Advocate Mines Limited

ANNUAL REPORT 1980

ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

Directors

J. Jacques Beauchemin Q.C.
E. R. E. Carter Q.C.
A. C. Crosbie
J. M. Emsens
Max Graf*
M. Harris
J. R. M. Hutcheson*
Gilbert Kerlin*
J. P. Power
H. F. Teney Q.C.

*Member of the Audit Committee

Officers

E. R. E. Carter Q.C., Chairman of the Board and President
J. C. Hamilton, Treasurer
A. W. Oughtred, Secretary
F. J. Lapalme, Assistant Secretary
E. B. McKenna, Mine Manager

Manager

Johns-Manville Canada Inc.

Registrar and Transfer Agent

National Trust Company, Limited
Toronto, Ontario

Shares Listed

The Toronto Stock Exchange

Auditors

Loftus A. Allen & Co., Toronto, Ontario

Head Office

8th floor, 250 University Avenue
Toronto, Ontario M5H 3E9

Mine Office

Baie Verte, Newfoundland

Annual Meeting of Shareholders

2:30 p.m.
May 7, 1981
Nova Scotia Room
Royal York Hotel
100 Front Street West
Toronto, Ontario

Corporate Profile

Advocate Mines Limited owns and operates an open-pit asbestos mine and mill complex at Baie Verte on the north east coast of Newfoundland. The mine has a projected life of approximately 13 years. The mill has an operating capacity of 6,500 tonnes of ore per day. Fibre production is shipped by boat from the Corporation's warehouse located on tide water one mile from the mine.

Two grades of asbestos cement fibre are produced and sold pursuant to long term sales contracts with Compagnie Financiere Eternit S.A. of Belgium and Johns-Manville Sales Corporation of the United States. Operations are managed by Johns-Manville Canada Inc.

Directors' Report

The year ended December 31, 1980 represented a major financial and operational turnaround for your Corporation. Net earnings for 1980 were $1,633,630 or $.27 per share, a vast improvement over the 1979 loss of $10.3 million ($1.72 per share). The 1979 deficit of $3.8 million has been reduced to $2.2 million and as at December 31, 1980 the working capital deficiency was $1.9 million as compared with a working capital deficiency of $11.8 million at the end of 1979. The reasons for the 1980 improvements are as follows:

- increased fibre production ($47 million in 1980 vs. $31 million in 1979);
- increased fibre recoveries (3.54% in 1980 vs. 2.78% in 1979);
- cost reductions in all areas;
- increased fibre prices and ability to sell all fibre production; and
- share of net profits from Consolidated Rambler Mines Limited's Ming Extension operation of $1.6 million.

These results could not have been achieved without the overall dedication and effort of management and all of Advocate's employees and the coöperation of customers and major shareholders. In particular your General Manager, Johns-Manville Canada Inc., and Mine Manager, Mr. E. B. McKenna, are to be commended for superb efforts. The agreement by the Corporation's two major customers to a surcharge on Advocate fibre prices, the injection by certain major shareholders and others of $10 million in long term debt and the agreement by your Managers to defer management fees allowed the Corporation to implement operational improvements and continue with its long range mining plan which includes the full development of the western portion of the Advocate ore bodies. The 1980 productivity and efficiency achievements augur well for the future, it being projected that your Corporation will continue to be profitable and should, in 1981, eliminate its deficit. This will require a continuing concerted effort by all.

It must be pointed out that 1980's gains were not made at the expense of Advocate's continuing commitment to maintain and wherever possible improve environmental conditions in working areas and in the Baie Verte community. During 1980 the employee change-house was completed and commissioned, an improved dust control system in the dry rock storage building was installed and environmental conditions in the drying and secondary crushing areas were upgraded.

Your attention is directed to the accompanying General Manager's Report, Consolidated Financial Statements and Five Year Financial Summary.

On behalf of the Board,

E. R. E. Carter,
Chairman of the Board and President

March 30, 1981

Report of the Manager on 1980 Operations

To the President and Directors of
Advocate Mines Limited

Last year's Manager's Report discussed the changes that were made in 1979 in the mining, milling and maintenance departments in order to establish a solid base from which to rebuild your Corporation. This base plus a sustained effort from all of our personnel, resulted in a dramatic improvement in operations in 1980. The level of operations achieved in 1980 was significantly better than originally anticipated at the end of 1979 It is expected that the recovery program will continue in 1981.

