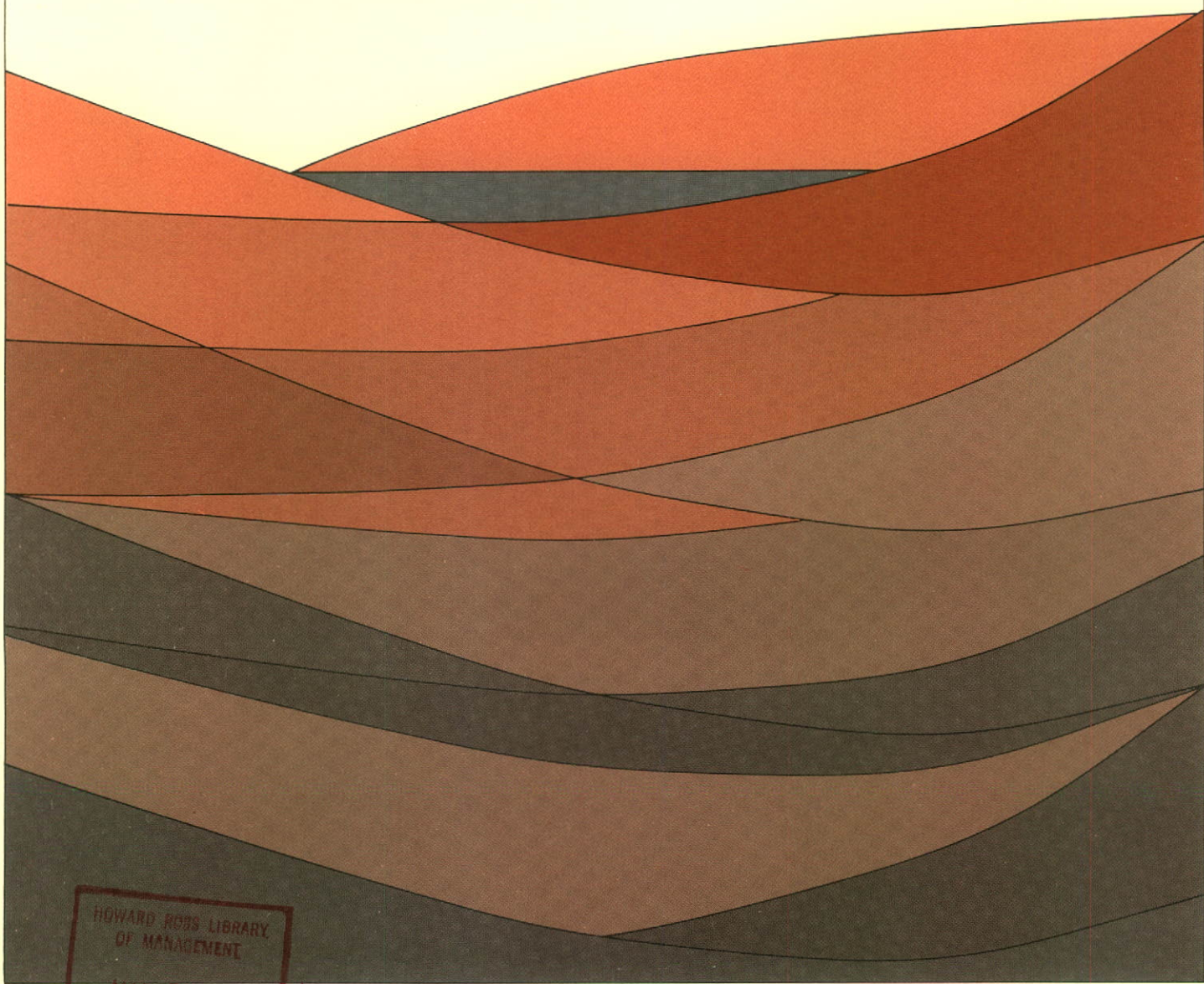


Annual Report 1980

Steep Rock Iron Mines Limited



HOWARD ROBS LIBRARY
OF MANAGEMENT
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BOARD OF DIRECTORS

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Toronto, Ontario

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and
BANK OF MONTREAL TRUST COMPANY
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Assistant Secretary
MAURICE ST. LOUIS
Assistant Secretary
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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 Territories Room, Royal York Hotel, Toronto, Ontario on April 14, 1981 at 10:00 a.m.

