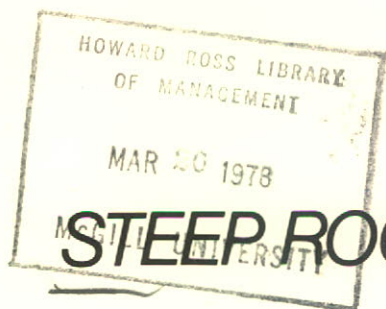




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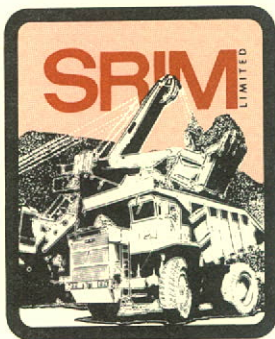


STEEL ROCK IRON MINES LIMITED

Front Cover

Our cover photo is a view of the Hogarth Open Pit looking North, showing the stripping development on the hangingwall to allow access to the ore in the pit bottom.

Photo by R. Stark



BOARD OF DIRECTORS

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Thunder Bay, Ontario

* W. JOHN STENASON
Montreal, Quebec

* LOUIS ZUCCHIATTI
Atikokan, Ontario

* Member of the Executive Committee

† Member of the Audit Committee

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Oxford, Connecticut

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Atikokan, Ontario

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LAURENCE J. LAMB
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Vice President Finance & Secretary

PETER M. NIXON
Vice President

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Vice President

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Controller & Assistant Secretary

GORDON S. MacLEAN
Assistant Secretary

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Thunder Bay, Ontario

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Toronto, Ontario

and
BANK OF MONTREAL TRUST COMPANY
New York, N.Y.

GENERAL COUNSEL

JOHN A. CAMPBELL
Toronto, Ontario

CONSULTING GEOLOGIST

M. W. BARTLEY
Thunder Bay, Ontario

GENERAL MANAGER

BRUCE W. TAYLOR

DIVISION MANAGERS

ALWYN K. BAYLES, *Metallurgical*

JOHN P. DUGGAN, *Accounting*

H. EDWIN JACKSON, *Employee Relations and Assistant to the President*

COLIN F. MacIVER, *Mining*

LEON J. PERRIER, *Maintenance and Services*

ANNUAL MEETING

The Annual Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held in Room 3 of the Royal York Hotel, Toronto, Ontario, on April 11, 1978, at 2:00 p.m.

PRESIDENT'S LETTER TO THE SHAREHOLDERS

Net earnings for 1977 were \$4,565,777, a substantial improvement over the 1976 earnings of \$184,923. Total shipments for the year were 1,431,592 tons, which included 107,109 tons that were in stockpile at the beginning of the year. Pellet tonnage shipped to The Algoma Steel Corporation, Limited was 1,314,017, and 10,466 tons of red ore were shipped to other companies. The tonnage shipped to Detroit Steel Corporation was the final tonnage under a 10-year contract.

The major reasons for the improved earnings were the increased tonnage shipped, the relatively smooth operation throughout the year, and the effect of the exchange rate of the Canadian dollar to the United States dollar. All pellet and royalty revenues are based on U.S. currency values. There was an increase in the iron ore pellet price of approximately six per cent in January 1977. Revenue from royalty payments was approximately \$1,100,000 lower than expected because of a reduction in the minimum royalty tonnage in 1977, claimed under a provision of the lease agreement, due to mine operating problems encountered by Caland Ore Company. The financial statements for 1977 have been prepared on the basis of an accelerated write-off, through 1979, as was the case in 1975 and 1976.

Working capital improved substantially by \$8,736,139 to \$24,753,660 at year-end.

Employment averaged 609 employees and labour turnover was relatively low. Although there was continued emphasis on safety, there was a slight increase in the accident frequency rate from 9.9 to 10.2. This was the second lowest frequency rate among the iron ore mines of Ontario.

Ore reserves remaining at the end of 1977 were 3,236,000 tons, sufficient to permit mining through 1978 and pelletizing through 1979.

