Steep Rock Iron Mines Limited

ANNUAL REPORT, 1981

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
Montreal, Quebec

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

AUDITORS

CLARKSON GORDON
Toronto, Ontario

TRANSFER AGENTS

CROWN 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
Assistant 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 Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held in the Manitoba Room, Royal York Hotel, Toronto, Ontario on April 13, 1982 at 10:00 a.m.

PRESIDENT'S LETTER TO THE SHAREHOLDERS

Net earnings for 1981 were $3,599,925, $617,164 higher than in 1980. The main reason for the increased earnings was the higher interest rates that prevailed for much of 1981. Working Capital improved $5,471,928 during the year to $54,507,456 at year end.

At the end of 1980, Steep Rock acquired a Calcium Carbonate operation at Perth, Ontario. This operation has been named the Steep Rock Calcite Division. Calcium Carbonate products are produced from high purity crystalline marble which is quarried from a Steep Rock owned mineral property at Tatlock, Ontario, 24 miles north of Perth. These products cover a broad range from decorative garden stone to micron sized, white, high quality filler for use in paints, plastics, rubber, carpet backing, vinyl tiles, joint compounds, cultured marble and other industries. Market acceptance of these products continued to be excellent and sales rose by 27% from approximately $2,500,000 in 1980 to $3,186,458 in 1981. It is anticipated that facilities will be added in 1982 to permit Steep Rock Calcite to expand its production of the higher value fine grind products. Proven mineral reserves will permit over 25 years production at the expanded production rate.

The diamond drilling program on the Gateford Mines Limited property under the Option Agreement with Queenston Gold Mines Limited, which was begun in 1980, was continued in 1981. Five holes were drilled during the year totalling 4,318 feet, to investigate untested areas of the Larder Lake Break and to test a structure that was interpreted from the 1980 drilling. Only minor gold values were encountered in this program and consequently Steep Rock terminated its option agreement on the property in July.

The Company has also been active in other areas of geological exploration. Claims with base and precious metal potential were staked in the Atikokan area following the release of geological information by the Ontario Ministry of Natural Resources. These claims are being examined as part of an ongoing exploration program.

In industrial minerals, exploration and development programs were directed towards the discovery and production of specific mineral products including nepheline syenite, feldspar, silica, talc and mica. The programs are continuing towards an objective of reaching a production decision on one or more projects, possibly in 1982. Several corporate acquisitions were considered in varying amounts of detail, but were rejected for various reasons.

The iron ore market outlook did not improve during 1981. It is difficult to predict with certainty when either the Bending Lake or Lake St. Joseph properties will be developed. Nevertheless the Company renegotiated its option on the Bending Lake property for an additional three years ending on December 31, 1984. It should be noted that certain tax incentives that were meant to encourage the use of Canadian iron ore by Canadian steel companies were excluded in the provisions of the November 1981 Federal Budget. This action, if implemented, will result as a further deterrent to Canadian iron ore development.

The death of Mr. John N. Paterson during 1981 is noted with sincere regret. Mr. Paterson served this company with distinction as a Director from 1949 until 1979 and as Chairman of the Board of Directors for ten of those years. The sympathy of all of us who were privileged to know and work with him is extended to Mrs. Paterson and her family.

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

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

FEBRUARY 15, 1982

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

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1981
(WITH COMPARATIVE FIGURES AT DECEMBER 31, 1980)

ASSETS

	1981	1980
CURRENT:		
Short-term interest-bearing deposits with parent company (note 2)	$55,113,931	$46,385,126
Accrued interest	355,572	22,411
Accounts receivable	661,236	238,470
Inventory (note 3)	1,565,605	1,638,017
Income taxes recoverable		1,940,000
Prepaid expenses	68,739	13,966
Total current assets	57,765,083	50,237,990
FIXED ASSETS (note 4)	9,679,208	9,902,411
OTHER ASSETS:		
Deferred development expenditures (note 5)	2,124,153	2,124,153
Housing properties owned, at cost less accumulated depreciation (1981 — $452,915; 1980 — $638,866)	159,686	292,586
Mortgages and sale agreements receivable	191,034	215,626
Other	50,001	50,001
Total other assets	2,524,874	2,682,366
	$69,969,165	$62,822,767

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

(See notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1981	1980
CURRENT:		
Accounts payable and accrued liabilities	$ 1,333,591	$ 1,202,462
Income and other taxes payable	1,924,036	
Total current liabilities	3,257,627	1,202,462
NON-CURRENT:		
Ontario Hydro liability (note 6)	574,333	646,962
Obligation under capital leases (note 7)	628,908	772,089
Mortgages payable	133,389	87,271
Total non-current liabilities	1,336,630	1,506,322
DEFERRED INCOME TAXES	4,222,000	2,561,000
CONTINGENT LIABILITY (note 9)		
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	49,414,581	45,814,656
Total shareholders' equity	61,152,908	57,552,983
	$69,969,165	$62,822,767

STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1981
(WITH COMPARATIVE FIGURES FOR 1980)

