C

Steep Rock Resources Inc.

ANNUAL REPORT, 1983

BOARD OF DIRECTORS

ROBERT S. DEMONE
Oakville, Ontario

†GERALD R. HEFFERNAN
Toronto, Ontario

†RICHARD M. HOGARTH
Willowdale, Ontario

*J. DESMOND KENNY
Calgary, Alberta

*LAURENCE J. LAMB
Mississauga, Ontario

*PETER M. NIXON
Sault Ste. Marie, Ontario

†CHARLES I. RATHGEB
Toronto, Ontario

*Member of the Executive Committee
†Member of the Audit Committee

AUDITORS

CLARKSON GORDON
Toronto, Ontario

TRANSFER AGENTS

THE CANADA TRUST COMPANY
Toronto, Ontario
and
BANK OF MONTREAL TRUST COMPANY
New York, New York

OFFICERS

LAURENCE J. LAMB
Chairman of the Board
President & Chief Executive Officer

LOUIS ZUCCHIATTI
Vice President Finance & Secretary

DAVID S. STOTLAND
Controller

GORDON S. MacLEAN
Assistant Secretary

MAURICE ST. LOUIS
Assistant Secretary

BERJ J. ZAFIRIAN
Assistant Treasurer

RESOURCE DEVELOPMENT MANAGER

GERARD E. WOOD
Toronto, Ontario

MINE MANAGER — ATIKOKAN

COLIN F. MacIVER

STEEP ROCK CALCITE DIVISION PERTH, ONTARIO

DIVISION VICE PRESIDENT OF OPERATIONS

GARY DUSCHL

MARKETING MANAGER

CARL C. DIRKES

ANNUAL MEETING

The Annual and Special Meeting of the Shareholders of Steep Rock Resources Inc. will be held in the Algonquin Room, Royal York Hotel, Toronto, Ontario on April 10, 1984 at 10:00 a.m.

PRESIDENT'S LETTER TO THE SHAREHOLDERS

The most significant corporate events in 1983 were the declaration of two special dividends. These two dividends, $3.75 per common share paid on June 10, and $2.65 per common share paid on November 25, resulted in a total payment to shareholders of $51,607,374. Since the termination of operations in Atikokan in 1979, the Company had maintained a strong working capital position to enable it to re-enter the iron ore industry at an opportune time, to enter the industrial minerals industry through new developments or acquisitions and to fund projects resulting from geological exploration in Northwestern Ontario. During 1982 it became evident that there was substantial excess production capacity in the North American iron ore market and no new facilities would be required in this decade. It also became evident, in 1983, that there was no immediate requirement for large capital outlays by the Company for acquisitions or new mine development. Given these facts, the Board of Directors declared the special dividends.

Net earnings for 1983 were $1,062,930, $741,433 lower than the net earnings in 1982. In 1982 there were extraordinary items charged to earnings and earnings before these items were $3,804,250. The reduction in net earnings was due to lower interest income which in turn was due to significantly lower interest rates in 1983 and the lower amount available for investment. This interest related reduction in net earnings was offset to some extent by improved performance at the Calcite Division.

Working capital at year end 1983 was $2,603,582, $49,794,580 lower than the comparable figure for 1982. The major reasons for the reduction in Working capital were the special dividend payments.

During 1983, the expansion project at the Calcite Division at Perth, Ontario was completed at a cost of $7,310,000. This expansion will double the fine and medium fine grind capacity at this Division. The added capacity contributed to improved performance in 1983 and further improvements are expected in future years.

Early in 1983, the Company reported on its gold exploration program near Sturgeon Lake in Northwestern Ontario. At that time, interesting gold values had been encountered in three diamond drill holes on mining claims held under option. During the year the size of the property was increased to 166 claims in the area, most of which are held under option. The exploration program on these claims included line cutting, geophysical and geochemical surveys, and geological mapping. As a result of this work, several target areas were identified for further examination by diamond drilling. By year end 36 holes had been drilled on the claim group, a total of 17,048 feet. Gold mineralization was encountered in minor quantities in most of these holes but no economically viable deposit has yet been outlined. The most encouraging result was obtained on hole number KB-35 located three kilometres east of the original discovery area. Assays from this hole average 0.188 ounces of gold per ton over 31 feet. The exploration program will be continued in 1984.

There has been no significant improvement in the North American iron ore market. The pellet plant and related facilities at Atikokan are being dismantled and the Company has dropped its option on the Bending Lake property. Arrangements have been made whereby the Company could re-acquire its interest in this property if warranted by future market conditions.

At the Annual Meeting of Shareholders in April 1983, the name of the Company was changed to Steep Rock Resources Inc. from Steep Rock Iron Mines Limited. The new name reflects the direction of the Company away from the iron ore industry, and into development and production of a wider range of mineral resources.