PRESIDENT'S LETTER TO THE SHAREHOLDERS

Net earnings for 1980 were \$2,982,761, \$6,018,131 lower than the 1979 net earnings due to the closure of operations at Atikokan during 1979. Revenue in 1980 was mainly from interest income, sale of surplus equipment and the sale of iron ore fines that had been stock-piled prior to the close of operations. Working Capital at the end of 1980 was \$49,035,528.

The year which has just ended was one of transition for Steep Rock, between the termination of active mining operations at Atikokan and the development of new mineral industry activities. The major assets of the Company are its substantial working capital, the extensive Northwestern Ontario iron ore properties, the Atikokan plant and the nucleus of key operating people. These assets could permit the Company to re-enter the iron ore industry when warranted by market conditions. Steep Rock owns the major portion of the undeveloped Lake St. Joseph iron ore property in Northwestern Ontario, and has under option the Bending Lake iron ore property 40 miles northwest of Atikokan. The Bending Lake project would envisage transportation of concentrates by slurry pipeline from the proposed mine site to available pelletizing facilities at Atikokan which are being maintained in a standby condition under 24 hour security. Unfortunately there is presently a substantial over capacity in the iron ore market in the Great Lakes region and it is not feasible for Steep Rock to develop either of these projects at this time. Present market projections indicate it is unlikely that the Bending Lake project would be developed until after the middle of this decade.

The Lake St. Joseph project, which would require all new and larger scale facilities, would probably not be developed until the late 1980's or early 1990's and would probably require participation by two or more steel companies.

In previous reports to the shareholders it has been stated that until it becomes economic to develop the Bending Lake and Lake St. Joseph deposits Steep Rock would seek investment opportunities in the industrial minerals industry. As a result of this policy, in December of 1980 the Company acquired the Perth calcium carbonate division of the William R. Barnes Co. Limited at a purchase price of approximately \$10,000,000.

This operation, which will be the Steep Rock Calcite Division, is located in the area of Perth, Ontario, and manufactures a wide range of calcium carbonate products from high purity crystalline marble, quarried from its mineral property at Tatlock, 24 miles north of Perth. Calcium carbonate products from the Perth operation are marketed under the trade name "Snowwhite" and 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. Initial production began in 1977, and the operation is still in the development stage. Sales have grown each year since 1977 and reached an estimated \$2,500,000 in 1980. The Tatlock mineral property contains a large proven reserve (in excess of 7,000,000 tons) of crystalline marble with a high natural whiteness, high calcium, low magnesium and silica content and an absence of significant amounts of accessory minerals.

It is intended to increase Steep Rock Calcite's production to meet current and future market opportunities with a full range of calcium carbonate products. Proven mineral reserves will permit over 25 years of production at estimated rates.

In July 1980 Steep Rock announced that it had reached an agreement with Queenston Gold Mines Limited whereby Steep Rock would become the operator of the exploration programme on the Gateford Mines Limited property near Kirkland Lake currently under option to Queenston. The 1980 programme included the assembly of available geological data, additional mapping and 4,949 feet of diamond drilling in seven drill holes. Only minor gold values have been encountered to date. The programme will continue in 1981.

Other exploration in 1980 included a substantial diamond drilling programme east of Atikokan on ground optioned from Quetico Exploration and Development Co. Limited. This programme was not successful in locating ore grade mineralization and the option was terminated. Steep Rock has been, and continues to be, active in other areas of exploration and evaluation with the emphasis on industrial minerals.

As a result of terminating operations at Atikokan, the Joint Venture Agreement that was entered into in 1965 with The Algoma Steel Corporation, Limited was also terminated. As provided in the Joint Venture Agreement, Algoma earned an interest in the Lake St. Joseph property and a specific area, known as Area II and containing approximately 25 per cent of the known reserves on the original property, has been assigned to Algoma. Steep Rock has no further obligations to Algoma as a result of termination of the previous agreements.

In July 1980, Mr. G.E. Wood joined the Company as Manager, Resource Development.