Caland Ore Company Limited has advised Steep Rock that it will terminate its lease on the "C" orebody at the end of 1979. This will result in lower royalties in 1979.

Steep Rock has been examining the feasibility of developing an iron oxide deposit at Bending Lake, 40 air miles northwest of Atikokan. This examination included studies on concentration of the ore at the mine site, transportation of the concentrate via a slurry pipeline, and processing of the concentrate in the present Steep Rock pelletizing plant at Atikokan. Economic, environmental, and market conditions were also assessed. In view of the current iron ore surplus, it is not possible at this time to proceed with the development of the Bending Lake Project, but the Company will continue to monitor the iron ore supply/demand situation in the Great Lakes region. Further study of the feasibility of mining in the area currently leased to Caland Ore Company following termination of its lease at the end of 1979 indicates that this project is not economic. Consequently, there is a strong likelihood that Steep Rock will be forced to cease current operations at the end of 1979 or early 1980.

It has been the policy of the Company in recent years to build up working capital so that funds will be available to enable the Company to participate in potential developments. This policy will be continued for the immediate future.

As noted above, there is currently a surplus of iron oxide pellets in the Great Lakes area. This could influence pellet production requirements and pricing structures within the industry in 1978. However, assuming Steep Rock and Local 3466 of the United Steelworkers of America can successfully renegotiate the Collective Agreement which will terminate on April 30, 1978, it can be anticipated that the Company will be able to maintain a year of steady production.

When Canadian Pacific Investments Limited acquired control of Steep Rock in 1976, the size of the Board of Directors was temporarily increased to allow a smooth transition between previous and new Directors. This transition period was completed and the Board of Directors reduced from fifteen to ten members at the Annual Meeting of Shareholders in April 1977. The following Directors retired; John B. Barber, John A. Campbell, Josub David, Richard M. Hogarth, F. Raymond Jones, Robert L. Kaiser, and Joseph D. R. Potter. Charles J. Carter and Louis Zucchiatti were elected to the Board of Directors and W. John Stenason was elected as a Vice President. At the Annual Meeting, the appreciation of the Company was extended to the retiring Directors, some of whom had served for many years.

The appreciation of Management is also extended to the employees of Steep Rock for their contribution to the improved performance of 1977. The guidance and advice of the Board of Directors to Management is also sincerely acknowledged.

L. J. LAMB

PRESIDENT

AND

CHIEF EXECUTIVE OFFICER

FEBRUARY 15, 1978

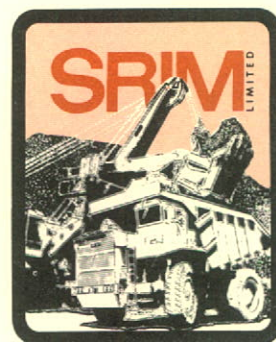
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1977

(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 1976)

ASSETS

	1977	1976
CURRENT		
Cash and deposit certificates	\$13,438,836	\$ 6,563,501
Short-term investments, at cost which approximates market value	3,833,960	2,073,588
Accounts receivable		
Algoma Steel Corporation (affiliated company) for ore produced (Note 1(b))	6,535,218	3,281,652
Other	585,476	1,808,148
Ore inventory, at the lower of cost or net realizable value	4,505,766	5,914,256
Supplies, at cost	1,701,873	1,923,246
Prepaid expenses	185,492	167,158
Total current assets	<u>30,786,621</u>	<u>21,731,549</u>
FIXED ASSETS AND HOUSING		
Mining properties at Atikokan (Notes 1(d), 2 and 4(a))	4,386,393	4,386,393
Less accumulated depletion	<u>3,799,882</u>	<u>3,473,567</u>
	586,511	912,826
Plant, buildings and equipment, at cost (Notes 1(d) and 2)	51,583,705	51,773,199
Less accumulated depreciation	<u>44,024,914</u>	<u>39,389,663</u>
	7,558,791	12,383,536
Housing		
Properties owned, at cost less accumulated depreciation (1977 - \$605,055; 1976 - \$554,827) (Note 1(d))	551,062	614,310
Mortgages and sale agreements receivable	<u>110,079</u>	<u>164,568</u>
	661,141	778,878
Total fixed assets and housing	<u>8,806,443</u>	<u>14,075,240</u>
OTHER ASSETS AND DEFERRED CHARGES		
Deferred overburden removal costs (Notes 1(d) and 4(b))	8,407,254	9,100,950
Deferred development expenditures		
Atikokan (Notes 1(d), 2 and 4(c))	2,744,230	4,337,816
Lake St. Joseph (Note 4(c))	1,385,999	1,396,054
Bending Lake (Note 4(c))	696,373	123,725
Investment in other mining company, at cost (Note 5)	231,483	231,483
Sundry	<u>140,605</u>	<u>158,995</u>
	13,605,944	15,349,023
	<u>\$53,199,008</u>	<u>\$51,155,812</u>

