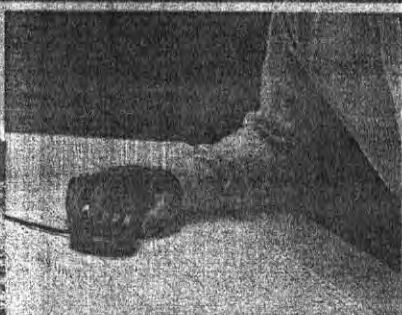
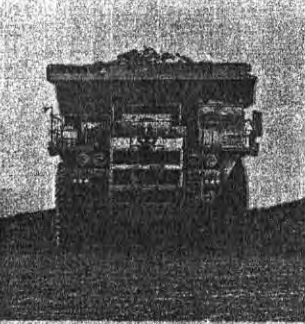
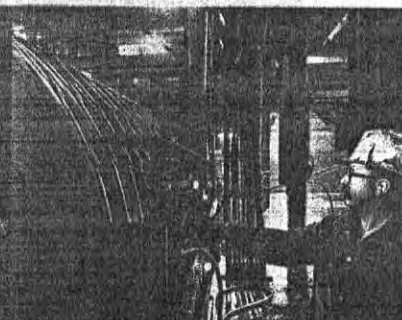
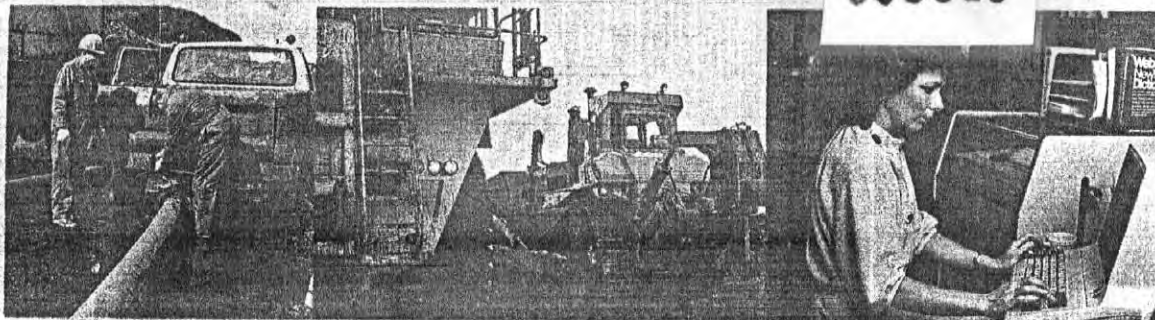


003643



Profile of a Leader

PROPERTY FILE
823560



"Through the hard work and dedication of our people, we continue to build for the future."

Slow growth in world steel output and the oversupply situation in the international coal market continue to overshadow the recovery of the coal industry. In 1985 our major customer, the Japanese steel industry, had long-term contractual commitments of some 26 million tonnes in excess of its annual requirements. This represents approximately 25% to 30% of the industry's coking coal requirements. Since the mills continued to purchase contractual volumes from newly developed mines in western Canada, Australia and the U.S.S.R., the traditional suppliers such as Fording, faced additional volume reductions.

While the growth in developing markets such as Korea, Taiwan and Brazil has provided new markets, it has been insufficient to absorb the excess supply. The result has been increased price competition in all markets. This problem is further complicated by the relative currency exchange advantage experienced by our major competitor, the Australian coal industry.

In light of these problems, Fording's people continued to demonstrate their ability to meet the challenge. They responded by moving more material and producing more cleaned coal than has ever before been achieved in the history of our operations. The productivities exceeded the record levels established in 1984. Their outstanding efforts combined with equipment and facilities improvements enabled us to effectively compete for sales in markets which were previously considered unattainable due to lack of cost competitiveness. In so doing the Company was able to offset the majority of the reduction in its contractual volumes to the Japanese.

The fact that the record operating results were accompanied by a substantial improvement

in safety performance was particularly gratifying. Increased awareness of safety by all of us will ensure a continuation of the trend which was established in the current year.

