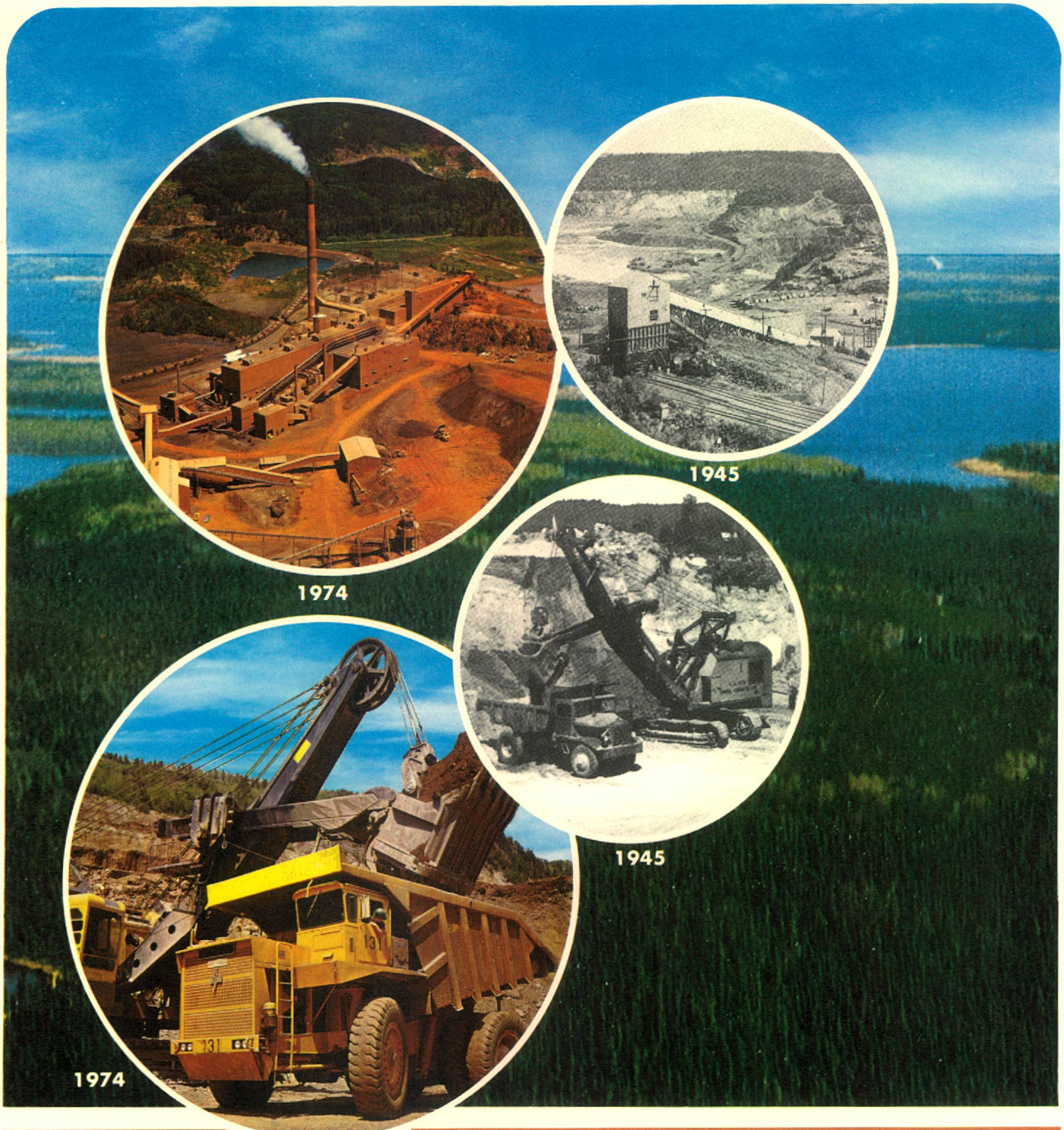
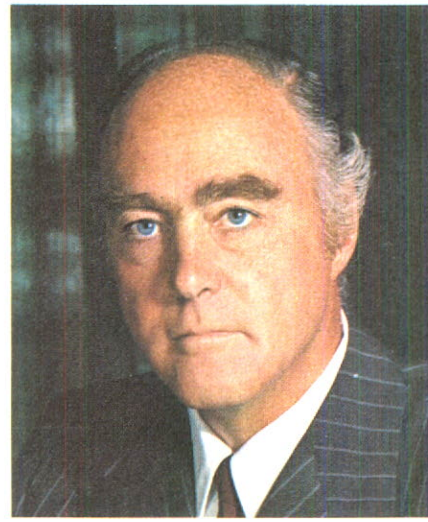


annual report for the year ended December 31, 1974

STEEP ROCK IRON MINES LIMITED

MANAGEMENT
LIBRARY
MAR 21 1975
McGILL UNIVERSITY

F. Raymond Jones P.Eng., President & Chief Executive Officer



John N. Paterson, Chairman of the Board

PRESIDENT'S LETTER TO THE SHAREHOLDERS

The year ending December 31, 1974 appears to mark a favourable turning point in the trend of the past few years toward more and more difficult economics. The key event was the substantial pellet price increase effective in September.

