

*ANNUAL
REPORT
1968*

Advocate Mines Limited

ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

	M. J. Boylen
	E. R. E. Carter
	D. T. Colton
Directors	André Emsens
	Gilbert Kerlin
	Karl V. Lindell
	Ernst Schmidheiny

	M. J. Boylen, Chairman of the Board
	E. R. E. Carter, President
Officers	J. Kaczkowski, Treasurer
	P. J. Keenan, Secretary
	F. van de Water, Assistant-Secretary

Registrar and Transfer Agents	Guaranty Trust Company of Canada Toronto and Fredericton
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Auditors	Loftus A. Allen & Co., Toronto, Ontario
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Head Office	7 King Street East, Toronto, Ontario
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Mine Office	Baie Verte, Newfoundland
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Annual Meeting of Shareholders

Monday, May 26, 1969, 11:30 a.m.
in the Saskatchewan Room,
Royal York Hotel, Toronto, Ontario

Directors' Report

<i>Net Income</i>	Net income was \$1,257,000 or 8¢ per common share after providing for preference dividends earned in 1968. This compares with net income of \$1,866,000 and earnings per common share of 18¢ in 1967.
<i>Cash Flow</i>	Although net income was lower in 1968, cash flow available for distribution to shareholders increased to \$2,167,000 or 23¢ per common share, after providing for the annual preference dividend of \$806,000. (\$2,033,000 and 20¢ per common share in 1967).
<i>Dividends Paid</i>	<p>Preference dividends in the amount of \$2,417,000 were paid in 1968 to cover arrears for the years 1965 to 1967 inclusive. The 1968 preference dividend was paid on March 18th, 1969.</p> <p>As disclosed in note 4 of the financial statements, the Company has agreed to redeem the preference shares from 75% of the annual cash flow after provision for working capital, additions to plant and equipment, retirement of loans and payment of preference dividends. The balance of 25% is available for the declaration and payment of dividends on common shares. Consideration will be given to payment of a common dividend in 1969. However, cash flow realized from current operations will be the deciding factor.</p>
<i>Operations</i>	<p>Production was 62,407 tons (63,664 tons in 1967) valued at \$10,947,000 or \$175.41 per ton (\$10,941,000 and \$171.86 per ton). Shipments were 69,184 tons, 9% higher than in 1967. As inventories of fibre are valued at net realizable value, which in effect is 'net selling price', profits are earned as fibre is produced and net income is unaffected by the increase in tons shipped.</p> <p>Of concern was the increase in operating costs from \$7,548,000 to \$8,227,000, a rise of 9%. This was due to the 6% increase in tons mined, from 10,115,000 to 10,723,000 tons, and a general rise in labour and material costs which were offset in part by a 2% price increase which became effective on April 1, 1968.</p>
<i>Outlook</i>	A 5% fibre price increase became effective on January 1, 1969. Under normal operating conditions net income should return to the 1967 level.

On behalf of the Board of Directors



President

March 19th, 1969

ADVOCATE MINES LIMITED

Consolidated Balance Sheet

Assets		December 31 1968	December 31 1967
Current Assets			
Cash	\$	38,000	\$ 94,000
Accounts receivable		1,020,000	1,363,000
Fibre inventory — at net realizable value		1,266,000	2,463,000
Stores and supplies — at cost		804,000	848,000
Special refundable tax		66,000	148,000
Prepaid expenses		102,000	167,000
		<u>3,296,000</u>	<u>5,083,000</u>
Mining Properties and Rights — at cost (Note 2)		75,000	75,000
Fixed Assets			
Property, plant and equipment — at cost		24,066,000	24,731,000
Less: Accumulated depreciation		<u>4,606,000</u>	<u>4,483,000</u>
		19,460,000	20,248,000
Other Assets			
Advances to school boards		859,000	859,000
Deferred preproduction expense less amounts written off		3,428,000	3,578,000
		<u>\$27,118,000</u>	<u>\$29,843,000</u>

The accompanying notes form an integral part of these financial statements.

