraordinary items of Falconbridge	—	12,725	3,924
Net income (loss)	$ (26,255)	$ 20,487	$ (6,941)
Per share (note 9):			
Income (loss) before extraordinary items	$(7.23)	$2.14	$(3.00)
Extraordinary items	—	3.51	1.08
	$(7.23)	$5.65	$(1.92)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(thousands of Canadian dollars)

	Years ended December 31		
	1985	1984	1983
Retained earnings, beginning of year	$154,794	$134,307	$141,248
Net income (loss)	(26,255)	20,487	(6,941)
Retained earnings, end of year	$128,539	$154,794	$134,307

(See accompanying accounting policies and notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)

	Years ended December 31		
	1985	1984	1983
Cash provided by (used in) operating activities:			
Income (loss) before extraordinary items	$(26,255)	$ 7,762	$(10,865)
Items not affecting cash —			
Depreciation and amortization	8,328	10,250	12,339
Write-off of mining assets	16,346	4,535	5,800
Revaluation of inventory and mine supplies	7,146	1,656	—
Income (loss) related to Falconbridge	(9,595)	(7,352)	9,892
Reclamation provision	514	866	1,092
Loss (gain) on disposal of assets	(472)	272	28
Gain on disposal of investments	(2,237)	—	—
Dividend from affiliate	—	(171)	—
	(6,225)	17,818	18,286
Net change in non-cash items related to operations —			
Accounts receivable	(3,798)	5,012	(4,248)
Coal inventories and mine supplies	2,963	(57)	(7,627)
Decrease (increase) in security deposits	432	(232)	(48)
Accounts payable and accrued liabilities	499	(4,877)	(1,114)
Due to affiliated company	—	(27,864)	9,704
Cash provided by (used in) operating activities	(6,129)	(10,200)	14,953
Cash provided by (used in) investment activities:			
Dividend from affiliate	—	171	—
Proceeds on disposal of investments	2,237	—	—
Additions to property, plant and equipment	(1,586)	(1,116)	(2,153)
Proceeds from asset disposals	934	1,071	33
Additions to deferred mine development	(369)	(11)	(139)
Employee housing (note 5)	(859)	6	845
Cash provided by (used in) investment activities	357	121	(1,414)
Cash provided by (used in) financing activities:			
Alberta Power Limited agreement	—	—	1,456
Capital recovery Alberta Power Limited	122	366	244
Issuance of common shares	—	—	1
Repayment of long-term obligations	(181)	(500)	(168)
Cash provided by (used in) financing activities	(59)	(134)	1,533
Net increase (decrease) in cash	(5,831)	(10,213)	15,072
Cash and short-term investments:			
Beginning of year	9,934	20,147	5,075
End of year	$ 4,103	$ 9,934	$ 20,147

(See accompanying accounting policies and notes)

1. **Mining operations**

The Company's primary activity is the mining, processing and sale of metallurgical coal at its Smoky River mine near Grande Cache, Alberta. In January 1986, the Company restructured its mining operations and revised its mining plan in recognition of reduced world demand for metallurgical coal. As a result of the revision, certain costs which management determined were not economically recoverable through mining operations were written off. Costs written off include $10,243,000 of deferred mine development costs, $2,667,000 of underground mine equipment, $1,164,000 of other equipment and $2,272,000 of housing costs. In addition, included in operating costs, mine supplies relating to underground operations were reduced by a provision for obsolescence of $1,000,000 and clean coal inventories were revalued downward by $6,146,000 to reflect the current operating mode and current market conditions.

In 1984, the Company wrote off $3,435,000 of housing costs and $1,100,000 of underground deferred mine development. In 1983, $5,800,000 of deferred mine development was written off.

World demand for metallurgical coal remains soft and there is an oversupply of available metallurgical coal. In accordance with its sales targets for 1986, the Company has restructured its mining operations and is revising its mining plans with the objective of developing an economically viable operation, based on current market conditions.