It is now expected that the Atikokan operations will be extended to 1983. Due to a change of plan of the lessee of our "C" orezone in October, involving a three-year extension of its mining operations, we said in our Third Quarter Report that "While other options are being examined, it may now be necessary to discontinue our Atikokan operations approximately at the end of 1978". Among the "other options" was the extension of our Hogarth mine to greater depths. We can now report that our mine engineering group has devised a viable plan to extend the limits of the Hogarth mine. The stripping ratio (cubic yards of waste per ton of ore) is about the same as we are experiencing currently. Ore can be provided to extend operations to 1983. Some confirmatory drill holes are required and are expected to be completed in 1975. A pre-stripping program, beginning in 1977, may require short-term interim financing to permit maximum application of internal cash flow to Steep Rock's equity position in the Lake St. Joseph Project.

NET EARNINGS for 1974 were $1,312,513 ($781,432 for 1973). Substantial cost increases were offset by a significant improvement in ore price during the last four months.

TOTAL FUNDS FROM OPERATIONS were $5.09-million ($3.98-million in 1973), of which royalty income provided $3.68-million ($3.34-million in 1973). Other income, including $421,414 from sale of fixed assets (mainly equipment from the discontinued underground operation), increased funds generated to $5.6-million ($4.7-million in 1973).

WORKING CAPITAL at year-end was $10.05-million ($10.55-million for 1973). The stockpile of mined ore at year-end was valued at $2.12-million ($4.30-million for 1973). The balance of "deferred overburden removal" increased from $7.33-million at the end of 1973 to $10.25-million at the end of 1974.

PELLET PRODUCTION of 1,341,060 tons was 73,050 tons less than for 1973. The decrease is attributable to the nature of the plant feed mixes available. Some similar problems may be anticipated in 1975. Shipments totalled 1,361,706 tons, of which pellets comprised 1,349,423 tons and red ore 12,283 tons.

SRIM LIMITED

Larry Lamb, John Campbell, Jerry Heffernan, Clare White.

BOARD OF DIRECTORS

HON. W. M. BENIDICKSON, P.C.
Ottawa, Ontario

*JOHN A. CAMPBELL, Q.C.
Toronto, Ontario

*NEIL EDMONSTONE, F.C.I.S.
Barrie, Ontario

G. R. HEFFERNAN, P.Eng.
Whitby, Ontario

*R. M. HOGARTH
Toronto, Ontario

*F. RAYMOND JONES, P.Eng.
Atikokan, Ontario

ROBERT L. KAISER
Grosse Pte. Farms, Michigan

LAURENCE J. LAMB, P.Eng.
Atikokan, Ontario

MARK T. McKEE
Oxford, Connecticut

JOHN N. PATERSON
Thunder Bay, Ontario

CLARE E. WHITE, P.Eng.
Victoria, British Columbia

**Member of the Audit Committee*

OFFICERS

JOHN N. PATERSON
Chairman of the Board

F. RAYMOND JONES, P.Eng.
President & Chief Executive Officer

LAURENCE J. LAMB, P.Eng.
Vice President & General Manager

JOHN A. CAMPBELL, Q.C.
Secretary

LOUIS ZUCCHIATTI, R.I.A.
Treasurer & Controller

JOHN P. DUGGAN, C.A., R.I.A.
Assistant Treasurer

AUDITORS

CLARKSON, GORDON & CO.
Thunder Bay, Ontario

TRANSFER AGENTS

CROWN TRUST COMPANY
Toronto, Ontario
and
CENTRAL NATIONAL BANK OF CLEVELAND
Cleveland, Ohio

GENERAL COUNSEL

JOHN A. CAMPBELL, Q.C.
Toronto, Ontario

CONSULTING GEOLOGIST

M. W. BARTLEY, P.Eng.
Thunder Bay, Ontario

ACTING GENERAL MANAGER

BRUCE W. TAYLOR, P.Eng.