In 1985, the development of the Eagle Mountain reserves continued. By the end of the year the mining area was able to meet a large proportion of the operation's high volatile coal requirements. Although further development remains, increasing benefits provided by lower strip ratios, and the accessibility to a variety of coal seams in a concentrated mining area are just beginning to be realized. The proven efficiency of our labor force will complement these factors and will enhance our ability to compete in coal markets throughout the world.

The Company was awarded the mining contract for TransAlta's Whitewood mine in 1985. The five year contract which commenced January 1, 1986, involves some 100 employees in the mining and delivery of approximately 2 million tonnes of thermal coal per annum. In addition to establishing the Company in the area of contract mining, it will enable us to expand our expertise in prairie coal mining.

In 1985, the Company also enhanced its already extensive land holdings. The acquisition of additional coal leases in the Brooks area and 50% interest in the Elk River joint venture leases (located just north of our Fording River Operations) provides the Company with a solid position in two of the most promising undeveloped coal fields in western Canada.

In 1985, Canadian coal production was some 60 million tonnes, with a sales value of \$1.88 billion — the most valuable of all Canadian minerals. The Government of British Columbia, recognizing the difficult times faced by our

industry, responded with needed tax concessions and changes to the Coal Act, which will provide essential cash flow savings.

While our relations with the Government of British Columbia are excellent, this is not the case at the Federal level. Increases in the diesel fuel tax included in the September budget, completely offset concessions provided at the Provincial level. Our industry has lobbied against the increase, but to date there has been no response. While we plan to continue these efforts, we are somewhat perplexed by the Federal government's actions, given the severity of the current economic problems faced by our industry.

The situation in the international coal market shows little sign of improvement for 1986. Price and tonnage levels for standard coal sold to the Japanese steel mills have been established at below the 1985 levels. These reductions have been partially offset by additional volumes of weak coking and high volatile coal and sales volumes are forecast to increase to 4.5 million tonnes. In order to achieve these levels, we will again be looking to all our employees to provide the outstanding effort which they have demonstrated in the past.

It is through such dedication and efforts that we have been able to successfully compete in the past and it is through these same efforts that Fording will continue to build for the future.

JH Marisel

OPERATIONS REVIEW

FORDING RIVER OPERATIONS

During 1985, employees at Fording River continued to demonstrate their ability to meet the challenges presented by the international coal markets. Through their hard work and dedication, the operations achieved record production and productivity levels, with substantial improvements in safety performance.

Total waste and raw coal movement exceeded 49,200,000 bank cubic metres in 1985, a 5% increase over the previous record established in 1984. Cleaned coal production of 4,068,000 tonnes was also at the highest level in the history of the operations.

These record production levels were accompanied by a substantial improvement in safety performance. Increased awareness of safety by all employees in 1985 provided a 50% reduction in the operations lost time accident frequency. While further improvements are necessary to achieve our ultimate objective of no lost-time accidents, we have established that substantial improvements in productivity can be achieved while improving employee safety.

Combined waste and raw coal mining productivity reached 178.1 bank cubic metres per man shift, 9.3% higher than the 1984 record levels. These levels are almost double the productivity achieved in 1981. The cleaned coal production productivity also increased by some 5% to 14.7 tonnes per man shift.

Installing more productive equipment, utilizing short-term shutdowns versus permanent layoffs and further reductions in manpower through attrition have contributed to our efficiency in 1985. The operations work force was reduced by some 60 people during the year, without permanent layoffs.

There appears to be no immediate solution to the problems faced by the coal markets, and further shutdowns will be required to keep production in line with sales levels in 1986. We will continue our philosophy of keeping job security of our employees first and foremost in our plans by avoiding indefinite layoffs.