The Company continues to review and evaluate its long-term options with respect to the Smoky River coal operation in view of the worldwide oversupply of metallurgical coal. Accordingly, McIntyre has retained the services of an investment dealer to advise it and assist in the possible disposition of Smoky River. It is not yet possible to predict if or in what time frame such a disposition might occur.

In the event that the Smoky River operations are not sold and the continuing operations are not economic, McIntyre may consider reducing operations to a care and maintenance basis until markets improve or the possible termination of operations. 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, mines supplies and other assets and may accelerate reclamation and other obligations.

2. **Investments**

(a) Falconbridge Limited

The Company owned 9,242,070 or 22.1% of the outstanding common shares of Falconbridge as at December 31, 1985 (December 31, 1984 — 25.6%; 1983 — 37.1%). Falconbridge issued common shares and share purchase warrants during the three years ended December 31, 1985, which caused the reduction in the Company's interest as it did not participate in these share issues. McIntyre's pro rata interest in the cost of its own shares held by Falconbridge has also been reduced by this dilution.

Details of the investment in Falconbridge are as follows:

	December 31	
(thousands of Canadian dollars)	1985	1984
Carrying value:		
Cost	$ 57,220	$ 57,220
Equity in earnings of Falconbridge	112,488	102,891
	169,708	160,111
Less McIntyre's pro rata interest in the cost of its own shares held by Falconbridge	2,245	2,606
	$167,463	$157,505
Quoted market value (which is not necessarily indicative of realizable value)	$190,618	$147,873

Summarized financial information for Falconbridge is as follows:

FALCONBRIDGE LIMITED
SUMMARIZED CONSOLIDATED BALANCE SHEETS

(thousands of Canadian dollars)	1985	1984
Current assets	$ 660,603	$ 521,372
Property, plant and equipment, net	641,357	605,557
Other assets	49,418	38,621
	$1,351,378	$1,165,550
Current liabilities	$ 126,498	$ 106,711
Long-term liabilities	283,970	283,842
Deferred income taxes	107,610	88,956
Minority interest	47,115	50,047
Shareholders' equity	786,185	635,994
	$1,351,378	$1,165,550

SUMMARIZED CONSOLIDATED STATEMENTS OF OPERATIONS

(thousands of Canadian dollars)	1985	1984	1983
Revenue	$890,247	$733,312	$615,387
Operating profit (loss)	$ 80,838	$ 97,041	$ (4,122)
Other income	47,380	53,094	36,251
Other corporate costs	(79,892)	(98,994)	(81,942)
Income (loss) from investment in associated and other companies	879	(664)	6,277
	49,205	50,477	(43,536)
Income and mining taxes	(11,642)	(22,161)	816
Minority interest in losses of subsidiary companies	980	378	11,311
Income (loss) before extraordinary items	38,543	28,694	(31,409)
Extraordinary items	—	51,492	14,816
Net income (loss)	$ 38,543	$ 80,186	$ (16,593)

Falconbridge Dominicana, C. por A., a 67.1% owned subsidiary of Falconbridge is dependent on the continued support of its sponsors. While it is difficult to determine when market conditions will improve sufficiently to achieve profits and a sustained positive cash flow, it is the opinion of Falconbridge's management that the net carrying value of its property, plant, equipment, preproduction and other deferred charges will be recovered. The carrying value of Falconbridge's investment at December 31, 1985 was $53,894,000.

In February, 1986, Falconbridge issued 6.6 million common shares, the proceeds of which issue were used to finance a substantial amount of the cash portion of the acquisition cost of Kidd Creek Minerals Ltd. and its subsidiaries (collectively, "Kidd Creek"). The Company did not purchase any of these common shares.

On March 10, 1986, Falconbridge acquired Kidd Creek from Canada Development Corporation for a total consideration of $615 million payable as follows: $140 million cash; 10,473,568 common shares of Falconbridge (valued at $19.50 per share, being the market value on December 18, 1985); and $270.8 million principal amount of 8½% convertible debentures of Falconbridge maturing in 20 years and convertible into common shares of Falconbridge at a conversion price of $21.95 per share.