At the Annual Meeting in April 1980 Mr. John N. Paterson did not stand for reelection to the Board of Directors. Mr. Paterson had been associated with the Company on a continuous basis since 1949 in various capacities, but most significantly as Chairman of the Board of Directors from 1968 to 1978. Mr. Paterson's dedicated service to the Company is recognized and sincerely appreciated. He was replaced on the Board by Mr. Charles I. Rathgeb.

The appreciation of Management is also extended to the employees and Directors whose contribution has been significant during this transition period of the Company's history.

We continue to look forward with confidence in the Company's future.

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

FEBRUARY 20, 1981

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

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1980
(WITH COMPARATIVE FIGURES AT DECEMBER 31, 1979)

ASSETS

	<u>1980</u>	<u>1979</u>
CURRENT:		
Short-term interest-bearing deposits with parent company (note 3)	\$46,504,015	
Cash and deposit certificates		\$49,650,579
Short-term investments, at cost which approximates market value		5,540,380
Accrued interest	22,411	815,418
Accounts receivable – Algoma Steel Corporation (affiliated company)	180,166	187,666
Other	58,304	2,374,732
Inventory (note 4)	1,638,017	223,052
Income taxes recoverable	1,940,000	
Prepaid expenses	13,966	215,307
Total current assets	<u>50,356,879</u>	<u>59,007,134</u>
FIXED ASSETS (note 5)	<u>9,902,411</u>	<u>647,142</u>
OTHER ASSETS:		
Deferred development expenditures (note 6)	2,124,153	2,039,659
Housing properties owned, at cost less accumulated depreciation (1980 – \$638,866; 1979 – \$729,287)	292,586	402,635
Mortgages and sale agreements receivable	215,626	231,368
Other	50,001	1
Total other assets	<u>2,682,366</u>	<u>2,673,663</u>
	<u>\$62,941,656</u>	<u>\$62,327,939</u>

(See notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980	1979
CURRENT:		
Cheques issued but not paid	\$ 118,889	
Accounts payable and accrued liabilities	1,202,462	\$ 1,356,080
Income and other taxes payable		5,199,600
Total current liabilities	<u>1,321,351</u>	<u>6,555,680</u>
NON-CURRENT:		
Ontario Hydro liability (note 7)	646,962	717,443
Obligation under capital leases (note 8)	772,089	417,394
Mortgages payable	87,271	
Unfunded pension liability (note 9)		67,200
Total non-current liabilities	<u>1,506,322</u>	<u>1,202,037</u>
DEFERRED INCOME TAXES	<u>2,561,000</u>	
CONTINGENT LIABILITY (note 10)		
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	<u>45,814,656</u>	<u>42,831,895</u>
Total shareholders' equity	57,552,983	54,570,222
On behalf of the Board:		
L.J. Lamb, Director		
G.R. Heffernan, Director	<u>\$62,941,656</u>	<u>\$62,327,939</u>

STEEP ROCK IRON MINES LIMITED

**CONSOLIDATED STATEMENT OF EARNINGS
AND RETAINED EARNINGS**

YEAR ENDED DECEMBER 31, 1980
(WITH COMPARATIVE FIGURES FOR 1979)

	<u>1980</u>	<u>1979</u>
INCOME:		
Gross operating revenues –		
From production for Algoma Steel Corporation		\$35,203,234
Other sales revenue	\$ 244,657	141,762
	244,657	35,344,996
Interest income (note 3)	7,206,705	5,246,465
Gain on disposal of fixed assets	894,298	2,914,448
Royalty income		4,941,051
	<u>8,345,660</u>	<u>48,446,960</u>
COSTS AND EXPENSES:		
Operating costs, other than those shown below	169,755	25,830,908
Administrative and corporate expenses	769,310	1,225,792
Property maintenance and security – Atikokan	511,589	240,618
Exploration and development	497,378	150,631
Interest	51,781	432,876
Depreciation	53,796	3,106,334
Depletion		120,046
Amortization of deferred development expenditures		942,165
Termination costs and expenses		2,976,437
Sundry exchange losses (gains)	32,290	(65,221)
Write-down of investment in other mining company		116,482
	<u>2,085,899</u>	<u>35,077,068</u>
EARNINGS before income and, in 1979, mining taxes and extraordinary item	<u>6,259,761</u>	<u>13,369,892</u>
INCOME and, in 1979, MINING TAXES:		
Current	716,000	6,350,000
Deferred	2,561,000	
	<u>3,277,000</u>	<u>6,350,000</u>
EARNINGS before extraordinary item	<u>2,982,761</u>	<u>7,019,892</u>
EXTRAORDINARY ITEM:		
Income tax credit arising from carry-forward of prior years' write-offs		1,981,000
NET EARNINGS for the year	<u>2,982,761</u>	<u>9,000,892</u>
RETAINED EARNINGS, beginning of year	<u>42,831,895</u>	<u>33,831,003</u>
RETAINED EARNINGS, end of year	<u>\$45,814,656</u>	<u>\$42,831,895</u>
PER SHARE:		
Earnings before extraordinary items	<u>\$0.37</u>	<u>\$0.87</u>
Net earnings for the year	<u>\$0.37</u>	<u>\$1.12</u>