DIVISION MANAGERS

ALWYN K. BAYLES, P.Eng., *Metallurgical*
JOHN P. DUGGAN, C.A., R.I.A., *Accounting*
G. KENNETH EOLL, *Employee Relations*
COLIN F. MACIVER, *Mining*
LEON J. PERRIER, *Maintenance & Services*

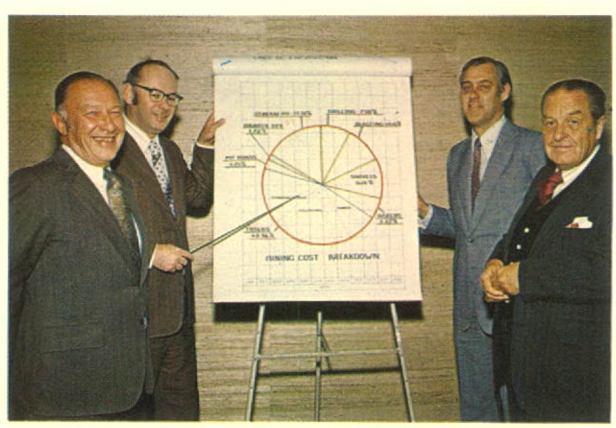
ASSISTANT TO THE PRESIDENT

H. EDWIN JACKSON

OPERATIONS AND EXECUTIVE OFFICES

Atikokan, Ontario

Ray Jones, Mark McKee, Neil Edmonstone, Lou Zucchiatti.



Bob Kaiser, Bruce Taylor, Dick Hogarth, Senator Bill Benidickson.

STEEP ROCK IRON MINES LIMITED
(INCORPORATED UNDER THE LAWS OF ONTARIO)
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1974

(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 1973)

ASSETS

	1974	1973
CURRENT		
Cash and deposit certificates	$ 492,544	$ 999,513
Short-term investments, at cost which approximates market value	6,100,015	4,921,563
Accounts receivable	4,463,834	3,929,972
Ore (finished and in process), at the lower of cost or net realizable value	2,117,103	4,304,632
Supplies at average cost	2,115,954	1,530,692
Prepaid expenses	151,281	163,930
Total current assets	15,440,731	15,850,302
FIXED ASSETS AND HOUSING		
Mining properties at Steep Rock Lake (Note 5)	4,386,393	4,386,393
Less accumulated depletion	2,893,599	2,725,439
	1,492,794	1,660,954
Plant, buildings and equipment, at cost	52,091,639	53,223,677
Less accumulated depreciation	30,477,221	28,797,268
	21,614,418	24,426,409
Housing		
Properties owned, at cost less accumulated depreciation (1974 – $436,284; 1973 – $387,278)	700,823	752,279
Mortgages and sale agreements receivable	277,973	347,198
	978,796	1,099,477
Total fixed assets and housing	24,086,008	27,186,840
OTHER ASSETS AND DEFERRED CHARGES		
Deferred overburden removal costs (Note 5)	10,248,908	7,326,700
Deferred development expenditures (Note 5)		
Steep Rock Lake	7,001,200	7,973,890
Lake St. Joseph	1,134,025	857,975
Shares in and advances to other mining companies (Note 6)	596,784	596,784
Sundry	142,798	111,474
	19,123,715	16,866,823
	$58,650,454	$59,903,965

(See accompanying notes to consolidated financial statements)

Ore reserves available to Steep Rock in the Hogarth orezone (17.3-million tons) and in the Roberts orezone (1.0-million tons) and extractable by open pit mining, total 18.3-million tons, all of which tonnage is in the "assured" and "reasonably assured" categories. The decision of Caland Ore Company to continue mining in the "C" orezone until 1979, three years beyond its previously announced termination in 1976, will remove an estimated 6.0-million tons from the reserve expected to be available to Steep Rock. If Caland does indeed terminate operations in 1979, it is calculated by our consulting geologist that 17.4-million tons of ore extractable by open pit mining will remain in the "C" orezone, of which 10.2-million tons is in the "reasonably assured" category, the rest being "inferred".

Lake St. Joseph

The Company has now received such written assurances from the Government of Ontario as were required to plan its Lake St. Joseph plant location entirely at the minesite. Subject to the Company being able to demonstrate its ability to proceed with its investment and its ability to meet all necessary environmental criteria, the Ontario Government would be prepared to undertake many of the social and physical investments required for the establishment of a new community in the Lake St. Joseph area. Furthermore, the Ontario Government is prepared to support the proposal to construct a railway north from Savant Lake into the Lake St. Joseph area. An Ontario Government study will be conducted in co-operation with concerned ministries, Ontario Hydro, the railways and interested potential users.