(See accompanying notes to consolidated financial statements)



LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
CURRENT		
Accounts payable and accrued liabilities	\$ 3,193,524	\$ 3,081,207
Accrued interest	50,906	61,379
Mortgage bond principal due within one year	2,788,531	2,571,442
Total current liabilities	<u>6,032,961</u>	<u>5,714,028</u>
NON-CURRENT		
6% First mortgage sinking fund bonds, Series A, due December 1, 1981 — U.S. \$6,755,000 (excluding 1978 principal instalment of U.S. \$2,548,000 included in current liabilities) (Notes 1(c) and 6)	6,923,875	9,856,400
Mortgages payable on employee housing	33,447	69,604
Provision for termination costs (Notes 2 and 9(b))	471,504	314,336
	<u>7,428,826</u>	<u>10,240,340</u>
DEFERRED		
Advance payments received on sale of interest in mining properties (Note 4(c))	200,000	230,000
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 (Note 6)	27,798,894	23,233,117
	<u>39,537,221</u>	<u>34,971,444</u>
On behalf of the Board		
L. J. Lamb, Director		
N. Edmonstone, Director		
	<u>\$53,199,008</u>	<u>\$51,155,812</u>

STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1977

(WITH COMPARATIVE FIGURES FOR 1976)

INCOME	1977	1976
Gross operating revenues		
From production for Algoma Steel Corporation (Note 1(b))	\$35,633,371	\$27,975,612
Other sales revenue	<u>2,622,058</u>	<u>3,106,134</u>
	38,255,429	31,081,746
Royalty income (Note 3)	4,916,049	5,391,080
Investment income	1,033,702	401,808
Gain on disposal of fixed assets	<u>12,913</u>	<u>90,527</u>
	<u>44,218,093</u>	<u>36,965,161</u>
COSTS AND EXPENSES		
Operating costs, other than those shown below	30,571,850	27,898,606
Administrative and corporate expenses	1,144,810	1,289,533
Interest on bonds	777,170	881,021
Depreciation (Note 2)	5,096,564	5,053,852
Depletion (Note 2)	326,315	346,836
Amortization of deferred development expenditures (Note 2)	1,593,586	1,509,884
Sundry exchange losses (gains)	<u>142,021</u>	<u>(199,494)</u>
	<u>39,652,316</u>	<u>36,780,238</u>
EARNINGS before income taxes and extraordinary item	4,565,777	184,923
Income taxes (Note 7)	<u>1,813,000</u>	<u>115,000</u>
EARNINGS before extraordinary item	2,752,777	69,923
EXTRAORDINARY ITEM		
Income tax credit arising from carry forward of prior years' write-offs	<u>1,813,000</u>	<u>115,000</u>
NET EARNINGS for the year	<u>\$ 4,565,777</u>	<u>\$ 184,923</u>
PER SHARE		
Earnings before extraordinary item	<u>\$0.34</u>	<u>\$0.01</u>
Net earnings for the year	<u>\$0.57</u>	<u>\$0.02</u>

(See accompanying notes to consolidated financial statements)

