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ANNUAL REPORT 1974

ANNUAL MEETING



The Annual and General Meeting of Shareholders will be held at 10:00 o'clock a.m. (Toronto time) on Friday, April 25th, 1975, in the Quebec Room, Royal York Hotel, Toronto, Ontario.

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Capital Stock

Authorized: 3,000,000 shares without par value

Issued: 2,434,482 shares

Location of Mines

McIntyre Coal Mines, Smoky River, Alberta

The Madeleine Mine, Ste. Anne des Monts, Quebec

Executive and Head Office

Suite 5100 Commerce Court West

Toronto, Ontario M5L 1C1

Auditors

Price Waterhouse & Co.

Chartered Accountants, Toronto, Ontario

Transfer Agents

Canada Permanent Trust Company, Toronto, Ontario
and Calgary, Alberta

Bankers Trust Company, New York, N.Y.

Registrars

Crown Trust Company, Toronto, Ontario and Calgary, Alberta

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

Stock Exchanges

The stock of the Company is listed for trading on the Toronto Stock Exchange, the New York Stock Exchange and the Chicago Board of Trade.

Directors

*M. A. COOPER Toronto, Ontario	<i>President and Managing Director Falconbridge Nickel Mines Limited</i>
N. F. W. H. D'ARCY London, England	<i>President, Locana Corporation Limited</i>
†*A. E. FELDMEYER Calgary, Alberta	<i>President and Managing Director Canadian Superior Oil Ltd.</i>
†*R. B. FULTON Toronto, Ontario	<i>President and Chief Executive Officer of the Company</i>
J. K. GODIN Toronto, Ontario	<i>Consulting Mining Engineer</i>
*H. B. KECK Houston, Texas	<i>President The Superior Oil Company</i>
W. M. KECK, JR. Los Angeles, California	<i>Director and Member of the Executive Committee The Superior Oil Company</i>
SENATOR THE HON. E. C. MANNING, P.C., C.C., LL.D. Edmonton, Alberta	<i>President M & M Systems Research Ltd.</i>
†*D. G. C. MENZEL Toronto, Ontario (1)	<i>Partner Campbell, Godfrey and Lewtas, Barristers and Solicitors</i>
J. L. NORMAN Houston, Texas	<i>Senior Vice-President The Superior Oil Company</i>
L. T. POSTLE Vancouver, B. C.	<i>Consulting Engineer</i>

* Member of the Executive Committee
† Member of the Audit Committee
(1) Resigned January 30, 1975

Officers

M. A. COOPER, *Chairman of the Board*
R. B. FULTON, *President and Chief Executive Officer*
J. B. ANDERSON, *Vice-President Operations*
F. T. MCKINNEY, *Corporate Secretary*
A. G. GOODEVE, *Treasurer and Comptroller*
D. G. PAGE, *Assistant Treasurer and Assistant Comptroller*

Coal Division K. G. DONALD, *General Manager, Grande Cache, Alberta*

Metals Division J. A. PLAXTON, *Manager, Toronto, Ontario*

Madeleine Mine G. B. DARLING, *Manager, Ste. Anne des Monts, Quebec*



DIRECTORS' REPORT

To the Shareholders:

This is the sixty-third annual report of your Company. Its operations for 1974 showed a profit of \$5,873,000 compared with a loss of \$952,000 for the previous year before extraordinary income of \$3,457,000. The Smoky River Coal Division earned \$4,559,000 during the final quarter and \$2,664,000 in the full year compared with a loss of \$4,863,000 during 1973. Dividend income in 1974 from the Company's affiliates, Falconbridge Nickel Mines Limited and Madeleine Mines Ltd., totalled \$5,324,000 compared with \$2,875,000 for the prior year.

Consolidated income of the Company including its equity in the undistributed earnings of its affiliates was \$9,334,000 or \$3.94 per share in 1974 as compared with \$21,778,000 or \$9.19 per share in 1973. The consolidated income figures include an extraordinary gain by Falconbridge in 1973 in which McIntyre's equity interest was \$2,648,000, and a restatement of Falconbridge's 1973 earnings reflecting expropriation and income tax credits for prior years in the amount of \$357,000.