Following completion of the engineering feasibility report, the other supporters of the Lake St. Joseph program, together with Steep Rock, have proceeded toward solution of remaining problems. While the project a year ago appeared to be leaning heavily toward sponge iron as the end product, it now appears that the project will produce a preponderance of high grade oxide pellets. There are problems associated with obtaining an assured supply of natural gas. The oxide pelletizing portion of the project can be based on solid fuel, whereas there is not yet a commercially proved reduction process to make sponge iron, other than those processes using gas. If a gas supply cannot be assured, the project may produce only oxide pellets, or the sponge iron phase may be delayed until suitable fuel is available. If an immediate commitment is made to the Arctic Gas project, sufficient gas may be expected to be available by 1980 for projects such as Lake St. Joseph. Delays to date, combined with continued long delivery time for equipment, now suggest that it may not be reasonable to expect production at Lake St. Joseph before 1979.

The capital cost of the project is estimated to fall between $325-million (for an all-oxide pellet facility) and $450-million (including facilities to produce 800,000 tons of sponge iron).

Dividends

It is to be expected that your Directors will continue to omit dividends to strengthen working capital for the Lake St. Joseph Project.

Appreciation and outlook

Excellent ore recovery in January and February has improved the tight plant feed situation and has resulted in a working capital improvement of approximately $2-million over the two months. Unless industry economics change for the worse, earnings this year are expected to be significantly improved over the past few years.

The application on the part of all Steep Rock employees of the skill and effort required to cope with our difficult operating conditions is again worthy of mention.

The co-operation and effort of the Directors, Officers, and Employees concerned with the furthering of the Lake St. Joseph Project are also to be greatly appreciated.

It should be mentioned that our Lake St. Joseph Project is now fortunate in benefiting from the co-operative efforts of the knowledgeable people made available by our fellow project supporters, members of the Government, financial advisors, and others.

F. R. Jones
President

February 25, 1975

STEEP ROCK IRON MINES LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1974
(WITH COMPARATIVE FIGURES FOR 1973)

	1974	1973
INCOME		
Gross operating revenues	$21,627,486	$19,619,598
Royalty income (Note 2)	3,683,159	3,335,008
Investment income	768,846	563,216
Gain on disposal of fixed assets	6,040	76,507
	26,085,531	23,594,329
COSTS AND EXPENSES		
Operating costs, other than those shown below	19,110,338	17,533,958
Administrative and corporate expenses	858,852	746,784
Interest on bonds	1,154,384	1,331,473
Depreciation	2,639,264	2,296,040
Depletion	168,160	200,375
Amortization of deferred development expenditures	972,690	1,095,277
Sundry exchange gains	(130,670)	(51,892)
	24,773,018	23,152,015
EARNINGS before income taxes and extraordinary items	1,312,513	442,314
Income taxes (Note 8)	510,000	-
EARNINGS before extraordinary items	802,513	442,314
EXTRAORDINARY ITEMS		
Income tax credit arising from carry forward of prior years' write-offs (Note 8)	510,000	48,000
Special payment received from Ontario Hydro Electric Power Commission (less applicable income taxes of $48,000)	-	291,118
	510,000	339,118
NET EARNINGS FOR THE YEAR	$ 1,312,513	$ 781,432
PER SHARE		
Earnings before extraordinary items	$0.10	$0.05
Net earnings for the year	$0.16	$0.10

(See accompanying notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Current		
Accounts payable and accrued liabilities	$ 2,784,286	$ 2,661,262
Accrued interest	85,843	99,017
Mortgage bond principal due within one year	2,525,578	2,537,298
Total current liabilities	5,395,707	5,297,577
Deferred		
Advance payments received on sale of interest in mining properties (Note 5)	275,770	250,770
Long-term debt		
6% First mortgage sinking fund bonds, Series A, due December 1, 1981 – U.S. $14,773,000 (excluding 1975 principal instalment of U.S. $2,548,000 included in current liabilities)(Notes 1(c) and 7)	15,142,325	17,772,225
Mortgages payable on employee housing	176,028	235,282
	15,318,353	18,007,507
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 7)	25,922,297	24,609,784
	37,660,624	36,348,111
	$58,650,454	$59,903,965

On behalf of the Board

N. Edmonstone, Director

L. J. Lamb, Director

STEEP ROCK IRON MINES LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1974
(WITH COMPARATIVE FIGURES FOR 1973)