The Company continued to examine further opportunities in the industrial minerals industry. These examinations included geological exploration in Southeastern Ontario and acquisition possibilities in other parts of Canada. There is also room for further development of the Calcite Division and feasibility studies are in progress. It is anticipated that investment opportunities arising from these activities will be financed through capital markets.

In August of 1983, Mr. W. John Stenason resigned his position as a Director of Steep Rock after eight years in that position and his contributions to the Company are noted with appreciation. Mr. J. Desmond Kenny was appointed to the Board of Directors in October 1983.

The appreciation of Management is also extended to the employees and Directors of Steep Rock for their continued dedication and guidance.

L.J. LAMB
CHAIRMAN OF THE BOARD
PRESIDENT
AND
CHIEF EXECUTIVE OFFICER

FEBRUARY 15, 1984

STEEP ROCK RESOURCES INC.
(INCORPORATED UNDER THE LAWS OF ONTARIO)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1983
(WITH COMPARATIVE FIGURES AT DECEMBER 31, 1982)

ASSETS

	1983	1982
CURRENT ASSETS:		
Short-term interest-bearing deposits with parent company (note 2)	$ 2,720,694	$52,398,153
Accrued interest	6,903	187,886
Accounts receivable	650,110	982,695
Inventory (note 3)	1,691,903	1,774,587
Prepaid expenses	97,819	15,114
Total current assets	5,167,429	55,358,435
FIXED ASSETS (note 4)	13,800,907	13,911,564
OTHER ASSETS:		
Deferred development expenditures (note 5)	1,184,208	1,184,208
Other (note 6)	784,359	835,328
Total other assets	1,968,567	2,019,536
	$20,936,903	$71,289,535

On behalf of the Board:
L.J. Lamb, Director
R.M. Hogarth, Director

(See notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1983	1982
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,651,318	$ 2,619,963
Income and other taxes payable	250,248	340,310
Dividends payable	662,281	
Total current liabilities	2,563,847	2,960,273
LONG-TERM LIABILITIES (note 7)	756,779	1,042,541
DEFERRED INCOME TAXES	5,203,450	4,329,450
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized:		
10,000 — preference shares		
10,666,666 — common shares		
Issued:		
8,063,652 — common shares	8,063,652	8,063,652
Contributed surplus	3,674,675	3,674,675
Retained earnings	674,500	51,218,944
Total shareholders' equity	12,412,827	62,957,271
	$20,936,903	$71,289,535

STEEP ROCK RESOURCES INC.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1983
(WITH COMPARATIVE FIGURES FOR 1982)

	1983	1982
INCOME:		
Sales	$ 4,477,127	$ 4,202,124
Interest income (note 2)	3,302,437	8,343,534
Gain on disposal of fixed assets	486,086	649,135
	8,265,650	13,194,793
COSTS AND EXPENSES:		
Operating costs, other than those shown below	3,328,332	3,283,307
Administrative and corporate expenses	719,428	717,275
Property maintenance and security — Atikokan	520,213	622,906
Exploration and development	1,040,606	822,774
Interest	99,425	123,823
Depreciation and depletion	731,716	713,458
	6,439,720	6,283,543
EARNINGS before income taxes and extraordinary items	1,825,930	6,911,250
INCOME TAXES:		
Current	(111,000)	2,609,000
Deferred	874,000	498,000
	763,000	3,107,000
EARNINGS before extraordinary items	1,062,930	3,804,250
EXTRAORDINARY ITEMS (note 9)		(1,999,887)
NET EARNINGS for the year	1,062,930	1,804,363
RETAINED EARNINGS, beginning of year	51,218,944	49,414,581
DIVIDENDS	(51,607,374)	
RETAINED EARNINGS, end of year	$ 674,500	$51,218,944
EARNINGS PER SHARE:		
Before extraordinary items	$0.13	$0.47
Net earnings for the year	$0.13	$0.22

(See notes to consolidated financial statements)

STEEP ROCK RESOURCES INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1983
(WITH COMPARATIVE FIGURES FOR 1982)