The Company's interest in Falconbridge decreased, and is currently 15.7% (on an undiluted basis) as a result of these issuances of common shares by Falconbridge.

(b) Gain on disposal of investments

During 1985, the Company received cash proceeds of $2,237,000 on the sale of investments. Costs associated with the investments had been written off in prior years.

3. Property, plant and equipment

Property, plant and equipment is as follows:

(thousands of Canadian dollars)	1985	1984
Surface mine equipment	$ 44,023	$ 42,034
Underground mine equipment	21,460	22,933
Coal preparation plant	20,659	20,507
Other equipment	17,926	20,191
	104,068	105,665
Less accumulated depreciation	84,497	76,490
	$ 19,571	$ 29,175

4. Deferred mine development

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

(thousands of Canadian dollars)	1985	1984
Producing properties:		
Surface mine	$ —	$ 6,456
Underground mines	—	4,724
Non-producing properties:		
Copton (i)	7,259	7,192
Monkman (ii)	1,486	1,485
Smoky River	303	480
	$9,048	$20,337

(i) Copton Excol Limited, an 83.2% owned subsidiary, has properties situated adjacent to the Smoky River property. Exploration of these properties indicates that substantial quantities of coal exist.

(ii) Exploration of the Monkman Property (16.1% owned) has outlined significant quantities of metallurgical 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. No major exploration or engineering programs are currently under way.

5. Other assets

Other assets are as follows:

(thousands of Canadian dollars)	1985	1984
Employee housing loans	$ 1,113	$ 1,778
Houses held for sale	6,316	7,163
Security deposits	6	438
Capital recovery due from Alberta Power Limited	4,042	4,164
	$11,477	$13,543

Funds recovered from (expended on) employee housing were as follows:

(thousands of Canadian dollars)	1985	1984	1983
Net funds applied to purchase houses from employees	$(1,743)	$(1,500)	$(2,439)
Decrease in mortgages payable by the Company	(73)	(218)	(154)
Mortgages repaid by employees	665	1,682	2,701
Staff houses transferred to houses for sale	292	42	737
	$ (859)	$ 6	$ 845

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, and due to the oversupply of homes on the market, provisions of $2,272,000 were recorded in 1985. These houses were carried at the lower of cost and current market value in 1984 on a house-by-house basis and at cost in 1983.

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 $1,072,000 at December 31, 1985, have been guaranteed.

6. Long-term obligations

(i) Borrowing arrangements:

The Company has a $30,000,000 line of credit with a Canadian bank available by way of direct loans and/or Bankers' Acceptances in Canadian dollars and/or the U.S. dollar equivalent. The interest rate on Canadian dollar loans is the bank's prime lending rate and on U.S. dollar loans the bank's U.S. Base Rate and/or the London Interbank Offered Rate (LIBOR) plus ¾%.

The stamping fee on Bankers' Acceptances is at the bank's prevailing acceptance rate. There are no commitment fees and a compensating balance is not required.

(ii) Long-term obligations are as follows:

(thousands of Canadian dollars)	1985	1984
Mortgages on houses held for sale	$ 6,227	$ 6,235
Capital leases	838	969
Alberta Power Limited agreement	3,375	3,500
	10,440	10,704
Less current portion	608	524
	$ 9,832	$10,180

Long-term obligations are payable in the next five years as follows:

(thousands of Canadian dollars)	1986	1987	1988	1989	1990
Mortgages	$218	$241	$265	$290	$319
Capital leases	140	152	164	160	147
Alberta Power Limited agreement	250	250	250	250	150

Interest rates vary from 8.0% to 19.5%. Interest on long-term debt amounted to $729,000, $775,000 and $891,000 in 1985, 1984 and 1983, respectively.

7. **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 annual rental charge for the years 1986 to 1990 will approximate $785,000. This is the only signficant operating lease agreement of the Company.