	1974	1973
SOURCE OF FUNDS		
From operations		
Earnings before income taxes and extraordinary items	$ 1,312,513	$ 442,314
Add (deduct) items not affecting working capital		
Depreciation	2,639,264	2,296,040
Depletion	168,160	200,375
Amortization of deferred development expenditures	972,690	1,095,277
Gain on disposal of fixed assets	(6,040)	(76,507)
Other	–	19,456
Total funds from operations	5,086,587	3,976,955
Special payment received from Ontario Hydro Electric Power Commission	–	339,118
Sale of fixed assets	421,414	254,204
Payment received on sale of interest in mining properties	50,000	50,000
Decrease in mortgages and sale agreements receivable	79,134	49,441
	5,637,135	4,669,718
APPLICATION OF FUNDS		
Development expenditures – Lake St. Joseph (net of amounts received from potential participants)	301,050	315,904
Additions to fixed assets and housing	201,100	953,378
Net addition to deferred overburden removal costs	2,922,208	156,475
Long-term debt paid or included in current liabilities		
Mortgage bonds	2,629,900	2,630,275
Mortgages payable	59,254	49,257
Other	31,324	15,871
	6,144,836	4,121,160
Increase (decrease) in working capital	(507,701)	548,558
Working capital at beginning of year	10,552,725	10,004,167
WORKING CAPITAL at end of year	$10,045,024	$10,552,725
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	$ (506,969)	$ 934,930
Short-term investments	1,178,452	360,198
Accounts receivable	533,862	(798,260)
Ore	(2,187,529)	456,968
Supplies	585,262	340,108
Prepaid expenses	(12,649)	(11,591)
	(409,571)	1,282,353
Decrease (increase) in current liabilities		
Accounts payable and accrued liabilities	(123,024)	(746,106)
Accrued interest	13,174	12,757
Mortgage bond principal due within one year	11,720	(446)
	(98,130)	(733,795)
INCREASE (DECREASE) IN WORKING CAPITAL	$ (507,701)	$ 548,558

(See accompanying notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1974
(WITH COMPARATIVE FIGURES FOR 1973)

	1974	1973
Balance at beginning of year	$24,609,784	$23,828,352
Add net earnings for the year	1,312,513	781,432
Balance at end of year	$25,922,297	$24,609,784

(See accompanying notes to consolidated financial statements)

Hogarth Open Pit looking south-east

Photo by Bob Stark

Deferred development expenditures relating to Steep Rock Lake represent the remaining unamortized balance of pre-production expenditures incurred with respect to the properties at Atikokan presently being mined by the Company and Caland Ore Company.

Deferred development expenditures relating to Lake St. Joseph consist of the following:

Purchase cost of claims		$ 276,711
Expenditures on exploration, development and feasibility studies		
Expended to December 31, 1967 (and charged to operations)		865,800
Expended during period 1968-1973		780,494
Expended in 1974		1,165,023
Total expenditures to December 31, 1974		3,088,028
Less:		
Portion expended and written off prior to December 31, 1967	$865,800	
Received from potential participants in project in respect of 1974 expenditures	863,973	
Payments received for interest acquired by joint venture participant in certain of the Lake St. Joseph properties to December 31, 1974 (see below)	224,230	1,954,003
		$1,134,025

Under the joint venture arrangements referred to in Note 1(b) the joint venture participant is entitled to acquire eventual ownership of certain of the Company's Lake St. Joseph 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, 1974 under this formula was 44.85%. Accordingly, of the total sum of $500,000 (all of which had been received by December 31, 1974), $224,230 has been credited against the Lake St. Joseph deferred development expenditures, and the balance of $275,770 is carried on the balance sheet under the caption "Advance payments received".

The future development of the properties at Lake St. Joseph is dependent on the completion of satisfactory arrangements for production, fuel supply, sales and financing.

6. SHARES IN, AND ADVANCES TO, OTHER MINING COMPANIES

The amount of $596,784 shown under this balance sheet classification represents the cost of the Company's shareholding in, and advances to, Champlain Mining Corporation (25% share interest) and International Iron Ores Limited (11% share interest). These companies hold exploration permits covering certain iron ore deposits on the west side of Ungava Bay. While no substantial development work at the properties has been carried out for some years, discussions with potential production participants are continuing. The recovery of the Company's investment is dependent upon the successful future development of an economic mining operation and the obtaining of adequate financing.

7. MORTGAGE BONDS AND DIVIDEND RESTRICTIONS

The trust indenture relating to the first mortgage sinking fund bonds (as amended in 1971) 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 exceeds 1,100,000 tons.

The trust indenture 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, 1974 to approximately $1,600,000.

The directors have deferred dividend payments in order to conserve working capital required for the Lake St. Joseph project.