The Company's indebtedness at 1974 year end was \$62,323,000 compared with \$59,403,000 one year earlier. Comparative working capital figures on the same dates were \$13,690,000 and \$3,114,000 respectively.

Falconbridge experienced a sharp decline in earnings from the prior year — \$21,976,000 vs \$55,960,000 in 1973. Lower copper prices, high fuel costs at its ferro-nickel operation in the Dominican Republic and additional Ontario mining taxes all contributed to the drop in profits.

Madeleine Mines also had reduced earnings from its operations during 1974, \$2,502,000 or 53¢ per share compared with \$4,317,000 or 92¢ per share for 1973. Higher production costs, declining copper prices during the latter part of 1974 and increased Federal income taxes and Provincial mining taxes accounted for the lower earnings. Depressed profits during 1975 may be anticipated because of the likely continuance of these adverse factors and the lower grade of ore in the remaining reserves.

Coal Division

Production of raw coal from both underground and surface mines during the year totalled 2,358,357 long tons compared with 2,086,667 long tons during the previous year. The No. 9 open pit mine reached its rated production at the beginning of the final quarter of the year replacing the output from No. 8 Mine which was mined out. 1,528,268 long tons of specification grade clean coal were produced compared with 1,441,535 long tons in 1973. Of the total 1974 tonnage 477,574 long tons were produced during the final quarter with the output from No. 9 Mine. Clean coal recovery for 1974 averaged 64.8% compared with 69.1% for the prior year. Partially oxidized coal from the Barret area of No. 8 Mine and the near-surface segments of No. 9 Mine accounted for the lower yield. Normal recoveries were restored by year's end.

The development and equipment of No. 9 Mine involved expenditures totalling \$14,478,000 during the year with estimated further outlays of \$8,227,000 required for completion. In addition to access and haulage road construction and pre-production waste removal, a fully-equipped shop and warehouse has been erected at the minesite, and a coal breaker station and conveyor system for transportation of the coal via an underground beltway to the No. 2 Mine raw coal storage facilities at Smoky River are being provided. At the preparation plant facilities to dewater the flotation tailings presently being impounded in Smoky River canyon for dry storage and utilization as fuel for power generation will be constructed for operation by mid-1976 at an estimated cost of \$3,070,000. This unit will permit near-complete reclamation and recycling of plant water and thereby minimize make-up water requirements and effluent discharge.

During the latter part of 1974 negotiations were concluded with the Company's Japanese steel mill customers on a contract which provides for the delivery of 1.5 million long tons of coal annually for a three-year period commencing April 1, 1975. The agreement also provided an immediate price increase effective October 1, 1974 for coal deliveries under the existing contract

and stipulates that the price of coal delivered after April 1, 1975 will be equivalent to the U.S. producer minesite price for coal of equal rank, quality and coking properties plus ex-mine transportation and terminal charges at Vancouver, B.C. The agreement grants to McIntyre an advance on coal deliveries of \$16.3 million, which was received on January 31, 1975. This sum is repayable pro-rata on coal deliveries made over the full term of the sales contract. Provision for price adjustments to take into account changes in coal production, and transportation and other ex-mine charges are also incorporated in the agreement. Similar agreements of one year's duration also commencing on April 1, 1975 have been reached with The Steel Company of Canada, Limited, and Sydney Steel Corporation whereunder the Company will deliver 200,000 and 150,000 short tons, respectively.

Falconbridge Nickel Mines Limited (37.3% equity interest)

The consolidated earnings of Falconbridge were \$21,976,000 or \$4.43 per share after providing \$41,954,000 for income and mining taxes. In 1973 restated consolidated earnings before an extraordinary deferred tax credit of \$7,100,000 were \$48,860,000 or \$9.86 per share, including \$34,540,000 for income and mining taxes. After the extraordinary credit 1973 earnings were \$55,960,000 or \$11.29 per share.