	1981	1980
INCOME:		
Sales	$ 3,387,758	$ 244,657
Interest income (note 2)	9,536,013	7,206,705
Gain on disposal of fixed assets	451,235	894,298
	13,375,006	8,345,660
COSTS AND EXPENSES:		
Operating costs, other than those shown below	3,222,149	169,755
Administrative and corporate expenses	600,532	769,310
Property maintenance and security — Atikokan	694,041	511,589
Exploration and development	838,080	497,378
Interest	134,918	51,781
Depreciation and depletion	686,361	53,796
Sundry exchange losses		32,290
	6,176,081	2,085,899
EARNINGS before income taxes	7,198,925	6,259,761
INCOME TAXES		
Current	1,938,000	716,000
Deferred	1,661,000	2,561,000
	3,599,000	3,277,000
NET EARNINGS for the year	3,599,925	2,982,761
RETAINED EARNINGS, beginning of year	45,814,656	42,831,895
RETAINED EARNINGS, end of year	$49,414,581	$45,814,656
EARNINGS PER SHARE:	$0.45	$0.37

(See notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1981
(WITH COMPARATIVE FIGURES FOR 1980)

	1981	1980
SOURCE OF FUNDS:		
From operations –		
Net earnings for the year	$ 3,599,925	$ 2,982,761
Add (deduct) items not affecting working capital:		
Depreciation and depletion	686,361	53,796
Gain on disposal of fixed assets	(451,235)	(894,298)
Deferred income taxes	1,661,000	2,561,000
Total funds from operations	5,496,051	4,703,259
From sale of fixed assets	548,135	968,346
From payments on mortgages and sale agreements receivable	24,592	15,742
From increase in mortgages payable	51,042	
	6,119,820	5,687,347
APPLICATION OF FUNDS:		
Business acquisition –		
Additions to fixed assets		9,266,152
Less obligations under capital leases		481,952
Less mortgages assumed		144,134
		8,640,066
Other additions to fixed assets	427,158	6,912
	427,158	8,646,978
Additions to deferred development expenditures		84,494
Additions to other assets		50,000
Current portions of mortgages, deferred liability and lease obligations	220,734	254,601
Other		67,200
	647,892	9,103,273
Increase (decrease) in working capital	5,471,928	(3,415,926)
Working capital, beginning of year	49,035,528	52,451,454
WORKING CAPITAL, end of year	$54,507,456	$49,035,528
Changes in components of working capital:		
Increase (decrease) in current assets –		
Short-term interest-bearing deposits with parent company	$ 8,728,805	$46,385,126
Cash and deposit certificates		(49,650,579)
Short-term investments		(5,540,380)
Accrued interest	333,161	(793,007)
Accounts receivable	422,766	(2,323,928)
Inventory	(72,412)	1,414,965
Income taxes recoverable	(1,940,000)	1,940,000
Prepaid expenses	54,773	(201,341)
	7,527,093	(8,769,144)
Decrease (increase) in current liabilities –		
Accounts payable and accrued liabilities	(131,129)	153,618
Income and other taxes payable	(1,924,036)	5,199,600
	(2,055,165)	5,353,218
INCREASE (DECREASE) IN WORKING CAPITAL	$ 5,471,928	$(3,415,926)

(See notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1981

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 except for the mining properties, plant building and certain equipment at Atikokan which have been written down to a nominal value.

Generally 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%

No depreciation is being provided on the assets being retained for possible use at Bending Lake since they are not in use and it is estimated that their residual value exceeds carrying value.

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 $9,289,751,($7,070,460 in 1980).

3. Inventory

Inventory is summarized as follows:

	1981	1980
Supplies	$ 383,048	$ 199,862
Raw materials	553,034	169,955
Work in progress	48,785	170,483
Finished goods	580,738	1,097,717
	$1,565,605	$1,638,017

4. Fixed assets

Fixed assets are summarized as follows:

	1981			1980
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
At Perth –				
Land and quarry	$ 327,165	$ 5,726	$ 321,439	$ 327,200
Buildings	883,123	37,394	845,729	724,800
Equipment –				
Under capital leases	481,952	48,905	433,047	481,952
Other	7,980,336	538,337	7,441,999	7,732,200
At Toronto –				
Furniture and leasehold improvements	80,319	37,490	42,829	58,896
At Atikokan –				
Equipment being retained for possible use at Bending Lake –				
Under capital lease	503,526		503,526	503,526
Other	68,650		68,650	68,650
Plant, buildings and equipment – at nominal value	1		1	1
Mining properties – at nominal value	1		1	1
Mobile equipment	25,141	5,408	19,733	5,185
Exploration equipment	2,504	250	2,254	
	$10,352,718	$673,510	$9,679,208	$9,902,411

5. Deferred development expenditures

Deferred development expenditures are as follows:

	1981	1980
Lake St. Joseph	$1,184,208	$1,184,208
Bending Lake	939,945	939,945
	$2,124,153	$2,124,153

The deferred development expenditures relating to Lake St. Joseph represent accumulated expenditures (net of recoveries and prior years' write-offs) incurred in connection with the company's Lake St. Joseph claims.

