C

Steep Rock Iron Mines Limited

ANNUAL REPORT, 1982

BOARD OF DIRECTORS

ROBERT S. DEMONE
Oakville, Ontario

†GERALD R. HEFFERNAN
Toronto, Ontario

†RICHARD M. HOGARTH
Willowdale, Ontario

*LAURENCE J. LAMB
Mississauga, Ontario

*PETER M. NIXON
Sault Ste. Marie, Ontario

†CHARLES I. RATHGEB
Toronto, Ontario

*W. JOHN STENASON
Calgary, Alberta

*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

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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 General Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held in the Algonquin Room, Royal York Hotel, Toronto, Ontario on April 12, 1983 at 10:00 a.m.

PRESIDENT'S LETTER TO THE SHAREHOLDERS

Earnings for 1982, before extraordinary items, were $3,804,250, a six per cent increase over the earnings for 1981 when there were no extraordinary items. The reasons for the increase include improved performance at the Calcite Division and greater sales of fixed assets at Atikokan. These improvements were off-set to some extent by lower interest income resulting from the lower interest rates that prevailed during 1982 when compared with 1981. Net earnings for the year were reduced to $1,804,363 as a result of extraordinary items pertaining to a natural gas contract and certain development expenditures. The details of these items are stated in Note 9 of the accompanying Notes to Consolidated Financial Statements of this report. Working Capital at year-end was $52,398,162.

As noted above, performance at the Calcite Division improved. There were substantial increases in tonnage sold and in total sales revenue as well as improved operating efficiency. This resulted in positive earnings, as contrasted with a loss during the first year of operations. During the year your Board of Directors approved a $6,250,000 plant expansion, designed to double the present production capacity of fine and medium grind products. Markets for this capacity have been identified within the economic reach of the plant. The Ontario Government, through the Small Rural Mineral Development program, has approved the Company's application for a BILD grant of $1,350,000 toward the capital cost of the project. The expanded plant construction is essentially complete, and new production is expected in March of 1983.

The Company has continued its geological exploration program. As part of this program, the Company acquired a block of 113 patented and unpatented mining claims near Sturgeon Lake in Northwestern Ontario. Geophysical work and some confirmatory diamond drilling were undertaken late in 1982. The object of the drilling was to assess the potential of a high grade gold occurrence that had been reported by others. In January 1983 the Company reported that the exploration work confirmed the existence of an auriferous vein system extending over a minimum strike length of 200 feet. The vein system is open on strike and to depth. The Company recognizes that other high grade gold prospects are known to exist in the area and are limited in extent. However, it considers this zone to merit further work. Geophysical work which has been done indicates that the geological structure may extend further, but additional drilling is required and is currently underway.

In the industrial minerals program, exploration and development work was continued also, primarily in Southern Ontario. This work is continuing with the objective of reaching a production decision as permitted by economic and other conditions. As in previous years, corporate acquisitions were considered but rejected for various reasons.

There has been further deterioration in the market for iron ore in the Great Lakes Region. Annual production capacity exceeded the 1982 actual production by approximately 53 million tons or 58 per cent of that capacity. This over supply situation is expected to continue, and for this reason, the Company does not believe that its Bending Lake project can economically proceed during the current decade. The pellet plant and other mining equipment which has been maintained at Atikokan in stand-by condition is now available for sale.

The appreciation of Management is again extended to our employees and Directors for their diligent efforts and guidance.

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

FEBRUARY 15, 1983

STEEP ROCK IRON MINES LIMITED
(INCORPORATED UNDER THE LAWS OF ONTARIO)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1982
(WITH COMPARATIVE FIGURES AT DECEMBER 31, 1981)

ASSETS

	1982	1981
CURRENT ASSETS:		
Short-term interest-bearing deposits with parent company (note 2)	$52,398,153	$55,113,931
Accrued interest	187,886	355,572
Accounts receivable	982,695	661,236
Inventory (note 3)	1,774,587	1,565,605
Prepaid expenses	15,114	68,739
Total current assets	55,358,435	57,765,083
FIXED ASSETS (note 4)	13,911,564	9,679,208
OTHER ASSETS:		
Deferred development expenditures (note 5)	1,184,208	2,124,153
Other (note 6)	835,328	400,721
Total other assets	2,019,536	2,524,874
	$71,289,535	$69,969,165

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

(See notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1982	1981
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 2,619,963	$ 1,333,591
Income and other taxes payable	340,310	1,924,036
Total current liabilities	2,960,273	3,257,627
LONG-TERM LIABILITIES (note 7)	1,042,541	1,336,630
DEFERRED INCOME TAXES	4,329,450	4,222,000
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized:		
10,000 — preference shares of $100 each		
10,666,666 — common shares of $1 each		
Issued:		
8,063,652 — common shares	8,063,652	8,063,652
Contributed surplus	3,674,675	3,674,675
Retained earnings	51,218,944	49,414,581
Total shareholders' equity	62,957,271	61,152,908
	$71,289,535	$69,969,165

STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1982
(WITH COMPARATIVE FIGURES FOR 1981)

	1982	1981
INCOME:		
Sales	$ 4,202,124	$ 3,387,758
Interest income (note 2)	8,343,534	9,536,013
Gain on disposal of fixed assets	649,135	451,235
	13,194,793	13,375,006
COSTS AND EXPENSES:		
Operating costs, other than those shown below	3,283,307	3,222,149
Administrative and corporate expenses	717,275	600,532
Property maintenance and security — Atikokan	622,906	694,041
Exploration and development	822,774	838,080
Interest	123,823	134,918
Depreciation and depletion	713,458	686,361
	6,283,543	6,176,081
EARNINGS before income taxes and extraordinary items	6,911,250	7,198,925
INCOME TAXES:		
Current	2,609,000	1,938,000
Deferred	498,000	1,661,000
	3,107,000	3,599,000
EARNINGS before extraordinary items	3,804,250	3,599,925
EXTRAORDINARY ITEMS (note 9)	(1,999,887)	
NET EARNINGS for the year	1,804,363	3,599,925
RETAINED EARNINGS, beginning of year	49,414,581	45,814,656
RETAINED EARNINGS, end of year	$51,218,944	$49,414,581
EARNINGS PER SHARE:		
Before extraordinary items	$0.47	$0.45
Net earnings for the year	$0.22	$0.45

(See notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1982
(WITH COMPARATIVE FIGURES FOR 1981)

	1982	1981
SOURCE OF FUNDS:		
From operations —		
Earnings before extraordinary items	$ 3,804,250	$ 3,599,925
Add (deduct) items not affecting working capital:		
Depreciation and depletion	713,458	686,361
Gain on disposal of fixed assets	(649,135)	(451,235)
Deferred income taxes	498,000	1,661,000
Total funds from operations	4,366,573	5,496,051
From sale of fixed assets	760,828	548,135
From payments on mortgages and sale agreements receivable	4,876	24,592
From increase in mortgages payable		51,042
	5,132,277	6,119,820
APPLICATION OF FUNDS:		
Additions to fixed assets	5,481,990	427,158
Increase in mortgage and sale agreements receivable	15,000	
Current portion of long-term liabilities	294,089	220,734
Payment in lieu of obligations under gas contract (note 9)	1,450,492	
	7,241,571	647,892
Increase (decrease) in working capital	(2,109,294)	5,471,928
Working capital, beginning of year	54,507,456	49,035,528
WORKING CAPITAL, end of year	$52,398,162	$54,507,456
Changes in components of working capital:		
Increase (decrease) in current assets —		
Short-term interest-bearing deposits with parent company	$(2,715,778)	$ 8,728,805
Accrued interest	(167,686)	333,161
Accounts receivable	321,459	422,766
Inventory	208,982	(72,412)
Income taxes recoverable		(1,940,000)
Prepaid expenses	(53,625)	54,773
	(2,406,648)	7,527,093
Decrease (increase) in current liabilities —		
Accounts payable and accrued liabilities	(1,286,372)	(131,129)
Income and other taxes payable	1,583,726	(1,924,036)
	297,354	(2,055,165)
INCREASE (DECREASE) IN WORKING CAPITAL	$(2,109,294)	$ 5,471,928

(See notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1982

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 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 drawn up 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	Various rates over expected useful lives (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 or acquisition 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 $8,343,534 ($9,289,751 in 1981).

3. INVENTORY

Inventory is summarized as follows:

	1982	1981
Raw materials	$ 927,031	$ 553,034
Work in progress	49,102	48,785
Finished goods	447,074	580,738
Supplies	351,380	383,048
	$1,774,587	$1,565,605

4. FIXED ASSETS

Fixed assets are summarized as follows:

	1982			1981
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Land and quarry	$ 327,165	$ 13,876	$ 313,289	$ 321,439
Buildings	3,660,349	82,628	3,577,721	845,729
Equipment:				
Under capital leases	476,221	93,599	382,622	433,047
Other	10,660,719	1,090,749	9,569,970	7,441,999
Furniture and leasehold improvements	129,290	61,328	67,962	64,817
Assets being retained for possible use at Bending Lake (note 6):				
Under capital lease				503,526
Other				68,650
Plant, buildings and equipment - at nominal value				1
	$15,253,744	$1,342,180	$13,911,564	$9,679,208

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:

	1982	1981
Assets held for resale (at cost less accumulated depreciation)	$572,177	
Mortgages and sale agreements receivable	201,158	$191,034
Housing properties, at cost less accumulated depreciation (1982 - $109,281; 1981 - $452,915)	11,993	159,686
Sundry	50,000	50,001
	$835,328	$400,721

Assets held for resale consist of the pellet plant and other mining equipment which had been maintained in stand-by condition for use in connection with the Bending Lake project. As the company does not believe that this project can proceed during the current decade, the assets, which were classified as fixed assets in 1981, are now being held for resale. These assets are valued at the lower of net book value and net realizable value.

