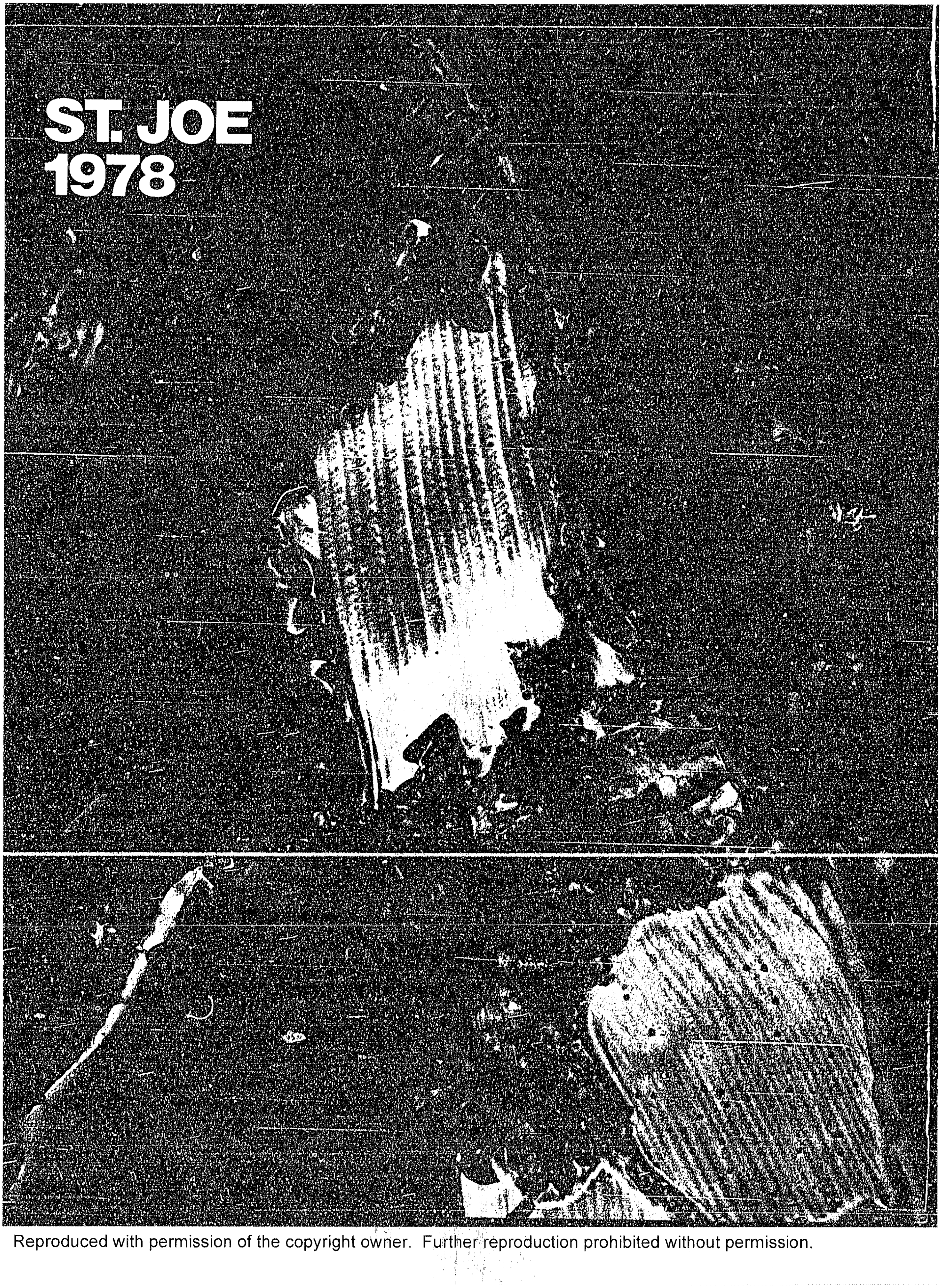
ST. JOE
1978



ST. JOE MINERALS CORPORATION 1978 ANNUAL REPORT

St. Joe Minerals Corporation is a diversified natural resource and energy company with significant interests in three areas:
Minerals: St. Joe Lead Company operates the largest lead smelter in the United States and has extensive lead mining facilities in the New Lead Belt in Missouri. St. Joe Zinc Company's zinc smelter is also the largest in the United States and its mines are located in the Balmat-Edwards area of upper New York State. St. Joe has an interest in iron ore through its Pea Ridge mine and pelletizing plant in Missouri.

During 1978, St. Joe organized St. Joe International Company to manage its mineral properties and projects outside the United States. Projects are principally concentrated in Argentina, Australia, Brazil, Canada, Chile and Peru.

Coal: A.T. Massey Coal Co., Inc. and its subsidiaries and affiliates operate 21 coal mining complexes in West Virginia, Kentucky, Tennessee and Colorado. Massey is also one of the largest exporters of coal in the United States, acting both for the sale of coal produced by Massey and by other domestic producers.

Oil and Gas: Three subsidiaries conduct St. Joe's oil and natural gas operations. St. Joe Petroleum is the principal vehicle for petroleum exploration and development outside the United States and Canada. CanDel Oil Ltd., St. Joe's Canadian oil and gas subsidiary, holds interests in Canada and internationally. Coquina Oil Corporation is active in the United States.

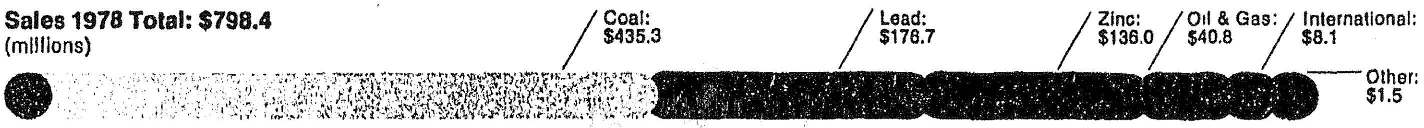
The natural resource and energy industry is one beset by much government, public interest group, labor and international pressures. St. Joe believes in addressing the issues directly as they relate to each of our operating groups.

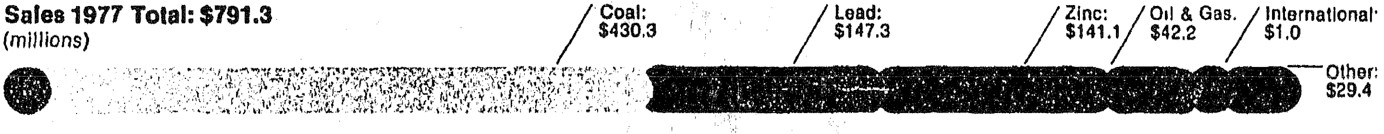
Within the operations review section of this annual report, we have presented discussions on the issues facing each of the industries and where St. Joe stands. We have described the status; the problems; and, finally, the opportunites for each group.

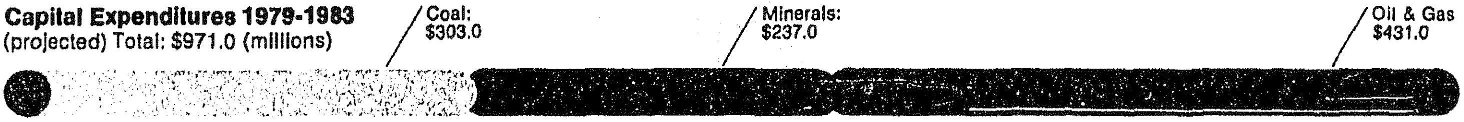
These stories are superimposed in each case upon a photomicrograph. The abstract photos, combining the use of the microscope with the camera—are used extensively in industrial, medical and scientific research. The natural resources with which St. Joe is involved, when treated under the microscope by John Delly of the McCrone Research Institute, Chicago, have yielded these pictures.

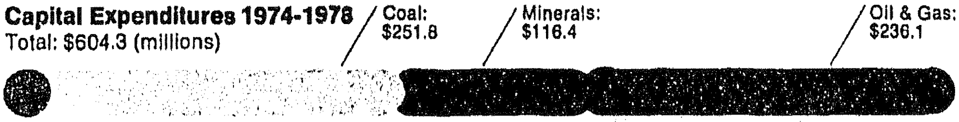
PHOTOMICROGRAPHS

Cover: Silver
Page 6: Lead
Page 10: Zinc
Page 14: Coal
Page 18: Oil
Page 22: Gold


Sales 1978 Total: $798.4
(millions)


Sales 1977 Total: $791.3
(millions)


Capital Expenditures 1979-1983
(projected) Total: $971.0 (millions)


Capital Expenditures 1974-1978
Total: $604.3 (millions)

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TO THE SHAREHOLDERS

Results were mixed in 1978. It was the best year ever for our lead operation. Zinc was unprofitable. Our oil and gas business continued to improve. Coal was the major problem. Work continued on a number of projects, with significant payout and contributions to earnings expected in 1979 and, particularly, 1980. Below, John C. Duncan, Chairman and Chief Executive Officer, and D. Broward Craig, President, summarize the present situation and assess the immediate future.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS	1978	1977	% Change
Net sales	**$798,435,000**	$791,280,000	+0.9
Nonrecurring items	**—**	$ 33,723,000	—
Income taxes	**$ 18,705,000**	$ 42,786,000	−56.3
Net income	**$ 43,645,000**	$ 67,757,000	−35.6
Dividends	**$ 29,100,000**	$ 28,687,000	+1.4
Net income per share	**$1.95**	$3.03	−35.6
Dividends per share	**$1.30**	$1.30	—
Shares of common stock outstanding December 31	**22,394,436**	22,357,520	+0.2
Number of shareholders	**19,430**	20,071	−3.2
Shareholders' equity	**$484,265,000**	$469,181,000	+3.2
Shareholders' equity per share	**$21.62**	$20.99	+3.0

1978 Results

Craig: Sales in 1978 were $798,435,000 compared with $791,280,000 in 1977. On an operating basis, net income per share dropped by 12% to $1.95 from $2.22 in 1977, as the remaining 81¢ of 1977's $3.03 net income came from the sale of coal properties and the termination of the Meramec iron ore joint-venture with Bethlehem Steel.

In the fourth quarter, earnings improved dramatically for St. Joe. Net income was $21,857,000, or 98¢ per share, compared with $14,936,000, or 66¢ per share, earned in the fourth quarter of 1977, an increase of 48%. Net sales of $251,060,000 were 23% higher than the $204,487,000 reported in the comparable period of 1977. The fourth quarter benefited from near capacity operation of A. T. Massey Coal Company, Inc., St. Joe's principal coal subsidiary, with sales of coal produced by Massey totalling 3,097,000 tons, over one million tons higher than the production of the fourth quarter of 1977. St. Joe's South American subsidiaries remitted dividends during the fourth quarter of $6,045,000 and for the entire year of $7,040,000, compared with $4,349,000 in 1977. The net effect of such dividends after-tax was 13¢ per share for all of 1978.

Coal was beset with problems and earned only $9,575,000 in operating profit in 1978. A United Mine Workers (UMW) strike lasted through the entire first quarter, and a Norfolk and Western Railway strike severely reduced our ability to deliver coal during July, August, and September. These revenue losses were somewhat offset by the excellent performance of our Tennessee Consolidated Coal Company (TCC), which was not affected by the strikes.

The depressed zinc market improved somewhat late in the year and permitted badly needed price increases. However, a high level of foreign imports and high domestic production costs combined to hurt American producers and produce a loss for St. Joe Zinc Company. In addition, hourly payroll workers at its Zinc Mining Division have been on strike since June 1, 1978.

St. Joe's lead operation had the best year in its history, with production up, costs within bounds, and sales and earnings at record levels. Sales were strong because of the heavy demand for batteries and the continued need for tetraethyl lead as a gasoline additive to improve motor performance and stretch fuel supplies. The auto industry had a good year, which meant a good year also for the original equipment battery market, while the replacement battery market benefited from the cold winter of 1977-78.

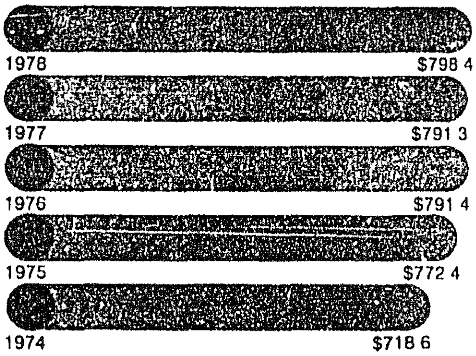
CanDel had a record year despite Canadian cutbacks in the consumption of natural gas. Improved prospects for Coquina in the United States as well as developments in the Elmworth-Wapiti gas field in Canada should provide continued higher earnings for the oil and gas segment of our business in 1979 and 1980.

Capital Program Impact on Earnings

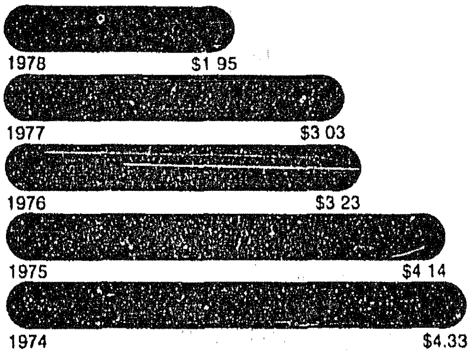
Craig: St. Joe spent $161,086,000 on capital projects in 1978, compared with $146,104,000 in 1977. Plans call for expenditures of around $200 million in 1979. Fortunately, our balance sheet is strong and we can supplement our operating cash flow with external financing to carry out these plans. Many of the projects that were in the planning or development stage in the past few years are being completed, with the favorable impact on earnings beginning to be felt in 1979 and becoming clear in 1980, when the following will take place:

The Buchan field, in the U.K. Sector of the North Sea, will be in full production in 1980, producing up to 50,000

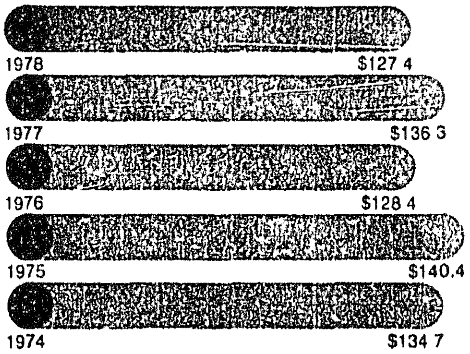
Sales (millions)



Earnings Per Share



Funds Provided From Operations (millions)



barrels per day. St. Joe and CanDel have a combined 28% interest in this project.

The Marrowbone Development Corporation plant, being built in stages and costing $110,000,000, will be the largest coal preparation complex east of the Mississippi at its final production rate of four million tons per year. The plant's initial production rate will exceed one million tons per year, when it comes on-stream in the summer of 1979.

The Elmworth-Wapiti area in northern Alberta (in which CanDel Oil Ltd. has a 25% interest) should be producing gas at the rate of 30 million cubic feet per day beginning in late 1979.

The Woodlawn mine/mill facility in Australia (in which St. Joe has a 33⅓% interest) should be in full operation, extracting 3,000 tons of ore per day for production of zinc, copper, silver and lead concentrates.

Compania Minerales Santander's zinc mine in Peru will be more profitable as the grade of ore increases substantially.

Total annual coal productive capacity should be at the rate of 16,000,000 tons by year end.

Unrealistic Environmental Standards

Duncan: Although the lead business has been exceedingly good for the past two years, we are facing a serious problem in the form of impossible environmental control regulations that are being imposed by the Environmental Protection Agency (EPA) and by the Occupational Safety and Health Administration (OSHA). The EPA issued standards in 1978 that set limits on the quantity of lead in air allowable at the fencelines of operating plants such as the Herculaneum lead smelter. The standard calls for no more than 1.5 micrograms of lead per cubic meter of air averaged over a ninety-day period. During the extensive hearings on this standard, the lead industry advised all branches of the state and federal government that this level was unattainable with existing technology. Supported by independent experts, the industry's position is that this standard is not required to protect the public health and that a limit of 5.0 micrograms per cubic meter of air would be sufficient.

OSHA has issued regulations that would limit an employee's lead exposure to no more than 50 micrograms per cubic meter of air averaged over eight hours. This was imposed despite OSHA's own analysis showing that the majority of firms in the lead-storage battery industry could not meet the proposed standard and stay in business. Industry experts have proposed a method of protecting the worker's health that is both practical and economical: to monitor the workers rather than the ambient air, so in the event that a worker's blood level exceeds a safe minimum, regardless of air content, the worker is removed from the plant.

The EPA and OSHA standards are being challenged in the courts, because we believe they go beyond what is necessary to protect health. They were imposed in the face of compelling medical evidence against them and inflict an unjustified economic burden on the industry and the U.S. economy.

Developing Non-polluting Processes

Craig: In the long run, our answer to environmental improvement in lead reduction is the development of new processes. We are and will be devoting millions of research and development dollars to new reduction processes, primarily involving liquid metallurgy. We have been encouraged by progress to date, but one cannot expect entirely new processes such as these to be in commercial operation before the late 1980's.

Strategy for the Future

Duncan: For the first time in our history, St. Joe has more projects than capital. This is an encouraging development because it points out the competence of our geologists, engineers, financial people, and skilled technicians who have discovered the ore bodies and conceived the projects. We now have to pick and choose how and where to allocate capital resources, and determine whether to bring in joint-venture partners. Decisions will be made in 1979 on allocating funds for a number of key projects, such as the El Indio gold/silver/copper orebody in the Chilean Andes, the Alto Coite diamond property in Brazil, the Yuba gold dredging property near Marysville, California, the San Antonio de Poto gold property in

Peru, the Torrington tungsten property in Australia, and coal properties in the Appalachian area and near Durango, Colorado. We are also stepping up our oil and gas activities in Canada and the United States, and they demand increasing portions of our capital.

Proposed New Coal Acquisition

Duncan: On February 9, 1979, St. Joe announced that it had reached an agreement in principle with Slab Fork Coal Company to acquire all of the issued and outstanding shares of Slab Fork through a tax-free exchange of 16 shares of St. Joe common stock for each of the 93,393 outstanding shares of Slab Fork. The transaction is subject to certain conditions, including the satisfactory completion of further investigations, the execution of a definitive acquisition agreement and the approval of the St. Joe Board of Directors as well as the Board of Directors and shareholders of Slab Fork.

Slab Fork produces low-volatile, metallurgical grade coal and has an annual production capacity of one million tons. The combination of Slab Fork's reserves with those of A.T. Massey will provide St. Joe with a full range of high-quality metallurgical coal for the coke and steel industries worldwide.

Future Outlook

Duncan: During 1978 the United States economy has been wracked by a high rate of inflation, a continued devaluation of the U.S. dollar, and resulting high interest rates. President Carter has instituted corrective measures involving a reduced rate of federal expenditures, the protection of the dollar, and a voluntary program of wage and price controls. We wholeheartedly support the President in his efforts to counteract inflation and alleviate the balance of payments deficit through reduced imports, particularly oil, and the expansion of U.S. exports.

St. Joe intends to comply with the 7% pay guidelines of the Council on Wage and Price Stability. With respect to the price guidelines, it is St. Joe's view that substantially all of its products are excluded from coverage by the terms of such guidelines. Crude oil and natural gas are excluded because they are already subjected to government regulation, under an entirely too complex system of controls in our opinion. Coal has been declared excluded as well. Domestic prices of lead and zinc metals are closely tied to price movements on the London Metal Exchange, and, therefore, we interpret the COWPS price guidelines to exclude such metals from coverage.

The prices of lead and zinc, and of most other non-ferrous metals, are determined by international supply and demand factors beyond the control of the company and also of the U.S. government. The U.S. market, the largest in the world, is open to the importation of these products with minimal duties and no quota restrictions. Attempting to control the prices of these metals in the U.S., while prices are uncontrolled in other countries, will cause serious dislocations in supply and may result in a shortage of availability in the domestic market, as was the case during the period of price controls in the early 1970s.

The prices of lead and zinc, as well as copper, silver and gold, have been rising sharply on the world market. As a result, a basic natural resource company in the United States, such as St. Joe, has to take advantage of the periodic swings in metal prices in order to counteract the inevitable years when world oversupply depresses both world and domestic price levels. This has been the situation in 1978 for both copper and zinc.

The capital costs to replace existing facilities have increased at a more rapid rate than the rate of inflation. Add to these costs the environmental requirements of the regulatory agencies, and it is easy to see that the U.S. mining industry has to be in a position to take full advantage of temporary periods of high metal prices in order to generate the funds necessary to maintain its facilities, comply with governmental regulations, and expand for the future needs of our society.

John C. Duncan, Chairman and Chief Executive Officer, and D. Broward Craig, President, at St. Joe's corporate headquarters in New York.

Modern industrial society requires a high rate of energy consumption per capita. St. Joe has continually been adding to its capabilities to participate in this market. Since the early 1970's, the company has been transformed from a nonferrous mining and smelting company into an energy company through its program of acquisitions in coal, oil and gas. Even our nonferrous metals have increasing application in the field of energy. The principal market for lead is the lead-acid storage battery, a key source of power in our society without which airplanes and automobiles could not operate. Zinc and nickel, too, are finding energy applications. Our Energy Research Corporation was awarded a Department of Energy contract for a 32-month, $2.9 million research effort to develop nickel-zinc batteries for vehicle propulsion.

Today, 80% of St. Joe revenues are derived from energy markets. Based on the growth potential of these markets, our aim is to double sales and earnings over the next five years. We are looking forward to a good year in 1979, and an even better year in 1980.