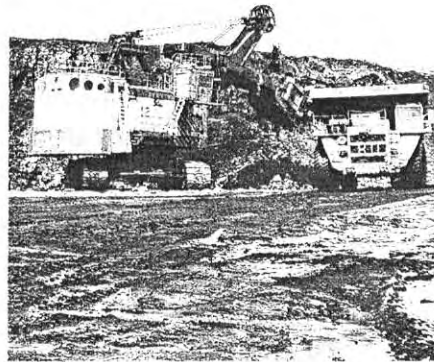
We can all take pride in our achievements in 1985. The operation is well on its way to being one of the lowest cost, long-term producers of a variety of coal products, and we must continue to strive for further improvements in all areas.

MINE OPERATIONS

Waste movement in 1985 was 44,160,000 BCM as compared to 42,605,000 BCM in 1984. Lower strip ratios combined with increased mine efficiency resulted in raw coal production of 5,086,000 BCM or 18.3% above the 1984 levels.

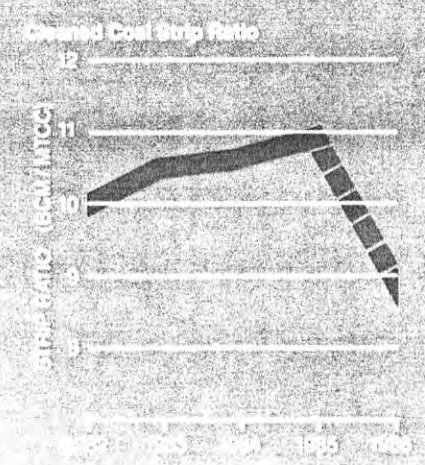
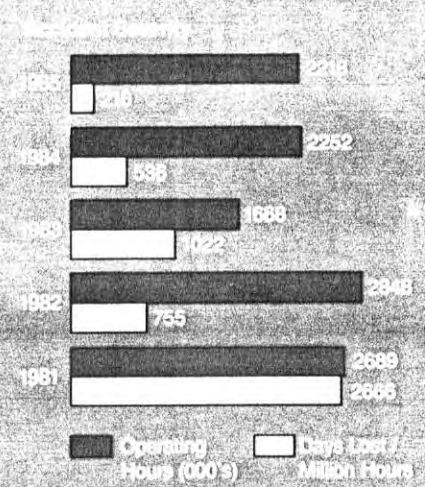
Average daily production levels per full operating day were also at record levels in 1985, at 154,600 BCM (combined waste and raw coal movement).

Changing demand for various coal products required a shift in activity between mining areas. Lower demand for standard coking coal resulted in reduced activity in the Taylor area and acceleration of the Eagle spoil access development in the Brownie area. The development of Swift Pit, on the Greenhills side, was undertaken in response to increased demand for high volatile coal. The production activity in this area will increase in 1986 as I Pit is mined out.



Our 1985 cost reduction program included the replacement of our older 15 cubic yard shovels with two 30 cubic yard P&H 2800XP mining shovels. This equipment will provide improved utilization of haul trucks through reductions in loading time. While the older shovels will eventually be sold, one is currently being used for coal loading, thereby reducing our coal-loader requirements.

The maintenance group, once again, contributed greatly to our mining productivities by providing the operations with above planned heavy equipment availabilities at lower than planned costs.



WINE DEVELOPMENT

The washplant produced 4,068,000 MTCC (including thermal pond coal) in 1985 at a rate of 13,790 MTCC per full operating day compared to an average daily production rate of 13,220 MTCC in 1984.

During 1985, the processing area produced and handled thirteen different blends of coal. A dewatering well was installed in the north tailings pond, enabling the extraction of 185,000 metric tonnes of coal with lower moisture and ash specifications. Higher demand for thermal and weaker coking coals has increased the significance of this source of coal to our operations.