Higher metal prices received by most of the companies in the Falconbridge group were largely offset by the increased cost of labor, fuel and materials. Deliveries of nickel in all forms were slightly below those of the previous year, while production of metals in concentrate by Falconbridge Copper Limited were substantially below those of 1973.

Madeleine Mines Ltd. (36.4% equity interest)

Earnings for 1974 were \$2,502,000 or 53¢ per share compared with \$4,317,000 or 92¢ per share during 1973. Production costs rose sharply during the year due to large increases in both labor and supply costs and higher Federal income and Provincial mining taxes, and declining copper prices further reduced the margin

of profit from operations. Dividends paid by Madeleine during the year totalled \$4,471,000 or 95¢ per share and working capital at December 31, 1974 was \$3,732,000.

Production during the year totalled 804,390 tons of ore milled from which 19,113,819 pounds of copper and 176,052 ounces of silver were recovered. Comparable figures for 1973 are: 713,981 tons of ore milled and 17,495,485 pounds of copper and 163,162 ounces of silver recovered. The average grade of ore milled during 1974 was 1.28% copper compared with 1.31% copper during the prior year.

Additions were made to the ore reserves in the Main and South Footwall Zones which largely offset the ore tonnage mined during 1974. The grade of ore extracted however continued above the overall grade of the reserves thereby lowering the grade of the remaining reserves. At December 31, 1974 the ore reserves were estimated to be 3,866,000 tons averaging 1.06% copper compared with 4,184,000 tons averaging 1.10% copper one year earlier.

Exploration

In June 1974 an agreement was made with Meadowlark Farms, Inc., a subsidiary of Amax Coal Company of New York, under which Meadowlark will complete the exploration and evaluation to production feasibility of the Copton coal property in which McIntyre owns a 78.2% interest. The Copton property is located adjacent to the Company's No. 9 Mine and is held under leases from the Alberta Government. A large reserve of metallurgical coal mineable by open pit methods has been established on this property by previous work done by McIntyre. The agreement provides an option period to Meadowlark ending May 31, 1976 following which if it elects to proceed with the development and equipment of the property to production it will earn a working interest therein.

Following a field season's work in 1973 on the Company's Monkman Pass coal lease property in northern British Columbia, it was concluded that because of its remote location and distance from existing or planned transportation facilities this

property is of little present worth to the Company. Consideration is being given to its disposal.

Base metal exploration programs were carried out in the Gaspé and Matagami Lake regions of Quebec, in the Timmins area of Ontario and in the Bonnet Plume Lake region of the Yukon Territory. At the latter locality widespread showings of zinc-lead mineralization were discovered and two areas covering these were staked and will be further investigated during 1975. Prospecting activities were also carried out in Nevada during the year. The exploration program in Australia was discontinued in mid-1974 because of the unfavorable attitude of the Australian Federal Government towards foreign investment in resource development.

Employees

A labor agreement extending to October 1, 1976 was reached with the bargaining representative of the Company's Smoky River hourly employees, the United Steelworkers of America, in August 1974, which provides for wage rates and other benefits which are competitive with those prevailing in western Canadian coal and copper mining operations.

Agreement was also reached during May 1974 with the hourly workers at Madeleine Mines on modifications to the contract then in effect providing a substantial wage increase and a 2½ month extension to the contract.

Corporate

Mr. D. G. C. Menzel, Q.C., resigned from the Board of Directors on January 30, 1975. Mr. Menzel will continue his association with the Company in his capacity as legal counsel.

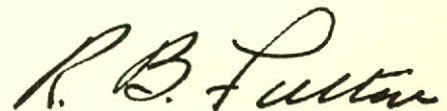
Outlook

Earnings from the Smoky River Coal Mine are expected to increase significantly during 1975 because of increasing coal prices and mine production. The current price will advance appreciably under the terms of the new sales contracts which commence April 1, 1975 and coal deliveries in the contract year are budgeted at 2 million long tons. Conversely, income from Madeleine Mines is expected to decrease during 1975 because of depressed copper prices.