John C Duncan

John C. Duncan
Chairman and Chief Executive Officer

D. Broward Craig

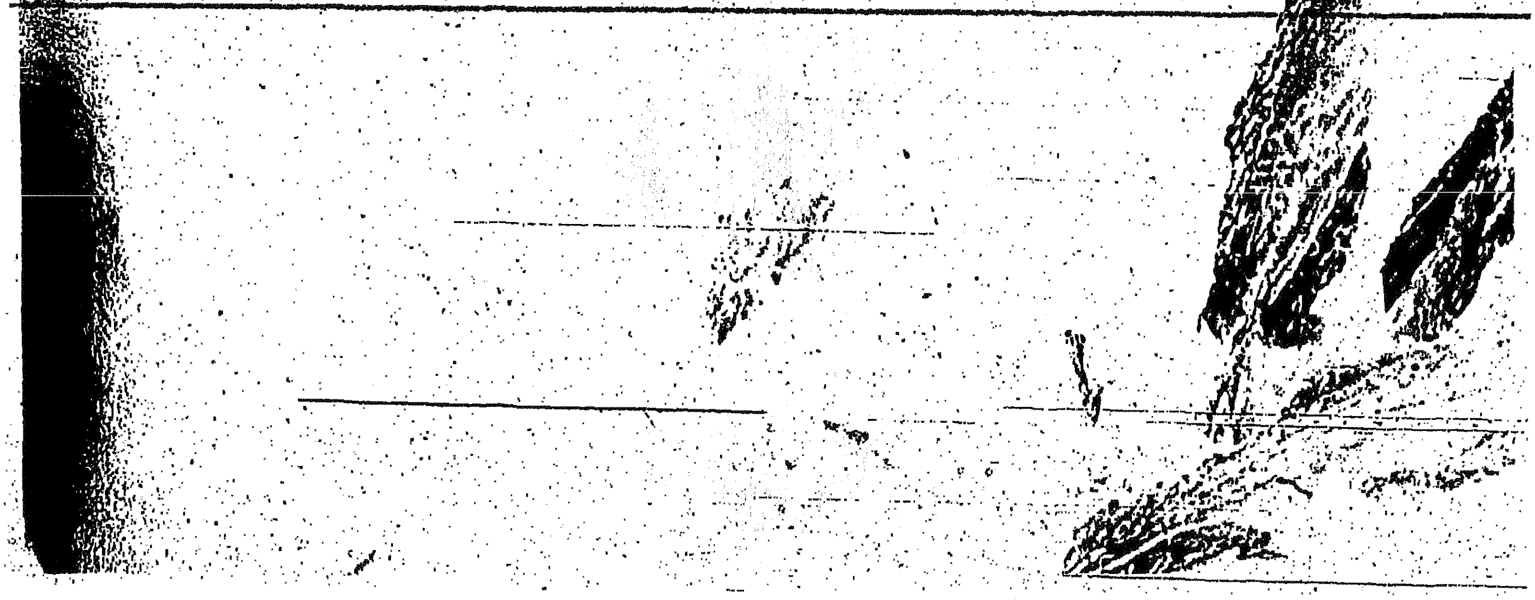
D. Broward Craig
President

February 15, 1979

LEAD

Present Status—Lead enjoys strong demand in the United States and around the world. Domestic consumption has grown 14% over the past ten years, and the U.S. producers are satisfying 80% of the demand. The source of this growth has been the increase in use of lead for a growing number and variety of batteries. Record production, sales and profitability have resulted for the St. Joe Lead Company in 1978.

Problems—Workplace and environmental standards promulgated during 1978 pose a threat to the very existence of the U.S. lead industry. On September 29, 1978, the Environmental Protection Agency announced its ambient air quality standard, calling for a lead-in-air limit of 1.5 micrograms per cubic meter of air, averaged over a 90-day period at the fenceline of lead operations. On November 13, 1978, the Occupational Safety and Health Administration announced new rules restricting exposure to lead in the workplace. OSHA's new standard calls for reducing the maximum exposure from 200 micrograms of lead per cubic meter of air to 50 micrograms, averaged over an eight hour period.

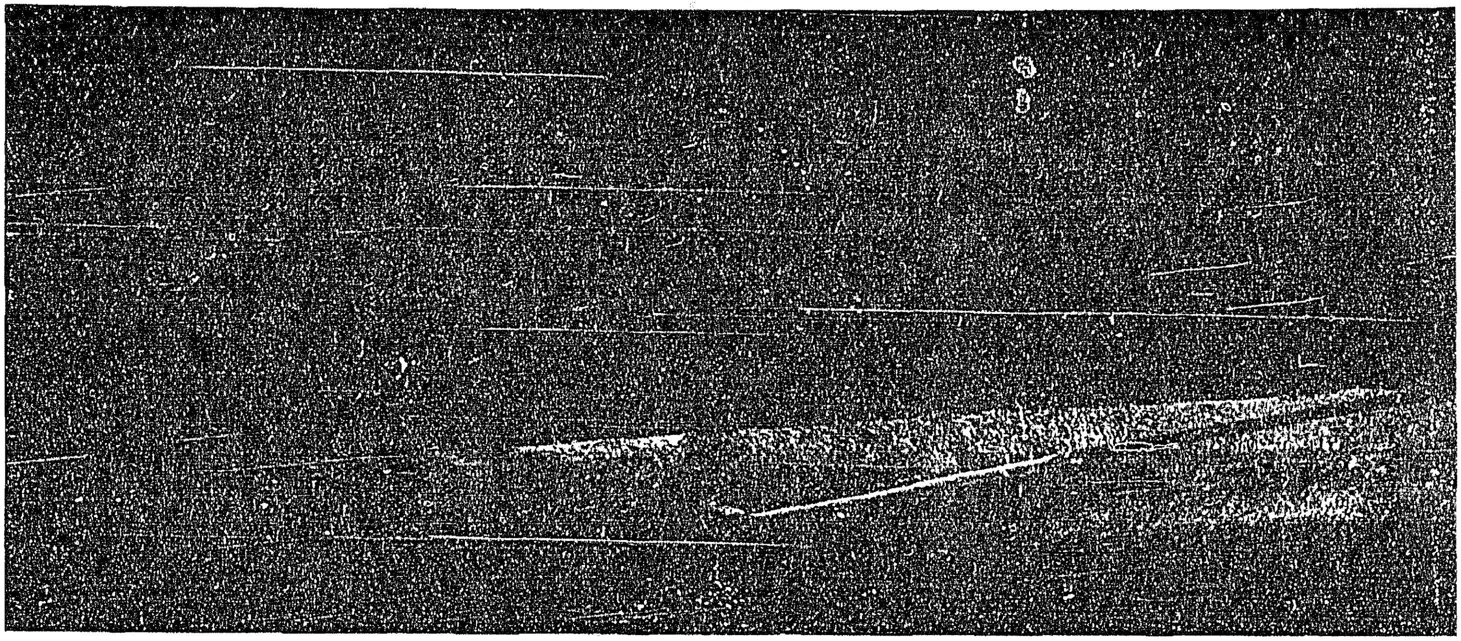


St. Joe and the industry believe that these two standards cannot be met with present technology, and that the standards are far more stringent than necessary to protect the health of workers and the general public. While St. Joe is active in development of environmentally-preferable methods of producing lead, success in such efforts requires time and the assurance that existing plants may continue operations until replacement technology can be tested and installed.

Opportunities—Demand for lead should continue to grow for battery use, and we see nothing in the short term to threaten its inherent advantages over competing battery systems. We see continued increase in the use of the maintenance-free battery, in which St. Joe has an especially favorable supplier position. The electric car is on the threshold of becoming a reality, and, initially at least, the lead acid battery will play a crucial role in this development.

In addition, society's need for silence ensures the growing use of lead for sound attenuation both in industry and in the home.

LEAD



St. Joe Lead Company, the nation's largest lead producer, operates four mine/mill complexes in southeastern Missouri. The aggregate mine capacity of 20,000 tons of ore per day feeds lead concentrate to St. Joe's Herculaneum, Missouri, smelter, the largest lead smelter in the U.S., with a rated capacity of 230,000 tons of refined lead per year. The Lead Company is also responsible for the operation and administration of St. Joe's Pea Ridge iron mine and pelletizing plant located near Sullivan, Missouri.

St. Joe's lead operation had a record year in 1978 with smelter production, sales and profitability reaching new highs.

In 1978 St. Joe's Missouri mines produced 336,888 tons of lead concentrate, compared with 342,573 tons in 1977. Refined lead metal produced in 1978 totaled 240,305 tons, up from 228,780 tons in 1977. Sales reached $176,747,000, up from $147,280,000 in 1977. Operating profit amounted to $79,474,000, compared with $66,009,000 one year ago.

Battery Demand Up

The sales record achieved by the Lead Company was primarily due to the strong demand for batteries. Sales to the battery industry accounted for over 60% of St. Joe's lead sales. Approximately 20% of St. Joe's sales to the battery industry are for units to be used as original equipment in new cars, while the remaining 80% are for replacement battery applications. 1978 was a good year for the U.S. auto industry with 9,300,000 cars being sold domestically, an increase of 200,000. Replacement battery sales generally increase as the thermometer drops, and the winter of 1977-78, one of the severest on record, helped contribute to increased battery sales and lead consumption.

Broadening Acceptance for Maintenance-Free Battery

In 1978, an estimated 29% of all automotive batteries utilized the maintenance-free lead alloys promoted by St. Joe, up from 13% in 1976 and 20% in 1977. While in 1978 General Motors Corporation equipped all its new domestic cars and light trucks with maintenance-free batteries, virtually all original equipment automotive batteries in 1980 are expected to be of the new type.

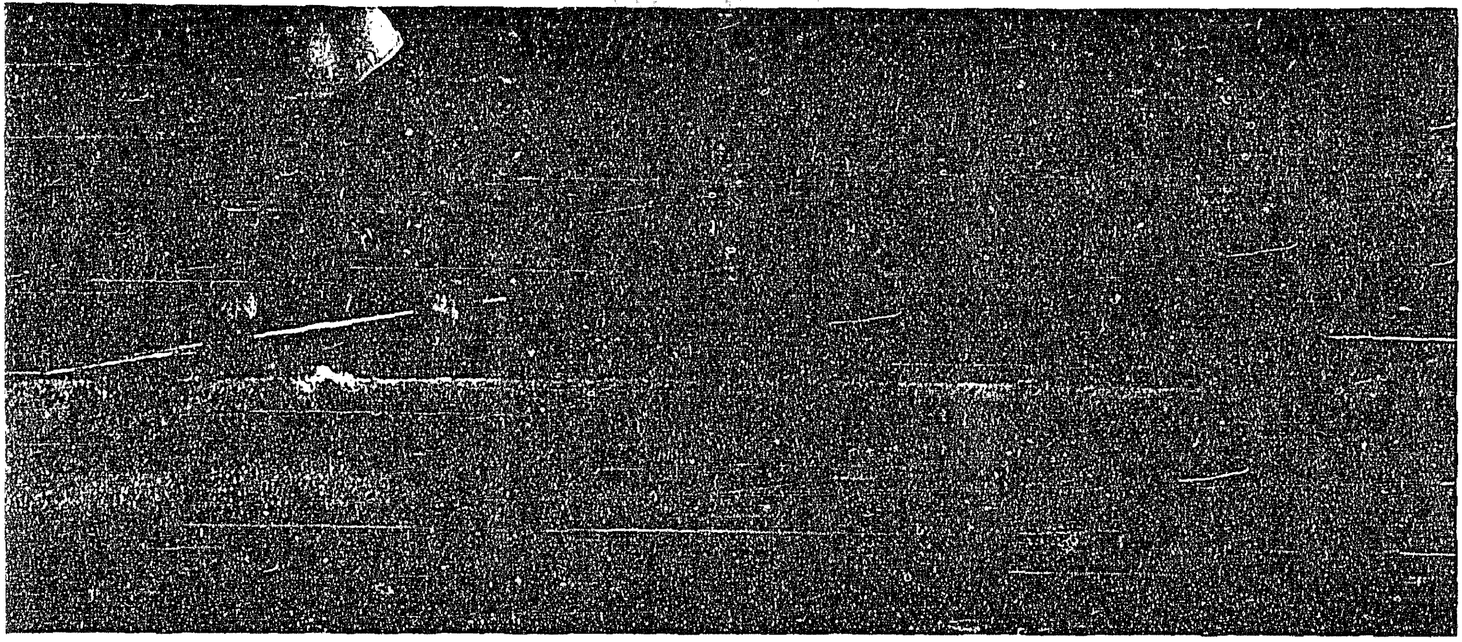
In addition to providing superior performance, the maintenance-free battery allows manufacturers the option to trim battery weight, tying in with the auto industry program to improve gas mileage through weight reduction.

St. Joe pioneered the development of the lead-calcium-tin alloys used in most maintenance-free batteries, and subsequently developed precision wrought alloys. Coils of the wrought alloys are used by battery manufacturers to feed battery grid fabrication processes many times faster than conventional cast grid manufacturing techniques. St. Joe is completing in mid-1979 a wrought lead strip plant at Herculaneum designed to produce up to 30,000 tons of lead strip per year.

St. Joe's involvement in the cast and wrought alloy battery grid market represents an increase in the market potential for its lead products. Previously St. Joe supplied lead to the battery industry only for production of the lead oxide active material, accounting for about 50% of the use of lead in batteries. Now, St. Joe supplies lead suitable for the needs of the entire battery.

Growing Sales in Other Markets

Sales of batteries for forklift trucks, golf carts, delivery vans and other "traction



Lead kettle being skimmed at the Herculaneum refinery in Missouri.

vehicles" that run on electric batteries continue to grow. At present, one third of the sales are for the original equipment market segment and the other two-thirds are for replacement batteries. As the market matures, we expect the replacement market share to increase to 80% or more.

Delays by the U.S. government in implementing regulations limiting lead in gasoline left sales of lead to the gasoline additive market in 1977 above what had been expected earlier. A significant drop did occur in 1978, with consumption of refined lead for additives down to an estimated 190,000 tons from 233,000 tons a year earlier. Further declines are expected, with gasoline additive consumption of refined lead leveling off at 110,000 to 115,000 tons in 1981. Only about 12% of St. Joe's lead sales were made to the gasoline additive segment in 1978, about equal to the lead industry consumption percentage.

Lead Inventories at Low Levels

Supply and demand have been in balance throughout the free world. Some spot shortages have occurred, and eastern bloc countries, particularly the U.S.S.R. and China, have been net buyers. Lead prices in 1978 tended to reflect the sales increases and inventory declines throughout the world. At the beginning of the year, St. Joe's price for lead was 33¢ per pound; it declined to 31¢ in May, and then rose in several steps to 38¢ by the end of the year. Additional increases in early 1979 have brought the price to its current level of 44¢.

Strong sales in the U.S. market resulted in greatly reduced inventories of finished goods, but minor disruptions of production also contributed. St. Joe's smallest mill at Indian Creek suffered a disruption when the rough ore bin collapsed in October 1978, rendering much of the control equipment inoperable. The mine went back in operation in January 1979.

Pollution Control Problems and Opportunities

The Environmental Protection Agency and the Occupational Safety and Health Administration promulgated during 1978 unrealistically stringent guidelines for allowable levels of lead. We believe that these limits cannot be met with the existing methods of production. If they are enforced, plant closings in both lead producing and consuming industries will likely result. St. Joe is opposing in the courts the implementation of the guidelines imposed by the EPA and OSHA.

St. Joe is furthering research in new technologies that promises to greatly reduce the inherent environmental problems of conventional lead production processes. This, we believe, is the proper approach to insure that St. Joe remains a major producer of lead and lead alloys. The price for reducing pollution will not be small, with environmental costs adding substantially to the price of lead in the next few years.

Labor Agreements Signed

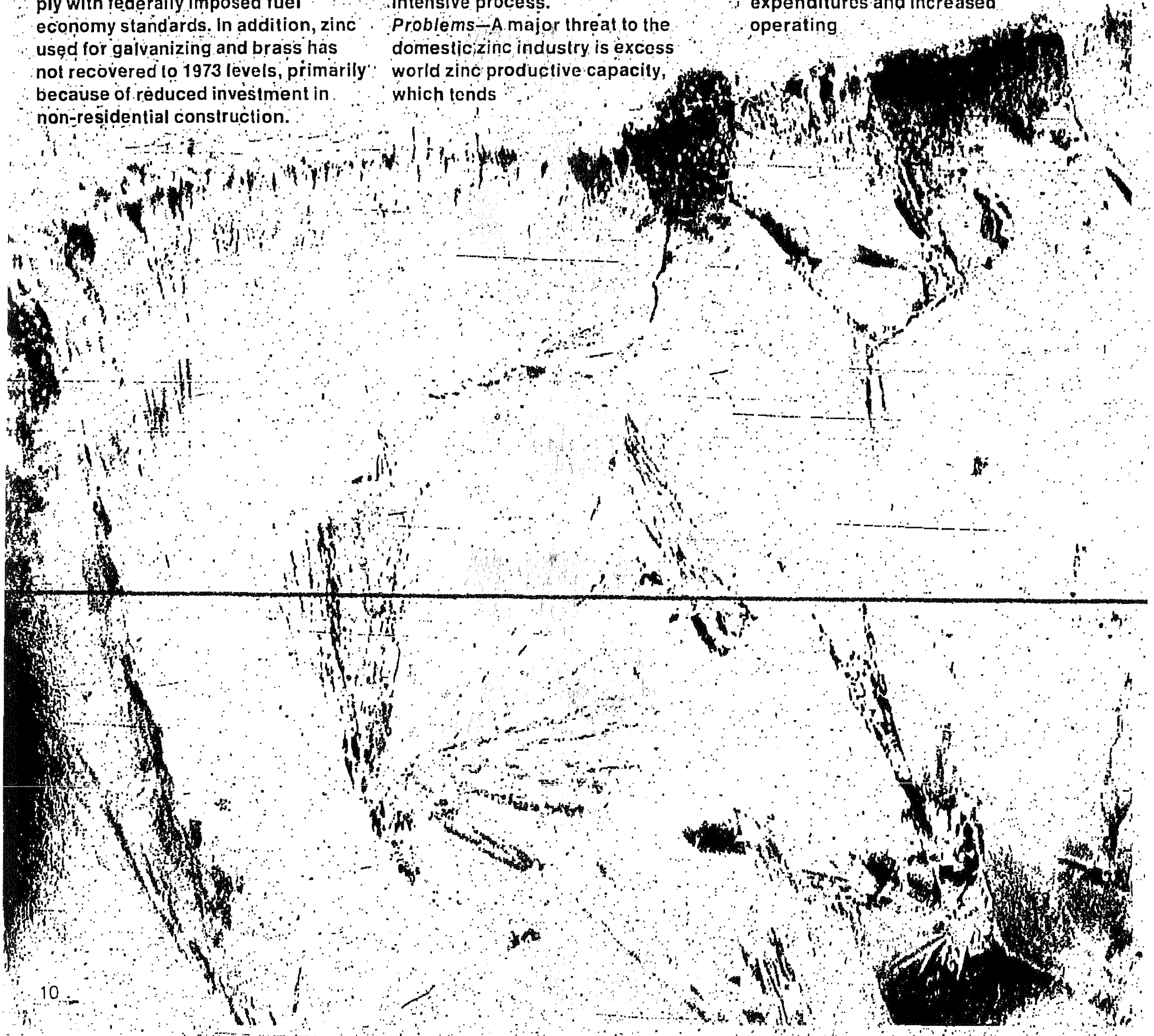
At the end of the first quarter of 1978, labor contracts were entered into, covering all our lead mining and smelting operations for a three-year period. The agreement at the Herculaneum smelter runs until April 30, 1981, while the agreement at the mines expires March 31 of that year.

ZINC

Present Status—Domestic consumption of zinc reached an all-time high in 1973 and has not yet returned to that level or even to the level of consumption in 1968. A major reason for the decline has been the reduced utilization of zinc die-castings in automobiles due to the substitution of aluminum and plastic. The substitution was undertaken to reduce overall vehicle weight in an attempt to comply with federally imposed fuel economy standards. In addition, zinc used for galvanizing and brass has not recovered to 1973 levels, primarily because of reduced investment in non-residential construction.

Although existing U.S. zinc smelting capacity is adequate to supply approximately 60% of domestic zinc consumption, excessive imports of low-cost foreign zinc have reduced shipment by U.S. producers to about 45% of consumption. This has severely reduced the profitability of the U.S. zinc industry. St. Joe is particularly affected because its smelter employs a labor- and energy-intensive process.