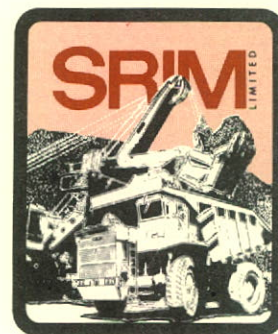
STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1977
(WITH COMPARATIVE FIGURES FOR 1976)

	<u>1977</u>	<u>1976</u>
Balance at beginning of year	\$23,233,117	\$23,048,194
Add net earnings for the year	<u>4,565,777</u>	<u>184,923</u>
Balance at end of year	<u>\$27,798,894</u>	<u>\$23,233,117</u>

(See accompanying notes to consolidated financial statements)



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31 1977

(WITH COMPARATIVE FIGURES FOR 1976)

SOURCE OF FUNDS	1977	1976
From operations		
Earnings before income taxes and extraordinary item	\$ 4,565,777	\$ 184,923
Add (deduct) items not affecting working capital		
Depreciation	5,096,564	5,053,852
Depletion	326,315	346,836
Amortization of deferred development expenditures	1,593,586	1,509,884
Net reduction of deferred overburden removal costs	693,696	2,725,019
Gain on disposal of fixed assets	(12,913)	(90,527)
Provision for termination costs	157,168	157,168
Total funds from operations	12,420,193	9,887,155
Sale of fixed assets	85,205	305,311
Decrease in mortgages and sale agreements receivable	41,794	45,034
	<u>12,547,192</u>	<u>10,237,500</u>
APPLICATION OF FUNDS		
Development expenditures		
Bending Lake	572,648	123,725
Lake St. Joseph (net of amounts received from other participants)	19,945	65,924
Additions to fixed assets and housing	268,168	991,295
Long-term debt paid or included in current liabilities		
Mortgage bonds	2,932,525	2,674,225
Mortgages payable	36,157	46,851
Other	(18,390)	37,172
	<u>3,811,053</u>	<u>3,939,192</u>
Increase in working capital	8,736,139	6,298,308
Working capital at beginning of year	16,017,521	9,719,213
WORKING CAPITAL at end of year	<u>\$24,753,660</u>	<u>\$16,017,521</u>
Changes in components of working capital		
Increase (decrease) in current assets		
Cash and deposit certificates	\$ 6,875,335	\$ 6,042,048
Short-term investments	1,760,372	(3,326,117)
Accounts receivable		
Algoma Steel Corporation (affiliated company) for ore produced	3,253,566	595,927
Other	(1,222,672)	603,859
Ore inventory	(1,408,490)	2,057,465
Supplies	(221,373)	(387,009)
Prepaid expenses	18,334	(14,590)
	<u>9,055,072</u>	<u>5,571,583</u>
Decrease (increase) in current liabilities		
Accounts payable and accrued liabilities	(112,317)	694,683
Accrued interest	10,473	13,697
Mortgage bond principal due within one year	(217,089)	18,345
	<u>(318,933)</u>	<u>726,725</u>
INCREASE IN WORKING CAPITAL	<u>\$ 8,736,139</u>	<u>\$ 6,298,308</u>

(See accompanying notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are those that are generally accepted in Canada. Except for translation of long-term debt (see Note 1(c)) they are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of consolidation

The accompanying statements are drawn up on a consolidated basis to include the accounts of the Company and its subsidiaries, Steerola Explorations Limited, Sanjo Iron Mines Limited and Don Park Homesites Limited (all of which are wholly owned).

(b) Statement presentation of joint venture operations

Under agreements entered into in 1965 certain of the Company's open pit ore reserves at Atikokan were leased to a joint venture participant, The Algoma Steel Corporation, Limited (now an affiliated company), and the Company was appointed operator to mine and process the ore on Algoma's behalf. As in prior years, the 1977 financial statements have been drawn up to reflect in "gross operating revenues" the proceeds received from Algoma for the ore produced, and in "costs and expenses" the full costs of mining and processing the ore.