(ii) A guarantee of $8,376,000 for the performance of reclamation work, secured by a letter of credit, 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 is $2.0 million. (See also note 5).

(iv) The Company has a contract with Neptune for use of the facility through 1989. McIntyre owns 20% of the voting equity of the terminal company and, together with the other owners of the terminal, McIntyre pays for use of the terminal on a cost-of-service basis. Fixed costs under this contract will average $2.5 million per year until 1989.

8. **Share option plans**

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
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
Granted	25,500	$43.45
Surrendered or expired	(22,275)	$23.25 to $56.00
Options outstanding, December 31, 1985	71,975	$23.35 to $62.00

Options outstanding at December 31, 1985 relate only to the five-year options on 71,975 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.

9. **Earnings per share**

Net income per share is calculated using the weighted average number of common shares outstanding during the year after deducting the Company's pro-rata interest in its own common shares held by Falconbridge, as follows:

Year	Weighted average number of shares outstanding	Pro rata interest own shares	Net weighted average number of shares outstanding
1985	3,669,599	38,775	3,630,824
1984	3,669,599	45,011	3,624,588
1983	3,669,599	46,565	3,623,034

Exercise of the outstanding share options and potentially dilutive securities of Falconbridge would not materially affect the calculations.

10. **Pension plans**

The Company maintains two pension plans for its employees which require contributions by the Company.

The current independent actuarial valuation for the plans was made during 1985. Due to the actuarial surplus in the plans, contributions were not required in 1985, 1984 and 1983. The Company intends to remove $5,881,000 from the surplus in its salaried pension plan pending receipt of the appropriate approvals.

11. **Differences between Canadian and United States generally accepted accounting principles**

The Company prepares its consolidated financial statements using accounting principles generally accepted in Canada ("Canadian basis"). Had McIntyre and its associated company, Falconbridge, followed accounting principles generally accepted in the United States ("U.S. basis"), certain items on the consolidated balance sheets and consolidated statements of income of McIntyre would have been reported as follows:

Balance Sheets —

	As at December 31	
(thousands of Canadian dollars)	1985	1984
Investment in Falconbridge	$172,266	$162,869
Retained earnings	$131,099	$157,552

Statements of Income —

(thousands of Canadian dollars)	Years ended December 31 1985	1984	1983
Income (loss) from operations, as reported (Canadian basis)	$(35,850)	$ 410	$ (973)
Equity in income (losses) of associated companies before extraordinary items, as reported	9,595	7,352	(9,892)
Increase (decrease) in Company's equity in Falconbridge to reflect adjustments related to:			
Foreign currency translation	(192)	1,923	1,051
Capitalization and amortization of interest costs	(6)	(4)	2,893
Items not from continuing operations	(301)	(520)	(135)
Equity in gain resulting from the issue of shares by Kiena Gold Mines Limited	—	—	3,926
Gain on sale of shares of The Superior Oil Company	—	10,622	—
Equity in income (losses) of associated companies (U.S. basis)	9,096	19,373	(2,157)
Income (loss) from continuing operations in accordance with U.S. basis	(26,754)	19,783	(3,130)
Equity in loss from discontinued operations — Wesfrob Mines	—	—	(506)
Extraordinary items:			
Equity in gain on redemption of debentures	301	520	641
Equity in deferred tax adjustments	—	2,560	—
Net income (loss) in accordance with the U.S. basis	$(26,453)	$22,863	$(2,995)
Income (loss) per share in accordance with the U.S. basis			
Continuing operations	$(7.36)	$5.46	$(.86)
Total	$(7.29)	$6.31	$(.83)

Under the Canadian basis 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 the U.S. basis no deferral of exchange gains and losses as as result of translation is permitted and the gains and losses are included in income for the current period.

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. The U.S. basis 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.

Other reconciling items between the Canadian basis and the U.S. basis result from differences in the classification of certain gains and losses within the statements of operations and do not affect net income.