The new coal contracts will provide the Company with funds from both advance payments on deliveries and a large cash flow from operations for application against its bank indebtedness. Substantial progress in reducing interest charges and strengthening the Company's working capital position is anticipated by year's end.

The Directors express their appreciation to the Company's employees for their efforts during the past year.

By Order of the Board of Directors



President and Chief Executive Officer

Toronto, March 6, 1975.

AUDITORS' REPORT

Price Waterhouse & Co.

chartered accountants

P.O. Box 51 Toronto-Dominion Centre Toronto, Ont. M5K 1G1 (416) 863-1133 Telex 02-2246

March 6, 1975

To the Shareholders of
McIntyre Mines Limited:

We have examined the consolidated balance sheet of McIntyre Mines Limited and its subsidiaries as at December 31, 1974 and the consolidated statement of earnings, reinvested earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. The investment in Falconbridge Nickel Mines Limited has been accounted for on the equity basis, and we have relied on the report of the auditors who have examined its financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants



MCINTYRE
MINES LIMITED

AND SUBSIDIARY COMPANIES

(Incorporated under the laws of the Province of Ontario)

CONSOLIDATED BALANCE SHEET

(\$000's omitted)

Assets

	DECEMBER 31	
	1974	1973
Current		
Cash and short-term deposits	\$ 647	\$ 615
Accounts receivable (note 2)	1,839	4,862
Coal sales contract advances receivable (note 3)	18,050	—
Inventories and mine supplies (note 4)	6,949	5,443
	27,485	10,920
Investments (note 5)		
Falconbridge Nickel Mines Limited	109,568	105,068
Madeleine Mines Ltd.	4,838	5,877
Other at cost	355	662
	114,761	111,607
Properties and Plant		
Plant and equipment at cost (note 6)	44,446	38,604
Less accumulated depreciation	11,503	8,316
	32,943	30,288
Deferred mine development less amortization (note 7)	38,105	30,299
	71,048	60,587
Other		
Long-term account receivable (note 8)	4,031	4,297
Employee housing loans (note 11)	2,325	1,580
	6,356	5,877
	\$ 219,650	\$ 188,991

Liabilities

	DECEMBER 31	
	1974	1973
Current		
Accounts payable and accrued liabilities	\$ 7,633	\$ 6,633
5½ % Notes due within one year	528	1,173
Current portion of coal sales contract advances	5,634	—
	<u>13,795</u>	<u>7,806</u>
Coal Sales Contract Advances , less current portion	<u>12,416</u>	<u>—</u>
Long-Term		
Bank loan repayable by December 31, 1976	62,323	58,875
5½ % Notes due 1975	—	528
	<u>62,323</u>	<u>59,403</u>
Shareholders' Equity		
Capital stock (note 12)		
Authorized — 3,000,000 shares without par value		
Issued — 2,434,482 shares	9,604	9,604
Reinvested earnings	125,307	115,973
	<u>134,911</u>	<u>125,577</u>
Less equity in own shares held by affiliate	3,795	3,795
	<u>131,116</u>	<u>121,782</u>
Approved by the Board:		
R. B. FULTON, Director.		
A. E. FELDMEYER, Director.		
	<u>\$ 219,650</u>	<u>\$ 188,991</u>



CONSOLIDATED EARNINGS

(\$000's omitted)	YEAR ENDED DECEMBER 31	
	1974	1973
Revenue		
Coal production	\$ 48,093	\$ 30,455
Metal production (<i>Schumacher Mine sold November 27, 1973</i>)	273	12,979
Dividends from affiliates	5,324	2,875
	<u>53,690</u>	<u>46,309</u>
Expense		
Operating costs	35,412	35,616
Administration	1,040	1,100
Exploration	1,242	881
Interest	5,631	4,716
Depreciation and amortization	4,492	4,948
	<u>47,817</u>	<u>47,261</u>
Earnings (loss) from operations	5,873	(952)
Equity in undistributed earnings of affiliates *	3,461	16,625
Earnings Before Extraordinary Items	9,334	15,673
Extraordinary items (note 9)	—	6,105
Consolidated Earnings	<u>\$ 9,334</u>	<u>\$ 21,778</u>
Per Share		
Earnings before extraordinary items	\$ 3.94	\$ 6.61
Extraordinary items	—	\$ 2.58
Consolidated earnings	\$ 3.94	\$ 9.19

* 1973 figure restated to reflect retroactive adjustment to earnings of Falconbridge Nickel Mines Limited.