(c) Exchange translation

The Company's operating revenues and royalty income, which are based on U.S. dollar prices, are reflected in the statement of earnings at their Canadian dollar exchange equivalent for the month in which earned.

U.S. dollar current assets and current liabilities (including long-term debt maturing within one year) are translated to Canadian dollars on the basis of year-end exchange rates (U.S. \$1 = CDN \$1.0944 at December 31, 1977; U.S. \$1 = CDN \$1.0092 at December 31, 1976).

Long-term debt (mortgage bonds) has been translated on the basis of U.S. \$1 = CDN \$1.025, this being the rate adopted following the unpegging of the Canadian dollar on May 31, 1970. Under current United States accounting principles such long-term debt would be translated at year-end rates, rather than at the May 31, 1970 exchange rate. Had U.S. translation principles been followed, the amount shown for long-term debt at December 31, 1977 in Canadian dollars would have been higher by \$468,797 (lower by \$151,933 at December 31, 1976), and net income for 1977 would be lower by \$620,730 (higher by \$46,800 in 1976).

(d) Depreciation, depletion and amortization

Depreciation is provided on the straight-line basis at rates designed to write off the cost of the related assets over their estimated useful lives. As explained in Note 2, current depreciation charges with respect to plant, buildings and equipment are designed to write off the cost of these assets by the end of 1979. Housing assets (which are expected to have a continuing value after 1979) are being written off at an annual rate of 5 per cent.

Depletion of mining properties, and amortization of deferred development expenditures, are provided on the basis of tons of ore produced (including royalty tonnage - Note 3) in relation to the estimated assured and reasonably assured ore reserves from which production or royalty revenue is expected to be received in the period to December 31, 1979. (See Note 2).

Deferred overburden removal costs are charged to production on the basis of tons of ore mined, and at a rate which will amortize such costs over the period to December 31, 1979.

2. FUTURE OPERATIONS AT ATIKOKAN

In the 1975 financial statements it was noted that, for a number of reasons, operations based on the Atikokan orezones presently available to Steel Rock appear to be uneconomic after 1979. While studies have been carried out regarding the possibility of using concentrates from other orebodies for pelletizing in the existing plant, this does not appear feasible at the present time, so that there is a strong likelihood that the Company will be forced to cease current operations at Atikokan at the end of 1979 or early in 1980. Since January 1, 1975, depreciation, depletion and amortization charges have been accelerated with a view to having the mining properties, plant and deferred development expenditures at Atikokan written off by the end of 1979. Since 1975 the Company has also been making annual provisions of \$157,168 to cover certain costs (see Note 9(b)) which might arise in 1979 if operations are terminated in that year and which would not be recoverable from sales or other revenues.

On the basis of ore reserves remaining at the end of 1977 it is expected that earnings in the period 1978-1979 will be sufficient to cover these higher write-offs and provisions (which will affect reported income but not cash flow). The sufficiency of such earnings is subject to some uncertainties that have yet to be resolved, i.e. (a) satisfactory production and termination arrangements that will require continuing discussions with, and the agreement of, the joint venture participant; (b) the extent to which future increases in costs are covered by compensating increases in ore prices; (c) the continuation of mining and pelletizing operations without prolonged interruption from strikes or other causes; and (d) no further losses being sustained by the Company as a result of termination of operations in 1979 other than those that have currently been identified and are being provided for.

3. ROYALTY INCOME

The Company's "C" orezone is leased to Caland Ore Company Limited in consideration for the payment of annual royalties by Caland based on a percentage of the market value of ore produced. The lease agreement specifies a minimum of 2,000,000 tons annually on which royalties shall be payable, which minimum tonnage is subject to further adjustment under certain circumstances as specified in the agreement. The amount of royalty received during the years 1975, 1976 and 1977 was based on the minimum of 2,000,000 tons less adjustments (1975 - 641,818 tons; 1976 - 14,568 tons; 1977 - 378,054 tons) for the periods during which Caland's mining operations were suspended or curtailed as a result of work stoppages or other factors. Steel Rock does not agree with the method used by Caland in calculating some of these adjustments and believes it is entitled to additional royalty revenue for the years in question. The matter is presently under discussion between the two companies and may be submitted to arbitration. The amount of any additional revenue that may be received cannot be determined at this time, and no accrual therefor has been reflected in the accounts.