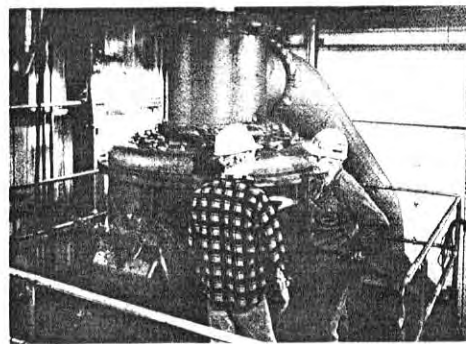
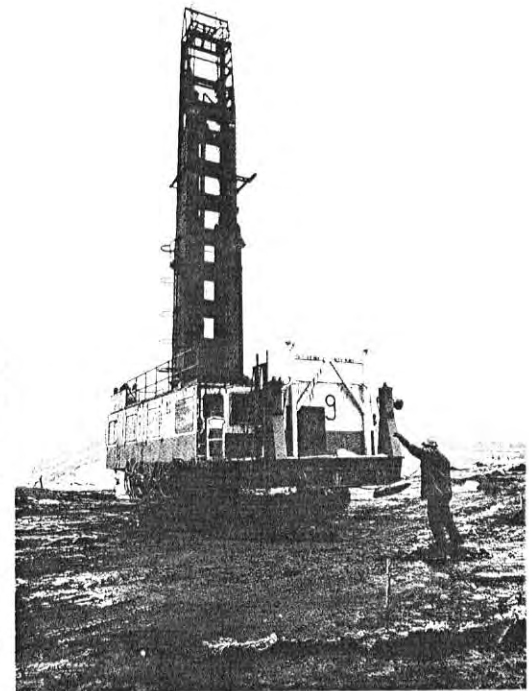
In 1985, the coal dryer was converted to a dual fuel system capable of burning coal and natural gas. Undertaken at a cost of approximately \$4,000,000, the conversion will provide significant operating cost savings by reducing natural gas consumption by up to 90%.

Work continued on the south tailings pond dyke during the year. The width was increased to final design and the height was increased by six feet in order to remain ahead of plant production requirements.

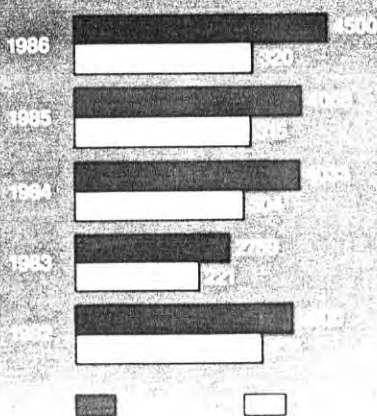
Modifications to the fines circuit were commenced during the year by the operations processing maintenance personnel. When completed in early 1986, the project will provide our operation with ash reductions, higher yield and increased plant capacity.

Development activity on Eagle Mountain continued throughout 1985, with emphasis on increasing the size of operating areas and providing more efficient access to spoil dumps. By year-end, coal release from the area had progressed to the stage where most of our high volatile coal requirements were able to be met from the southern Eagle benches (Stage III). Mining was started on the next benches at the top of Eagle (Stage IV), which will open up additional coal supplies for 1987 and 1988.

A fill road from the lower Eagle benches and acceleration of the south end of Brownie Pit commenced in July. The downhill hauls provided by the road will improve movement of waste to the Brownie spoil.