CONSOLIDATED REINVESTED EARNINGS

(\$000's omitted)	YEAR ENDED DECEMBER 31	
	1974	1973
Balance at beginning of year		
As previously reported	\$ 115,521	\$ 94,100
Retroactive adjustment to earnings of affiliated company	452	95
As restated	115,973	94,195
Consolidated earnings for year	9,334	21,778
Balance at end of year	<u>\$ 125,307</u>	<u>\$ 115,973</u>

CONSOLIDATED SOURCE AND USE OF FUNDS

(\$000's omitted)

Source of Funds	YEAR ENDED DECEMBER 31	
	1974	1973
Operations —		
Earnings before extraordinary items	\$ 9,334	\$ 15,673
Depreciation and amortization	4,492	4,948
Equity in undistributed earnings of affiliates	(3,461)	(16,625)
	<u>10,365</u>	<u>3,996</u>
Bank financing	3,448	—
Coal sales contract advances, less current portion	12,416	—
Sales of properties and other assets	758	12,793
Issue of shares	—	418
	<u>26,987</u>	<u>17,207</u>
Use of Funds		
Properties and plant	15,404	6,920
Bank and note repayments	528	6,298
Long-term receivable	(266)	2,834
Employee housing loans	745	(411)
	<u>16,411</u>	<u>15,641</u>
Increase in working capital	<u>\$ 10,576</u>	<u>\$ 1,566</u>
Working Capital Changes		
Increase (decrease) in current assets		
Cash and short-term deposits	32	(587)
Accounts receivable	(3,023)	1,546
Coal sales contract advances receivable	18,050	—
Inventories and mine supplies	1,506	(1,766)
	<u>16,565</u>	<u>(807)</u>
Increase (decrease) in current liabilities		
Inventory financing	—	(1,500)
Accounts payable and accrued liabilities	1,000	(873)
5½ % Notes due within one year	(645)	—
Current portion of coal sales contract advances	5,634	—
	<u>5,989</u>	<u>(2,373)</u>
Increase in working capital	<u>10,576</u>	<u>1,566</u>
Working capital — beginning of year	3,114	1,548
Working capital — end of year	<u>\$ 13,690</u>	<u>\$ 3,114</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1974

1. Accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of all companies more than 50% owned. The assets and earnings of these companies are not significant and aggregate less than 2% of the consolidated total.

Investments in affiliated companies Falconbridge Nickel Mines Limited (37.3% equity interest) and Madeleine Mines Ltd. (36.4% equity interest) are accounted for by the equity method which reflects the Company's investment at cost plus its interest in reinvested earnings less amortization of the excess of cost over book value at date of acquisition.

(b) Foreign exchange

Foreign currency accounts are translated to Canadian dollars as follows: current accounts at exchange rates in effect at December 31; non-current assets and liabilities and depreciation expense at historical rates. Realized exchange gains or losses and translation differences are included in consolidated earnings.

(c) Inventories

Mine products are valued at net realizable value and other inventories at the lower of cost or market.

(d) Depreciation and amortization

(i) Plant and equipment are being depreciated on a straight-line basis over their productive life, or in the case of each mining property to which they are appurtenances, over the productive life of the mine in terms of proven ore or coal reserves, whichever is less.

(ii) Maintenance, repairs and renewals expenditures are included as charges to income with the exception of those expenditures which properly could be deferred to future operations. Betterments generally are capitalized and included as additions to fixed assets.

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

(iv) Development

(a) Expenditures relating to each mining property are deferred until the property is brought into production at which time they are amortized on a unit of production basis over the life of the mine in terms of proven ore or coal reserves.