Problems—A major threat to the domestic zinc industry is excess world zinc productive capacity, which tends to reduce domestic shipments, create excessive stocks and depress prices. This threat is intensified by the relative ease of importing metal into the U.S., the barriers to export faced by American producers, and the assistance given to many foreign producers by their governments. Unnecessarily restrictive environmental standards also pose problems for the industry as they lead to large capital expenditures and increased operating

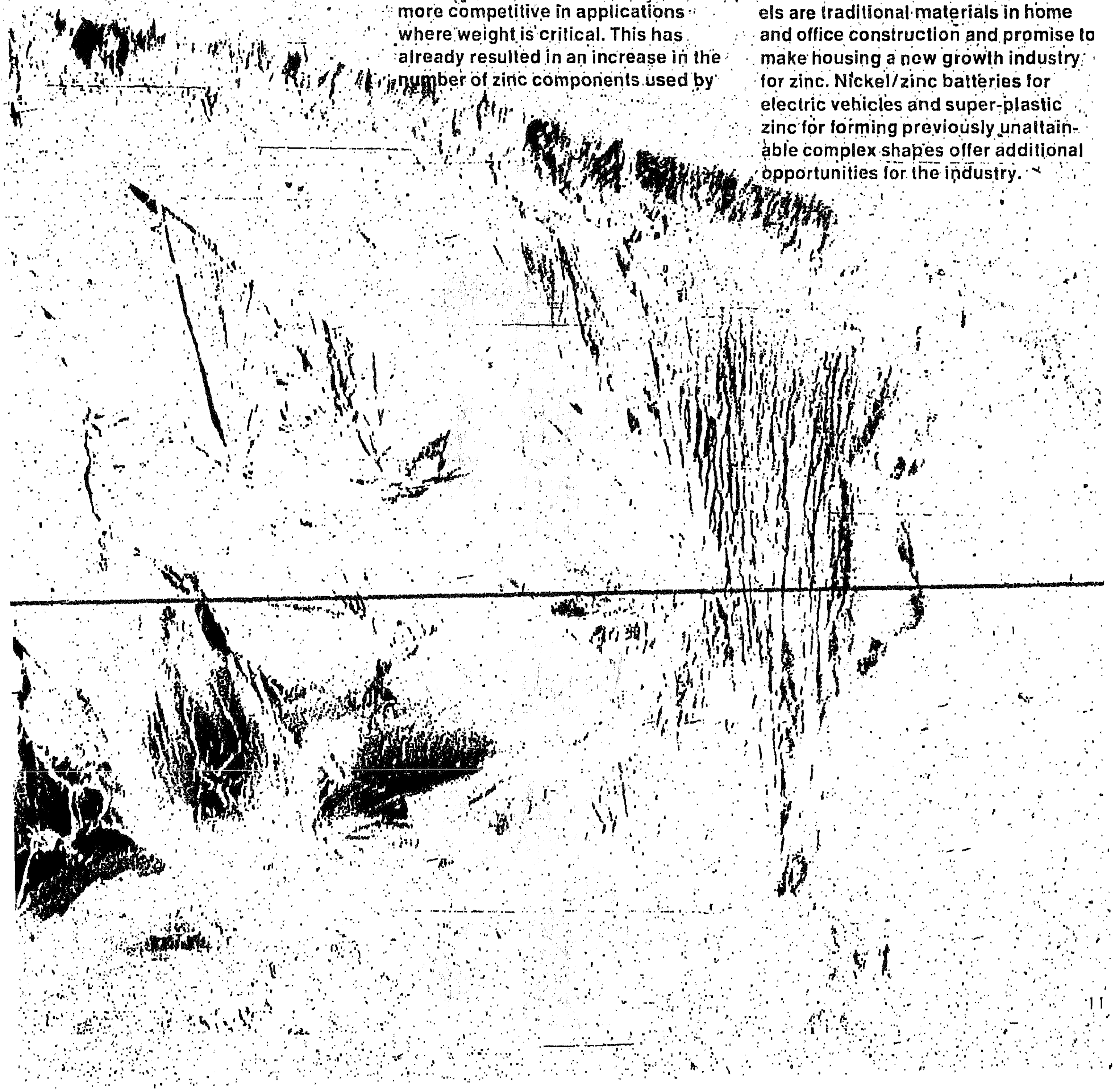


and maintenance costs. Standards with respect to lead, cadmium and other by-products of zinc production may be particularly harmful in the future. Foreign governments appear to do more to help and less to hinder their mining and metals industries than does the U.S.

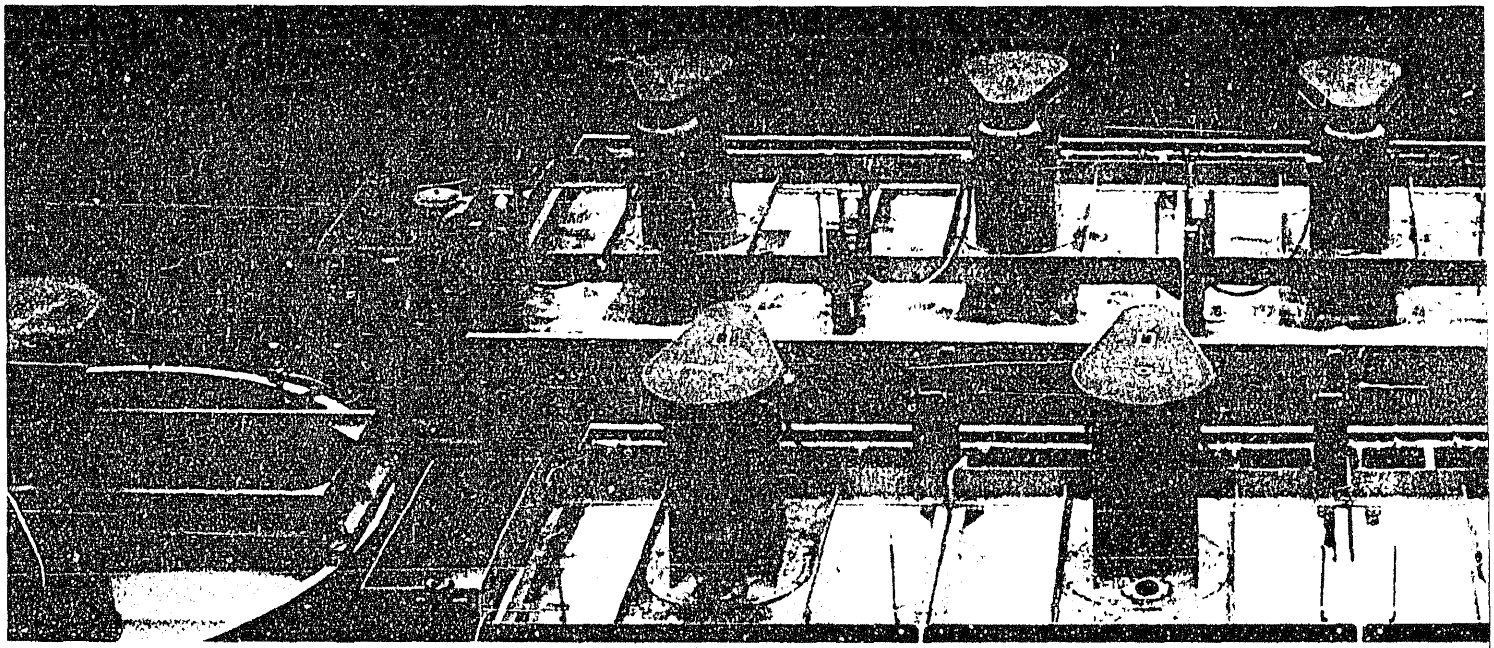
Competition from substitute materials has played and will continue to play a role in creating problems for the zinc industry. Plastics, aluminum, aluminum/zinc alloys, weathering steels, and paints all pose threats to zinc's historic markets.

Opportunities—Thin-wall zinc die-castings have been combating plastics and other materials for automotive and appliance applications. The use of these die-castings has led to a 30-50% weight saving over traditional zinc parts, thereby making zinc more competitive in applications where weight is critical. This has already resulted in an increase in the number of zinc components used by the U.S. automobile industry. Auto manufacturers are also increasing their use of zinc-rich paint coatings and one-sided galvanizing, both of which protect steel from corrosion, thereby extending product life.

Galvanized bridges and guard rails are becoming more prevalent as the costs of maintaining painted steel structures become greater. Galvanized steel studs, joists, and wall panels are traditional materials in home and office construction and promise to make housing a new growth industry for zinc. Nickel/zinc batteries for electric vehicles and super-plastic zinc for forming previously unattainable complex shapes offer additional opportunities for the industry.



ZINC



1978 was not a good year for the domestic zinc industry. A weak world zinc market and excessive imports caused all U.S. producers to operate well below capacity and to price their products below the levels of recent years. Zinc is closely tied to non-residential construction, which has not yet recovered from the recession of 1973-74. For St. Joe Zinc Company, these factors, and a strike at our Balmat-Edwards Mining Division, combined to reduce sales to $135,957,000 from $141,091,000 in 1977 and resulted in an operating loss of $10,674,000 compared with an operating profit of $5,138,000 in 1977.

The Balmat-Edwards mine complex, located in northern New York State, is the largest zinc mine complex in the U.S. Ore from the four mines is processed at our highly automated Balmat mill, which has a capacity of 4,300 tons per day.

St. Joe's electrothermic smelter located in Monaca, Pennsylvania, about 35 miles northwest of Pittsburgh, is the largest zinc smelter in the U.S.

Zinc Mining

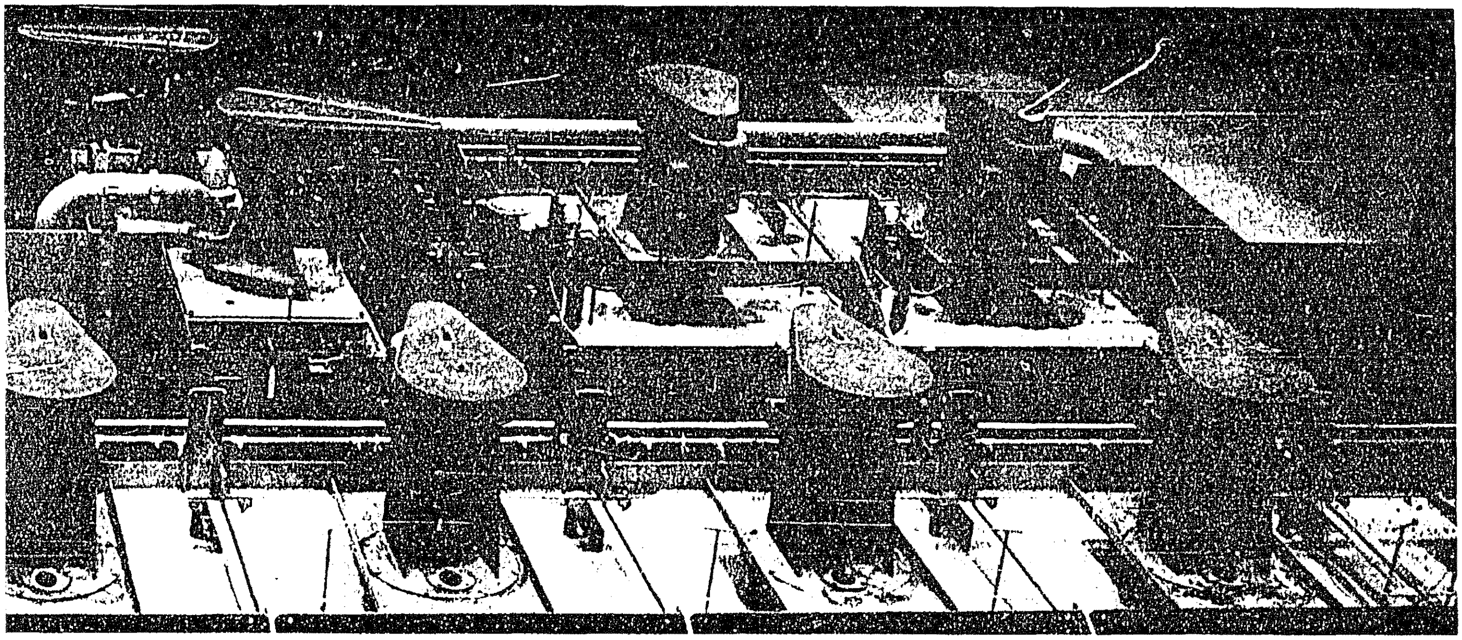
Mine production at Balmat-Edwards during the year was severely curtailed by a strike that began on June 1, upon termination of our collective bargaining agreement with the United Steelworkers of America. As a result, the zinc content of concentrates produced in all St. Joe mines in 1978 was only 44,854 tons, substantially less than the production of 96,897 tons in 1977. The major issues in the strike remain unresolved and it is still in progress. Arrangements have already been made, however, to supply the smelter with all of its anticipated concentrate requirements for 1979. Settlement of the strike was hindered by New York State's policy of paying full unemployment benefits to striking workers.

Under normal operating conditions St. Joe-owned mines can supply only a portion of the feed required by our smelter. We are, therefore, continuing our exploration efforts to achieve greater self-sufficiency in zinc concentrates and to assure ourselves long-term sources of supply. A highlight of our effort in 1978 was the completion of an exploratory shaft at our Carthage, Tennessee zinc property, and the initiation of two development drifts to further delineate the ore reserves.

Zinc Smelting

During the year the smelter at Monaca produced 163,641 zinc equivalent tons of zinc metal, zinc oxide and zinc dust, a decrease of 11,619 tons of zinc equivalent from last year's production level of 175,260 tons of zinc equivalent. In March 1978 the first commercial production began at our new zinc dust facility at Monaca. This plant has the capacity of producing up to 4,000 tons per year of various grades of high quality zinc dust,

Zinc Sales
$136 0 million



Flotation circuits at the Balmat-Edwards concentrator in New York State.

which will be used in corrosion protective coatings for such applications as automobiles, bridges, ships and oil drilling platforms. Present plans call for increasing capacity to 6,000 tons per year by 1980.

A major objective of the Zinc Company in 1978 was to analyze the industry and St. Joe's role in it and to formulate a comprehensive plan of action to maximize return on invested capital. In connection with this objective, St. Joe announced in August 1978 the initiation of a detailed technical and financial analysis of the feasibility of constructing a new electrolytic refinery to replace the electrothermic facility at Monaca. This study was submitted to the management of St. Joe Minerals Corporation in the first quarter of 1979, and steps are now being taken to engage an engineering firm for the engineering and design of a new refinery.

Zinc Market

In December 1977 the Lead-Zinc Producers Committee, of which St. Joe is a member, instituted an action under the 1974 Trade Act seeking relief from excessive foreign imports of zinc. The International Trade Commission denied the petition in June, stating that imports were not the primary cause of the industry's problems. Imports of slab zinc for the year amounted to 681,000 tons, the second highest level of all time.

Throughout the first half of 1978 the domestic market for zinc was severely depressed, and St. Joe's prices were at their lowest level in five years. In recent months, however, St. Joe has been able to raise its price for Prime Western zinc to the current level of 37.5¢ per pound. The current price, however, is still 1.5¢ below our price in January 1976. Zinc oxide prices showed comparable movements during the same period.

We expect the Free World and U.S. markets for zinc to grow slowly in the years ahead and to provide opportunities for efficient producers. Opportunities for St. Joe should be particularly bright because it sells much of its production for use in galvanizing, the market segment expected to show the greatest growth.

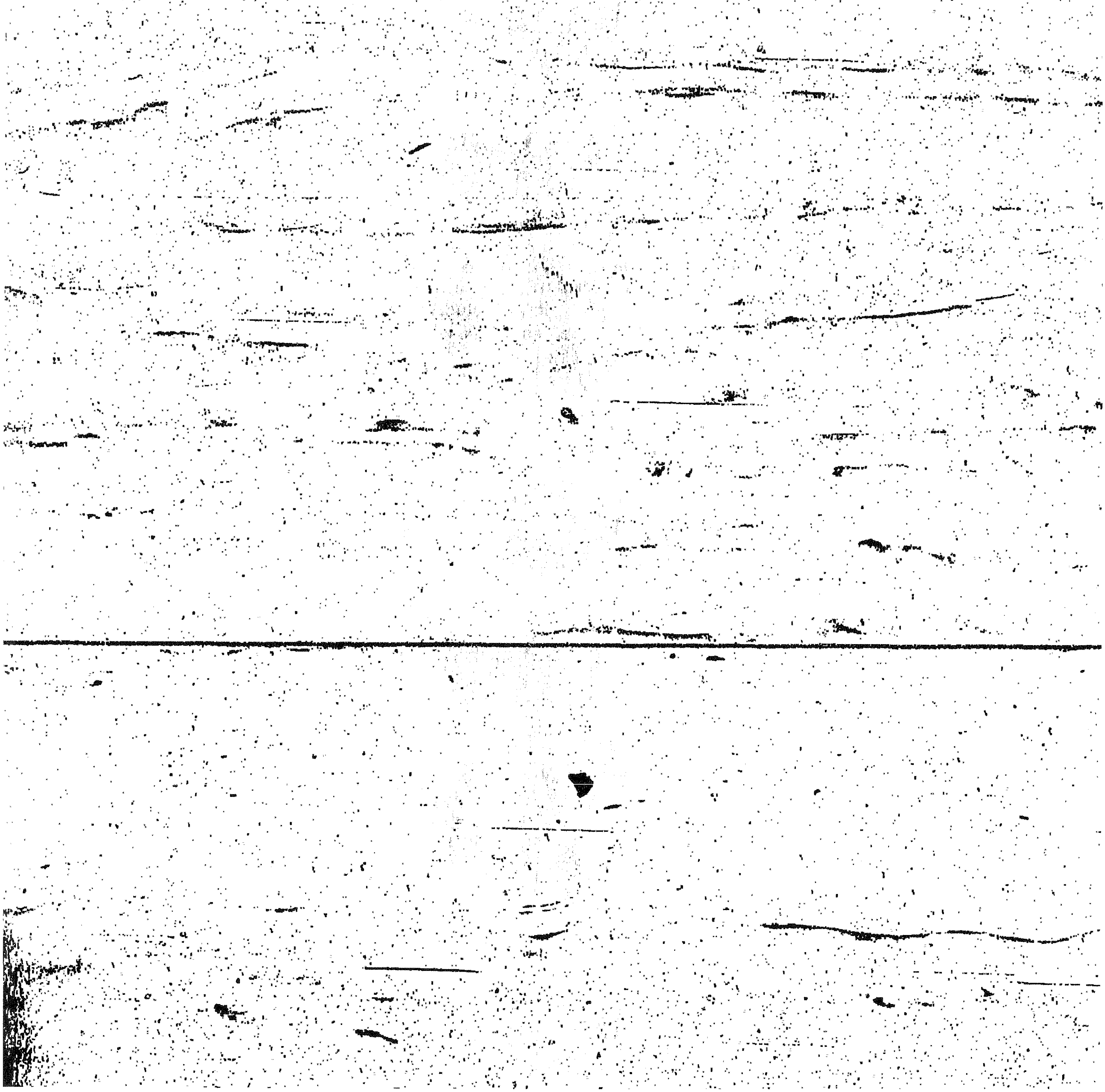
Future Outlook

We intend to maintain our position as a leading supplier of zinc to U.S. industry and to return our zinc business to its former status as a profitable and important part of St. Joe. For these reasons we are currently proceeding with a detailed engineering and design study, the next step in deciding whether or not to erect a new electrolytic refinery to replace our current smelter at Monaca, Pennsylvania.

COAL

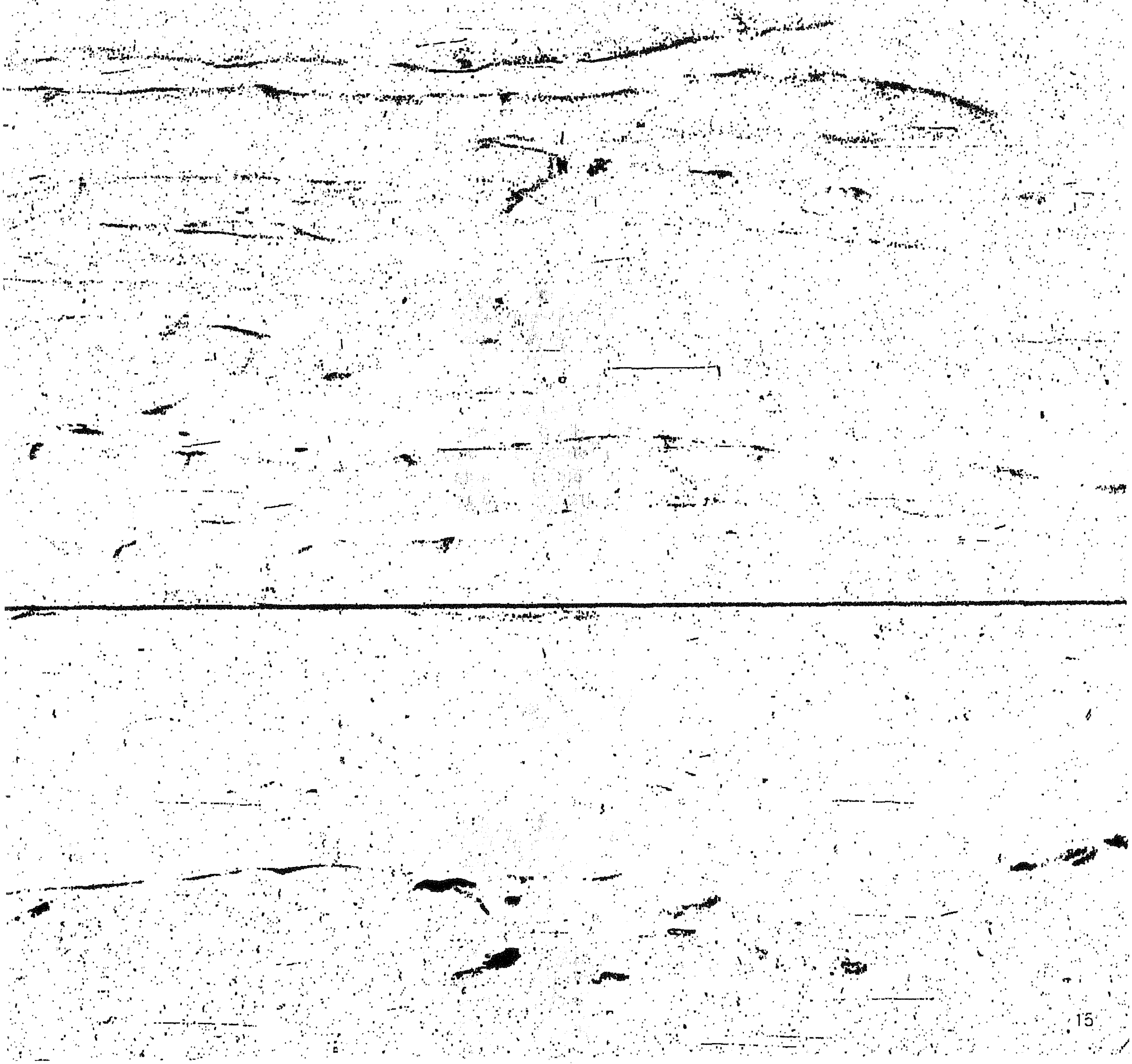
Present Status—The present situation for coal here in the United States is improving, with production and transportation back to normal after a disastrous 1978. While the metallurgical market continues to be weak, the steam coal market is strong. The market for low sulfur steam coal, in which St. Joe has a favorable position, is particularly firm.