Mining

Mining plans called for the removal of 15.5 million tonnes of material in 1980. Although the total amount actually moved in 1980 was only 14 million tonnes, this was still the second best year in the mine's history. The shortfall from plan was not entirely unintentional. Due to close supervision of mining operations, it was possible to extend ore supplies through careful selection and control over dilution. This made it possible to maintain the waste to ore ratio in the mining plan and the total tonnes mined were then reduced in order to control costs. Work on the improvement of mine roads continued throughout the year in spite of adverse weather conditions. A major drilling program was undertaken in 1980 which, at a cost of $500,000 essentially confirmed the geologists' configuration of the orebody and placed all of the ore in our five-year mining plan in the proven category. A portion of the proposed drilling in the west zone could not be completed due to flooding and this work was scheduled for completion early in 1981. Further drilling will be required in later years to put ore beyond the present five-year plan in the proven category. At the end of 1980 ore reserves were 26.9 million tonnes, however, preliminary results from the continuing geological re-evaluation of the orebody indicate that ore reserves should be increased by several million tonnes.

Milling

The primary crusher continued, at times during the year, to be a cause of excessive delays in the movement of ore to the mill. Several major overhauls were undertaken on various components, some of which resulted in several days of downtime to milling operations. This problem area is now considered to be under relative control. Extreme attention was paid to the control of the milling process and this, in part, contributed to the higher percentage of fibre recovered from ore.

Maintenance

The programs initiated by the plant engineer who joined the Corporation in 1979, resulted in major improvements in the maintenance operation in 1980. Specifically these programs involved improvement in work planning, preventive maintenance, component spares and personnel reorganization and responsibility. It is intended to bring these programs to a higher degree of sophistication in 1981.

Costs

Probably the most significant single factor in our 1980 operating year was cost control. While the costs of maintenance materials for our mining equipment, Bunker "C" fuel for drying operations, diesel fuel for haulage trucks, electricity and labour rates were increasing at a much higher rate, Advocate's overall costs increased by only 9.3% while mining at a greater depth and producing a larger volume of fibre than in 1979. This successful control over costs was a result of efforts both by the management staff and the hourly work force.

Environment

The construction of the employee change-house was completed in 1980 and it has proven to be an invaluable asset. This facility, provided for the benefit of employees, is second to none and they have responded by keeping it in the same condition as it was on opening day. A major dust control installation in the dry rock storage building was completed during the year. The secondary crusher and dryer building was also improved environmentally, particularly through the removal of surplus and unused equipment.

Mine Manager

The mine site operated throughout the year under the continued management of Mr. E. B. McKenna.

His personal effort and dedication is to a large degree, the reason for our much improved performance in 1980.

Fibre Production

The most dramatic improvement in 1980 over 1979 was the increase in fibre production. Total A-25 grade fibre produced in 1980 was 59,993 tonnes vs. 48,127 tonnes in the previous year. Most notable in this improved performance was the A-25 fibre recovery at 2.99% vs. 2.28% in 1979.

Labour Relations

Labour relations were conducted in a responsible manner throughout the year. The President of our union local and the hourly employees worked with management to improve Advocate's competitive position.

Operating Data

	1980	1979
A-25 produced	59,993 tonnes	48,127 tonnes
A-35 produced	11,104 tonnes	11,279 tonnes
Material mined	14,000,900 tonnes	14,985,100 tonnes
Ore crushed	2,008,300 tonnes	2,107,000 tonnes
Ore reserves	26,850,000 tonnes	28,900,000 tonnes
A-25 recovery	2.99%	2.28%

JOHNS-MANVILLE CANADA INC.,

J. P. Power
Vice-President

March 4, 1981

ADVOCATE MINES LIMITED

Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1980
(with comparative figures for 1979)