(b) Unallocated costs at the Smoky River Coal Mine including infrastructure costs and start-up expenses aggregating \$16,904,000 have been segregated and the Company commenced amortizing this amount in 1974 on a unit of production basis over the estimated life of its proven coal reserves.

(e) Exploration

Exploration costs are charged to earnings when incurred.

(f) Income Taxes

The Company follows the tax allocation method of accounting whereby timing differences between reported and taxable income result in deferred taxes. Timing differences which would result in prepaid taxes are not recognized until realized.

2. Accounts Receivable

These are as follows:

	(\$000's omitted)	
	1974	1973
Metal settlements receivable	\$ —	\$ 1,777
Coal settlements receivable	591	2,067
Other receivables	1,248	1,018
	<u>\$ 1,839</u>	<u>\$ 4,862</u>

3. Coal Sales Contract Advances

McIntyre has entered into the following coal sales contract delivery commitments for yearly periods commencing April 1, 1975.

Buyer	Term of Contract	Annual Tonnage	Coal Sales Contract Advances
Japanese Buyers	3 years	1,500,000 long tons	\$16,300,000
Steel Company of Canada Limited	1 year	200,000 short tons	1,000,000
Sydney Steel Corporation	1 year	150,000 short tons	750,000
			<u>\$18,050,000</u>

The contract price of the coal is established annually on April 1st at the equivalent to the U.S. producer price and is subject to further adjustment for subsequent changes in McIntyre's coal production and transportation costs. Coal sales contract advances will be repaid over the term of the contracts as coal deliveries are made.

4. Inventories and Mine Supplies

These are as follows:

	(\$000's omitted)	
	1974	1973
Clean metallurgical coking coal	\$ 2,744	\$ 2,088
Mine supplies	3,967	2,506
Houses for sale to employees less mortgages thereon	238	849
	<u>\$ 6,949</u>	<u>\$ 5,443</u>

5. Investments

Changes in the Company's investment in affiliated companies, accounted for by the equity method, are as follows:

	(\$000's omitted)			
	Falconbridge		Madeleine	
	1974	1973	1974	1973
Investment — beginning of year				
As previously reported	\$ 104,616	\$ 85,948	\$ 5,877	\$ 5,629
Retroactive adjustment to earnings of affiliated company	452	95		
As restated	105,068	86,043		
Equity in earnings not distributed	4,500	19,025	(716)	544
Amortization of excess cost	—	—	(323)	(296)
Investment — end of year	<u>\$ 109,568</u>	<u>\$ 105,068</u>	<u>\$ 4,838</u>	<u>\$ 5,877</u>
Shares held	1,848,414	1,848,414	1,712,208	1,712,208
Market value at December 31	\$ 44,824	\$ 115,526	\$ 3,681	\$ 7,448

The excess of the cost of the Company's investment in Falconbridge over its book value at date of acquisition was completely amortized by December 31, 1972.

In the case of Madeleine the excess cost remaining at December 31, 1974 was \$1,570,000 which is being amortized over the estimated life of the mine.

Summarized financial information for these two companies is presented below:

	(\$000's omitted)			
	Falconbridge		Madeleine	
	1974	1973 (restated)	1974	1973
Current assets	\$ 282,750	\$ 266,539	\$ 5,137	\$ 5,152
Other assets	491,186	477,192	5,647	7,148
	<u>773,936</u>	<u>743,731</u>	<u>10,784</u>	<u>12,300</u>
Current liabilities	92,141	76,968	1,405	1,352
Long-term liabilities	377,872	374,907	400	—
Shareholders' equity	303,923	291,856	8,979	10,948
	<u>773,936</u>	<u>743,731</u>	<u>10,784</u>	<u>12,300</u>
Earnings before extraordinary items	21,976	48,860	2,502	4,317
Extraordinary items	—	7,100	—	—
Earnings	<u>21,976</u>	<u>55,960</u>	<u>2,502</u>	<u>4,317</u>
Dividends paid	\$ 9,911	\$ 4,955	\$ 4,471	\$ 2,824

6. Plant and Equipment

Plant and equipment at cost are as follows:

	(\$000's omitted)	
	1974	1973
Smoky River Coal Mine		
Underground equipment	\$ 12,433	\$ 13,098
Surface plant and equipment	31,327	24,821
	<u>43,760</u>	<u>37,919</u>
Other	686	685
	<u>44,446</u>	<u>38,604</u>
Less accumulated depreciation	11,503	8,316
	<u>\$ 32,943</u>	<u>\$ 30,288</u>

7. Deferred Mine Development

Unamortized mine development costs are as follows:

	(\$000's omitted)	
	1974	1973
Smoky River Coal Mine		
Producing properties	\$ 16,123	\$ 2,579
Non-producing properties	5,408	10,816
Unallocated costs	16,574	16,904
	<u>\$ 38,105</u>	<u>\$ 30,299</u>

The development of No. 9 mine and capitalized preproduction expenditures pertaining thereto were completed during the 3rd quarter of 1974 and was transferred from non-producing to producing properties.

8. Long-Term Account Receivable

The sum of the unpaid balance in respect of the 1973 sale of terminal facilities at Vancouver and accrued rentals at the date of sale is being repaid by Neptune Terminals Ltd. over a period of years on the basis of McIntyre's coal throughput at the terminal. \$266,000 was repaid in 1974.

9. Extraordinary Items

Extraordinary items in the 1973 accounts were as follows:

	(\$000's omitted)
Gain on sale of Schumacher mine	\$ 3,457
Company's share of extraordinary item of affiliate	<u>2,648</u>
	<u>\$ 6,105</u>

There were no extraordinary items in 1974.

10. Income Taxes

Investment income from Falconbridge Nickel Mines Limited and Madeleine Mines Ltd. is not taxable to McIntyre.

Accumulated charges to income which have not been claimed for tax purposes total approximately \$19,000,000 and are available as credits against future taxable income.

11. Commitments and Contingencies

(i) The Company has guaranteed mortgages amounting to \$8,930,000 at December 31, 1974 in respect of employee housing in Grande Cache. In addition the Company has provided \$2,325,000 of interest-free loans to employees to assist them in the purchase of these houses. Of this amount \$325,000 is subject to forgiveness at the rate of 10% per year commencing in 1975 so long as the purchasers remain employees of the Company.

(ii) A long term lease agreement for the supply of unit-train rail cars for the transportation of coal provides for minimum rental charges of \$890,000 per year.

(iii) Certain open-pit mining equipment required for the operation of No. 9 Mine has been leased under a long-term agreement at an annual rental of \$1,009,846. At December 31, 1974 the total rentals remaining to be paid over the term of this agreement amounted to \$8,397,382.

(iv) The Company is obligated to pay approximately \$500,000 for the balance of purchase of shares of a subsidiary company (78.2% owned) in the event the subsidiary secures a contract for the sale of coal from its property.

(v) At December 31, 1974 estimated capital expenditures required to complete the equipment of No. 9 Mine and other projects totalled \$12,598,000.

(vi) In 1969 the Company contracted to supply coal to Canadian Utilities, Limited to provide its requirements for fuel of contract specifications at its thermal power generating plant at Smoky River, Alberta, for a period of 15 years commencing December 1972 at a price of approximately 32¢ per long ton. That contract is renewable at the option of the purchaser at a nominal price for a further 15 years.

Alberta Power Limited, the alleged assignee of Canadian Utilities, has commenced an action against the Company in the Supreme Court of Alberta claiming damages in the amount of \$804,000 for costs allegedly incurred by it in connection with the supply and use of by-product coal supplied by the Company to December 31, 1973 and requesting certain declaratory and injunctive relief. On the application of the Company, the Supreme Court of Alberta made an order directing that the dispute be referred to arbitration. That order has been appealed by Alberta Power to the Alberta Court of Appeal. In the opinion of counsel, the plaintiff will not be successful in obtaining judgment for the amount of damages claimed or in obtaining an injunction. Accordingly no provision therefor has been made in the accounts.