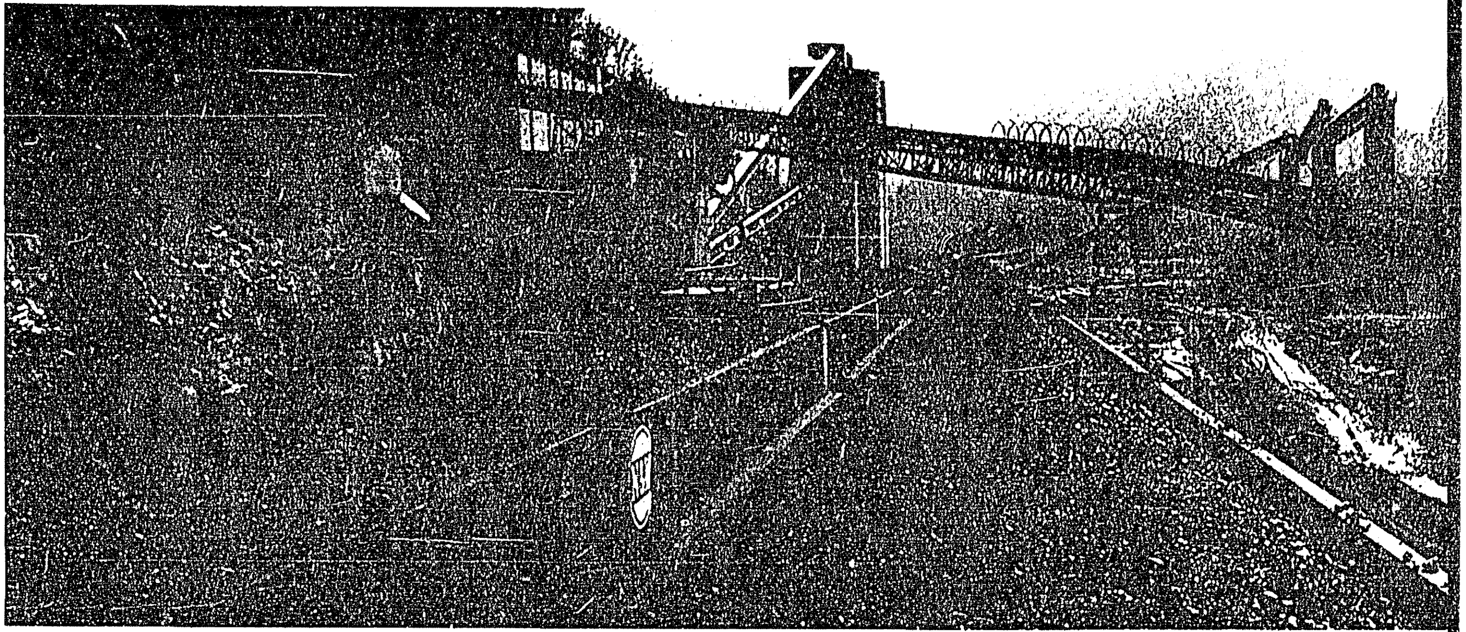
Problems—The eastern U.S. coal industry has continued to have declining productivity, due to high labor costs, unsettled labor conditions and costly environmental requirements. In the metallurgical sector, there is a worldwide oversupply with the steel industry operating well below capacity. This situation is further complicated by the shrinkage in coke oven capacity in the U.S., and the purchase of foreign produced coke for U.S. steelmaking. These factors have combined to slow the rate of growth of the U.S. toward self-sufficiency in energy, as well as further hurting this nation's



balance of international payments.

Opportunities—Coal is the only near term hope for an improvement in U.S. energy self-sufficiency. Therefore, its use is certain to increase substantially. St. Joe's A.T. Massey Coal Group is one of the fastest growing coal operations in the U.S. and is well-balanced, with both low-sulfur steam and metallurgical quality coals. Its position as a major exporter of coal gives additional stability in the ability to sell its product under varying international and domestic market conditions. With virtually all its steam coal under modern-escalated contracts, Massey should be able to take full advantage of the growth in coal utilization which has to come in the future. Therefore, we are continuing to expand Massey's coal base through development projects and judicious acquisitions.





The A. T. Massey Coal Group includes numerous subsidiaries and affiliated operating companies engaged in coal mining development and sales. Coal is produced from twenty-one mining complexes located in West Virginia, Kentucky, Tennessee and Colorado. Massey also purchases coal from independent producers for resale to domestic and foreign customers. Massey is one of the largest exporters of coal in the United States.

Massey produced 8,695,000 tons of coal in 1978, compared with 8,915,000 tons in 1977. In addition, 4,117,000 tons of coal were purchased for resale in 1978, compared with 4,631,000 tons in 1977. Coal sales were $435,256,000 in 1978 versus $430,274,000 in 1977 and operating profit totaled $9,575,000 in 1978 compared with $14,474,000 in 1977.

Two strikes have major impact

It was a difficult year for the coal industry with two labor strikes cutting deeply into production, sales and profitability. An industry-wide strike by the United Mine Workers of America lasted 111 days from December 6, 1977, until March 28, 1978. On July 10, 1978, the Railway Clerks Union struck the Norfolk and Western Railway, affecting about 60% of Massey's production in Kentucky and West Virginia, as well as export business from Virginia ports, until the end of September. The stoppage was ended by a temporary 60-day court injunction.

Due to the UMWA strike, Massey only produced 1,426,000 tons in the first quarter of 1978, which was approximately one third of capacity and well below 1977 first quarter production of 2,539,000 tons. Following the return to work, second quarter production increased to 2,981,000 tons, still below capacity but in excess of the 2,284,000 tons produced in the second quarter of 1977. In the third quarter, production again fell as a result of the N&W strike, to 1,261,000 tons, or 30% of capacity. However, in the fourth quarter, Massey returned to near capacity and produced 3,027,000 tons during the period.

Our Tennessee Consolidated Coal Company subsidiary was not affected by either of the strikes. It had an excellent year, selling its output at attractive prices to Japanese and domestic customers.

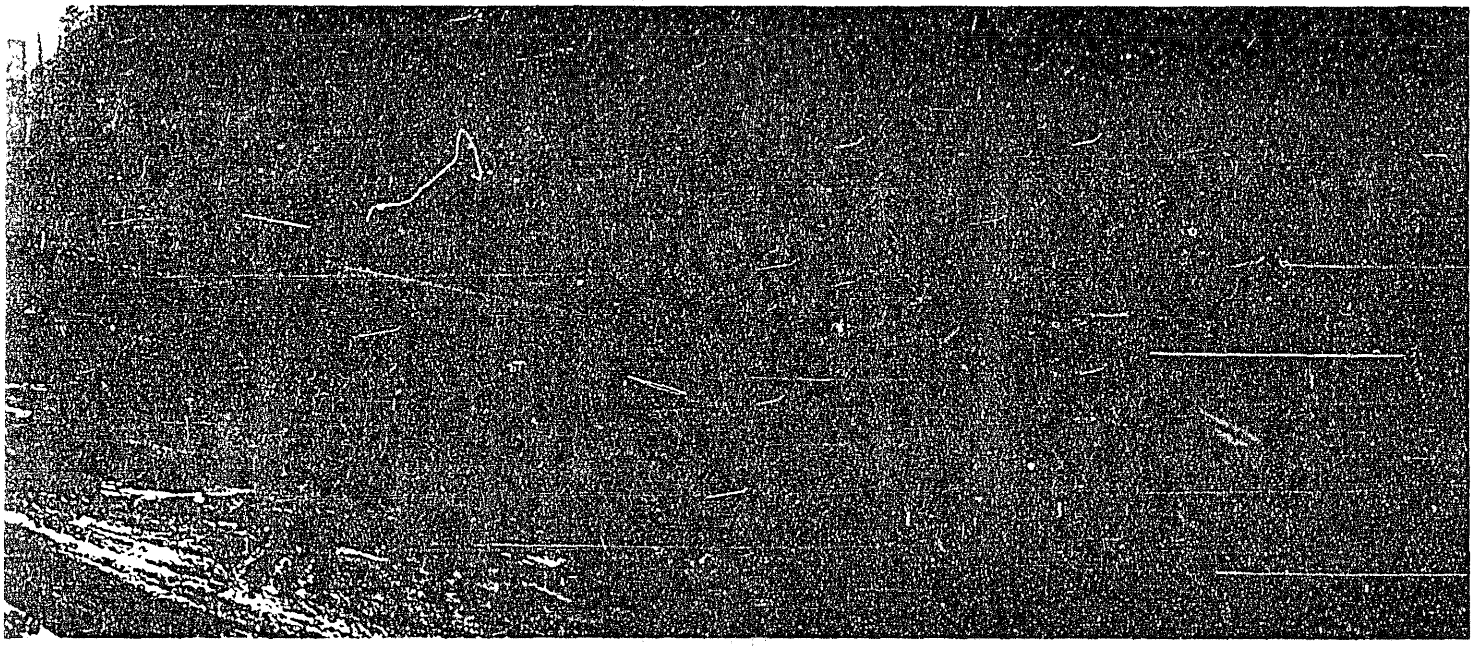
Because of the two strikes, St. Joe's coal business operated at a loss for the first nine months. But a strong fourth quarter put the business in the black for the year.

Purchased coal market changes

Coal purchased from independent producers for resale totaled 4,117,000 tons in 1978, compared with 4,631,000 tons in 1977. The strikes also disrupted this profitable line of business. The domestic portion of these sales continues to grow. Three years ago, 85% of purchased coal sales were to foreign customers, but during 1978 the foreign share declined to 55% of the total. The main reasons for this shift are a decline in steel production in Japan and Europe, and an increased opportunity to supply steam and stoker coal to domestic industrial users, such as cement and chemical plants, as well as utility customers. Traditionally, industrial sales were spot purchases, but the trend is toward long-term contracts.

Metallurgical coal market prospects

The metallurgical coal market remains weak both domestically and abroad. Steel mills in the U.S. continue to be pinched by foreign imports and are not operating at capacity. Steel production in Japan is also down, leaving that country with a large inventory of coke. As a result, Japanese coal purchases in the U.S. in 1978 were down by 35% from the previous year. Only a modest improvement is expected in 1979.



Coal being loaded at the Sprouse Creek preparation plant facility in West Virginia.

A number of domestic coking facilities have shut down because of environmental regulations while others are operating below capacity. As a result, an estimated 5.8 million tons of coke have been imported by U.S. steel companies in 1978 The coke has been imported from We[illegible]many, Italy, and Japan. A decline in [illegible]ic coking capability will signif[illegible]uce the growth in the U.S. me[illegible] coal market.

Steam coal ma[illegible] prospects

Demand by e[illegible]utilities for future steam coal [illegible]s continues to expand. We a[illegible]istic about the expecte[illegible]e growth in this segment of ou[illegible]ness. During 1978 a new sales contra[illegible]was signed with Florida Power Corporation for a minimum of 14 million tons of low sulphur coal over the next 20 years. Another new long-term sales contract is near finalization with Consumers Power Corporation. In addition, two existing contracts were renegotiated during 1978 and extended under very favorable terms. Massey's contracted steam coal production is expected to increase by nearly 30% over the next five years.

1979 prospects

Massey coal production in 1979 is estimated to exceed 13 million tons. Steam coal production is estimated to be 9 million tons, of which nearly all will be sold under long-term sales contracts. Metallurgical coal production of 4 million tons will also be substantially sold to established markets. An additional 4 million tons will be purchased from independents for resale.

The general industry labor situation is expected to remain stable through the year. The Norfolk and Western Railway reached agreement on a new contract with the Railway Clerks Union in early January. Final federal surface mining regulations have become effective. However, compliance with final state regulations has been postponed to the summer of 1979. The effects of the 1977 Surface Mine Act will significantly increase mining costs and in some instances result in the complete elimination of surface mining. Massey has limited surface mining to only 13% of its production.

The market for metallurgical coal is weak and is not expected to improve significantly in 1979. The long term utility market for contracted steam coal continues to be both predictable and strong. We will endeavor to maintain a balanced position between steam and metallurgical coal production.

We intend to expand coal holdings and production capacity to meet the requirements of our customers. We are especially interested in compliance quality, underground coal properties which can readily be sold under long-term contracts. We will continue our efforts to augment Massey's position in the fast growing steel producing areas of the world such as Latin America, Eastern Europe and Asia. Export marketing relationships have established Massey coals in these markets and we expect that we are and will be able competitively to serve our customers.

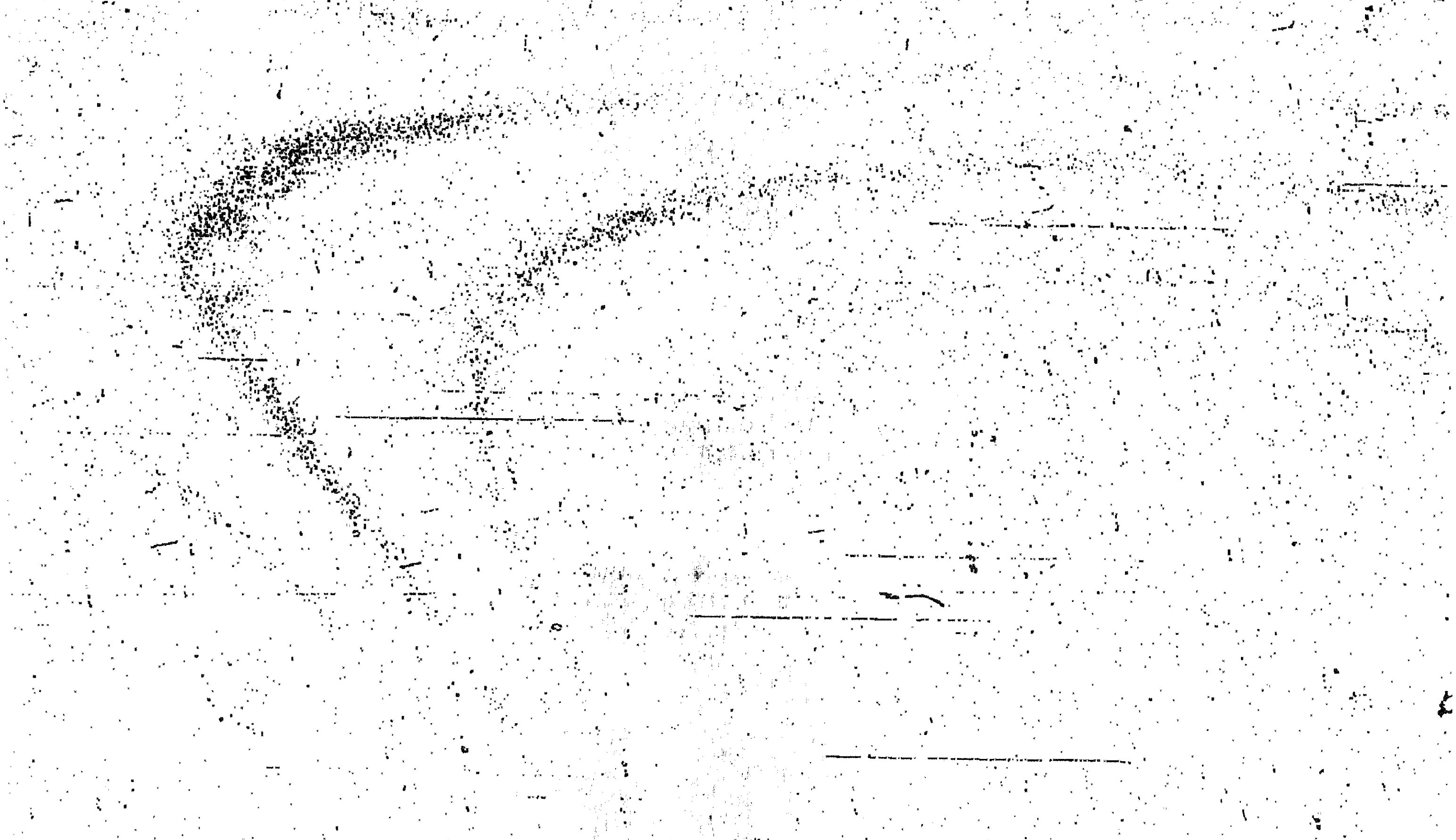
Impact on prices and profitability of coal strike settlement

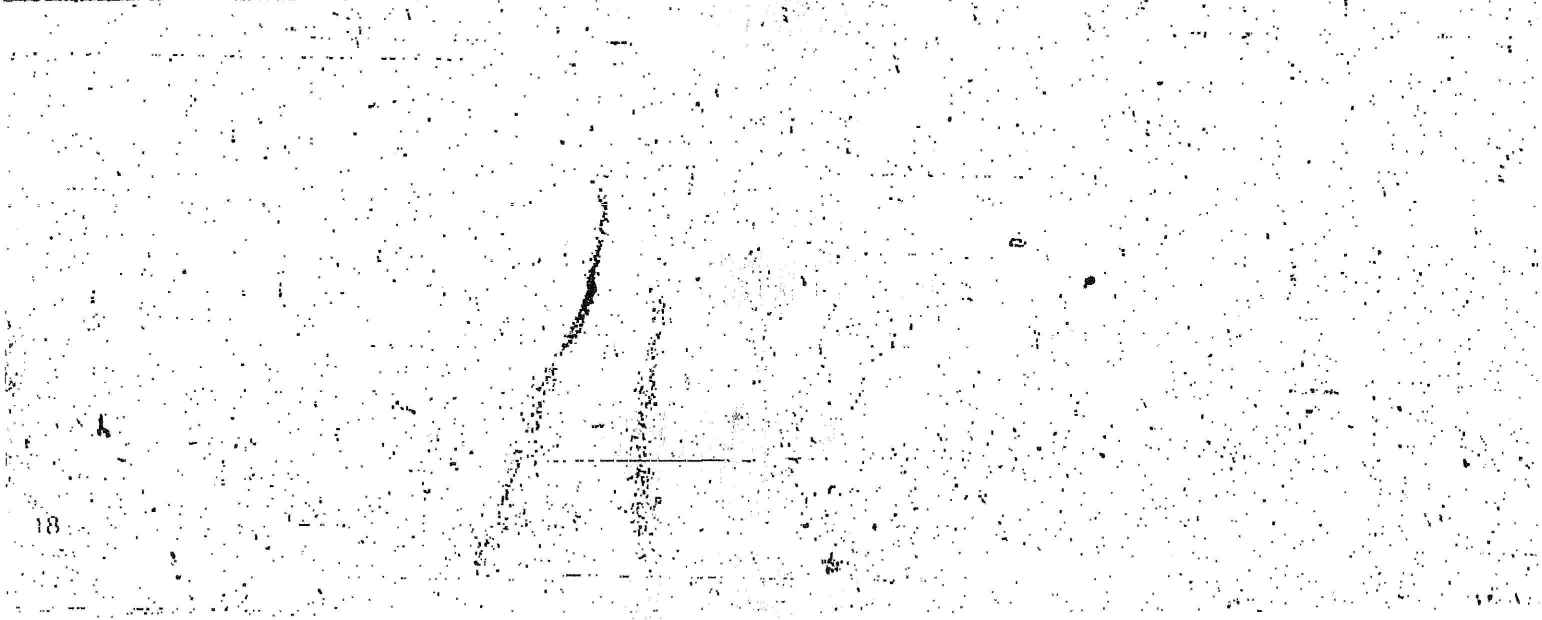
The United Mine Workers strike had a dire effect on profitability and costs. The contract, which is to run until December 6, 1980, is inflationary, providing for improvements in wages and fringe benefits amounting to more than 37% over the contract period. The effect of these items on other costs raises the total settlement to an estimated 51% increase. Ultimately, the price of coal will have to reflect these increased expenditures. It is clear that U.S. coal is losing its competitive position in the world coal market.

OIL & GAS

Present Status—The present situation of the oil and gas business in the United States is very confused. With the enactment of the Energy Act in 1978, gas pricing has been partially controlled, with complete decontrol scheduled for 1985. Oil prices remain under regulation. Unfortunately, the complexity of the Act leads to confusion. For example, there are over 20 different prices for natural gas, depending on such variables as when it was discovered, where it is located, and how deep it lies. A year ago there was said to be a shortage of natural gas; now there is an alleged surplus. Unhappily, the U.S. is dependent on imported energy and the percentage of consumption served by imports continues to rise. Our reliance on the Middle East is still a fact of life leading to record balance of payment deficits.

St. Joe's gas production in Canada and the U.S. has been restricted by the dislocation problem in both coun-





tries, with more supply than needed in the producing areas and pricing problems in the areas of greatest potential consumption.

Problems—The U.S. needs to explore for and develop oil and gas at a faster rate than in recent years. A less artificial pricing system would encourage this, and deregulation would be the most flexible, responsive and simple way to get the job done. The Energy Act of 1978 takes a small, but only a small, step in that direction. The national policies of Canada, Mexico and the U.S. also need to be accommodated in such a way as to permit a smooth flow of oil and gas from production to user areas while protecting the future economic health of both.