8. INCOME TAXES

For 1973, and a portion of 1974 (up to May 6), the Company was entitled to a depletion deduction of 25% in respect of royalty income. As a result no taxes were payable in respect of 1973 earnings before extraordinary items, and the tax applicable to the special payment received from the Ontario Hydro Electric Power Commission in that year was reduced to $48,000.

In its November 18, 1974 budget the Canadian Government made proposals to amend the Income Tax Act. The implementing legislation, among other measures, proposes to withdraw the automatic depletion deduction of 25 per cent of royalty income with respect to the period after May 6, 1974. Although the legislative amendments have not yet been enacted, and some of the proposals have not yet been set out in sufficient detail to remove doubt as to their ultimate effect, the Company's 1974 income tax provision has been computed on the basis of taking them into account in accordance with the best information available. This has had the effect of increasing the 1974 tax provision by approximately $214,000 for that portion of the year to which the proposed changes are applicable.

There is no current liability for income taxes for 1974 as taxes of $510,000 otherwise payable on 1974 income are offset by tax credits arising from the carry forward of prior years' write-offs not previously claimed for tax purposes. At December 31, 1974 the amount of prior years' write-offs remaining for carry forward against future years' income (not subject to any expiry date) is estimated at approximately $4,000,000.

9. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The unfunded past service pension liability of the Company is estimated at $470,000 at December 31, 1974. The present liability is being provided for by charges against income over the period ending December 31, 1983.

(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. In the event that the Company ceases its operations at Atikokan prior to November 1, 1989 the Company believes that arrangements can be made to discontinue such payments.

(c) The contingent liability with respect to guarantees of mortgages on employees' housing is estimated at approximately $118,000. The Company is also committed under certain outstanding sale agreements to repurchase houses in the event of employee termination, the maximum commitment at December 31, 1974 being estimated at approximately $410,000.

(d) Annual rentals under equipment leases presently in effect amount to $561,768 in each of the years 1975 to 1977, $513,119 in 1978, $296,377 in 1979, $104,121 in 1980 and $102,258 in each of the years 1981 to 1984. There are no lease commitments extending beyond 1984. In addition the Company leases its data processing equipment at an annual cost of approximately $40,000. This lease can be terminated upon 90 days' notice by either party. The total leasing costs charged against 1974 operations amounted to $522,517 ($423,913 in 1973).

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration of directors and senior officers amounted to $407,075 in 1974 ($292,900 in 1973).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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 Steep Rock Lake were leased to a joint venture participant, and the Company was appointed operator to mine and process the ore on the participant's behalf. As in prior years, the 1974 financial statements have been drawn up to reflect in "gross operating revenues" the net proceeds received from the joint venture participant for the ore produced, and in "costs and expenses" the full costs of mining and processing the ore.

(c) Exchange translation

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 = Can. $.9912 at December 31, 1974).

Long-term debt (mortgage bonds) has been translated on the basis of U.S. $1 = Can. $1.025, this being the rate adopted following the unpegging of the Canadian dollar on May 31, 1970.

(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. In accordance with the 1974 change in mining plans (see Note 3) the depreciation of the pellet plant, which constitutes the Company's major fixed asset, as well as of other long-term assets, has been accelerated with a view to having the cost thereof written off by December 31, 1983. This had the effect of increasing depreciation in 1974 by approximately $470,000.

Depletion of mining properties, and amortization of deferred development expenditures, are provided on the basis of tons of ore produced or royalty paid 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, 1983. Deferred overburden removal costs are charged to production on the basis of tons of ore mined.

2. 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 in 1973 and 1974 was based on the minimum of 2,000,000 tons less, in 1974, an adjustment of 63,333 tons for the period during which Caland's mining operations were suspended as a result of a strike.

The lease may be terminated by Caland on December 31 in any year upon giving at least one year's advance notice; were two years' advance notice to be given the minimum royalty tonnage for the final year of operations would be reduced to 1,000,000 tons. Caland had previously announced in 1972 that they expected to terminate mining operations in 1976, although no legal notification of such termination was made or required at that time. In October 1974 Caland announced that they expected instead to continue mining operations until 1979, so that royalty revenue is now expected to continue until at least that year.

3. CHANGE IN MINING PLANS

On the basis of Caland's earlier announcement in 1972 (see Note 2) Steep Rock's long-term mining plans were predicated on the "C" orezone becoming available to Steep Rock late in 1976, and providing the principal source of ore in 1979 and later years. Following the extension of tenancy announced by Caland in October 1974 Steep Rock found it necessary to revise its mining plans and these are now based on extending the limits of the present Hogarth Mine (which is leased to the joint venture participant referred to in Note 1 (b)). The Company's projections indicate that on the basis of presently assured and reasonably assured ore reserves in the Hogarth Mine the operations at this mine can be extended until 1983.