	1980	1979
Value of fibre produced	$47,344,542	$ 30,958,071
Profit participation — Note 13	1,594,413	—
	$48,938,955	$ 30,958,071
LESS:		
Operating costs	$41,435,175	$ 37,119,115
Interest	3,953,682	2,409,330
Depreciation of equipment	1,257,000	1,185,000
Amortization of mine development costs	144,000	115,000
Special allowance for depreciation and amortization — Note 15	—	2,443,000
	$46,789,857	$ 43,271,445
Net earnings (loss) before taxes and extraordinary item	$ 2,149,098	$(12,313,374)
Provision for (recovery of) income and mining taxes		
Current	$ 394,928	$ (58,511)
Deferred	189,378	(1,953,590)
	$ 584,306	$ (2,012,101)
Net earnings (loss) before extraordinary item	$ 1,564,792	$(10,301,273)
Income tax reduction realized on the application of prior years' losses	68,838	—
Net earnings (loss) for the year	$ 1,633,630	$(10,301,273)
Net earnings (loss) per common share		
Before extraordinary item	$ .26	$ (1.72)
After extraordinary item	$ .27	$ (1.72)

Consolidated Statement of Deficit

FOR THE YEAR ENDED DECEMBER 31, 1980
(with comparative figures for 1979)

	1980	1979
Deficit (Retained Earnings) — beginning of year	$ 3,855,402	$(6,445,871)
Less: Net earnings (loss) — for the year	1,633,630	(10,301,273)
Deficit — end of year	$ 2,221,772	$ 3,855,402

The attached notes are an integral part of these financial statements.

ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

DECEMBER 31, 1980

(with comparative figures for 1979)

ASSETS	**1980**	**1979**
CURRENT ASSETS		
Cash	$ 31,882	$ 89,668
Accounts receivable	6,141,758	2,951,393
Income and mining taxes receivable	375,642	374,660
Fibre inventory	6,196,284	4,654,581
Stores and supplies	3,512,033	3,541,205
Prepaid expenses	188,944	170,966
	$16,446,543	$11,782,473
MINING PROPERTIES AND RIGHTS — Note 2	$ 75,000	$ 75,000
FIXED ASSETS		
Property, plant and equipment	$32,539,196	$31,060,495
Less: Accumulated depreciation	15,453,861	14,218,262
	$17,085,335	$16,842,233
OTHER ASSETS		
Mine development costs less amounts written off	$ 1,864,595	$ 2,008,595
Deferred cost recoveries — Note 12	46,000	—
	$ 1,910,595	$ 2,008,595
	$35,517,473	$30,708,301

Approved on behalf of the Board:

E R E Carter Director

Director

LIABILITIES	**1980**	**1979**
CURRENT LIABILITIES		
Bank loans — secured — Note 3	$ 8,190,000	$11,430,000
Accounts payable and accrued liabilities	8,465,015	10,476,653
Current portion of long term debt	912,198	1,662,198
Deferred taxes	827,479	—
	$18,394,692	$23,568,851
LONG TERM LIABILITIES		
Bank loans and credits — Note 3	$ 5,050,000	$ 5,900,000
Conditional sales contract — Note 4	797,474	959,672
Other loans — Note 5	10,000,000	—
	$15,847,474	$ 6,859,672
DEFERRED TAXES	$ 1,315,074	$ 1,953,175
SHAREHOLDERS' DEFICIT		
Capital		
Authorized and Issued		
6,000,000 Common shares of $1 par value	$ 6,000,000	$ 6,000,000
Less: Discount on common shares	3,817,995	3,817,995
	$ 2,182,005	$ 2,182,005
Deficit	2,221,772	3,855,402
	$ (39,767)	$ (1,673,397)
	$35,517,473	$30,708,301

The attached notes are an integral part of these financial statements.

ADVOCATE MINES LIMITED

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1980

(with comparative figures for 1979)

	1980	1979
SOURCE OF WORKING CAPITAL:		
Provided from operations — Note 16	$ 2,289,705	$ —
Proceeds on sale of fixed assets	181	51,901
Long term debt	10,000,000	2,400,000
Extraordinary item — Income tax reduction realized on the application of prior years' losses	68,838	—
	$12,358,724	$ 2,451,901
USE OF WORKING CAPITAL:		
Applied to operations — Note 16	$ —	$ 8,561,319
Purchase of fixed assets	1,508,297	2,613,265
Reduction of long term debt	1,012,198	1,162,198
	$ 2,520,495	$ 12,336,782
Increase (decrease) in working capital	$ 9,838,229	$ (9,884,881)
Deficiency — beginning of period	11,786,378	1,901,497
Deficiency — end of period	$ 1,948,149	$ 11,786,378

The attached notes are an integral part of these financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Advocate Mines Limited as at December 31, 1980 and the consolidated statements of earnings, deficit 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, Ontario
January 30, 1981.