Opportunities—There is an opportunity for St. Joe to develop a strong oil and gas base in the U.S. and Canada as the political problems are solved. Judicious use of capital for finding reserves through exploration, development and acquisition should benefit our shareholders enormously. Overseas, there are areas less heavily explored where large reservoirs are yet untapped and offer the promise of high return for high risk. There is a place for a small, but nevertheless meaningful, effort by St. Joe in some of these areas.

St. Joe conducts its oil and gas operations through three subsidiaries: St. Joe Petroleum Corporation, operating internationally; Coquina Oil Corporation, active in the U.S.; and CanDel Oil Ltd., St. Joe's 93.5%-owned Canadian company.

During 1978 these companies, combined, produced a daily average of 4,060 barrels of oil and 50,418,000 cubic feet of gas. Sales of oil and gas totalled $40,758,000, down from $42,188,000 in 1977. Total funds provided from operations increased to $33,081,000 in 1978 from $28,666,000 in 1977. Operating profits totalled $11,822,000 in 1978, up from $11,120,000 in 1977. In 1978, North American oil and gas net reserves stood at 13.9 million barrels of oil and 276 billion cubic feet of gas, compared with 1977 reserves of 13.0 million barrels of oil and 264.6 billion cubic feet of gas.

The sales decline was mainly due to the weakening Canadian dollar, on which two-thirds of St. Joe's oil and gas sales are based. In addition, revenues were affected by a cut back by CanDel's major gas purchasers. However, working capital was not reduced by this cut back due to the "take or pay" contracts that provide for payment whether or not production is taken.

CanDel's successful drilling program

CanDel's capital expenditure program of $32 million in 1978, was the largest in its history and was spent mainly on exploration for oil and gas in Canada and the development of the Buchan oilfield in the U.K. sector of the North Sea. The results of the program were highly satisfactory, resulting in 22 successes out of 34 exploratory wells drilled in North America and a near perfect score of 40 out of 41 development wells. At year end, four exploration wells and two development wells were drilling in Canada.

CanDel has an approximate 22% interest in 219,000 gross acres of the Elmworth-Wapiti gas area in central Alberta. Fourteen successful gas wells have been completed, and further exploration is continuing. Construction has commenced on a gas gathering system and a gas treatment plant with an initial capacity of 50 million cubic feet per day, in which CanDel has a 25% interest. A license to export gas has been applied for from the provincial government, and the plant is expected to be on stream in November, 1979, under an initial contract with Trans Canada Pipeline at the rate of 30,000,000 cubic feet per day.

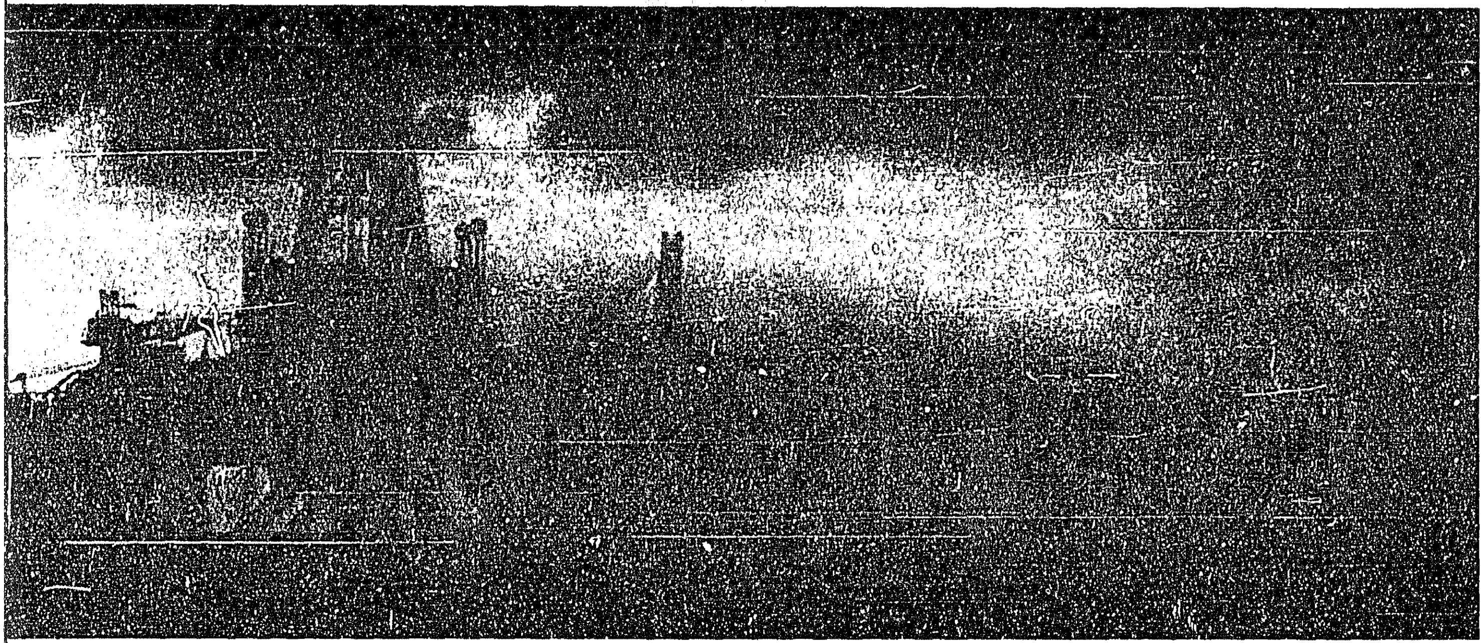
It is hoped that the recent major additions to Canadian reserves at Elmworth-Wapiti and other areas will encourage the Canadian government to increase gas exports to the United States.

Coquina concentrating on exploration and acreage acquisition

In 1978, Coquina's major effort was directed toward development of high quality drilling prospects and lease acquisition. As a result, there are now over 50 drillable prospects in inventory, with an additional 70 prospects in a formative stage. At year-end, lease acreage inventory was more than 300,000 gross acres. Coquina also participated in 41 exploratory wells, of which two oil and six gas wells were completed. Of the 57 development wells drilled, 43 had positive results.

In July, the Greens Creek Field in Mississippi came on production, with delivery of over 15,000,000 cubic feet of gas per day from wells in which Coquina has a 25% working interest. Three wells were completed in 1978, bringing to five the total number of wells in which Coquina has an interest. During the year, four additional gas wells were drilled offshore Louisiana in the South Timbalier area in which Coquina had an average interest of about 15%. All six wells completed to date are shut-in awaiting pipeline connections. In the Texas offshore area, Coquina was active in two

Oil and Gas Sales
$40 8 million



A semi-submersible drilling rig in the U.K. sector of the North Sea.

separate areas and participated in drilling and completing three productive wells. These wells, plus five productive wells drilled earlier, are shut-in awaiting platform installation. Coquina has an approximate 24% working interest in these areas.

In the Foster Conger field in Texas, in which Coquina has a 17% working interest, three additional wells were drilled and completed, for a total number of 30 wells in the field. In Texas, Coquina completed its first producing well in the Granite Wash section of the Mills Ranch and its eleventh well in the North Gin field in Dawson County.

Development of Buchan Field in the North Sea continues

In the U.K. sector of the North Sea, development of the Buchan Field continued, with six successful development wells drilled. A subsea production system will be installed and initial production is anticipated to begin in the fourth quarter of 1979. Consent to produce for a four year period has been procured from the Department of Energy of the British Government, stipulating maximum allowable production to be an average of approximately 50,000 barrels of oil per day. St. Joe and CanDel have a combined 28% interest in the Field. When Buchan is in full production in 1980, it should contribute approximately $30 million in cash flow during the first year.

In the Dutch sector of the North Sea, on Block P/6, a step-out well was drilled in the late fall, discovering a gas producing area that should significantly increase the gas reserves discovered on the block in 1975. St. Joe and CanDel have a combined 12.5% working interest in this and two adjacent blocks. With successful appraisal drilling, development of the field could commence in late 1979.

St. Joe and CanDel have equal interests in the Regnenses Basin, a Jurassic exploration play located south of London. Our program for 1979 is to perform some seismic work and drill two exploratory wells.

St. Joe and CanDel are also joining a group that will, by means of a seismic survey during 1979, explore a 200,000 acre contract area in the Middle Magdalena Valley in Colombia. Currently, drilling is anticipated during late 1979.

In Papua New Guinea, we have a 33⅓ % interest in a group that has applied for a license under the new petroleum law to engage in frontier-type exploration.

Oil and Gas Accounting Ruling

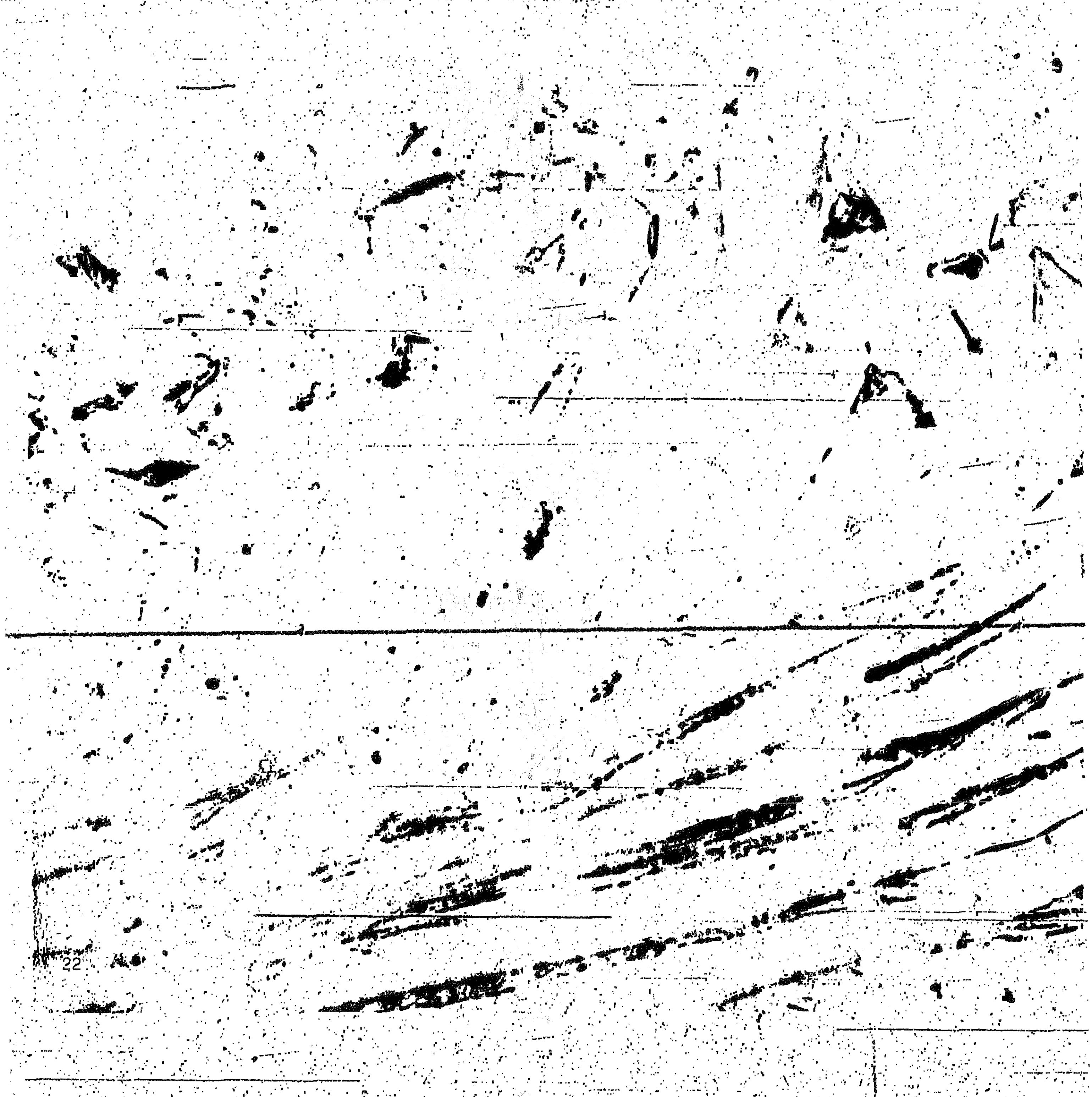
The Securities and Exchange Commission set aside the implementation of the Financial Accounting Standards Board Statement No. 19 and said that full cost accounting (the method of accounting followed by St. Joe's oil and gas companies) could continue to be used for the next three years, during which period a new method of accounting would be developed. This method termed "Reserve Recognition Accounting," will, for the first time, record as assets the values of the reserves owned.

Expanding Involvement in Oil and Gas

Capital expenditures for this group of companies totalled a record $68,025,000 in 1978. These funds were allocated to develop our strong exploratory effort in Canada, develop Buchan Field in the North Sea and explore and develop our position in the United States. In 1979, our capital expenditures for oil and gas activities are anticipated to increase to a new record of over $96 million, and will result in continued expansion of our oil and gas position worldwide.

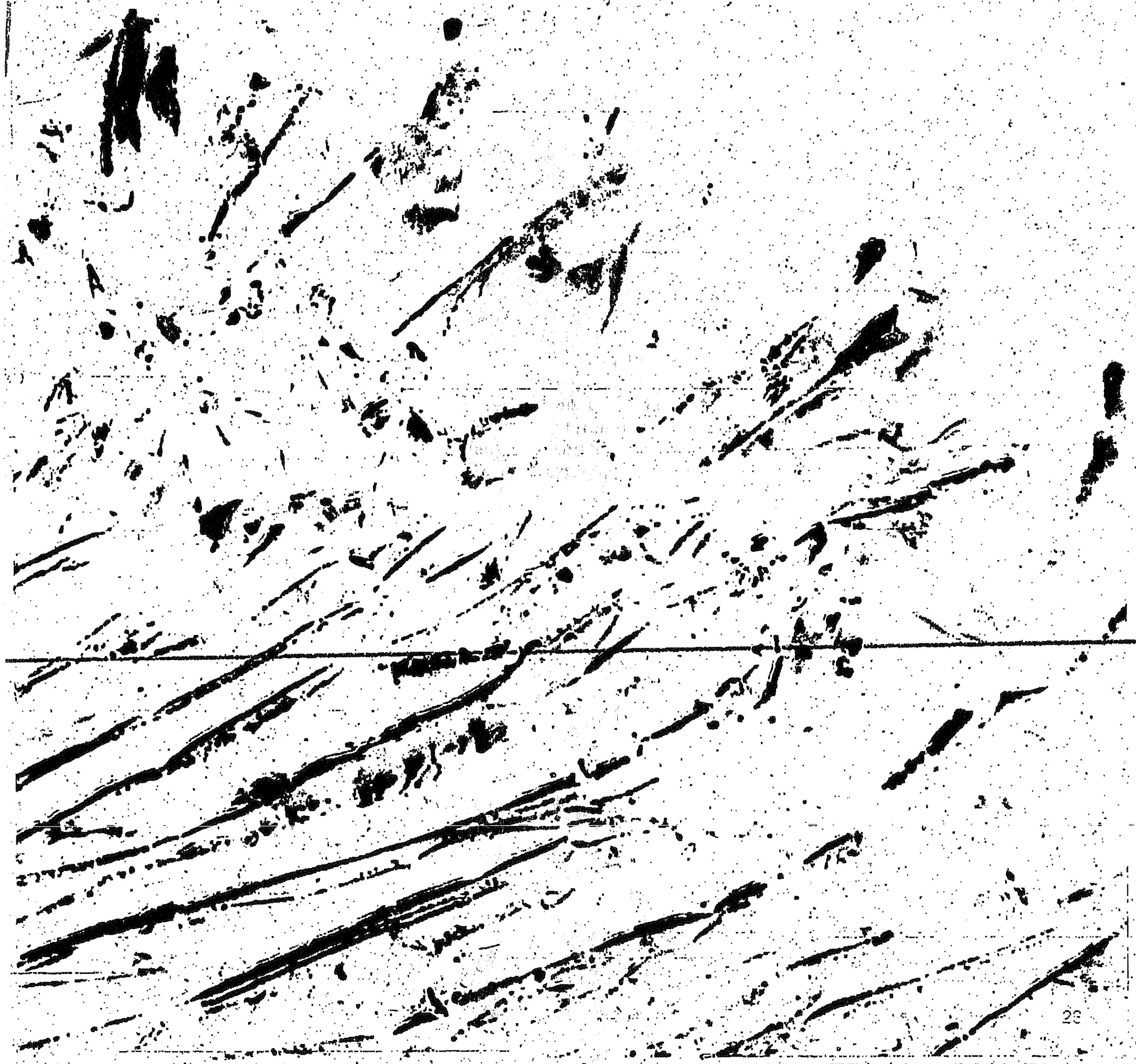
Status—In 1978, St. Joe formed a new company, St. Joe International, with Leroy K. Wheelock as its President, to consolidate the management of its expanding international mineral business. At present, the company is involved in Argentina, Brazil, Chile, Peru, Australia and Canada. Dividends from unconsolidated subsidiaries were up substantially in 1978, and the new Woodlawn zinc-copper mine in Australia was dedicated in mid-December.

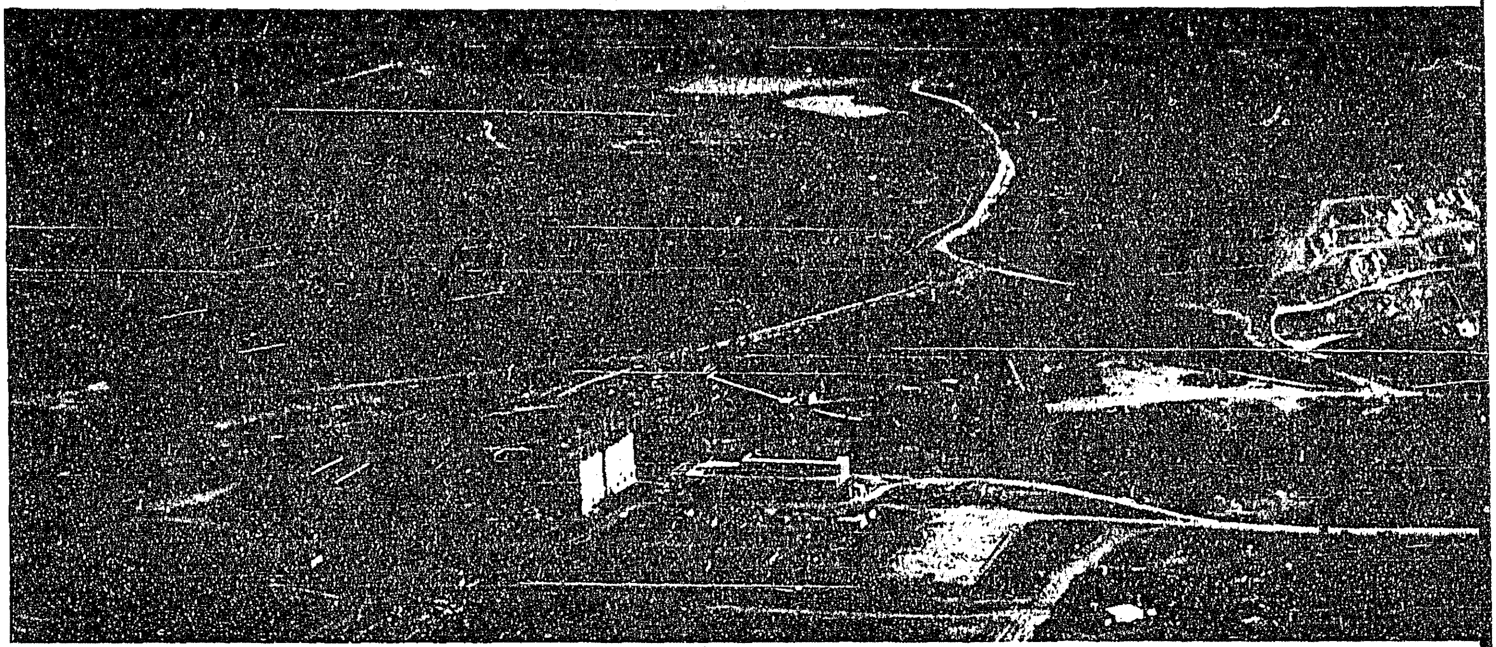
Problems for Future—Operating in the international area presents special problems for an American enterprise, such as those of political and economic instability, repatriation of funds, expropriation and foreign investment limitation. All play a role in making an international investment politically, and sometimes financially,



riskier than a similar investment in the United States. On the other hand, higher grade mineral deposits occur abroad compared with those found in the Continental United States.

Opportunities—St. Joe has been selective in its investments internationally, but has been aggressive and successful in seeking opportunities of unusual promise in foreign countries. Long-established positions in Argentina and Peru have continued to be beneficial to the Corporation. New involvements, particularly in the Woodlawn mine in Australia, the gold-silver-copper property in Chile, diamond prospects in Brazil, the Pachon copper orebody in Argentina and nonferrous metals prospects in Canada could all prove to be of great benefit to St. Joe.





In the second quarter of 1978, the Board approved the formation of St. Joe International Company, which will provide a new organizational structure for the management of the corporation's metals and minerals operations outside the United States.

Leroy K. Wheelock, Vice President of the Corporation, was appointed President, and Denis Acheson and Salvatore Ciccolella have been appointed Vice Presidents of St. Joe International Company.