The revised mining plan is subject to some uncertainties that have yet to be resolved, i.e. (i) the plan assumes that future increases in costs will be covered by compensating increases in ore prices; (ii) the ore reserves in the reasonably assured category are subject to verification by drilling to be carried out in 1975; (iii) a pre-stripping program, beginning in 1977, will involve substantial expenditures, some portion of which may require the arrangement of outside financing if internally generated funds are applied to maximize the Company's equity interest in the Lake St. Joseph Project (see Note 5); and (iv) certain portions of the program will require discussions with, and the agreement of, the joint venture participant.

4. ORE SUPPLY PROBLEM

In addition to the joint venture operation referred to in Note 1(b) the Company has contracted to supply 250,000 tons of pellets annually to another customer under an agreement which runs to December 31, 1977. In 1974 and previous years this contract has been filled through utilization of certain stockpiles of low-grade ore, by purchases of ore from Caland Ore Company, and from ore obtained from the Company's own underground mining operations which were terminated in 1973. At present the Company has no assured source of ore at Steep Rock Lake to supply the pellet tonnage of specified grade required for the years 1975, 1976 and 1977. The Company expects, however, to be able to negotiate alternative arrangements with the customer concerned to supply pellets with a somewhat lesser iron content, using purchased ore mixed with the Company's remaining stockpiles of low-grade ore. Pending resolution of such arrangements (including arrangements for the purchase of the required ore) it is not possible to determine the financial result during the remainder of this contract, or what profits or losses may be incurred.

5. MINING PROPERTIES AND RELATED DEFERRED EXPENDITURES

Mining properties at Steep Rock Lake 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, 1974 totals $2,893,599.

Deferred overburden removal costs represent the unamortized balance of stripping costs relating to the joint venture mining operation referred to in Note 1(b).

The changes in this account during 1973 and 1974 may be summarized as follows:

	1974	1973
Balance deferred at beginning of year	$ 7,326,700	$ 7,170,225
Add stripping expenditures during current year	7,588,327	6,927,473
	14,915,027	14,097,698
Deduct amount charged to production on basis of tons of ore mined	4,666,119	6,770,998
Balance deferred at end of year	$10,248,908	$ 7,326,700

10 YEARS IN REVIEW*

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
					(Thousands of Dollars)					
Income										
Gross operating revenues	21,628	19,620	18,730	18,330	17,967	17,624	15,100	8,801	9,150	10,325
Royalty income	3,683	3,335	2,968	4,937	4,935	3,924	4,348	3,950	3,557	4,088
Investment income	769	563	423	434	480	473	424	310	415	410
Gain on fixed asset disposals	6	76	—	—	—	80	—	—	—	—
	26,086	23,594	22,121	23,701	23,382	22,101	19,872	13,061	13,122	14,823
Costs and expenses										
Operating costs, etc.	19,839	18,229	16,247	14,991	14,597	12,554	9,711	6,346	7,280	8,655
Interest	1,154	1,331	1,474	1,707	1,888	2,066	2,168	932	448	511
Depreciation, depletion and amortizations	3,780	3,592	3,584	3,789	4,096	4,311	2,685	3,012	2,461	2,068
	24,773	23,152	21,305	20,487	20,581	18,931	14,564	10,290	10,189	11,234
Earnings before income taxes and extraordinary items	1,313	442	816	3,214	2,801	3,170	5,308	2,771	2,933	3,589
Income taxes	510	—	78	1,145	990	1,304	2,382	1,024	1,111	1,407
Earnings before extraordinary items	803	442	738	2,069	1,811	1,866	2,926	1,747	1,822	2,182
Extraordinary items										
Income tax credit arising from carry forward of prior years' write-offs	510	48	78	1,145	372	—	—	—	—	—
Exchange credits less exchange losses (net of related tax)	—	—	—	—	1,300	—	—	—	—	—
Gain (provision for loss) on sale of investments	—	—	—	—	545	(452)	—	400	(400)	—
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)	—	—	—	—
Financing costs	—	—	—	—	—	—	—	—	(583)	—
Special payment received from Ontario Hydro Electric Power Commission (net of related tax)	—	291	—	—	—	—	—	—	—	—
	510	339	78	1,145	1,734	(35,900)	(217)	400	(983)	—
Net earnings (loss) for the year	1,313	781	816	3,214	3,545	(34,034)	2,709	2,147	839	2,182
Per share										
Earnings before extraordinary items	0.10	0.05	0.09	0.26	0.22	0.23	0.36	0.22	0.23	0.27
Net earnings for the year	0.16	0.10	0.10	0.40	0.44	(4.22)	0.34	0.27	0.10	0.27
Dividends	—	—	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30
Iron ore and pellets										
Tons (000)										
Sales	1,362	1,442	1,469	1,415	1,501	1,563	1,440	1,004	1,095	1,264
Royalty ore	1,937	2,000	1,922	3,000	3,000	2,225	2,500	2,326	2,083	2,446
Total tons	3,299	3,442	3,391	4,415	4,501	3,788	3,940	3,330	3,178	3,710