Loftus A. Allen & Co.
Chartered Accountants

ADVOCATE MINES LIMITED

Notes to Consolidated Financial Statements

DECEMBER 31, 1980

1. **ACCOUNTING POLICIES**

(a) **Consolidation**

The consolidated financial statements combine the accounts of the Company with those of its wholly owned subsidiary. Advocate Concessions Exploration Company Limited.

(b) **Determination of Income and Valuation of Inventories**

The determination of income based on value of production is considered appropriate because:

(i) annual fibre production is covered by sales commitments; and

(ii) annual sales could vary depending upon the length of shipping season and availability of vessels.

Accordingly, the fibre inventory is valued at net realizable value determined by using net selling price at the end of the year and the value of production is determined by using average net selling prices throughout the year.

(c) **Fixed Assets**

Fixed assets are stated at acquisition cost. Depreciation expense was provided for the year on a straight-line basis, using the lesser of the expected life of the asset or the mine life. Based on ore reserves and current production, the mine life is approximately 13 years from 1980.

(d) **Capitalization of Lease Obligations**

The Company leases with options to purchase, various types of mine equipment where the lease period approximates the estimated useful life.

Where there is evidence that substantially all the benefits and risks of ownership have been transferred to the lessee, The Canadian Institute of Chartered Accountants now requires with respect to those leases entered into after January 1, 1979 that:

(i) the leased equipment be accounted for as assets; and

(ii) the future obligation under the leases be accounted for as a liability.

The Company has adopted this recommendation on a prospective basis. Amortization of leased equipment will be provided on a basis that is consistent with the depreciation policy for other similar assets.

(e) **Mine Development Costs**

All costs incurred in developing and placing the mine in production have been capitalized and amortized on the basis of ore reserves and tonnes mined.

(f) **Income Taxes**

The Company follows the tax allocation method of accounting for income taxes under which full provision for taxes is provided on reported net income regardless of when transactions are recognized for tax purposes.

Non-current deferred income taxes on the balance sheet result principally from claiming capital cost allowance and mine development costs for tax purposes in excess of depreciation and amortization provided in these financial statements. Current deferred income taxes result principally from recording fibre inventory at net realizable value for accounting purposes and at cost for tax purposes.

Provincial mining taxes are calculated on net income and are therefore included with provisions for Federal and Provincial income taxes.

2. **MINING PROPERTIES AND RIGHTS**

The Company holds:

(a) Two 50 year mining leases covering 623 acres expiring in the years 2014 and 2019 respectively where the Company is carrying on its present mining operations.

(b) A 20% interest in the net profits (as defined) from all mining operations carried on by Consolidated Rambler Mines Limited on two 21 year mining leases (known as the Ming Extension), after recovery of all exploration and preproduction expenses incurred by that company.

(c) One extended licence (covering 16 mining claims) held under an agreement with Selco Mining Corporation Limited under which Advocate has with respect to mining operations above the 2300 foot level a 7½% non assessable undivided interest in the mining property and a right to a further 5% undivided interest upon paying 5% of the cost of bringing any designated mine into production. With respect to mining operations below the 2300 foot level, Advocate is entitled to a royalty equal to 17½% of the net profits from the sale of all ores.

(d) Approximately 500 acres of land held in fee simple on which the Company's dock, mill, office, garage and houses are located.

3. **BANK LOAN AND CREDITS**

The bank operating loan, bank term credit and bankers' acceptances credits are secured by a debenture dated November 15, 1976 in the total amount of $22,000,000, registered in the names of Canadian Imperial Bank of Commerce and the Bank of Nova

Scotia constituting a first floating charge on all the Company's undertakings, property and assets.

The bank operating loan is repayable on demand and is subject to annual review. Interest is payable at the banks' minimum lending rate.