The lease will be terminated on December 31, 1979, Caland having given notice to this effect during the current year. As a result, the minimum royalty tonnage for 1979, the final year of operations, will be reduced from 2,000,000 tons to 1,000,000 tons.

4. MINING PROPERTIES AND RELATED DEFERRED EXPENDITURES

(a) Mining properties at Atikokan are carried at purchase cost of \$2,459,456 plus a valuation adjustment made in 1943 of \$1,926,937, for a total of \$4,386,393. Depletion provided to December 31, 1977 totals \$3,799,882.

(b) Deferred overburden removal costs represent the unamortized balance of stripping costs relating to the joint venture mining operations referred to in Note 1(b). The changes in this account during 1977 and 1976 may be summarized as follows:

	1977	1976
Balance deferred at beginning of year	\$ 9,100,950	\$11,825,969
Add stripping expenditures during current year	10,457,558	9,835,882
	19,558,508	21,661,851
Deduct amount charged to production on basis of tons of ore mined	11,151,254	12,560,901
Balance deferred at end of year	\$ 8,407,254	\$ 9,100,950

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

	Atikokan	Lake St. Joseph	Bending Lake
Balance December 31, 1976	\$4,337,816	\$1,396,054	\$123,725
Expenditures during year ..	—	19,945	572,648
	4,337,816	1,415,999	696,373
Deduct			
Amortization (Note 1(d))	1,593,586	—	—
Interest acquired by joint venture participant (see below)	—	30,000	—
Balance December 31, 1977	\$2,744,230	\$1,385,999	\$696,373

Deferred development expenditures relating to Atikokan represent the remaining unamortized balance of preproduction expenditures incurred with respect to the properties presently being mined by the Company and Caland Ore Company Limited.

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. Under the joint venture arrangements referred to in Note 1(b) the joint venture participant is entitled to acquire eventual ownership of certain of these claims in consideration for \$500,000, the rate of acquisition of such ownership interest being determined by the relationship between the volume of ore shipped under the main contract to any point of time and the total tonnage covered by the contract. The equity interest earned by the joint venture participant to December 31, 1977 under this formula was approximately 60 per cent. Accordingly, of the total sum of \$500,000 (all of which has been received) \$300,000 has been credited against the Lake St. Joseph deferred development expenditures (\$30,000 in 1977 and \$270,000 in prior years), and the remainder is carried on the balance sheet as "Advance payments received on sale of interest in mining properties".

The deferred development expenditures relating to Bending Lake represent the amounts expended by the Company to December 31, 1977 on feasibility studies (conducted jointly with Algoma Steel and Canadian Pacific Investments Limited) with respect to the possible development of an iron oxide deposit located approximately 40 air miles from Atikokan.

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 the completion of satisfactory arrangements for production, fuel supply, sales and financing. In the case of the Bending Lake project the Company has an option to lease the claims from the present owner upon payment of \$1,500,000 (in five annual instalments) and future royalties based on production. The option expires at the end of 1978, unless an extension is arranged before that time.

5. INVESTMENT IN OTHER MINING COMPANY

The amount of \$231,483 represents the cost of the Company's 11 per cent share interest in International Iron Ores Limited, a company which either directly, or through a subsidiary, holds exploration permits (expiring in 1980) covering certain iron oxide deposits on the west side of Ungava Bay. Application has been made to have the permits extended to 1987. While no substantial development work at the properties has been carried out for some years, the Company believes the deposits still have long-term development potential.