St. Joe's international mining and exploration activities are principally concentrated in Argentina, Australia, Brazil, Canada, Chile and Peru. Expenditures for metals exploration outside the U.S. reached $5.7 million in 1978, compared with $6.3 million in 1977. In 1978, St. Joe received $7,040,000 in dividends from its mineral operations, compared with $4,349,000 in 1977.

Aguilar Results Satisfactory

In Argentina, Compania Minera Aguilar, S.A. operated satisfactorily despite continued serious inflation and industrial recession leading to reduced consumption of base metals in the country. In 1978, Aguilar produced 73,400 metric tons of zinc concentrates and 37,842 metric tons of lead-silver concentrates, compared with 77,767 metric tons and 42,371 metric tons, respectively, in 1977. Demand for metals was down in 1978, and only 59,876 metric tons of zinc concentrates were shipped (10% less than in 1977), while lead shipments (40,792 metric tons) were close to the 1977 levels, due to the export of 8,391 metric tons to Brazil.

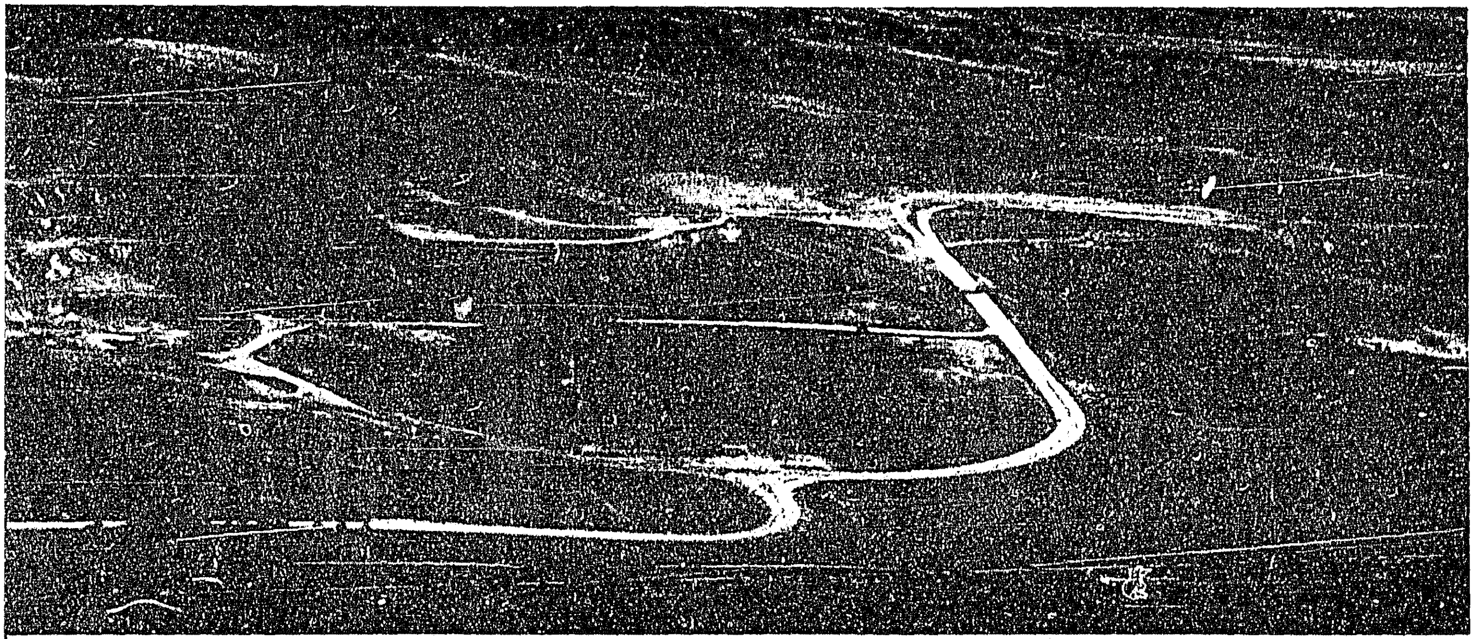
Plans were approved for a new lower level access adit to be driven at the Aguilar mine to facilitate extraction of available ore reserves and to provide access to deeper mineralization that has been found as the south-plunging extension of the ore bodies. The project will be completed in the next two years at an estimated cost of $3 million.

Pachon Development Continues

Development work continued on the Pachon porphyry copper project, principally through improving the permanent access road, performing special studies at the tailings dam site and carrying out additional drilling at the mine. Discussions were held with federal and provincial authorities concerning development plans and promotional legislation that have been under consideration by the governments for some time. After specific investment conditions are negotiated under such a legislative framework, definitive investment and financing plans will be made.

Santander Expects Improvement

In Peru, our subsidiary, Compania Minerales Santander, Inc., despite improvement in mine production during the year, operated at a loss due to continued low zinc prices and low ore grade. Production of zinc concentrates



was 42,451 metric tons, up 25% over 1977's 34,002 metric tons, and there were also minor quantities of lead and copper concentrates. During the year, development continued at lower levels in the mine where significantly improved zinc mineralization (from currently mined 8% to 12%) is expected to increase production of zinc concentrates in 1979. The Peruvian government also cancelled for zinc producers an obligatory one year non-indexed loan to the government that was imposed on all exporters based on 15% ad valorem of exports.

Diamond Investigation Continues

In Brazil, two promising alluvial diamond properties are under investigation. At the Alto Coite project, detailed bulk sampling is in progress, to be followed by a feasibility study for a dredging operation. The potentially much larger Araguaia Project is in an earlier stage of investigation: bulk sampling could be started in 1979. Discussions are proceeding with potential Brazilian partners for development of these projects, should they prove economically viable.

Woodlawn Production to Begin

The Woodlawn mine in Australia was formally inaugurated in December 1978 and following a break-in period, is expected to attain normal production of copper, zinc and lead concentrates in the second quarter of 1979. Some income will be derived from sales of silver gossan and supergene copper ore and pre-production concentrates, but significant income contribution from Woodlawn is not anticipated until 1980. The A $80 million, 3,000-ton-per-day facility is a joint venture of subsidiaries of Phelps Dodge Corporation, ^ustralian Mining & Smelting Limited and St. Joe, each with a one-third interest. St. Joe's net investment for its one-third share will be approximately U.S. $24 million. When operating at capacity the mill will produce annually about 120,000 metric tons of zinc concentrates, 40,000 metric tons of lead concentrates and 35,000 metric tons of copper concentrates.

Woodlawn mine/mill complex for producing zinc, copper, silver and lead concentrates in Australia

Chilean Ore Discovery

After three years of exploration in Chile, St. Joe announced in December the discovery of a gold/silver/copper orebody at an elevation of about 14,000 feet, 300 miles north of Santiago. At the end of the season in mid-1978, there had been delineated in the orebody approximately 1.7 million short tons with an average grade of 2.25% copper, 0.47 oz./short ton gold and 7.4 oz./short ton silver. Exploration and development is continuing and significant additional reserves are expected to be blocked out before the end of this season's work in May. An early decision will be made on development of this orebody, in which St. Joe holds an 80% interest with the remaining 20% held by Chilean investors.

TIMETABLE OF MAJOR PROJECTS AND DEVELOPMENTS

A pair of charts on page one shows how St. Joe has made capital expenditures during the past five years and projects how it will make additional expenditures during the next five years.

Included here is a project timetable which summarizes the Corporation's present plans for certain projects over the next four years. It shows the many steps involved in bringing a project from the prospect stage to production. Each succeeding step is based on the assumptions that exploration and development activities will continue to yield positive results and that there will be no materially

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OIL AND GAS

1978 Coquina developed an inventory of over 50 drillable prospects. Through acreage acquisition, lease inventory at year-end was more than 300,000 gross acres. Eight exploratory and 43 development wells were successful. Greens Creek field in Mississippi began producing at over three million cubic feet per day to Coquina's interest. Offshore-Texas and Louisiana wells were still awaiting completion of platform and/or pipeline connection. Foster Conger and North Gin fields continued development, with Mills Ranch field completing first producer in the Granite Wash section.

Four development wells drilled through sea floor template at Buchan field in U.K. sector of the North Sea. Two satellite wells in the southern flank of field also drilled (St. Joe and CanDel interest is 28%). On Block P/6 in Dutch sector of the North Sea, successful appraisal well drilled which will increase gas reserves discovered (St. Joe and CanDel working interest is 12.5%). Seismic work performed at Regnenses Basin onshore exploratory project in southern England (St. Joe and CanDel interest is 29%).

CanDel participated in drilling 75 wells in Alberta and British Columbia, resulting in 45 gas and 17 oil successes. Lease holdings at Elmworth-Wapiti increased to 219,000 gross acres (14 successful wells have been drilled at Elmworth acreage). Gas export licenses have been applied for from Elmworth and construction of a 50 MMCFD gas plant and gathering system has started.

Successful development programs were continued in Cessford, Little Bow and Castor areas.

1979 Activity increases in Coquina's exploration program and inventory of prospects and lease acreage. More drilling at Greens Creek field and offshore Texas. Gas sales to commence in first quarter from three wells in South Timbalier offshore Louisiana, with remaining wells on-stream in third quarter. More drilling in Foster Conger and Mills Ranch fields.

At Buchan, development wells to be completed and tied into production facility, with production commencing late in year. Appraisal drilling scheduled for Blocks 21/2 and P/6 in the U.K. and Dutch sectors, respectively, of the North Sea. Seismic work continues for onshore U.K. project, with exploratory drilling anticipated. Perform seismic work with possible drilling in Middle Magdalena Valley in Colombia, and frontier exploration project in New Guinea.

In the Egyptian Gulf of Suez venture, St. Joe farmed out a substantial part of its interest for two exploratory wells. CanDel had previously farmed out all of its interest in the venture.

CanDel plans participation in 85 wells in Alberta and British Columbia, concentrating on developing existing producing properties and exploring deeper basin areas of Central Alberta. Participation in 17 wells in Elmworth-Wapiti area planned Plant start-up is scheduled with CanDel's initial share of production to be 13 million cubic feet per day.

Construction of waterflood facilities at Cessford should be completed. CanDel's share of recoverable reserves is expected to increase by two million barrels.

COAL

1978 Construction of the Marrowbone preparation plant and the development of the mine complex continued toward mid-1979 completion. A preparation plant and 20 million recoverable tons of additional metallurgical coal reserves were acquired in Wyoming County, West Virginia An environmental quality steam reserve totaling 56 million recoverable tons, known as Elk Run was leased in Boone County, West Virginia, and will be jointly developed with a southern utility. It will be developed during the 1979-1981 period. An additional 10 million tons of recoverable compliance steam coal reserve were leased for the TCH complex in Pike County, Kentucky. Compliance steam coal utility sales contracts requiring shipments of 1.5 million tons per year by 1980 were signed with two new customers.

1979 Annual capacity increased by 0.6 million tons to 13.8 million tons, of which 9.5 million tons will be steam coal and 4.3 million tons will be metallurgical coal. The mines which will provide additional capacity are the Sprouse Creek mines in Mingo County, West Virginia, and the Omar mine in Boone County, West Virginia. Also, expanded shipments under long-term utility contract to begin at Marrowbone.

MINERALS

1978 Exploratory shaft completed and two development drifts initiated at Carthage, Tennessee zinc property to further delineate ore reserves.

Initiated construction of new lead strip and alloy plant at the Herculaneum lead smelter.

New zinc dust plant comes on stream at Monaca, Pennsylvania with capacity of 4,000 TPY.

Work continued on access road and tailings dam at Pachon (Argentina) orebody. The mining promotion law was not issued as anticipated, and further planning for investment and financing of the porphyry copper project was deferred.

The gold-silver-copper orebody at El Indio, Chile, was further delineated. An engineering feasibility study for a 1,250 metric ton per day mine/mill complex was completed. Economic analyses for a possible investment were made and financing negotiations initiated.

Construction of the Woodlawn (Australia) 3,000 ton-per-day complex was completed and inaugurated. The complex produces zinc, copper, silver and lead concentrates. Bulk sampling continued at the Alto Coite diamond prospect in Brazil. Discussions were started with potential national investors.

1979 Underground prospect drilling at Carthage, Tennessee zinc project to continue with evaluation of future development potential.

Lead strip and alloy plant to be completed and started-up by mid-year, with production capacity of 30,000 tons of lead strip per year.

In Argentina, the mining promotion law is issued and negotiations held with the government on investment conditions at Pachon. Equity investments and loan financing is sought.

Development of El Indio property is approved; engineering design and construction of 1,250 metric ton per day facility is started.

Woodlawn mine/mill production facilities brought up to full capacity. Feasibility studies to be completed on the Alto Coite diamond project in Brazil and investment decisions made and negotiations completed with Brazilian partners. Bulk sampling at the Araguaia diamond project is started.

adverse change in other matters affecting the viability of the project. Thus, shareholders should keep in mind that the projects described may be modified, delayed, or even terminated as a result of adverse geological or mining results or changes in prices, costs, operating conditions or governmental regulations. Despite this degree of uncertainty, we believe that the inclusion of a step by step description of these projects will give shareholders a greater appreciation of the Corporation's activities and its present plans for these projects.

1980 Coquina continues efforts to increase inventory of drilling acreage and prospects, as well as participation in drilling of exploratory and development wells. Offshore-Texas wells to start gas production early in year.

Buchan Field in full production; St. Joe and CanDel share estimated at over 13,000 barrels per day. Development of P/6 continues. Appraisal drilling on Block Q/7 in Dutch North Sea continues. Further exploratory work scheduled for onshore U.K. and Colombia.

CanDel plans increased participation in exploratory and development programs in Alberta and British Columbia. Gas processing facilities in recently contracted areas should be completed, with start of production late in the year.

Gas deliveries from various properties will commence at 4 MMCFD, along with increased volume from Elmworth-Wapiti.

1981 Coquina continues expanding exploration and development programs. Buchan Field continues at full production. Block P/6 continues development; further appraisal drilling on Block Q/7, and onshore U.K.

Exploration and development activities are expected to continue at record levels.

1982 Coquina continues expanding exploration and development programs. Buchan Field begins production decline. Block P/6 development completed, with production commencing in mid-year. Q/7 development commences, with anticipated completion in 1984. U.K. onshore development commences, with completion expected in 1983.

Record exploration and development activity is expected to continue with increased plant capacity and additional sales at Elmworth-Wapiti.

1980 Annual capacity expected to increase to 16 million tons. Contracted utility coal sales from Omar and Marrowbone will increase by another one million tons. Colorado production will increase by 0.6 million tons to one million tons with sales contract extensions. Additional high volatile metallurgical production will be available from TCH and newly acquired Wyoming County, West Virginia property.

1981 Completion of new 0.6 million ton Elk Run compliance steam coal project in Boone County, West Virginia. Marrowbone increases contracted production by another 0.4 million tons. Contracted steam production to ten utilities, under twelve separate contracts, increased to 11 million tons. Metallurgical production balanced between high, medium and low volatile grades to domestic and foreign countries remains at 6 million tons. Total capacity 17 million tons.

1982 Production increases to meet contracted deliveries at the newly developed properties, namely, Marrowbone and Elk Run in the East and Sun and Anchor in the West. Efforts continue to identify and place into production new properties in the Appalachian Coal Region to serve existing and new customers.

1980 Definitive feasibility studies of Pachon copper project completed. Investment and financing arrangements are made.

Construction of El Indio 1,250 tons per day mine/mill complex continues. A dredge is installed at the Alto Coite diamond project in Brazil. Bulk sampling continued at the Araguaia project.

1981 Engineering design of Pachon mine/mill/smelter is completed and construction started.

Mine/mill construction at El Indio is completed and production of copper-gold-silver concentrates and gold-silver bullion is started.

Production started at Alto Coite diamond project. Bulk sampling continues at the Araguaia prospect and feasibility studies are started.

1982 Capacity at zinc dust plant raised to 6,000 tons per year as demand warrants.

Construction continues at Pachon. Feasibility and finance planning completed for the Araguaia diamond prospect. An investment decision with Brazilian partners is made.

PRODUCTION AND FINANCIAL STATISTICS

					(In thousands)	
LEAD	Tons Ore Mined	Average Ore Grade (%)	Tons Metal Produced	Tons Metal Sold	Net Sales[1]	Operating Profit (Loss)[2]
1974	5,048,392	5.00	230,873	281,424	$127,316	$47,369
1975	4,411,359	4.67	185,889	182,340	84,278	21,074
1976	4,813,182	4.82	222,483	237,177	115,882	39,539
1977	4,978,007	5.14	228,780	238,352	147,280	66,009
1978	4,851,402	5.18	240,305	250,749	176,747	79,474
ZINC	Tons Ore Mined	Average Ore Grade (%)	Tons Metal Equivalent Produced	Tons Metal Equivalent Sold	Net Sales[1]	Operating Profit (Loss)[2]
1974	1,232,462	7.99	223,968	245,603	$201,633	$52,681
1975	1,246,733	7.03	142,406	137,009	125,059	14,881
1976	1,239,456	6.71	206,844	186,431	158,435	15,922
1977	1,194,510	6.79	175,260	175,527	141,091	5,138
1978	433,163[3]	7.80	163,641	186,972	135,957	(10,674)
	Tons Produced					
COAL	Steam Coal	Metallurgical Coal	Tons Produced Coal Sold	Tons Purchased Coal Sold	Net Sales	Operating Profit (Loss)[2]
1974	6,039,895	2,884,447	8,924,342	4,639,264	$357,009	$54,490
1975	6,388,893	3,648,512	10,037,405	5,530,353	506,099	93,470
1976	6,640,005	3,817,331	10,457,336	5,034,598	456,037	44,549
1977	5,485,748	3,428,803	8,914,551	4,630,943	430,274	14,474
1978	5,711,651	2,983,281	8,675,541	4,116,811	435,256	9,575
OIL & GAS		MCF Gas Sold	Bbls. Oil & Gas Liquids Sold		Net Sales	Operating Profit (Loss)[2]
1974		26,063,400	1,871,100		$ 20,746	$ 8,857
1975		23,263,000	1,471,000		28,738	11,606
1976		22,055,000	1,587,300		38,291	15,736
1977		20,328,100	1,603,900		42,188	11,120
1978		17,724,500	1,408,300		40,758	11,822

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1. Net Sales includes by-products.
2. See Business Segment Information for definition of Operating Profit.
3. Five months production in 1978.

FINANCIAL SECTION

CONTENTS

St. Joe Minerals Corporation and Consolidated Subsidiaries

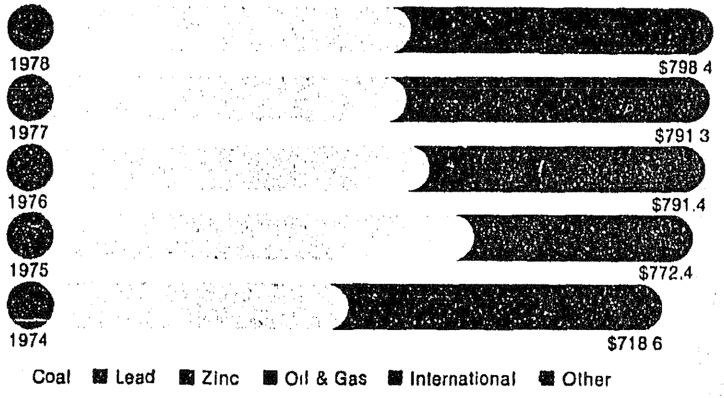
STATEMENTS OF CONSOLIDATED INCOME

For the years ended December 31, 1978 and 1977	**1978**	1978 vs 1977 Increase (Decrease)	1977	1977 vs 1976 Increase (Decrease)	..........Comparative Information...... 1976*	1975*	1974*
		.... (In thousands except per share data)					
Net Sales	**$798,435**	$ 7,155	$791,280	$ (128)	$791,408	$772,366	$718,592
Costs and Expenses:							
Cost of sales	**634,325**	15,175	619,150	4,991	614,159	573,570	520,245
Depletion, depreciation and amortization	**53,064**	(546)	53,610	9,746	43,864	35,453	27,527
Administrative and selling	**28,761**	49	28,712	5,897	22,815	19,549	16,201
Exploration	**12,981**	59	12,922	7,053	5,869	3,736	2,320
Research	**4,282**	702	3,580	531	3,049	3,280	3,149
Interest	**12,756**	5,250	7,506	814	6,692	4,708	5,236
Amortization of goodwill	**1,491**	(19)	1,510	(42)	1,552	1,502	1,599
Total Costs and Expenses	**747,660**	20,670	726,990	28,990	698,000	641,798	576,277
Income From Operations	**50,775**	(13,515)	64,290	(29,118)	93,408	130,568	142,315
Other Income:							
Dividends from unconsolidated subsidiaries	**7,040**	2,691	4,349	(3,603)	7,952	2,000	—
Interest, royalties, etc.	**4,535**	(3,646)	8,181	(1,825)	10,006	10,231	7,585
Income Before Nonrecurring Items	**62,350**	(14,470)	76,820	(34,546)	111,366	142,799	149,900
Nonrecurring Items	**—**	(33,723)	33,723	33,723	—	6,504	—
Income Before Income Taxes	**62,350**	(48,193)	110,543	(823)	111,366	149,303	149,900
Income Taxes	**18,705**	(24,081)	42,786	3,314	39,472	57,466	53,913
Net Income	**$ 43,645**	$(24,112)	$ 67,757	$ (4,137)	$ 71,894	$ 91,837	$ 95,987
Per Share of Common Stock:							
Net income	**$1.95**		$3.03		$3.23	$4.14	$4.33
Cash dividends	**$1.30**		$1.30		$1.27½	$1.17½	$ .97½
Average Number of Shares of Common Stock Outstanding	**22,382**		22,332		22,257	22,184	22,152

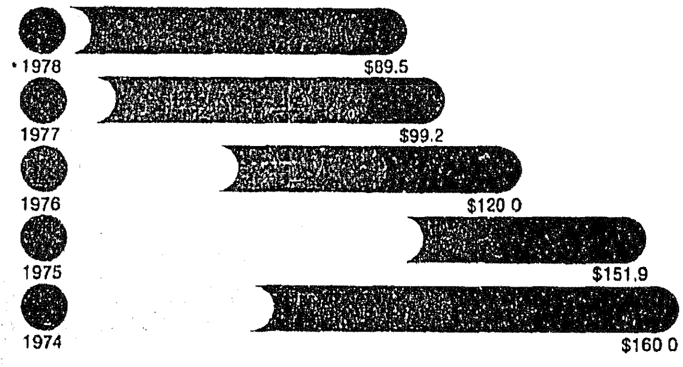
**Restated for pooling-of-interests.*
Pages 33, 35 and 37 to 42 are an integral part of these financial statements.