The Company maintains that it is legally bound under the contract to supply only by-product coal from its metallurgical coal mining and processing operations. It believes, on the basis of its by-product coal production since its metallurgical coal mining operation at Smoky River commenced

in 1971, that there will not be sufficient amounts of specification by-product coal available to fulfill the contract. The Company is presently delivering to Alberta Power on a month-to-month basis at cost alternate coal supplies in quantities specified by Alberta Power. Based on the presently available information, counsel are of the opinion the Company will have substantial defences to any future claims alleging that the Company has an obligation under the contract to supply coal other than by-product coal.

(vii) The cost of the Company's pension plan for salaried employees during 1974 was \$126,000 (1973 — \$198,000). The Company also paid \$116,000 (1973 — \$76,000) as the cost of the non-contributory pension plan for hourly employees.

Total unfunded past service liability of \$207,345 as at the date of the last actuarial valuation, December 31, 1973, is being amortized by supplemental annual payments of \$18,671 over 16 years.

12. Capital Stock

175,000 shares have been set aside under the Executive and Key Employees Stock Option Plan including 25,000 authorized in 1974. Of these 135,450 had been issued to December 31, 1974.

Options outstanding at December 31, 1974 were:

4,000 shares at \$110.20 per share granted February 5, 1969 and expiring February 4, 1979.

10,000 shares at \$41.80 per share granted January 25, 1973 and expiring January 24, 1983.

13. Remuneration of Directors and Senior Officers

Aggregate remuneration paid to directors and senior officers was \$470,000 which compares with the 1973 remuneration total of \$355,000.



FIVE YEAR SUMMARY

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Production					
Raw coal (long tons) (a)	2,358,357	2,086,667	2,432,376	1,831,491	622,593
Clean coal (long tons) (a)	1,528,268	1,441,535	1,565,720	1,178,197	420,276
Copper (pounds) (b)	—	8,372,000	9,297,000	9,556,000	10,167,000
Gold (ounces) (b)	—	68,548	104,079	108,728	104,270
Earnings (\$000's omitted)					
	\$	\$	\$	\$	\$
Revenue — coal production (a)	48,093	30,455	28,974	20,821	5,846
— metal production (b)	273	12,979	10,654	9,411	10,185
Dividends from affiliates	5,324	2,875	1,848	5,055	6,434
Interest and other income	—	—	569	671	616
Exploration	1,242	881	1,204	1,481	2,051
Interest expense	5,631	4,716	3,899	3,758	1,625
Depreciation and amortization	4,492	4,948	4,903	3,670	562
Income taxes	—	—	—	(1,160)	(312)
Earnings (loss) from operations	5,873	(952)	(8,117)	(3,061)	4,682
Equity in undistributed earnings of affiliates	3,461	16,625	103	(3,096)	4,975
Extraordinary gains (losses)	—	6,105	(22,056)	—	747
Consolidated earnings (loss)	9,334	21,778	(30,070)	(6,157)	10,404
Per share (c)	3.94	9.19	(12.75)	(2.61)	4.41
Dividends paid	—	—	—	1,940	4,844
Per share	—	—	—	.80	2.00
Financial Position (\$000's omitted)					
Working capital	13,690	3,114	1,548	8,863	7,505
Investments at equity	114,761	111,607	92,522	110,908	115,291
Properties and plant	71,048	60,587	67,763	70,088	67,643
Coal sales contract advances	12,416	—	—	—	—
Long term debt	62,323	59,403	65,701	62,734	53,551
Shareholders' equity	131,116	121,782	99,586	129,656	137,753
Per share (c)	55.35	51.41	42.22	54.96	58.40
Shareholders and Employees — December 31					
Shares outstanding	2,434,482	2,434,482	2,424,482	2,424,482	2,424,482
Shareholders	3,039	3,049	3,042	2,941	2,972
Employees	951	698	1,626	1,663	1,452

(a) Includes tonnage produced in preproduction period prior to April 1, 1971.

(b) Schumacher Mine sold November 27, 1973.

(c) Per share figures calculated on the basis of total shares outstanding, less equity in own shares held by affiliate.



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