The deferred development expenditures relating to Bending Lake represent the amounts expended by the company to December 31, 1981 with respect to the possible development of an iron oxide deposit located approximately 40 air miles from Atikokan. Feasibility studies have been conducted jointly with The Algoma Steel Corporation, Limited and Canadian Pacific Enterprises Limited. The company has an option which, if exercised, will entitle it to lease the claims from the present owner upon payment of $1,500,000 (in five annual instalments) and future royalties based on production. This option expires on December 31, 1984.

In view of the current iron ore surplus and other economic factors the company has no plans to proceed with the development of either the Lake St. Joseph properties or the Bending Lake property at this time. The development of these properties at some future date will be dependent on market and economic conditions. The pellet plant at Atikokan is being kept in good condition, and property security maintained, for possible use in connection with the Bending Lake project.

6. Ontario Hydro liability

Under a 1949 agreement relating to the required diversion of the Seine River for purposes of the former mining operation at Atikokan, the company is committed to make annual payments of $92,357 (covering principal, and interest at 3% per annum) to Ontario Hydro until November 1, 1989. The principal portion of these future payments has been provided for in the accounts.

7. Leases

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

1982	$ 226,681
1983	223,425
1984	301,381
1985	75,928
1986	62,774
Future years	204,459
	1,094,648
Less imputed interest at rates averaging 13%	322,560
Present value	772,088
Less current portion	143,180
	$ 628,908

8. Pensions

According to the most recent actuarial valuations, the company's liability for pension costs is fully funded as at December 31, 1980.

9. Contingent liability

The notes to the company's published consolidated financial statements for the year ended December 31, 1980 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.

The matter has now become the subject of litigation. The litigation has reached the stage of production of documents and examinations for discovery, which examinations last continued on December 14 and 15, 1981. The supplier is still maintaining its claim for a declaration that the gas supply contract is in full force and effect, and that Steep Rock is 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 the alternative, the supplier claims damages for breach of contract in the amount of $12 million.

It is the opinion of Counsel for the company that it has a good and valid defence to such claims. The amount of any liability would not be material to the company's financial position.

10. Transactions with related parties

(a) See note 2 regarding deposit arrangements with parent company.

(b) Relocation housing loans to two officers totalling $151,500 are included in mortgages and sale agreements receivable.

11. Comparative figures

Certain comparative figures have been reclassified to conform with presentation adopted in 1981.

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, 1981 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, 1981 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, 1982.

Clarkson Gordon
Chartered Accountants

10 YEARS IN REVIEW

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
					(Thousands of Dollars)					
Income										
Gross operating revenues	3,388	245	35,345	40,096	38,255	31,082	22,741	21,628	19,620	18,730
Royalty income	–	–	4,941	7,082	4,916	5,391	3,543	3,683	3,335	2,968
Investment income	9,536	7,207	5,247	2,343	1,034	402	534	769	563	423
Gain on fixed asset disposals	451	894	2,914	33	13	90	94	6	76	–
	13,375	8,346	48,447	49,554	44,218	36,965	26,912	26,086	23,594	22,121
Costs and expenses										
Operating costs, etc.	5,355	1,980	30,475	34,563	31,859	28,989	22,051	19,839	18,229	16,247
Interest	135	52	433	628	777	881	1,022	1,154	1,331	1,474
Depreciation, depletion and amortization	686	54	4,169	7,124	7,016	6,910	6,361	3,780	3,592	3,584
	6,176	2,086	35,077	42,315	39,652	36,780	29,434	24,773	23,152	21,305
Earnings (loss) before income and mining taxes and extraordinary items	7,199	6,260	13,370	7,239	4,566	185	(2,522)	1,313	442	816
Income and mining taxes	3,599	3,277	6,350	3,580	1,813	115	–	510	–	78
Earnings (loss) before extraordinary items	3,600	2,983	7,020	3,659	2,753	70	(2,522)	803	442	738
Extraordinary items										
Income tax credits arising from carry-forward of prior years' write-offs	–	–	1,981	2,373	1,813	115	–	510	48	78
Provision for loss on investments	–	–	–	–	–	–	(352)	–	–	–
Special payment received from Ontario Hydro (net of related tax)	–	–	–	–	–	–	–	–	291	–
	–	–	1,981	2,373	1,813	115	(352)	510	339	78
Net earnings (loss)	3,600	2,983	9,001	6,032	4,566	185	(2,874)	1,313	781	816
Per share										
Earnings (loss) before extraordinary items	0.45	0.37	0.87	0.45	0.34	0.01	(0.31)	0.10	0.05	0.09
Net earnings (loss)	0.45	0.37	1.12	0.75	0.57	0.02	(0.36)	0.16	0.10	0.10
Dividends	–	–	–	–	–	–	–	–	–	0.15
Products sales (000 Tons)										
Iron ore and pellets	13	16	980	1,324	1,432	1,313	1,065	1,362	1,442	1,469
Royalty ore	–	–	1,244	1,996	1,622	1,985	1,358	1,937	2,000	1,922
Total	13	16	2,224	3,320	3,054	3,298	2,423	3,299	3,442	3,391
Calcite Division	97	–	–	–	–	–	–	–	–	–