MANAGEMENT'S REVIEW OF OPERATING RESULTS

Net Sales—Product Line *(millions)*



Operating Profit—Product Line *(millions)*



*Operating losses were experienced in Zinc in 1978

Sales

Sales of $798.4 million during 1978 were slightly higher than the 1977 level of $791.3 million. Sales of lead increased $29.5 million, due largely to a very strong battery market, while sales of iron ore decreased $21.4 million, as a result of the suspension of the Pea Ridge operation in December 1977. Coal sales in 1978 were approximately the same as 1977 as higher prices offset lower volume. The lower volume resulted from strikes by both the United Mine Workers and the Railway Clerks Union. In spite of higher volume, zinc sales declined $5.1 million, principally due to depressed prices.

Sales of $791.3 million during 1977 were almost identical to the 1976 level of $791.4 million. Coal sales declined $25.8 million as a result of lower volume due to adverse weather conditions and to the nationwide coal strike which began in December 1977. Lead sales increased $31.4 million as a result of strong battery industry demand. Zinc sales declined $17.3 million, principally as a result of depressed prices and lower volume due to a high level of imports.

Costs and Expenses

Cost of sales of $634.3 million in 1978 were $15.2 million higher than the 1977 level of $619.1 million. In spite of a decrease in sales volume, coal cost of sales increased $7.3 million, reflecting in part, higher labor costs associated with the new United Mine Workers contract. Lead cost of sales increased $17.3 million due to greater sales volume and increased production costs. Zinc cost of sales increased $11.6 million as a result of higher sales volume. Cost of sales of iron ore declined $21.6 million due to the suspension of the Pea Ridge operation in December 1977.

Cost of sales of $619.2 million in 1977 increased slightly over the 1976 level of $614.2 million. Unit cost increases occurred in lead, zinc and coal because of inflation and, in the case of coal and zinc, lower sales volume.

Depletion, depreciation and amortization expense has increased in the 1976 to 1978 period as capital spending has increased. Capital spending has been concentrated in the areas of expanding and modernizing coal operations and in oil and gas exploration and development.

The increase in administrative and selling expense in the 1976 to 1978 period is due to inflation and the increased scope and complexity of the Corporation's operations.

The increase in exploration expense in the 1976 to 1978 period reflects the cost of the Corporation's expanded mineral exploration program.

Interest expense has increased in the 1976 to 1978 period as a result of higher levels of borrowings and higher interest rates. Average outstanding borrowings have increased from $93.8 million in 1976 to $154.0 million in 1978, with an increase in the average interest rate from 7.1% in 1976 to 8.3% in 1978.

Other Income

Dividends from the Corporation's unconsolidated Argentine subsidiaries were $7.0 million, $4.3 million and $3.8 million in 1978, 1977 and 1976, respectively. These dividends reflect continued profitability by such subsidiaries. No dividends were received from the Corporation's Peruvian subsidiary in 1978 or 1977, due to unprofitable operations and currency exchange restrictions. Dividends from this subsidiary were $4.2 million in 1976.

The decrease in the income recorded under the caption "Interest, royalties, etc." principally results from a reduction in royalty income due to the termination, in December 1977, of the Meramec joint venture operation at Pea Ridge. Royalties of $2.5 million were received from Meramec during 1977.

Nonrecurring Items

Nonrecurring items in 1977 include pre-tax gains aggregating $33.7 million, resulting from the sale of an 80% interest in three coal subsidiaries, the termination of the Meramec joint venture operation and a write-down of certain Canadian mineral properties.

Income Taxes

The variations in the effective income tax rates from 35% in 1976, to 39% in 1977 and to 30% in 1978 are due primarily to changes in the amounts of statutory depletion and minimum tax.

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

December 31, 1978 and 1977	**1978**	1977
	(In thousands)	
Current Assets:		
Cash and marketable securities	**$ 45,273**	$ 31,148
Trade accounts receivable	**122,527**	86,299
Inventories	**83,714**	87,527
Prepaid expenses and other current assets	**21,935**	45,444
Total current assets	**273,449**	250,418
Current Liabilities:		
Notes payable	**12,853**	40,410
Long-term debt—current portion	**5,217**	5,947
Accounts payable and accrued liabilities	**109,719**	83,949
Income taxes	**26,760**	33,677
Total current liabilities	**154,549**	163,983
Working Capital	**118,900**	86,435
Noncurrent Assets:		
Investments	**14,004**	7,251
Property—net	**585,506**	481,546
Goodwill	**24,189**	25,680
Deferred charges and other assets	**14,654**	15,177
Total noncurrent assets	**638,353**	529,654
Total Assets Less Current Liabilities	**757,253**	616,089
Noncurrent Liabilities:		
Long-term debt—less current portion	**169,803**	71,090
Deferred income taxes	**78,185**	56,365
Other noncurrent liabilities	**13,321**	8,550
Minority interest	**11,679**	10,903
Total noncurrent liabilities	**272,988**	146,908
Excess of Assets Over Liabilities	**$484,265**	$469,181

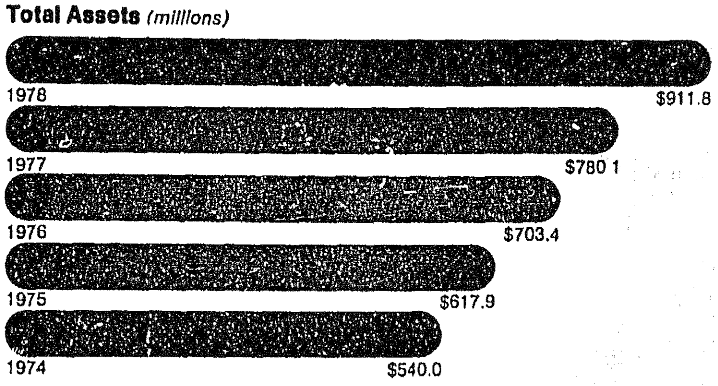
Shareholders' Equity:

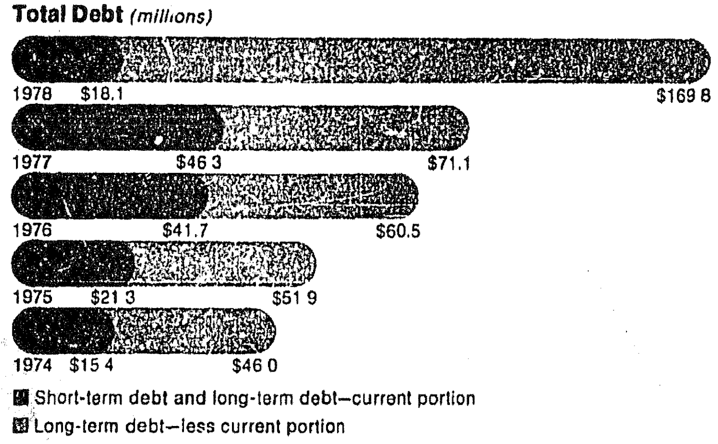
Preferred stock, par value $50 per share, 2,000,000 shares authorized, none issued

Common stock, par value $1 per share:

	Shares			
	1978	1977		
Authorized	**60,000,000**	60,000,000		
Issued	**23,250,214**	23,250,214	**$ 23,250**	$ 23,250
In Treasury—at cost	**855,778**	892,694	**(9,478)**	(9,887)
Outstanding	**22,394,436**	22,357,520		
Other capital			**209,771**	209,641
Retained earnings			**260,722**	246,177
Total Shareholders' Equity			**$484,265**	$469,181

Pages 33, 35 and 37 to 42 are an integral part of these financial statements.





Marketable Securities

Marketable securities are stated at cost which approximates market.

Inventories

Inventories, which are stated at the lower of cost (principally the last-in, first-out ["LIFO"] method) or market, comprise the following:

	1978	1977
	(In thousands)	
Finished metals	**$ 9,942**	$ 24,082
Coal	**12,044**	8,710
Metals in process and concentrates	**24,267**	19,553
Raw materials and supplies	**37,461**	35,182
Total	**$ 83,714**	$ 87,527

The current cost of LIFO inventories at December 31, 1978 and 1977 exceeds the related LIFO values by $29,514,000 and $26,169,000, respectively.

Property

Property (at cost) comprises the following:

	1978	1977
	(In thousands)	
Mining properties and mineral rights	**$ 9,475**	$ 9,246
Mine development	**56,504**	40,956
Oil and gas properties, including exploration and development thereon	**277,751**	214,361
Land, buildings, plant and equipment	**569,097**	500,661
Total	**912,827**	765,224
Less accumulated depletion, depreciation and amortization	**(327,321)**	(283,678)
Property—net	**$585,506**	$481,546

Minority Interest

Minority interest includes $8,000,000 of 8% cumulative preferred stock of Martin County Coal Corporation, a subsidiary of Massey. Dividends are paid quarterly and are deducted from other income.

Short-Term Debt (Notes Payable)

Information relating to the Corporation's short-term borrowings in 1978 and 1977 follows:

	1978	1977
	(In thousands)	
Balance at end of year	**$12,853**	$40,410
Maximum amount of short-term borrowings outstanding at any month end during the year	**41,313**	56,723
Average short-term borrowings outstanding during the year	**18,315**	43,001
Weighted average interest rate on average short-term borrowings during the year (a)	**8.3%**	6.3%
Weighted average interest rate on short-term borrowings at end of year	**11.7%**	7.3%

(a) Calculated by dividing average short-term borrowings outstanding during the year by related interest expense.

The Corporation has informal arrangements with various banks to maintain average cash balances of approximately 10% of its unused lines of credit. At December 31, 1978 and 1977 such lines of credit (all unused) aggregated $32,500,000 and $50,000,000, respectively.

Coquina has a line of credit agreement with a bank aggregating $22,000,000, of which $7,000,000 is for short-term borrowings and $15,000,000 is for long-term borrowings (see long-term debt for noncurrent portion, repayment terms and collateral agreement).

CanDel has lines of credit with various banks aggregating $7,500,000. At December 31, 1978, $6,787,000 was unused.

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

For the years ended December 31, 1978 and 1977	**1978**	1977
	(In thousands)	
Funds Provided:		
Operations:		
Net income	**$ 43,645**	$ 67,757
Add (deduct) items not requiring (providing) working capital:		
Depletion, depreciation and amortization	**53,064**	53,610
Deferred income taxes	**21,820**	4,647
Liability for employee benefits	**3,269**	2,393
Writedown of properties	**—**	9,633
Cancellation of debt	**—**	(5,667)
Exploration projects abandoned	**1,871**	2,128
Amortization of goodwill	**1,491**	1,510
Other	**2,278**	290
Total From Operations	**127,438**	136,301
Disposals of property (excluding gains of $37,723,000 in 1977)	**4,062**	15,376
Proceeds from long-term debt	**104,863**	23,234
Proceeds from stock options exercised	**539**	1,184
Total Funds Provided	**236,902**	176,095
Funds Applied:		
Cash dividends	**29,100**	28,687
Additions to property	**161,086**	146,104
Reduction of long-term debt	**6,150**	6,996
Other—net	**8,101**	1,694
Total Funds Applied	**204,437**	183,481
Increase (Decrease) in Working Capital	**$ 32,465**	$ (7,386)
Analysis of Increase (Decrease) in Working Capital:		
Cash and marketable securities	**$ 14,125**	$ (14,990)
Trade accounts receivable	**36,228**	(5,672)
Inventories	**(3,813)**	5,509
Prepaid expenses and other current assets	**(23,509)**	26,275
Notes payable	**27,557**	(7,766)
Long-term debt—current portion	**730**	3,078
Accounts payable and accrued liabilities	**(25,770)**	3,026
Income taxes	**6,917**	(16,846)
Increase (Decrease) in Working Capital	**$ 32,465**	$ (7,386)

Pages 33, 35 and 37 to 42 are an integral part of these financial statements.

FINANCING

Long-Term Debt

Long-term debt—less current portion at December 31, 1978 and 1977 was as follows:

	1978	1977
	(In thousands)	
$60,000,000 loan agreement repayable in twelve equal annual installments from April 1987 through April 1998 at 8.65% (a)	**$ 60,000**	—
Pollution control financing (b):		
$22,500,000 Beaver County (Pennsylvania) Industrial Development Authority 5.60% bonds, due December 1, 1997	**22,500**	$22,500
$7,000,000 State Environmental Improvement Authority (Missouri) 5.75% bonds, due December 15, 1998	**7,000**	7,000
$21,100,000 Beaver County (Pennsylvania) Industrial Development Authority 6% bonds, due May 1, 2007	**10,675**	4,559
$20,000,000 Eurodollar credit and guaranty agreement repayable in eight equal semiannual installments from January 1983 through July 1986 at ¾% above the London Interbank Offered Rate ("LIBO") (10.3% at December 31, 1978) (a)	**9,500**	1,500
$10,000,000 Eurodollar credit and guaranty agreement repayable in eight equal semiannual installments from February 1983 through August 1986 at ¾% above LIBO (a)	**10,000**	900
$10,000,000 loan agreement repayable in ten equal semiannual installments from December 1979 through June 1984 at 8% to June 1982, thereafter at 128% of prime rate (a)	**9,000**	6,900
$15,000,000 loan agreement repayable by Coquina in monthly installments (subject to certain minimum and maximum amounts) through September 1982 from 72% of the proceeds of Coquina's oil and gas sales at prime rate to September 1978, thereafter ½% above prime rate, not to exceed 11% (a) (c) (e)	**15,000**	15,000
$36,000,000 credit agreement repayable by CanDel in ten equal quarterly installments from September 1980 through December 1982 at 1¼% above LIBO (a) (d)	**12,500**	3,000
Notes payable to banks at ½% to 1% above prime rate (11¾% at December 31, 1978) repayable by CanDel Oil (U.S.) Inc. through 1982	**5,074**	3,374
Other notes (various rates and maturities)	**8,554**	6,357
Long-term debt—less current portion	**$169,803**	$71,090

(a) These liabilities represent the amounts drawn down under the above agreements. The agreements contain covenants relating to maintenance of financial ratios and/or limitations on borrowings and the payment of cash dividends. In 1979 cash dividends are limited to $59,916,000. The Corporation or its subsidiaries pay a ½% annual commitment fee on the unused portions of such agreements.

(b) These liabilities represent the portions of the proceeds from pollution control revenue bonds expended for pollution control facilities at the Corporation's lead and zinc smelters. The Corporation has agreed to make sufficient payments to Trustees in order to pay all amounts due on these bonds. The bonds are subject to optional redemption commencing in 1982 and mandatory redemption in 1988.

(c) Borrowings under this loan agreement are secured by the pledge of substantially all of Coquina's oil and gas properties and production equipment.

(d) Borrowings under this credit agreement are collateralized by the pledge of CanDel's interest in certain petroleum and natural gas properties in Alberta, Canada.

(e) This loan agreement is presently being renegotiated. No payments are required until such renegotiation is completed.

The amounts of long-term debt repayable in each of the four years subsequent to December 31, 1979 are $13,350,000 in 1980, $14,622,000 in 1981, $13,994,000 in 1982 and $10,465,000 in 1983.

Interest expense relating to long-term debt was $11,104,000 and $4,636,000 for 1978 and 1977, respectively.

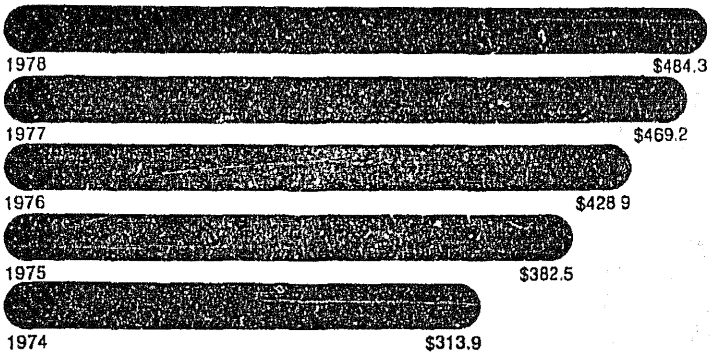
STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Par Value $1 Per Share				
For the years ended December 31, 1978 and 1977	Issued	In Treasury At Cost	Other Capital (In thousands)	Retained Earnings	Total Shareholders' Equity
Balance, December 31, 1976	$232,502	$(10,628)	—	$207,053	$428,927
Net income				67,757	67,757
Cash dividends				(28,687)	(28,687)
Employee stock options exercised (66,878 shares issued from treasury)		741	$ 443		1,184
Transfer to other capital in connection with reduction in par value from $10 to $1	(209,252)		209,252		
Adjustment in connection with the pooling-of-interests with Coquina			(54)	54	
Balance, December 31, 1977	23,250	(9,887)	209,641	246,177	469,181
Net income				43,645	43,645
Cash dividends				(29,100)	(29,100)
Employee stock options exercised (36,916 shares issued from treasury)		409	130		539
Balance, December 31, 1978	$ 23,250	$ (9,478)	$209,771	$260,722	$484,265

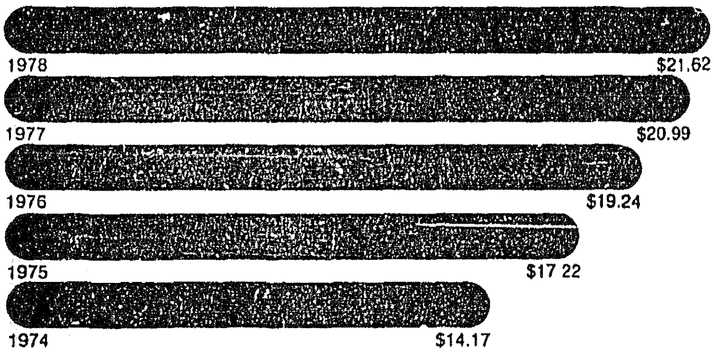
Pages 33, 35 and 37 to 42 are an integral part of these financial statements.

OTHER FINANCIAL INFORMATION

Shareholders' Equity *(millions)*



Shareholders' Equity Per Share



Stock Option Plans

The Corporation's qualified Stock Option Incentive Plan, which was adopted in 1967, expired in 1977 except with respect to outstanding options. Under this plan key management employees were granted options to purchase the Corporation's common stock at fair market value on date of grant. Options granted become exercisable one year after date of grant at the rate of 25% each year.

The Corporation also has a non-qualified Stock Option Plan, adopted in 1972, for its key management employees. Options granted under this plan are exercisable at prices which may be less than fair market value but not less than par value at date of grant; these options expire ten years from date of grant. Options granted become exercisable one year after date of grant at the rate of 25% each year. Options granted to date have been at fair market value at date of grant.

In connection with the acquisition of Coquina, the Corporation assumed the Coquina stock options outstanding at the acquisition date. The assumed options provide for the purchase of 46,364 shares of the Corporation's common stock.

A summary of shares issuable under options outstanding during 1978 and 1977 follows:

	1978	1977
	(Number of Shares)	
Options outstanding at beginning of year	**905,752**	746,506
Granted or assumed	**109,000**	256,164
Exercised	**(36,916)**	(66,878)
Cancelled or expired	**(51,223)**	(30,040)
Options outstanding at end of year	**926,613**	905,752

Shares under option at December 31, 1978 are exercisable at prices of $16.88 to $40.25 per share.

The number of shares reserved for the granting of additional options under the non-qualified Stock Option Plan amounted to 12,400 at December 31, 1978.

CanDel has an Employees' Stock Option Plan whereunder 200,000 shares (approximately equal to 5% of CanDel's outstanding shares) were reserved for purchase by its officers and employees at fair market value on date of grant. As of December 31, 1978, options were outstanding to purchase 92,075 shares at prices of $5.75 to $16.25 per share. Options to purchase 51,225 and 7,650 shares were exercised in 1978 and 1977, respectively.

Acquisitions

During 1977, in a transaction accounted for as a pooling-of-interests, the Corporation acquired all of the capital stock of Coquina Oil Corporation in exchange for 1,084,342 shares of its common stock. The pooling-of-interests with Coquina increased 1977 net income by approximately $189,000 ($.01 per share) for the period in such year prior to acquisition.

In connection with the 1976 pooling-of-interests with Tennessee Consolidated Coal Company, 48,565 shares remain in escrow pending resolution of certain contingencies.

Foreign Operations

The Corporation's subsidiaries operating in Argentina (Compania Minera Aguilar, S.A.) and Peru (Compania Minerales Santander, Inc.) are carried in investments at cost or less, and are excluded from the consolidated financial statements primarily because of unsettled economic conditions and currency exchange restrictions. Dividends from such subsidiaries are recognized in income as they are remitted to the Corporation.