6. MORTGAGE BONDS AND DIVIDEND RESTRICTIONS

The trust indenture relating to the first mortgage sinking fund bonds (as amended in 1971 and 1973) requires fixed principal repayments of U.S. \$2,548,000 on December 1 of each year, together with additional principal payments (calculated at the rate of U.S. \$1.41 per ton) to the extent that shipments of pellets to the joint venture participant in any twelve month period ending September 30 exceed 1,100,000 tons.

The trust indenture, which contains specific mortgage and floating charge provisions, also imposes certain restrictions on the payment of dividends and the reduction or redemption of capital stock. The effect of such restrictions (which are calculated by reference to consolidated working capital and consolidated net income accumulated since January 1, 1970) would be to restrict the balance of retained earnings available for dividends as at December 31, 1977 to approximately \$5.7 million.

The Anti-Inflation Act and Regulations thereto (see Note 8) also impose restrictions on dividends. The amount of dividends that could be declared and paid during the 12 months ended October 13, 1978 may not exceed \$328,128.

7. INCOME TAXES

The amount of current and prior years' write-offs remaining for carry forward against future years' income (not subject to any expiry date) is estimated at approximately \$900,000.

8. ANTI-INFLATION PROGRAM

Under the Federal Government's Anti-Inflation Act and Regulations the Company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. The Company does not presently anticipate that the controls on prices and profit margins (presently scheduled to expire on December 31, 1978) will adversely affect its revenues. The restrictions on shareholders' dividends are outlined in Note 6.

9. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The unfunded past service pension obligation is estimated at \$515,069 at December 31, 1977. All of this amount relates to the non-contributory plan negotiated in the Collective Agreement with the Company's unionized employees in 1975, and which replaced the plan previously in effect. The Company is charging the related costs against operations at annual rates based on funding periods of fifteen years, pursuant to the provisions of the Ontario Pension Benefits Act. As each additional benefit under the plan takes effect, a new funding period of fifteen years commences with respect to the cost of that particular benefit.

Total pension contributions under the above plan and the salaried employees' Retirement Plan amounted to \$117,728 in 1977 and \$225,709 in 1976. The decrease in 1977 pension expense results primarily from the utilization of a surplus in the non-contributory plan (as indicated by actuarial revaluation) to cover current service contributions.

(b) Under an agreement dated March 15, 1949 relating to the diversion of the Seine River, the Company is committed to make payments to the Ontario Hydro Electric Power Commission of \$92,357 annually until November 1, 1989. The Company has entered into negotiations with Ontario Hydro with a view to discontinuing these payments. However, the existing liability for payments after 1979 is being covered by the annual provisions referred to in Note 2.

(c) The Company is committed under certain outstanding sale agreements to repurchase houses in the event of employee termination, the maximum commitment at December 31, 1977 being estimated at approximately \$320,000.

(d) Annual rentals under equipment leases presently in effect amount to \$678,504 in 1978; \$387,649 in 1979; \$120,748 in 1980; \$102,258 in each of the years 1981 to 1984; and \$8,522 in 1985. There are no lease commitments extending beyond 1985. In the event of termination of operations in 1979 the Company believes that the disposal or sub-leasing value of the equipment at that time should be as great as the remaining lease payments required. In addition the Company leases its data processing equipment at an annual cost of approximately \$43,000. This lease can be terminated upon 90 days' notice by either party. The total leasing costs charged against 1977 operations amounted to \$799,000 (\$824,300 in 1976).

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration of directors and senior officers amounted to \$384,195 in 1977 (\$406,875 in 1976).

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, 1977 and the consolidated statements of earnings, 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, subject to the sufficiency of earnings during the years 1978-1979 to cover the higher write-offs and provisions referred to in Note 2, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 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.