(See notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1980
(WITH COMPARATIVE FIGURES FOR 1979)

	1980	1979
SOURCE OF FUNDS:		
From operations –		
Earnings before extraordinary item	\$ 2,982,761	\$ 7,019,892
Add (deduct) items not affecting working capital:		
Depreciation	53,796	3,106,334
Depletion		120,046
Amortization of deferred development expenditures		942,165
Net reduction of deferred overburden removal costs		2,435,022
Gain on disposal of fixed assets	(894,298)	(2,914,448)
Provision for future payments to Ontario Hydro and and unfunded pension liability		155,971
Income tax credit arising from carry-forward of prior years' write-offs		1,981,000
Deferred income taxes	2,561,000	
Write-down of investment in other mining company		116,482
Total funds from operations	4,703,259	12,962,464
From sale of fixed assets	968,346	2,944,584
From payments on mortgages and sale agreements receivable	15,742	
	<u>5,687,347</u>	<u>15,907,048</u>
APPLICATION OF FUNDS:		
Business acquisition –		
Additions to fixed assets	9,266,152	
Less obligations under capital leases	481,952	
Less mortgages assumed	144,134	
	<u>8,640,066</u>	
Other additions to fixed assets	6,912	912,430
Less obligations under capital lease		417,394
	<u>8,646,978</u>	495,036
Additions to deferred development expenditures	84,494	
Additions to other assets	50,000	
Current portions of mortgages, deferred liability and lease obligations	254,601	
Other	67,200	25,803
	<u>9,103,273</u>	<u>520,839</u>
Increase (decrease) in working capital	(3,415,926)	15,386,209
Working capital, beginning of year	52,451,454	37,065,245
WORKING CAPITAL, end of year	<u>\$49,035,528</u>	<u>\$52,451,454</u>
Changes in components of working capital:		
Increase (decrease) in current assets –		
Short-term interest-bearing deposits with parent company	\$46,504,015	
Cash and deposit certificates	(49,650,579)	\$24,340,951
Short-term investments	(5,540,380)	(2,791,128)
Accrued interest	(793,007)	604,605
Accounts receivable –		
Algoma Steel Corporation (affiliated company)	(7,500)	(3,287,458)
Other	(2,316,428)	307,281
Inventory	1,414,965	(8,866,529)
Income taxes recoverable	1,940,000	
Prepaid expenses	(201,341)	(63,809)
Supplies		(1,343,831)
	<u>(8,650,255)</u>	<u>8,900,082</u>
Decrease (increase) in current liabilities –		
Cheques issued but not paid	(118,889)	
Accounts payable and accrued liabilities	153,618	2,831,259
Income and other taxes payable	5,199,600	(3,980,600)
Current instalments of mortgage bond principal		7,635,468
	<u>5,234,329</u>	<u>6,486,127</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$(3,415,926)</u>	<u>\$15,386,209</u>

(See notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1980

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) 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.

(d) 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. BUSINESS ACQUISITION

On December 31, 1980 the company acquired the assets and assumed certain liabilities of a calcium carbonate quarry and plant located near Perth, Ontario, the details of which are as follows:

Assets acquired:

Inventory.....	\$ 1,462,300
Equipment.....	8,214,152
Buildings.....	724,800
Land and quarry.....	327,200
	<u>10,728,452</u>

Less liabilities assumed

Obligations under capital leases.....	481,952
Mortgages.....	144,134
	<u>626,086</u>

Net purchase price (paid in cash).....\$10,102,366

This transaction has been accounted for by the purchase method and is reflected in the accompanying balance sheet at December 31, 1980. However, the company's statement of earnings for 1980 does not reflect any income from the Perth operation since it was not acquired until the last day of the fiscal year.