The bankers' acceptances credit provides for repayments at $750,000 per annum subject to review in 1982. The interest payable and the service fee on the bankers' acceptances credit is the current rate in effect from time to time.

If at any time no market exists for bankers' acceptances so that Advocate is unable to issue bankers' acceptances, the amount of such bankers' acceptances shall be advanced by the banks to Advocate as a bank term credit.

The detail of the outstanding amount as shown on the balance sheet is:

Bankers' acceptances credits	$5,800,000
Instalments due and shown as a current liability — due December 1981	750,000
	$5,050,000

4. **CONDITIONAL SALES CONTRACT**

In 1978 the Company acquired certain fixed assets under a conditional sales contract which provides that title is to remain with the seller until the full purchase price is paid. The principal payments are $13,516 per month for 96 months with interest at ½% over prime.

The details of the outstanding amount at December 31, 1980 are as follows:

Total Liability	$ 959,672
Instalments due in 1981 and shown as a current liability	162,198
	$ 797,474

5. **OTHER LOANS**

In 1980, Advocate incurred $10,000,000 in long term debt evidenced by promissory notes due December 31, 1985 which bear interest at bank prime and are subordinated and postponed to the Company's bank indebtedness. Subject to the prior consent of the Company's bankers, the Company may prepay the notes in whole or in part prior to maturity without notice, penalty or bonus.

6. **LEASE OBLIGATIONS**

The Company has entered into capital lease agreements prior to January 1, 1979 with varying expiry dates to 1986. The rental expense charged to operating costs in 1980 was $3,724,633 (1979 — $3,636,998).

Had such leases been accounted for as capital leases on a retroactive basis, leased equipment would have been included as an asset on the balance sheet:

	1980	1979
Equipment	$19,133,571	$19,133,571
Less: Accumulated amortization	9,101,315	6,917,505
	$10,032,256	$12,216,066

The amortization which would have been charged to operating costs had such leases been accounted for as capital leases is $2,183,810 for 1980 and $2,284,684 for 1979.

The future minimum lease payments (excluding sales tax and calculated at base interest rates) under capital leases (entered into prior to January 1, 1979) that have non-cancellable lease terms in excess of one year are as follows:

	1980	1979
1980	$ —	$ 3,251,442
1981	3,387,477	3,387,477
1982	3,294,431	3,294,431
1983	2,891,142	2,891,142
1984	343,699	343,699
To 1986	606,978	606,978
Total minimum lease payments	$10,523,727	$13,775,169
Less: Imputed interest	1,367,906	2,261,593
Present value of minimum lease payments	$ 9,155,821	$11,513,576
Portion of obligation due in one year	2,711,886	2,357,755
Non-current portion of obligation	$ 6,443,935	$ 9,155,821

Had such leases been accounted for as capital leases, the present value of the minimum lease payments of $6,443,935 (1979 — $9,155,821) would have been shown as a long term liability and $2,711,886 (1979 — $2,357,755) as a current liability. Interest expense related to this liability would have been $892,685 for 1980 (1979 — $1,087,542).

The net profit for 1980 would have increased by $301,000 and the net loss for 1979 would have decreased by $123,000 had such leases been accounted for as capital leases.

There were no capital leases entered into subsequent to January 1, 1979.

7. **REMUNERATION OF DIRECTORS AND OFFICERS**

The aggregate remuneration paid to the directors and the five highest paid employees of the Company for 1980 was $253,560 (1979 — $186,926).

8. **PENSION PLANS**

The Company maintains pension plans which cover substantially all of its employees. During 1980 the Company revised one of its pension plans to provide an increase in the benefit rate from $6 to $10 per year of credited service. This change increased the unfunded liability for past service costs to $1,305,500 as at December 31, 1980 (1979 — $607,100). The unfunded liability will be paid and charged to earnings over 19 years by annual instalments of $118,700.

9. **LEGAL ACTIONS**

The Company together with others, is a defendant in product liability suits in the United States in which substantial damages are claimed for alleged injuries to the health of asbestos workers by reason of inhalation of asbestos fibre.

The Company denies all liability in these actions. Neither the existence of liability nor the extent of any possible damages can be determined at this time and accordingly, no provision for such liability, if any, has been made in the financial statements.