	1983	1982
SOURCE OF FUNDS:		
From operations —		
Earnings before extraordinary items	$ 1,062,930	$ 3,804,250
Add (deduct) items not affecting working capital:		
Depreciation and depletion	731,716	713,458
Gain on disposal of fixed assets	(486,086)	(649,135)
Deferred income taxes	874,000	498,000
Total funds from operations	2,182,560	4,366,573
Sale of fixed assets	498,079	760,828
	2,680,639	5,127,401
APPLICATION OF FUNDS:		
Additions to fixed assets (note 4)	633,052	5,481,990
Increase (decrease) in other assets	(50,969)	10,124
Decrease in long-term liabilities	285,762	294,089
Dividends paid	51,607,374	
Payment in lieu of obligations under gas contract (note 9)		1,450,492
	52,475,219	7,236,695
Decrease in working capital	(49,794,580)	(2,109,294)
Working capital, beginning of year	52,398,162	54,507,456
WORKING CAPITAL, end of year	$ 2,603,582	$ 52,398,162
Changes in components of working capital:		
Increase (decrease) in current assets —		
Short-term interest-bearing deposits with parent company	$(49,677,459)	$ (2,715,778)
Accrued interest	(180,983)	(167,686)
Accounts receivable	(332,585)	321,459
Inventory	(82,684)	208,982
Prepaid expenses	82,705	(53,625)
	(50,191,006)	(2,406,648)
Decrease (increase) in current liabilities —		
Accounts payable and accrued liabilities	968,645	(1,286,372)
Dividends payable	(662,281)	
Income and other taxes payable	90,062	1,583,726
	396,426	297,354
DECREASE IN WORKING CAPITAL	$(49,794,580)	$ (2,109,294)

(See notes to consolidated financial statements)

STEEP ROCK RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1983

1. Summary of significant accounting policies

The consolidated financial statements of the company have been prepared by management in accordance with accounting principles generally accepted in Canada consistently applied. These principles are in conformity, in all material respects, with accounting principles generally accepted in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Basis of consolidation —

The financial statements are prepared on a consolidated basis to include the accounts of the company and its wholly-owned subsidiaries, Steerola Explorations Limited, Sanjo Iron Mines Limited and Don Park Homesites Limited.

(b) Inventory —

Inventory is valued at the lower of average cost and net realizable value.

(c) Fixed assets —

Fixed assets are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets at the following rates:

Buildings	5%
Equipment	7%-25%
Furniture and leasehold improvements	20%

Depletion on the land and quarry at Perth is provided on the unit of production method based on the estimated proven reserves of the property.

(d) Income taxes —

The company follows the tax allocation basis of accounting for income tax. Under this method, timing differences between accounting income and the amount of income reported for tax purposes (which arise principally as a result of claiming depreciation at rates differing from those recorded in the accounts) result in the provision for deferred taxes.

(e) Leases —

Assets leased by the company under agreements which transfer substantially all of the benefits and risks of ownership of the asset to the company are accounted for as capital leases. Accordingly, at the inception of the leases, the assets and related obligations are recorded at an amount equal to the present value of future payments discounted at the interest rates that would apply had the related funds been borrowed by the company.

2. Short-term interest-bearing deposits with parent company

In accordance with an agreement with its parent company, funds surplus to the company's day-to-day requirements are deposited, in trust, with the parent company for short-term investment purposes. These deposits carry interest at rates at least equal to the interest rates paid from time to time by a leading Chartered Bank on equivalent deposits. Total income earned on these deposits amounted to $3,302,437 ($8,343,534 in 1982).

3. Inventory

Inventory is summarized as follows:

	1983	1982
Raw materials	$ 975,900	$ 927,031
Work in progress	4,104	49,102
Finished goods	315,750	447,074
Supplies	396,149	351,380
	$1,691,903	$1,774,587

4. Fixed assets

Fixed assets are summarized as follows:

	1983			1982
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Land and quarry	$ 418,600	$ 19,773	$ 398,827	$ 313,289
Buildings	3,003,794	137,346	2,866,448	3,577,721
Equipment:				
Under capital leases	480,989	150,597	330,392	382,622
Other	11,830,411	1,665,296	10,165,115	9,569,970
Furniture and leasehold improvements	141,007	100,882	40,125	67,962
	$15,874,801	$2,073,894	$13,800,907	$13,911,564

In 1983, the company received a BILD grant of $1,350,000 from the Province of Ontario through the Small Rural Mineral Development Program to assist in the construction of its production facilities at the Calcite division. The grant received has been accounted for as a reduction of the cost of the related assets.

5. Deferred development expenditures

The deferred development expenditures represent accumulated expenditures (net of recoveries and prior years' write-off) incurred in connection with the company's Lake St. Joseph claims. In view of the current iron ore surplus and other economic factors the company has no plans to proceed with the development of the Lake St. Joseph property at this time. The development of this property at some future date will be dependent on market and economic conditions.

6. Other assets

Other assets are summarized as follows:

	1983	1982
Assets held for resale (at cost less accumulated depreciation)	$572,177	$572,177
Mortgages and sale agreements receivable	184,367	201,158
Housing properties, at cost less accumulated depreciation of $109,281 in 1982		11,993
Sundry	27,815	50,000
	$784,359	$835,328

The carrying value of the assets held for resale does not exceed estimated net realizable value.