7. Long-term liabilities

Long-term liabilities are summarized as follows:

	1982	1981
Obligation under capital leases	$ 477,610	$ 628,908
Mortgages payable	65,441	133,389
Due to Ontario Hydro by annual installments of $92,357 to November 1, 1989 - interest at 3% per annum	499,490	574,333
	$1,042,541	$1,336,630

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

1983	$223,425
1984	301,381
1985	75,928
1986	62,774
1987	61,128
Future years	143,220
	867,856
Less imputed interest at rates averaging 12.5%	236,068
Present value	631,788
Less current portion	154,178
	$477,610

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 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

The notes to the company's consolidated financial statements for the year ended December 31, 1981 referred to a contingent liability in connection with the company's gas supply contract and mentioned that the supplier had not accepted the company's right to suspend the contract in accordance with the "force majeure" clause contained therein but was seeking a court declaration that the gas contract was in full force and effect and that the company was obliged to pay for the minimum annual quantities as provided in the contract from November 1, 1979 up to and including October 31, 1987.

In 1982 the company reached agreement with the gas company on this matter. Accordingly the company agreed to pay the supplier $3,009,318 in lieu of its obligations under the contract, and the contract has been terminated.

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

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
STEEP ROCK IRON MINES LIMITED

We have examined the consolidated balance sheet of Steep Rock Iron Mines Limited as at December 31, 1982 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, 1982 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 11, 1983

CLARKSON GORDON
CHARTERED ACCOUNTANTS

10 YEARS IN REVIEW

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
					(Thousands of Dollars)					
Income										
Gross operating revenues	4,202	3,388	245	35,345	40,096	38,255	31,082	22,741	21,628	19,620
Royalty income	—	—	—	4,941	7,082	4,916	5,391	3,543	3,683	3,335
Investment income	8,344	9,536	7,207	5,247	2,343	1,034	402	534	769	563
Gain on fixed asset disposals	649	451	894	2,914	33	13	90	94	6	76
	13,195	13,375	8,346	48,447	49,554	44,218	36,965	26,912	26,086	23,594
Costs and expenses										
Operating costs, etc.	5,447	5,355	1,980	30,475	34,563	31,859	28,989	22,051	19,839	18,229
Interest	124	135	52	433	628	777	881	1,022	1,154	1,331
Depreciation, depletion and amortization	713	686	54	4,169	7,124	7,016	6,910	6,361	3,780	3,592
	6,284	6,176	2,086	35,077	42,315	39,652	36,780	29,434	24,773	23,152
Earnings (loss) before income and mining taxes and extraordinary items	6,911	7,199	6,260	13,370	7,239	4,566	185	(2,522)	1,313	442
Income and mining taxes	3,107	3,599	3,277	6,350	3,580	1,813	115	—	510	—
Earnings (loss) before extraordinary items	3,804	3,600	2,983	7,020	3,659	2,753	70	(2,522)	803	442
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	48
Provision for loss on investments	—	—	—	—	—	—	—	(352)	—	—
Special payment received from Ontario Hydro (net of related tax)	—	—	—	—	—	—	—	—	—	291
	2,000	—	—	1,981	2,373	1,813	115	(352)	510	339
Net earnings (loss)	1,804	3,600	2,983	9,001	6,032	4,566	185	(2,874)	1,313	781
Per share										
Earnings (loss) before extraordinary items	0.47	0.45	0.37	0.87	0.45	0.34	0.01	(0.31)	0.10	0.05
Net earnings (loss)	0.22	0.45	0.37	1.12	0.75	0.57	0.02	(0.36)	0.16	0.10
Dividends	—	—	—	—	—	—	—	—	—	—
Products sales (000 Tons)										
Iron ore and pellets	3	13	16	980	1,324	1,432	1,313	1,065	1,362	1,442
Royalty ore	—	—	—	1,244	1,996	1,622	1,985	1,358	1,937	2,000
Total	3	13	16	2,224	3,320	3,054	3,298	2,423	3,299	3,442
Calcite Division	104	97	—	—	—	—	—	—	—	—