10. **TAX RE-ASSESSMENTS**

The Company has filed a notice of objection against a 1976 Federal income tax re-assessment for approximately $375,000 arising principally from the disallowance of earned depletion. The Minister of National Revenue confirmed the re-assessment and the Company subsequently filed a notice of claim in the Federal Court.

The Company has filed a notice of appeal against a 1976 Newfoundland mining tax re-assessment for approximately $70,000 arising principally from a decrease in the processing allowance claimed. A hearing was held in January, 1981 by the Mining Tax Appeal Board. The decision of the Board has not yet been handed down.

The Company maintains that it is entitled to these deductions.

11. **POTENTIAL FUTURE TAX BENEFITS**

As at December 31, 1980 the Company has the following future tax benefits:

(a) loss carry forwards of approximately $11,607,000 available for deduction against future taxable incomes of which $2,905,000 expires in 1983 and $8,702,000 expires in 1984;

(b) earned depletion base of approximately $3,167,000 which is available as a deduction from income for tax purposes at the rate of 25% of resource income; and

(c) investment tax credits of approximately $1,396,000 which may be applied against future tax of which $50,000 expires in 1982, $42,000 expires in 1983, $128,000 expires in 1984, and $1,176,000 expires in 1985.

The potential future tax benefit attributable to these deductions is approximately $8,783,000.

In accordance with generally accepted accounting principles, this potential tax benefit has not been recognized in the accounts.

12. **PREFERENCE SHAREHOLDERS' AGREEMENT**

On December 31, 1976 the Company redeemed, out of working capital and borrowed funds, its then outstanding 125,058 4½% cumulative redeemable preference shares of the par value of $100 each. By agreement dated as of November 30, 1976, substantially all of the holders of the preference shares agreed to pay the Company the amount, if any, by which the net after tax cost of servicing the bank indebtedness, incurred to redeem the preference shares and to replace working capital used to redeem the preference shares, exceeded the dividends that would have been paid on the preference shares had they not been redeemed in 1976. For the purposes of the November 30, 1976 agreement it was assumed that the last of the preference shares would have been redeemed in 1979 pursuant to the original 1958 financing agreement between the Company, the holders of the preference shares and others.

The amount is to be paid to the Company by the former holders of the preference shares immediately following repayment of the bank indebtedness, which was $4,000,000 as at December 31, 1980. The discounted amount that would be owing to the Company is $126,000 subject to a reduction of $80,000 if the 1979 loss is utilized to reduce or eliminate future taxes. As there is no virtual certainty as to the $80,000, that amount has not been recognized in the accounts. The balance of $46,000 has been recorded as an other asset on the balance sheet.

13. **SEGMENTED INFORMATION**

(a) The Company derives its continuing operating earnings from one industry segment, asbestos mining. In 1980, the Company received $1,594,413 from the copper mining operations carried on by Consolidated Rambler Mines Limited on two 21 year mining leases (known as the Ming Extension) which is disclosed as profit participation on the Statement of Earnings.

(b) 100% of sales were to foreign customers.

14. **RELATED PARTY TRANSACTIONS**

(a) **Management Fees**

Advocate has agreed to pay management fees equal to 4% of the Company's gross revenues derived from the sale of asbestos fibre to persons who are significant shareholders. Management fees accrued for the fiscal year 1980 were $1,893,780 (1979 – $1,238,000). Management fees owing total $2.079,964 as at December 31, 1980 (1979 – $2,385,892).

(b) **Loans**

Of the $10,000,000 advanced to Advocate referred to in Note 5, $5,200,000 was advanced by significant shareholders.

(c) **Accounts Receivable and Sales**

Advocate sells 100% of its fibre to persons who are affiliates of significant shareholders. The prices for all asbestos fibre sold are equal to prices that are charged by the Company's manager for fibre of like grade and quality and sold to similar purchasers under similar long term contracts plus 10%.

Accounts receivable with respect to fibre sales total $5.303.446 as at December 31, 1980 (1979 -- $2,511.334).