As the operation, under the prior owners, was in the start-up

phase during the period 1977-1980, and was financed and managed on a basis different from that which will prevail in future, it is not considered meaningful to attempt to reflect results of operations on a pro forma basis as though the acquisition had been made at the beginning of the 1980 fiscal year.

3. 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 \$7,070,460.

4. INVENTORY

Inventory is summarized as follows:

	1980	1979
At Perth –		
Supplies	\$ 199,862	
Raw materials	169,955	
Work in progress	170,483	
Finished goods	922,000	
	<u>1,462,300</u>	
At Atikokan –		
Processed ore	175,717	\$223,052
	<u>\$1,638,017</u>	<u>\$223,052</u>

5. FIXED ASSETS

Fixed assets are summarized as follows:

	1980		1979	
	Cost	Accumulated depreciation	Net book value	Net book value
At Perth –				
Land and quarry	\$ 327,200		\$ 327,200	
Buildings	724,800		724,800	
Equipment –				
Under capital leases	481,952		481,952	
Other	7,732,200		7,732,200	
At Toronto –				
Furniture and leasehold improvements	80,319	\$21,423	58,896	\$ 74,964
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	6,912	1,727	5,185	
	<u>\$9,925,561</u>	<u>\$23,150</u>	<u>\$9,902,411</u>	<u>\$647,142</u>

No depreciation has been provided on the assets at Perth as they were not acquired until the end of the 1980 fiscal year. Depreciation is being provided on furniture and leasehold improvements at the Toronto office at the rate of 20% per annum. Except for certain items which are being retained for possible use in the Bending Lake project, the mining properties, plant, buildings and equipment at Atikokan have been written down to a nominal value. No depreciation is being provided on the assets being retained for use at Bending Lake since they are not in use and it is estimated that their residual value is in excess of their present carrying value.

6. DEFERRED DEVELOPMENT EXPENDITURES

Changes in deferred development expenditures during the year were as follows:

	Lake St. Joseph	Bending Lake	Total
Balance, December 31, 1979	\$1,184,208	\$855,451	\$2,039,659
Expenditures during year		84,494	84,494
Balance, December 31, 1980	<u>\$1,184,208</u>	<u>\$939,945</u>	<u>\$2,124,153</u>

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, 1980 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, 1981.

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.

7. 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.

8. LEASES

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

1981	\$ 227,318
1982	226,681
1983	223,425
1984	301,381
1985	75,928
Future years	<u>267,233</u>
	1,321,966
Less imputed interest at rates averaging 13%	<u>417,491</u>
Present value	904,475
Less current portion	<u>132,386</u>
	<u>\$ 772,089</u>

9. PENSIONS

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

10. CONTINGENT LIABILITY

The notes to the company's published consolidated financial statements for the year ended December 31, 1979 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 are now scheduled for February 24 through 27, 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 not possible, at this time, to estimate the amount, if any, of the company's contingent liability in connection with this matter; however, it is the opinion of Counsel for the company that it has a good and valid defence to such claims, and that the amount of any liability would not be material to the company's financial position.

11. TRANSACTIONS WITH RELATED PARTIES

(a) See note 3 regarding deposit arrangements with parent company.

(b) In the Company's 1978 published statements it was noted that upon termination of operations at Atikokan in 1979 The Algoma Steel Corporation, Limited, an affiliated company, and a joint venture participant in such operations, would be granted its remaining "unearned" interest in certain of the Company's Lake St. Joseph claims (which interest was being acquired at a rate based on the volume of ore shipped under the 1965 joint venture contract to any point of time and the total tonnage covered by the contract). At the same time Steep Rock was to be relieved of any obligation to complete the production of the additional tonnage called for by the contract.

These arrangements were confirmed by a formal termination agreement entered into by the two parties in 1980, and a specific area known as Area II and containing approximately 25% of the known reserves on the Lake St. Joseph properties has been assigned to Algoma.

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

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with presentation adopted in 1980.

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, 1980 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, 1980 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 19, 1981.

CLARKSON GORDON
CHARTERED ACCOUNTANTS