* 1969 and prior years' 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.

AUDITORS' REPORT

To THE SHAREHOLDERS OF
STEEP ROCK IRON MINES LIMITED

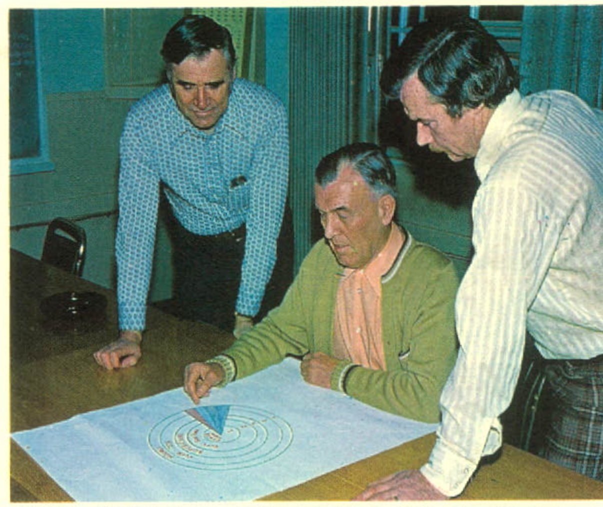
We have examined the consolidated balance sheet of Steep Rock Iron Mines Limited and its subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Note 3 to the financial statements refers to a change in mining plans effected in 1974, and a number of uncertainties that have yet to be resolved in connection with such plans. The present basis of depreciation of fixed assets, depletion of mining properties and amortization of deferred development expenditures assumes that, in accordance with such plans, the operations at the Hogarth Mine can be successfully extended until 1983. Note 4 refers to a sales contract in respect of which the Company expects to be able to negotiate alternative arrangements, but on which losses might be incurred if such negotiations prove unsuccessful.

In our opinion, subject to (a) the successful extension of operations at the Hogarth Mine until 1983, and (b) the completion of satisfactory alternative arrangements with respect to the sales contract referred to above, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974, and the results of their operations and changes in their 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.

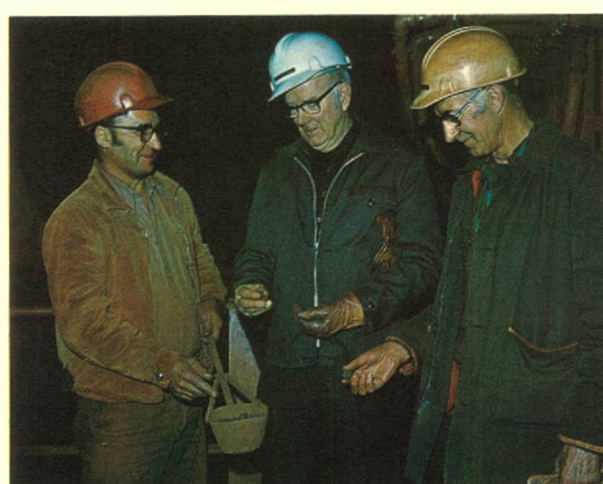
CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS

THUNDER BAY, ONTARIO
February 24, 1975



(Left to right) Ed Jackson, Assistant to the President, Ken Eoll, Employee Relations Manager, and John Duggan, Assistant Treasurer, review SRIM Development Program.

(Left to right) Leon Perrier, Maintenance and Services Manager, Wes Bone, Shovel Operator, and Colin MacIver, Mine Manager, inspect the bucket on a 10-yard electric shovel.



(Left to right) Nick Gushulak, Balling Disc Operator, Al Bayles, Metallurgical Manager, and Stu McCuaig, Metallurgical Superintendent, examine quality of green pellets from No. 1 Disc.

SRIM LIMITED

PRINTED IN CANADA ALEX WILSON PUBLICATIONS LTD. DRYDEN, ONT.

Footwall Blast – Hogarth Open Pit

Photo by Bob Stark