15. **DEPRECIATION AND AMORTIZATION**

The Company re-examined the geological information in light of current economic conditions and revised the ore reserves downward at December 31, 1979 to 28.9 million tonnes. As a result, additional depreciation of $2,369,000 and amortization of $74.000 on account of prior years was recorded in the Consolidated Statement of Earnings as a special allowance in 1979.

16. **WORKING CAPITAL FROM OPERATIONS**

Working capital provided from (applied to) operations as shown on the Consolidated Statement of Changes in Financial Position is calculated as follows:

	1980	1979
Net earnings (loss) before extraordinary item	$ 1,564,792	$(10,301.273)
Add (deduct) items not affecting working capital:		
Depreciation	1,257,000	1.185,000
Amortization of mine development costs	144,000	115,000
Special allowance for depreciation and amortization	–	2,443,000
Loss on sale of fixed assets	8,014	–
Gain on sale of fixed assets	–	(49,456)
Deferred taxes related to depreciation and amortization	(638.101)	(1,953,590)
Deferred cost recoveries	(46,000)	–
Provided from (applied to) operations	$2,289.705	$ (8,561,319)

Five Year Financial Summary

	1980	1979	1978	1977	1976
FOR THE YEAR (in thousands)					
Revenue	$ 48,939	$ 30,958	$ 21,357	$ 34,475	$ 31,790
Operating costs	41,435	37,119	24,351	27,036	22,410
Amortization and depreciation	1,401	3,743	870	1,275	1,085
Exploration	—	—	—	—	76
Interest	3,954	2,409	1,557	940	57
Gifts to school board	—	—	—	—	251
Provision for (recovery of) income and mining taxes	515	(2,012)	(1,989)	1,815	3,482
	$ 47,305	$ 41,259	$ 24,789	$ 31,066	$ 27,361
Net income (loss)	$ 1,634	$ (10,301)	$ (3,432)	$ 3,409	$ 4,429
Provision for cumulative preference dividend	—	—	—	—	563
Net income (loss)	$ 1,634	$ (10,301)	$ (3,432)	$ 3,409	$ 3,866
Per share	$ .27	$ (1.72)	$ (.57)	$ .57	$ .64
Working capital generated	2,290	(8,561)	(4,125)	5,839	7,803
Per share	.38	(1.43)	(.69)	.97	1.30
Working capital from long-term loan	10,000	2,400	1,284	—	10,000
Working capital used for					
Preference dividend	$ —	$ —	$ —	$ —	563
Common dividend	—	—	—	1,110	486
Redemption of preference shares	—	—	—	—	12,506
Fixed assets	1,508	2,613	2,629	1,715	1,269
Current portion of long-term debt	1,012	1,162	662	2,500	2,500
AT THE YEAR END (in thousands)					
Working capital (deficiency)	$ (1,948)	$ (11,786)	$ (1,902)	$ 4,221	$ 3,707
Fixed assets	17,085	16,842	17,785	15,946	15,423
Preproduction and mine development costs	1,865	2,009	2,198	2,278	2,393
Other assets at cost	121	75	75	75	75
	$ 17,123	$ 7,140	$ 18,156	$ 22,520	$ 21,598
Less: Long-term debt	15,050	5,900	4,500	5,000	7,500
Less: Deferred taxes	1,315	1,953	3,907	5,461	4,338
Less: Conditional sales contract	797	960	1,121	—	—
Total shareholders' equity	$ (39)	$ (1,673)	$ 8,628	$ 12,059	$ 9,760
Common shares book value per share	$ (.01)	$ (.28)	$ 1.44	$ 2.01	$ 1.63
PRODUCTION					
Fibre production (tonnes) A-25	59,993	48,127	35,311	59,886	66,118
A-35	11,104	11,279	4,527	15,435	10,490
Material mined (thousands of tonnes)					
Ore	1,897	2,371	1,488	2,301	1,879
Waste and overburden	12,104	12,614	7,645	9,205	8,104
	14,001	14,985	9,133	11,506	9,983
Waste to ore ratio	6.38:1	5.32:1	5.14:1	4.0:1	4.3:1
Recovery from ore crushed	3.54%	2.78%	2.60%	3.67%	4.06%
Ore reserves (thousands of tonnes)	26,850	28,900*	41,439	42,339	44,155

*After recalculation as at December 31, 1979 and reduction by 10.2 million tonnes

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