Pension and Profit Sharing Plans

Pension expense for all plans, including amortization of prior service costs over periods of five to thirty years, was $12,043,000 and $10,598,000 in 1978 and 1977, respectively. Aggregate unfunded prior service pension costs of the companies were $44,227,000 at December 31, 1978. The actuarially computed values of vested benefits of certain plans exceeded the total market values of the related pension funds by $35,537,000 at December 31, 1978.

The Corporation has a deferred profit sharing plan for salaried employees. Annual contributions to the plan are based on a formula involving consolidated net income and aggregate salaries of eligible employees. Profit sharing expense was $1,746,000 and $2,399,000 in 1978 and 1977, respectively.

Nonrecurring Items

In September 1977, Massey sold 80% of its interest in three coal subsidiaries for $33,683,000 in cash. The gain on the sale before provision for income taxes was $25,689,000.

In December 1977, the Corporation and Bethlehem Steel Corporation terminated their joint venture operation of Meramec Mining Company. As a result of the termination of the joint venture, ownership of the mine and plant reverted to the Corporation and operations were suspended pending an evaluation of future economic conditions. In addition, the Corporation wrote down its carrying value in Meramec by $5,633,000 to an estimated realizable value and provided $4,200,000 for maintenance costs expected to be incurred during the suspension period. Bethlehem has cancelled $5,667,000 in notes issued to it by the Corporation and has agreed to pay the Corporation $16,200,000 in cash. The foregoing resulted in a gain before provision for income taxes of $12,034,000. During 1978, the mine was maintained in a stand-by condition, with only limited production of iron by-products. Iron pellet operations will not be resumed until market conditions improve.

In December 1977, the Corporation wrote down certain Canadian mineral properties by $4,000,000.

Income Taxes

Income taxes for the years ended December 31, 1978 and 1977 are comprised of:

	1978 (In thousands)	1977
Current:		
Federal	**$ (2,950)**	$32,613
Investment tax credits	**(3,238)**	(7,090)
Foreign	**1,278**	6,550
State	**1,795**	6,066
Total current	**(3,115)**	38,139
Deferred:		
Federal	**16,486**	2,693
Foreign	**5,334**	1,954
Total deferred	**21,820**	4,647
Total	**$18,705**	$42,786

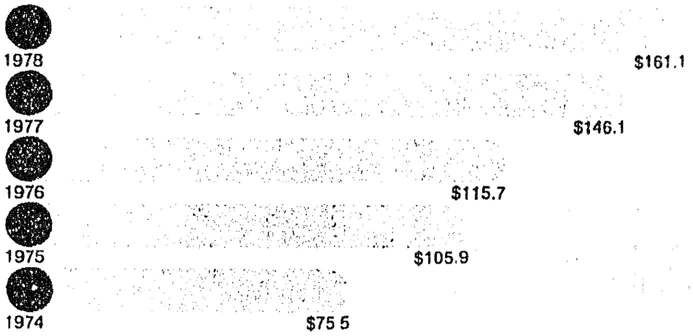
Deferred income taxes for the years ended December 31, 1978 and 1977 relate to the following timing differences:

	1978 (In thousands)	1977
Accelerated depreciation	**$ 4,058**	$1,952
Write-off of exploration and development as incurred	**16,755**	6,807
Liability for employee benefits	**(1,489)**	(1,076)
State income taxes	**(874)**	(1,429)
Other—net	**3,370**	(1,607)
Total	**$21,820**	$4,647

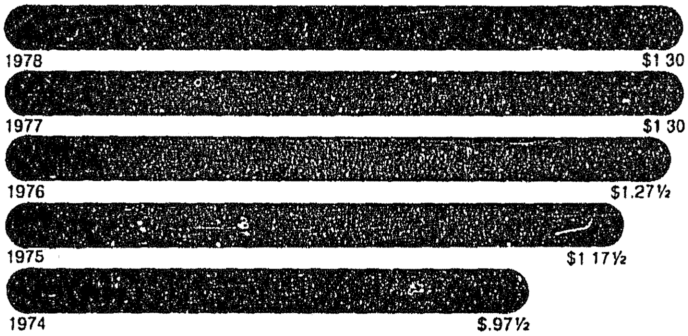
A reconciliation between income taxes at the statutory Federal income tax rate of 48% and the Corporation's income taxes follows:

	1978 (In thousands)	1977
48% of income before income taxes	**$29,928**	$53,061
Statutory depletion	**(18,200)**	(13,932)
Investment tax credits	**(3,238)**	(7,090)
Capital gains	**—**	(4,802)
State income taxes	**933**	3,154
Minimum tax	**5,897**	3,921
Foreign operation losses where benefits cannot be currently utilized	**998**	4,158
Other—net	**2,387**	4,316
Income taxes	**$18,705**	$42,786
Effective income tax rate	**30%**	39%

Capital Expenditures *(millions)*



Dividends Per Share



Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1978 and 1977 follows:

	Period	Net Sales	Gross Profit	Net Income	Net Income Per Common Share	Cash Dividends Per Common Share	Stock Prices* High	Low
			(In thousands)					
1978:	1st Qtr.	$153,268	$ 32,240	$ 4,390	$ .20	$ .325	32¼	25½
	2nd Qtr.	230,494	44,798	13,412	.60	.325	28½	22⅜
	3rd Qtr.	163,613	33,248	3,986	.17	.325	29	22⅛
	4th Qtr.	251,060	53,824	21,857	.98	.325	29⅞	21¾
	Year	$798,435	$164,110	$43,645	$1.95	$1.30	32¼	21¾
1977:	1st Qtr.	$205,004	$ 40,598	$11,064	$ .50	$ .325	43¼	36½
	2nd Qtr.	195,605	45,588	14,251	.63	.325	44½	33⅞
	3rd Qtr.	186,184	38,228	27,506	1.24	.325	34⅞	29½
	4th Qtr.	204,487	47,716	14,936	.66	.325	35⅝	28¾
	Year	$791,280	$172,130	$67,757	$3.03	$1.30	44½	28¾

**Stock prices as reported on the composite tape by The Wall Street Journal.*

Fourth Quarter 1978 Transaction (Unaudited)

The Corporation received $6,045,000 in dividend income from its South American subsidiaries.

Commitments and Contingent Liabilities

The Corporation is contingently liable as guarantor of leases to Quemetco, Inc. (a company sold in 1972), under which rental payments approximate $315,000 per year for the initial lease term ending in 1997. RSR Corporation, the purchaser of Quemetco has agreed to indemnify the Corporation against any loss which may be suffered as a result of such contingent liability.

In connection with the acquisition of certain foreign oil exploratory rights, the Corporation is contingently liable for future payments aggregating $6,667,000.

Subsequent Event

On February 9, 1979, the Corporation announced that it had reached an agreement in principle to acquire all of the capital stock of Slab Fork Coal Company, a producer of low-volatile metallurgical coal, in exchange for 1,494,288 shares of its common stock. The transaction is subject to certain conditions, including the satisfactory completion of further investigations, the execution of a definitive acquisition agreement, and the approval of the Corporation's Board of Directors as well as the Board of Directors and shareholders of Slab Fork.

BUSINESS SEGMENT INFORMATION

1978

	Coal	Lead	Zinc	Oil & Gas	International Minerals	Other	Total
Net Sales:	(In thousands)						
Domestic Operations:							
Domestic Sales	$283,783	$168,252	$133,055	$ 16,519	—	$ 7,412	$609,021
Export Sales (a)	149,511	5,873	1,711	—	—	—	157,095
Intersegment Sales (b)	1,962	2,622	1,191	—	—	(5,775)	—
Foreign Operations (c)	—	—	—	24,239	$ 8,080	—	32,319
Total (d)	$435,256	$176,747	$135,957	$ 40,758	$ 8,080	$ 1,637	$798,435
Operating Profit (Loss) (e):							
Domestic Operations	$ 9,575	$ 79,474	$(10,674)	$ (749)	—	$(1,107)	$ 76,519
Foreign Operations (c)	—	—	—	12,571	$ 403	—	12,974
Total	$ 9,575	$ 79,474	$(10,674)	$ 11,822	$ 403	$(1,107)	$ 89,493
Assets at December 31 (f):							
Domestic Operations	$300,785	$111,257	$159,072	$100,423	—	$48,952	$720,489
Foreign Operations (g)	—	—	—	147,974	$43,339	—	191,313
Total	$300,785	$111,257	$159,072	$248,397	$43,339	$48,952	$911,802
Depletion, Depreciation and Amortization	$ 25,043	$ 5,360	$ 5,720	$ 15,746	$ 38	$ 1,157	$ 53,064
Capital Expenditures	$ 57,516	$ 7,381	$ 12,338	$ 68,025	$14,905	$ 921	$161,086

(a) Export sales by geographical area are as follows:

	1978	1977
	(In thousands)	
Far East	**$ 70,656**	$104,941
Europe	**47,320**	67,597
South America	**37,428**	38,147
Other	**1,691**	1,707
Total	**$157,095**	$212,392

(b) Intersegment sales are based on prices approximating current market values.

(c) Canadian operations

(d) Net sales include coal sales to Duke Power Company of $85,380,000 and $79,848,000 in 1978 and 1977, respectively.

(e) Operating profit is calculated as net sales plus/minus all items of income/expense directly associated with the business segment. In computing operating profit, none of the following items has been added or deducted: corporate overhead expenses, exploration, interest income/expense, dividends from unconsolidated subsidiaries, income taxes and sundry income/ expense. A reconciliation of operating profit to income before income taxes follows:

	1978	1977
	(In thousands)	
Operating Profit	**$ 89,493**	$ 99,156
Unallocated Income (Expense)	**(27,143)**	11,387
Income Before Income Taxes	**$ 62,350**	$110,543

(f) Identifiable assets by industry are those assets that are used in the Corporation's operations in each segment of business. Corporate assets included under the caption "Other" are $40,837,000 and $32,760,000 for 1978 and 1977, respectively.

	1977 (h)						
	Coal	Lead	Zinc	Oil & Gas	International Minerals	Other	Total
Net Sales:				(In thousands)			
Domestic Operations:							
Domestic Sales	$223,360	$143,429	$139,464	$ 18,867	—	$29,384	$554,504
Export Sales (a)	206,914	3,851	1,627	—	—	—	212,392
Intersegment Sales (b)	—	—	—	—	—	—	—
Foreign Operations (c)	—	—	—	23,321	$ 1,063	—	24,384
Total (d)	$430,274	$147,280	$141,091	$ 42,188	$ 1,063	$29,384	$791,280
Operating Profit (Loss) (e):							
Domestic Operations	$ 14,474	$ 66,009	$ 5,138	$ 1,212	—	$ 2,642	$ 89,475
Foreign Operations (c)	—	—	—	9,908	$ (227)	—	9,681
Total	$ 14,474	$ 66,009	$ 5,138	$ 11,120	$ (227)	$ 2,642	$ 99,156
Assets at December 31 (f):							
Domestic Operations	$241,459	$111,069	$153,424	$ 89,124	—	$42,545	$637,621
Foreign Operations (g)	—	—	—	115,873	$26,578	—	142,451
Total	$241,459	$111,069	$153,424	$204,997	$26,578	$42,545	$780,072
Depletion, Depreciation and Amortization	$ 22,475	$ 5,163	$ 5,617	$ 18,447	$ 202	$ 1,706	$ 53,610
Capital Expenditures	$ 62,375	$ 2,621	$ 19,916	$ 48,094	$ 9,993	$ 3,105	$146,104

(g) Assets of foreign operations by geographical area are as follows:

	1978	1977
	(In thousands)	
Canada	**$ 94,583**	$ 81,730
North Sea	**57,922**	34,293
Australia	**28,551**	15,765
Other	**10,257**	10,663
Total	**$191,313**	$142,451

(h) Certain 1977 amounts have been reclassified to conform with 1978 reportable segment classifications.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all subsidiaries except those operating in South America (see foreign operations). All significant intercompany transactions and balances are eliminated.

Exploration and Development

Oil and Gas

Costs related to the exploration and development of oil and gas properties are capitalized by certain broad areas of interest under the full-cost method of accounting. Such costs include land and lease acquisition costs, geological and geophysical expenditures and costs of drilling productive and non-productive wells. Pending the discovery of commercial reserves in any area of interest, exploration and development expenditures are amortized generally over five years. When commercial reserves are discovered, the unamortized expenditures are depleted on the unit-of-production method based upon estimated recoverable reserves in the area of interest; when areas of interest are abandoned, the unamortized expenditures are charged to expense.

Coal

Development costs of specific coal properties when expected to be significant are capitalized in mine development and depleted on the unit-of-production method. Significant lease acquisition costs are capitalized in mining properties and mineral rights and depleted on the unit-of-production method.

Metals

Costs incurred for exploration of metals are generally expensed as incurred. Development expenditures to bring new mineral properties into production, comprising substantially all surface mine development expenditures and initial underground installations, are capitalized and charged to expense on the straight-line method over 20 years. Subsequent maintenance and underground development expenditures are charged to expense.

Depreciation

Buildings, plant and equipment are depreciated essentially by the straight-line method over estimated lives (ranging from 3 to 50 years). Upon disposal of depreciable assets, their cost and related accumulated depreciation are cleared from the accounts and the resultant profit or loss is included in net income. Maintenance and repair expenditures are charged to expense as incurred; major renewals and betterments are capitalized.

Goodwill

Goodwill arising from acquisitions is amortized over appropriate periods not exceeding 40 years.

Pension Plan Costs

The Corporation and its subsidiaries have several pension plans (principally non-contributory) covering substantially all of their employees. Pension costs consist of normal costs and amortization of prior service costs over periods ranging from 5 to 30 years and are generally funded as accrued.

Income Taxes

Deferred Federal and Canadian income taxes are provided for the tax effects of items reported in different periods for financial and income tax reporting purposes relating principally to accelerated depreciation, and write-off for tax purposes of mineral and oil and gas exploration and development expenditures as incurred.

Deferred Federal income taxes on the accumulated undistributed earnings ($34,083,000 at December 31, 1978) of consolidated foreign subsidiaries are not provided because it is expected that such earnings will be reinvested by such subsidiaries.

Investment tax credits are applied as reductions of Federal income tax provisions in years in which they arise.

Net Income Per Share

Net income per share is computed based on the average number of shares of common stock outstanding during each year. The dilution in net income per share which would arise from the assumed exercise of stock options is not material.

Auditing Committee

The Corporation's auditing committee, which is composed of four outside members of the Board of Directors, meets a minimum of four times a year. The Committee has unrestricted access to the Corporation's independent auditors.

Replacement Cost (Unaudited)

In compliance with rules and regulations of the Securities and Exchange Commission, the Corporation has calculated information related to the replacement cost of its productive capacity and the depreciation charges that would correspond with such replacement costs. Inventories and cost of sales have also been calculated on a replacement cost basis. The details of this information are available in the Corporation's 1978 Annual Report on Form 10-K to the SEC.

The Corporation establishes the sales prices of its products primarily on the basis of competitive market conditions, rather than directly on costs incurred. Consequently, the impact on the Corporation's earnings of increased costs arising from inflation is not readily determinable.

Deloitte
Haskins+Sells

Two Broadway
New York New York 10004

The Shareholders of St. Joe Minerals Corporation:

We have examined the statements of consolidated financial position of St. Joe Minerals Corporation and consolidated subsidiaries as of December 31, 1978 and 1977 and the related statements of consolidated income, shareholders' equity and changes in consolidated financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and expressed our unqualified opinions on the consolidated financial statements for the three years ended December 31, 1976 (not presented herewith) from which the comparative information accompanying the statements of consolidated income was prepared.

In our opinion, such consolidated financial statements present fairly the financial position of St. Joe Minerals Corporation and consolidated subsidiaries at December 31, 1978 and 1977 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the comparative information presents fairly in all material respects the information set forth on a basis consistent with the financial statements referred to above.

Deloitte Haskins & Sells

February 1, 1979 (February 9, 1979
as to the proposed acquisition
described under Subsequent Event).

ST. JOE MINERALS CORPORATION

Incorporated March 25, 1864, under the laws of the State of New York. Corporate Headquarters: 250 Park Avenue, New York, N.Y. 10017 (212) 953-5000

Annual Meeting

The Annual Meeting of the Corporation will be held on Monday, May 14, 1979, at 2:00 P.M. at the Auditorium of the Federal Reserve Bank of Richmond, 701 East Byrd Street, Richmond, Virginia.

Stock Trading

The stock of St. Joe Minerals Corporation is traded on the New York, Midwest, Pacific Coast and Toronto stock exchanges. Its symbol is SJO.

Transfer Agents

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

National Trust Company, Limited
21 King Street East
Toronto, Ontario M5C 1B3

Registrars

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

Crown Trust Company
312 Bay Street
Toronto, Ontario M5H 2P4

Auditors

Deloitte Haskins & Sells
Two Broadway
New York, New York 10004

BOARD OF DIRECTORS

Gene K. Beare †
Director of Various Corporations

D. Broward Craig*
President

Bernard F. Desloge †
Vice President
Killark Electric Manufacturing Co.
Electrical fittings

John C. Duncan*
Chairman and
Chief Executive Officer

Warren E. Fenzi*
President
Phelps Dodge Corporation
Metal mining

William R. Grant †
Vice Chairman
Endowment Management and
Research Corporation
Investment counselors

Arthur Howe, Jr. †
Educational Consultant

Wing L. Lew
Consultant

Robert V. Lindsay*
Chairman of the Executive
Committee
Morgan Guaranty Trust
Company of New York
Commercial banking

E. Morgan Massey
President and
Chief Executive Officer
A. T. Massey Coal Co., Inc.

Joseph V. McKee, Jr.*
Chairman and President
National Union Electric
Corporation
Electrical appliances

Smiley Raborn, Jr.
Chairman and
Chief Executive Officer
CanDel Oil Ltd.

Lawrason Riggs III
Former Chairman

L. Chase Ritts, Jr.
Vice President—Petroleum

CORPORATE OFFICERS

John C. Duncan
Chairman and Chief
Executive Officer

D. Broward Craig
President

James L. Broadhead
Vice President—Zinc

Charles R. Carlisle
Vice President

R. V. Cronin
Vice President

John W. Hanselman
Vice President—Administration

John C. Harned
Vice President

Marvin E. Lane
Vice President—Mining

L. Chase Ritts, Jr.
Vice President—Petroleum

Joseph G. Sevick
Vice President—Technology

Thomas N. Walthier
Vice President—Exploration

Leroy K. Wheelock
Vice President

John A. Wright
Vice President—Lead

Charles E. Barnett
General Counsel and Secretary

Harold T. Read
Controller

Robert A. Sherman
Treasurer

John L. Afton
Assistant Secretary

Joseph J. Grzymski
Assistant Vice President—Auditing

Paul Kershon
Assistant Controller

John T. Leyden
Assistant Vice President—Taxes

C. Patrick Sharpe
Assistant Treasurer

*Member of Executive Committee
†Member of Auditing Committee

EXPLORATION AND DEVELOPMENT

Thomas N. Walthier
Vice President—Exploration

J. W. Horton
Vice President, St. Joe American Corporation
Tucson, Arizona

RESEARCH AND DEVELOPMENT

Gardner L. Brown
Director—Corporate Research

Michael V. Rose
Director—Commercial Development

Stanley J. Kostman
Director—Corporate Development

ENVIRONMENTAL PLANNING

Gary E. Welch
Director—Corporate Environmental Planning

COMMUNICATIONS AND SHAREHOLDER INFORMATION

Robert W. Peckham
Director of Corporate Communications

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SUBSIDIARY AND DIVISION EXECUTIVES

Coal

A. T. Massey Coal Company, Inc.—*Richmond, Virginia*
E. Morgan Massey, President and Chief Executive Officer

Tennessee Consolidated Coal Company—
Jasper, Tennessee
Paul V. Callis, Chairman and Chief Executive Officer

Oil and Gas

CanDel Oil Ltd.—*Calgary, Alberta, Canada*
Smiley Raborn, Jr., Chairman and Chief Executive Officer

Coquina Oil Corporation—*Midland, Texas*
Pomeroy Smith, Chairman and Chief Executive Officer

St. Joe Petroleum Corporation—*New York, New York*
L. Chase Ritts, Jr., President and Chief Executive Officer

Minerals

St. Joe Lead Company—*Clayton, Missouri*
John A. Wright, President

St. Joe Zinc Company—*Pittsburgh, Pennsylvania*
James L. Broadhead, President

St. Joe International Company—*New York, New York*
Leroy K. Wheelock, President

Cia. Minera Aguilar, S.A.—*Buenos Aires, Argentina*
Marco J. Rossetti, Managing Director

Cia. Minerales Santander, Inc.—*Lima, Peru*
Harold E. Waller, Jr., Vice President and General Manager

Energy Research Corporation—*Danbury, Connecticut*
Bernard S. Baker, President

Formet Technology Corporation—*Pittsburgh, Pennsylvania*
J. A. Young, President

Jododex Australia Pty. Ltd.—*Sydney, N.S.W., Australia*
Desmond F. O'Driscoll, Chairman

Mineracao Sao Jose Ltda.—*Rio de Janeiro, Brazil*
Jan D. Koene, Manager

Placer Service Corp.—*New York, New York*
William H. Breeding, President

St. Joe American Corporation—*New York, New York*
Thomas N. Walthier, President

St. Joseph Explorations Limited—*Toronto, Ontario, Canada*
Robert M. Ginn, Vice President

Form 10-K

Copies of St. Joe's current Annual Report on Form 10-K to the Securities and Exchange Commission are available to shareholders upon written request to the Director of Corporate Communications, St. Joe Minerals Corporation, 250 Park Avenue, New York, New York 10017.

St. Joe Minerals Corporation is an equal opportunity employer.

St. Joe Minerals Corporation
250 Park Avenue
New York, New York 10017