Cleaned Coal Production and Operating Days

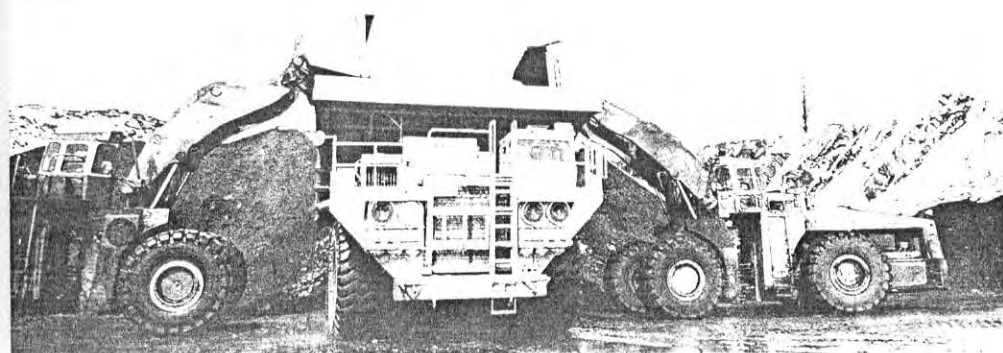
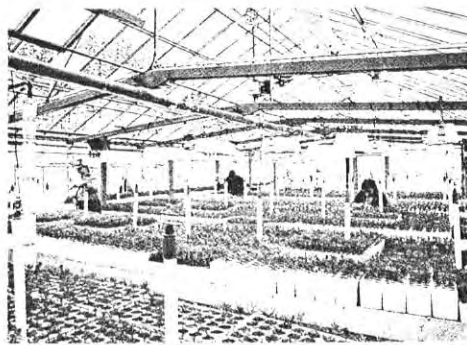


Since 1982, the Company has expended \$62,850,000 (including capitalized interest) on this development, with most of this work being performed with operations personnel and equipment. To date more than 29 million bank cubic metres of material have been moved in connection with the development. The Company's continuing dedication to the project, in light of the trend in the international coal markets, demonstrates our commitment to the future. While final development will continue through 1986 and 1987, the Company will increasingly begin to realize the benefits of its investment during this period. When completed, the area will provide the operations with a competitive source of a wide variety of high quality coal for decades to come. Employees can take pride in the fact that the accomplishment is as a result of their efforts, **YOU MADE IT HAPPEN!**

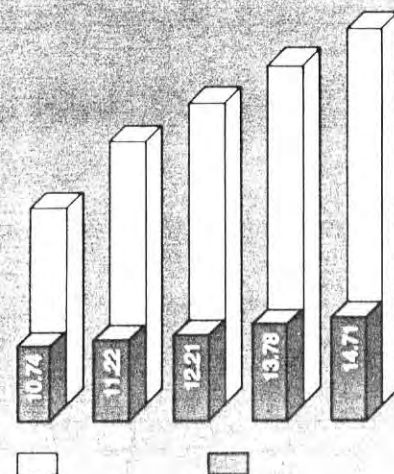
Exploration and planning activities in 1985 concentrated on the location and development feasibility of high volatile coal and dragline mining areas. Favorable exploration and planning resulted in the expedient development of Swift Pit, which was operational by October. Exploration in outlying potential areas such as Kilmarnock, Lake Mountain, Turnbull Mountain, South Greenhills and the Elk Valley resulted in the identification of additional high volatile coal reserves.

Environmental control activities focused on improvements to water treatment facilities such as the Brownie Creek settling pond to assure acceptable water quality with increased mining activity on Eagle Mountain. During 1985 the flow-through rock drains were continuously monitored, with the results indicating that this design proves to be an innovative and cost saving method of spoiling into drainage systems.

A citation for excellence in reclamation was awarded to Fording in 1985. These activities included the resloping of an additional five hectares of spoil in preparation for revegetation in the Greenhills mining area. Field scale reclamation research continued with the planting of 15,000 native trees and shrubs, and 26,000 native trees and shrubs were produced in the on-side greenhouse in preparation for the 1986 reclamation program which will involve resloping and revegetation of some 39 hectares of spoil.



Mining and Processing
Production per Month



Diversification and expansion of our business interests is the key to Fording's future.