THUNDER BAY, CANADA,
JANUARY 26, 1978

CLARKSON, GORDON & Co.
CHARTERED ACCOUNTANTS

10 YEARS IN REVIEW*

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>
	(Thousands of Dollars)									
Income										
Gross operating revenues ..	38,255	31,082	22,741	21,628	19,620	18,730	18,330	17,967	17,624	15,100
Royalty income	4,916	5,391	3,543	3,683	3,335	2,968	4,937	4,935	3,924	4,348
Investment income	1,034	402	534	769	563	423	434	480	473	424
Gain on fixed asset disposals	13	90	94	6	76	—	—	—	80	—
	<u>44,218</u>	<u>36,965</u>	<u>26,912</u>	<u>26,086</u>	<u>23,594</u>	<u>22,121</u>	<u>23,701</u>	<u>23,382</u>	<u>22,101</u>	<u>19,872</u>
Costs and expenses										
Operating costs, etc.	31,859	28,989	22,051	19,839	18,229	16,247	14,991	14,597	12,554	9,711
Interest	777	881	1,022	1,154	1,331	1,474	1,707	1,888	2,066	2,168
Depreciation, depletion and amortization	7,016	6,910	6,361	3,780	3,592	3,584	3,789	4,096	4,311	2,685
	<u>39,652</u>	<u>36,780</u>	<u>29,434</u>	<u>24,773</u>	<u>23,152</u>	<u>21,305</u>	<u>20,487</u>	<u>20,581</u>	<u>18,931</u>	<u>14,564</u>
Earnings (loss) before income taxes and extraordinary items	4,566	185	(2,522)	1,313	442	816	3,214	2,801	3,170	5,308
Income taxes	1,813	115	—	510	—	78	1,145	990	1,304	2,382
Earnings (loss) before extraordinary items	<u>2,753</u>	<u>70</u>	<u>(2,522)</u>	<u>803</u>	<u>442</u>	<u>738</u>	<u>2,069</u>	<u>1,811</u>	<u>1,866</u>	<u>2,926</u>
Extraordinary items										
Income tax credit arising from carry forward of prior years' write-offs	1,813	115	—	510	48	78	1,145	372	—	—
Exchange credits less exchange losses (net of related tax)	—	—	—	—	—	—	—	1,300	—	—
Gain (provision for loss) on investments	—	—	(352)	—	—	—	—	545	(452)	—
Write-off of land and plant facilities no longer required (net of related tax)	—	—	—	—	—	—	—	(483)	—	(217)
Write-off of deferred development expenditures (net of related tax)	—	—	—	—	—	—	—	—	(35,448)	—
Special payment received from Ontario Hydro Electric Power Commission (net of related tax)	—	—	—	—	291	—	—	—	—	—
	<u>1,813</u>	<u>115</u>	<u>(352)</u>	<u>510</u>	<u>339</u>	<u>78</u>	<u>1,145</u>	<u>1,734</u>	<u>(35,900)</u>	<u>(217)</u>
Net earnings (loss)	<u>4,566</u>	<u>185</u>	<u>(2,874)</u>	<u>1,313</u>	<u>781</u>	<u>816</u>	<u>3,214</u>	<u>3,545</u>	<u>(34,034)</u>	<u>2,709</u>
Per share										
Earnings (loss) before extraordinary items	0.34	0.01	(0.31)	0.10	0.05	0.09	0.26	0.22	0.23	0.36
Net earnings (loss)	0.57	0.02	(0.36)	0.16	0.10	0.10	0.40	0.44	(4.22)	0.34
Dividends	—	—	—	—	—	0.15	0.15	0.15	0.15	0.30
Iron ore and pellets										
Tons (000)										
Sales	1,432	1,313	1,065	1,362	1,442	1,469	1,415	1,501	1,563	1,440
Royalty ore	1,622	1,985	1,358	1,937	2,000	1,922	3,000	3,000	2,225	2,500
Total tons	<u>3,054</u>	<u>3,298</u>	<u>2,423</u>	<u>3,299</u>	<u>3,442</u>	<u>3,391</u>	<u>4,415</u>	<u>4,501</u>	<u>3,788</u>	<u>3,940</u>

* 1969 and 1968 results have been restated to give effect to retroactive changes in depletion, depreciation and deferred income taxes and to certain changes in revenue and expense classifications.



A winter view of Dunbar Heights, one of Atikokan's modern residential areas.

Photo by R. Stark