12. **Income taxes**

At December 31, 1985, the Company and its subsidiaries had approximately $31.0 million in tax loss carry-forwards and $88.0 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	$15.0 million
1988	4.0 million
1992	12.0 million
	$31.0 million

13. **Related party transactions**

In 1984 and prior years, The Superior Oil Company owned 26.6% and Canadian Superior Oil Ltd. (CSO) (a wholly-owned subsidiary of The Superior Oil Company) owned 26.4% of the Company. The following transactions occurred between the Company and other members within the group:

(i) The Company and CSO were participants in the Monkman Pass and Australian joint ventures.

(ii) 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 Smoky, in either case to a non-affiliated party during the term of employment.

14. **Reclassifications**

Certain figures for the years ended December 31, 1984 and 1983 have been reclassified to conform to the current year's presentation.

Quarterly Financial Data

(thousands of Canadian dollars, except per share)	Quarters Ended March 31	June 30	Sept. 30	Dec. 31	Full Year
1985					
Coal revenue	$6,827	$9,920	$16,901	$18,708	$52,356
Gross profit (loss)(1)	$(4,664)	$ 4	$(2,782)	$(28,056)	$(35,498)
Corporate expenses	(2,079)	632	624	1,175	352
	(2,585)	(628)	(3,406)	(29,231)	(35,850)
Equity in earnings of associates	2,946	3,980	1,013	1,656	9,595
Net income (loss)	$ 361	$3,352	$(2,393)	$(27,575)	$(26,255)
Earnings (loss) per share	$0.10	$0.92	$(0.66)	$(7.59)	$(7.23)
1984					
Coal revenue	$29,232	$29,933	$17,322	$18,499	$94,986
Coal gross profit (loss)(2)	$5,560	$ 3,138	$ 867	$ (7,866)	$ 1,699
Corporate expenses	467	205	324	293	1,289
Income (loss) from operations	5,093	2,933	543	(8,159)	410
Equity in earnings of associates	2,296	1,872	871	2,313	7,352
Income (loss) before extraordinary items	7,389	4,805	1,414	(5,846)	7,762
Extraordinary items — equity in Falconbridge extraordinary items	(457)	5,922	7,260	—	12,725
Net income (loss)	$6,932	$10,727	$8,674	$(5,846)	$20,487
Earnings (loss) per share:					
Before extraordinary items	$2.03	$1.33	$0.39	$(1.61)	$2.14
Total	$1.91	$2.96	$2.39	$(1.61)	$5.65

(1) The Company wrote off $16,346,000 of mining assets, revalued downward $6,146,000 of coal inventory and recorded a $1,000,000 provision for obsolescence of mine supplies in the fourth quarter (see note 1 to consolidated financial statements).

(2) The Company wrote off $4,535,000 of mining assets and $1,656,000 of mine supplies in the fourth quarter.

Effects of Changing Prices

The Canadian Institute of Chartered Accountants ("CICA") recommends that unaudited supplementary information accompany the Company's consolidated financial statements to provide 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).

Management has determined that the current cost amounts of inventory and property, plant and equipment, determined in accordance with CICA recommendations, exceed amounts that could be recovered from the sale or use of such assets and, further, that the carrying values in the financial statements of these assets approximate the related recoverable amounts. Consequently, in 1985 and 1984, net income (loss) for the year and the values assigned to inventory, property, plant and equipment and total assets are substantially the same under the current cost and historical cost bases. In view of these results, no separate presentation dealing with the effects of changing prices has been provided.

Inflation has no appreciable impact upon revenues or expenses due to depressed economic conditions in the coal industry.

Principal Markets for the Company's Shares

McIntyre's common shares (the "Common Shares") are listed on the New York Stock Exchange in the United States and on The Toronto Stock Exchange and The Montreal Exchange in Canada

Stock Symbol: MP

The New York Stock Exchange and The Toronto Stock Exchange are the principal exchanges on which the Common Shares are traded. Shown below are the high and low sale prices for the Common Shares on these exchanges for the periods indicated.