— D. J. Snydel

PROJECTS AND DEVELOPMENT REVIEW

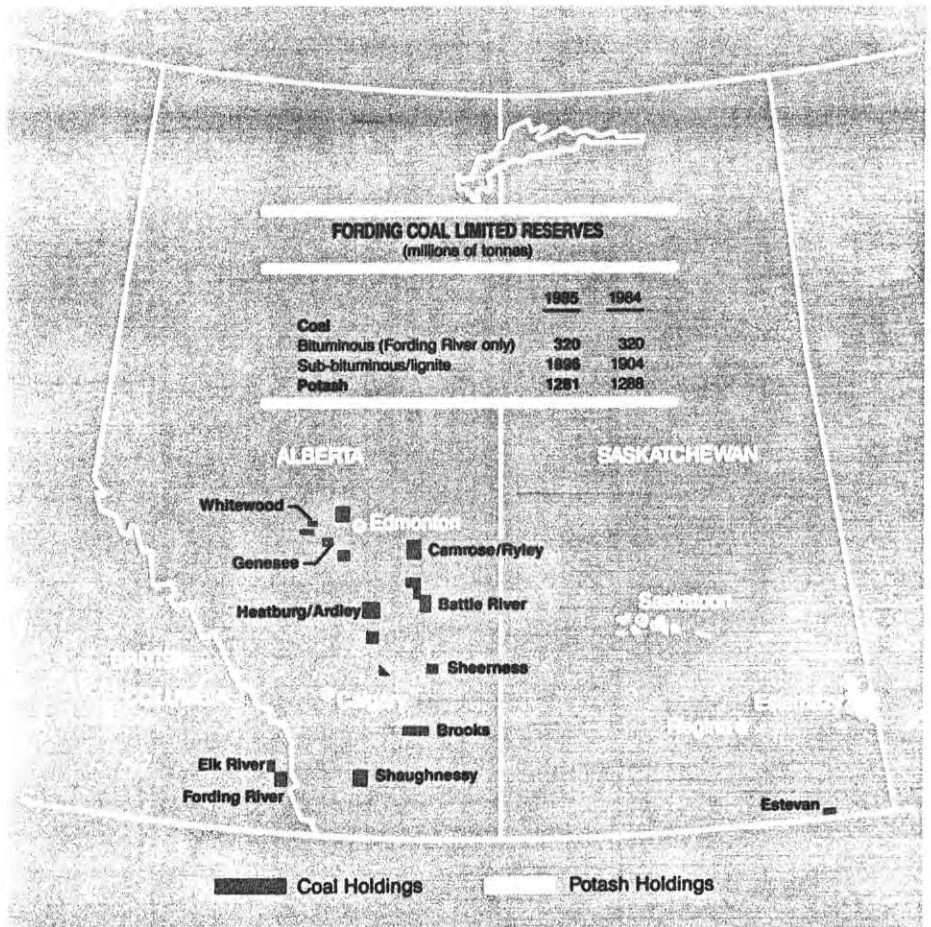
The economic climate in the international coal markets has served to increase the importance of diversification and expansion of the Company's business interests. As part of this strategy the project group continued to evaluate new mining opportunities and projects, including:

to further enhance our already strong land holding position in this area.

In 1985, the Company successfully negotiated the acquisition of a 50% interest in the coal leases held by the Elk River Joint Venture. Under the terms of the agreement with Elco Mining Limited, the Company is to assume the position of joint venture manager. The remaining participants, The Steel Company of Canada (Stelco) and Home Oil Ltd., each own directly or indirectly 25% interests. While full scale development of these reserves is not planned in the near future, the property is considered to be one of the best undeveloped coal deposits in British Columbia.

COAL RESERVES

The Company sold some of its Saskatchewan lignite coal reserves at the beginning of 1985 in exchange for cash consideration, surface rights and coal leases near Brooks, Alberta. The addition of the Brooks coal leases serves



ROYALTIES

Production from the Company's land holdings in Alberta and Saskatchewan generated \$10,597,000 in revenue, some 15% above the previous year. In 1985, in excess of 5 million tonnes of coal and 3 million tonnes of potash were produced from these leases.

The Battle River coal lease terms were renegotiated with Alberta Power Limited for the

next five years. The Company also undertook negotiations with Alberta Power Limited and TransAlta Utilities Corporation to dedicate its coal reserves in the Sheerness area to a new power station being built nearby. The first 400 megawatt power generator will begin operation in early 1986 and the second unit is scheduled for 1990. In excess of one million tonnes per year will be produced from Fording's lands once full production is reached.