7. Long-term liabilities

Long-term liabilities are summarized as follows:

	1983	1982
Obligation under capital leases	$226,403	$ 477,610
Mortgages payable	108,010	65,441
Due to Ontario Hydro by annual installments of $92,357 to November 1, 1989 – interest at 3% per annum	422,366	499,490
	$756,779	$1,042,541

Future payments under capital leases and the present value of these rentals are as follows:

1984	$300,009
1985	75,928
1986	62,774
1987	61,128
1988	52,027
Future years	91,223
	643,089
Less imputed interest at rates averaging 12.5%	167,898
Present value	475,191
Less current portion	248,788
	$226,403

8. Pensions

According to the most recent actuarial valuations, the company's liability for pension costs is fully funded.

9. Extraordinary items

The extraordinary items for the year ended December 31, 1982 consist of:

Payment in lieu of obligations under gas contract (net of related income taxes of $1,558,826)	$1,450,492
Write-off of Bending Lake deferred development expenditures (net of related deferred income taxes of $390,550)	549,395
	$1,999,887

In 1982, the company reached an agreement on the termination of a gas supply contract by paying $3,009,318 to the supplier in lieu of fulfilling its obligation under the contract to purchase minimum annual quantities of gas up to October 31, 1987.

In 1982, the company determined that its Bending Lake project could not proceed during the current decade and as a result the company wrote off deferred development expenditures of $939,945 relating to this property.

AUDITORS' REPORT

To the Shareholders of
Steep Rock Resources Inc.
(formerly Steep Rock Iron Mines Limited):

We have examined the consolidated balance sheet of Steep Rock Resources Inc. as at December 31, 1983 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 10, 1984

CLARKSON GORDON
Chartered Accountants

10 YEARS IN REVIEW

	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
		(Thousands of Dollars)								
Income										
Gross operating revenues	4,477	4,202	3,388	245	35,345	40,096	38,255	31,082	22,741	21,628
Royalty income	—	—	—	—	4,941	7,082	4,916	5,391	3,543	3,683
Investment income	3,303	8,344	9,536	7,207	5,247	2,343	1,034	402	534	769
Gain on disposal of fixed assets	486	649	451	894	2,914	33	13	90	94	6
	8,266	13,195	13,375	8,346	48,447	49,554	44,218	36,965	26,912	26,086
Costs and expenses										
Operating costs, etc.	5,609	5,447	5,355	1,980	30,475	34,563	31,859	28,989	22,051	19,839
Interest	99	124	135	52	433	628	777	881	1,022	1,154
Depreciation, depletion and amortization	732	713	686	54	4,169	7,124	7,016	6,910	6,361	3,780
	6,440	6,284	6,176	2,086	35,077	42,315	39,652	36,780	29,434	24,773
Earnings (loss) before income and mining taxes and extraordinary items	1,826	6,911	7,199	6,260	13,370	7,239	4,566	185	(2,522)	1,313
Income and mining taxes	763	3,107	3,599	3,277	6,350	3,580	1,813	115	—	510
Earnings (loss) before extraordinary items	1,063	3,804	3,600	2,983	7,020	3,659	2,753	70	(2,522)	803
Extraordinary items										
Payment in lieu of obligations under gas contract (net of related taxes of 1,559)	—	(1,451)	—	—	—	—	—	—	—	—
Write-off of Bending Lake deferred development expenditures (net of related income taxes of 390)	—	(549)	—	—	—	—	—	—	—	—
Income tax credits arising from carry-forward of prior years' write-offs	—	—	—	—	1,981	2,373	1,813	115	—	510
Provision for loss on investments	—	—	—	—	—	—	—	—	(352)	—
	—	(2,000)	—	—	1,981	2,373	1,813	115	(352)	510
Net earnings (loss)	1,063	1,804	3,600	2,983	9,001	6,032	4,566	185	(2,874)	1,313
Per share										
Earnings (loss) before extraordinary items	0.13	0.47	0.45	0.37	0.87	0.45	0.34	0.01	(0.31)	0.10
Net earnings (loss)	0.13	0.22	0.45	0.37	1.12	0.75	0.57	0.02	(0.36)	0.16
Dividends	6.40	—	—	—	—	—	—	—	—	—
Product sales (000 Tons)										
Iron ore and pellets	2	3	13	16	980	1,324	1,432	1,313	1,065	1,362
Royalty ore	—	—	—	—	1,244	1,996	1,622	1,985	1,358	1,937
Total	2	3	13	16	2,224	3,320	3,054	3,298	2,423	3,299
Calcite Division	105	104	97	—	—	—	—	—	—	—

1984