	1985		1984	
	High	Low	High	Low
The Toronto Stock Exchange (Canadian dollars)				
First quarter	\$50¾	\$35⅜	\$42	\$34½
Second quarter	53⅜	36½	39½	30
Third quarter	43¼	36	36½	25¾
Fourth quarter	40½	36½	38¼	33½
New York Stock Exchange (United States dollars)				
First quarter	\$37	\$26¾	\$33¾	\$27⅜
Second quarter	39⅝	26¾	31⅛	22¼
Third quarter	32⅜	26	27¾	19¾
Fourth quarter	29⅜	25¾	29½	25⅞

Shareholders

As at April 21, 1986, there were 3,669,599 Common Shares issued and outstanding, of which 1,942,534, or approximately 53%, were owned by Dome Mines Limited.

The Company's records indicate that there were 1,086 shareholders of record as at March 17, 1986.

The Company's articles and by-laws contain no restrictions on the right to hold or vote the Common Shares.

McIntyre has not paid dividends on its Common Shares since 1978. Payment of any dividends in the future will be determined by the Board of Directors after consideration of McIntyre's earnings, financial condition and other relevant factors.

FIVE YEAR OPERATIONS REVIEW

(thousands of Canadian dollars, unless otherwise disclosed)

	1985	1984	1983	1982	1981
Operations					
Sales (000's of long tons)					
Clean coal	679	1,168	1,413	1,237	1,899
Raw coal	370	108	—	—	—
Production (000's of long tons)					
Raw coal	1,172	1,727	2,190	1,798	3,108
Clean coal	681	1,220	1,665	1,226	2,065
Number of employees	332	423	572	697	1,275
Earnings					
Revenue	$ 52,356	$ 94,986	$118,644	$ 97,531	$140,294
Gross profit (loss)	$ (18,961)	$ 6,234	$ 9,807	$ (27,134)	$ (5,865)
Write-off of mining assets	16,346	4,535	5,800	10,195	—
	(35,307)	1,699	4,007	(37,329)	(5,865)
Administration	(2,974)	(2,305)	(2,847)	(5,082)	(5,522)
Other income (expense)	2,431	1,016	(2,133)	(309)	5,231
Equity in income (losses) of Falconbridge (1)	9,595	7,352	(9,892)	(30,762)	308
Income (losses) before extraordinary items	(26,255)	7,762	(10,865)	(73,482)	(5,848)
Extraordinary items	—	12,725	3.924	—	(1,901)
Net income (loss)	$ (26,255)	$ 20,487	$ (6,941)	$ (73,482)	$ (7,749)
Per share (2):					
Income (loss) before extraordinary items	$ —	$2.14	$(3.00)	$(20.39)	$(1.62)
Extraordinary items	$ —	3.51	1.08	—	(0.53)
	$ —	$5.65	$(1.92)	$(20.39)	$(2.15)
Financial Position (3)					
Working capital	$26,316	$39,041	$23,124	$5,003	$32,142
Total assets	$241,982	$267,125	$279,143	$281,637	$321,232
Long-term obligations	$9,832	$10,180	$10,900	$7,589	$6,518
Shareholders' equity	$214,165	$240,059	$219,482	$225,341	$298,823
Per share (2)	$58.98	$66.23	$60.58	$62.52	$82.91
Shareholders (3)					
Shares outstanding	3,669,599	3,669,599	3,669,599	3,669,573	3,669,573
Number of shareholders	1,132	1,319	1,542	1,733	1,891
Exchange Rates (4)					
As at December 31	1.3985	1.3217	1.2445	1.2297	1.1863
Yearly average	1.3683	1.2971	1.2334	1.2364	1.1993
High for year	1.3202	1.2416	1.2194	1.1863	1.1766
Low for year	1.4025	1.3348	1.2511	1.3002	1.2426

Selected financial data in accordance with United States accounting principles

Had the Consolidated Financial Statements been prepared in accordance with generally accepted accounting principles in the United States, certain selected financial data would have been reported as follows:

	1985	1984	1983	1982	1981
Equity in income (losses) of associates (1)	**$9,096**	$19,373	$(2,157)	$(30,171)	$4,591
Extraordinary gains (losses)	**$301**	$3,080	$135	$ —	$(1,901)
Net income (loss)	**$ (26,453)**	$22,863	$(2,995)	$(72,891)	$(2,620)
Per share (2)	**$(7.29)**	$6.31	$(0.83)	$(20.22)	$(0.73)
Total assets (3)	**$241,784**	$269,501	$283,089	$282,228	$323,531

A discussion of differences between Canadian and United States generally accepted accounting principles is contained in note 11 to the Consolidated Financial Statements.

(1) McIntyre's equity in income (losses) of Falconbridge for each of the three years 1983, 1982 and 1981 reflects the retroactive adoption in 1984 of the recommendations of the Canadian Institute of Chartered Accountants with respect to foreign currency translation and the change in accounting for inventories to the "first-in, first-out method". Previously, Falconbridge used the current/non current method of foreign currency translation and the "first-in, first-out" basis for inventory valuation.

(2) Per share figures are calculated using the net weighted average number of shares outstanding during the year after deducting the Company's pro rata interest in its own shares held by Falconbridge.

(3) Amounts are at December 31 of the years indicated.

(4) Exchange rates are expressed as the ratio of the amount of Canadian funds equivalent to one United States dollar.

(5) Reference should be made to notes 1, 2(a) and 7 to the Consolidated Financial Statements regarding certain commitments and contingencies at and event subsequent to December 31, 1985.

DIRECTORS

C. Henry Brehaut
Chairman and Chief
Executive Officer,
Toronto, Ontario
President and Chief
Operating Officer
Dome Mines Limited

Michael L. Henson
President and Chief
Operating Officer,
Calgary, Alberta

***Fraser M. Fell**
Toronto, Ontario
Chairman and Chief
Executive Officer
Dome Mines Limited

***Ernest C. Manning**
Edmonton, Alberta
Chairman,
Manning Consultants
Limited

Marsh A. Cooper
Toronto, Ontario
M. A. Cooper
Consultants Inc.

***Robert M. Franklin**
Toronto, Ontario
Executive Vice-President,
Algonquin Mercantile
Corporation

*Audit Committee
Member

OFFICERS

C. Henry Brehaut
Chairman and Chief
Executive Officer

Michael L. Henson
President and
Chief Operating Officer

William M. Bone
Vice-President and
Assistant Secretary

John W. W. Hick
Vice-President, General
Counsel and Secretary

H. Douglas Scharf
Vice-President,
Finance, Treasurer and
Chief Financial Officer

Victor A. Wells
Assistant Vice-President,
Finance

James G. Grinnell
Controller

OPERATING MANAGEMENT

Kent A. Zehr
General Manager,
Smoky River Mine

CORPORATE

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Grande Cache, Alberta
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Toronto, Ontario

Auditors
Clarkson Gordon,
Calgary, Alberta

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The Canada Trust Company,
20 Eglinton Avenue West,
Toronto, Ontario, Canada
M4R 2E2

Fidata Trust Company New York,
67 Broad Street
New York, N.Y. 10004

Registrars
The Canada Trust Company,
Toronto, Ontario

The Chase Manhattan Bank
(National Association)
1 New York Plaza
New York, N.Y. 10081

Annual Report
Copies of the Annual Report of the Company are available by writing to The Canada Trust Company, 20 Eglinton Avenue West, Toronto, Ontario, Canada. M4R 2E2

Form 10-K
Copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission of the United States are available by writing to: The Secretary, Box 350, Suite 3500, IBM Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1N3.

Annual Meeting
The Annual Meeting of Shareholders will be held in The Lake Louise Room of the Westin Hotel, Calgary, Alberta on Monday, June 2, 1986 at 9:00 a.m. (Calgary time).

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