Liabilities and Shareholders' Equity

	December 31 1968	December 31 1967
Current Liabilities		
Bank loan — secured	\$ 800,000	\$ 2,280,000
Accounts payable	1,717,000	1,763,000
Miscellaneous taxes payable	51,000	61,000
	<u>2,568,000</u>	<u>4,104,000</u>
 Shareholders' Equity (Notes 4 and 5)		
Capital		
Authorized, Issued and Fully Paid		
179,000 4½% Cumulative, redeemable preference shares of \$100 par value	17,900,000	17,900,000
6,000,000 Common shares of \$1 par value	6,000,000	6,000,000
	<u>23,900,000</u>	<u>23,900,000</u>
Less: Discount on common shares	3,818,000	3,818,000
	<u>20,082,000</u>	<u>20,082,000</u>
Retained earnings	4,468,000	5,657,000
	<u>24,550,000</u>	<u>25,739,000</u>
	<u><u>\$27,118,000</u></u>	<u><u>\$29,843,000</u></u>

Approved on behalf of the Board:

Director

M. J. Doyle

Director

E. R. Carter

ADVOCATE MINES LIMITED

Consolidated Statement of Income

	Year Ended	December 31 1968	December 31 1967
Revenue			
Value of fibre produced		\$10,947,000	\$10,941,000
Expenses			
Operating costs		8,227,000	7,548,000
Interest		104,000	170,000
Depreciation		1,200,000	1,200,000
Amortization of preproduction expense		150,000	145,000
Mining taxes		9,000	12,000
		<u>9,690,000</u>	<u>9,075,000</u>
Net Income		<u>\$ 1,257,000</u>	<u>\$ 1,866,000</u>

Consolidated Statement of Retained Earnings

	Year Ended	December 31 1968	December 31 1967
Balance, beginning of year		\$ 5,657,000	\$ 5,008,000
Net income		1,257,000	1,866,000
Loss on sale of fixed assets		(29,000)	(77,000)
Proceeds on sale of 22 mining claims		—	3,000
		<u>6,885,000</u>	<u>6,800,000</u>
Preference dividends paid		2,417,000	1,143,000
Balance, end of year		<u>\$ 4,468,000</u>	<u>\$ 5,657,000</u>

**Consolidated
Statement of
Source and
Application
of Funds**

	Year Ended	December 31	December 31
		1968	1967
Funds Were Derived From			
Net income		\$1,257,000	\$1,866,000
Depreciation		1,200,000	1,200,000
Amortization of preproduction expense		150,000	145,000
Sale of fixed assets		44,000	56,000
Sale of mining claims		—	3,000
		<u>\$2,651,000</u>	<u>\$3,270,000</u>
Funds Were Applied To			
Fixed assets		\$ 484,000	\$ 909,000
Preference dividend		2,417,000	1,143,000
Preproduction expenses — expansion diamond drilling costs		—	165,000
Advances to school boards		—	163,000
Increase (decrease) in working capital		(250,000)	890,000
		<u>\$2,651,000</u>	<u>\$3,270,000</u>

Notes to Consolidated Financial Statements

1. The consolidated financial statements combine the accounts of the Company with those of its wholly owned subsidiary, Advocate Concessions Exploration Company Limited.
2. The exclusive prospecting and exploration rights in the Rattling Brook-White Bay Area, Newfoundland, have been extended to December 31, 1973. Subject to certain conditions, the Company may obtain a development license for a period of five years for an area not exceeding 41 square miles. Mining leases may then be obtained for any or all of the area covered by the development license. Advocate has, accordingly, been granted a mining lease in the Baie Verte area.
3. Depreciation and amortization provided in the financial statements of prior years exceeded the amounts claimed for tax purposes. The excess allowance has been claimed to the full extent of net income from the close of the tax exempt period on August 31, 1966 to December 31, 1968. Accordingly, no liability for income taxes is required for 1968 or 1967. Had income taxes been payable, the tax provision would have been \$425,000 in 1968 and \$612,000 in 1967.
4. Pursuant to the Financing Agreement dated September 27, 1958, the Company has agreed to redeem the preference shares from 75% of the annual cash flow after provision for working capital, additions to plant and equipment, retirement of loans and payment of preference dividends. The balance is available for the declaration and payment of dividends on common shares.
5. The dividend on the cumulative preference shares has been paid to December 31, 1967 and the amount presently in arrears is \$806,000.
6. The aggregate remuneration paid to the directors and the five highest paid employees of the company for 1968 and 1967 was \$80,000 and \$88,000 respectively.

Auditors' Report to the Shareholders

Loftus A. Allen & Company

We have examined the consolidated balance sheet of Advocate Mines Limited and its wholly owned subsidiary as at December 31, 1968 and the consolidated statements of income, retained earnings and source and application of funds 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.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds 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,
February 20, 1969.

Chartered Accountants

Manager's Report

We, as Manager of your operations at Baie Verte, Newfoundland, report hereunder for the year 1968.

Production

During 1968, the mill operated 297 days and produced 62,407 tons of A-25 fibre. To produce this fibre, 1,953,250 tons of ore were delivered to the crushing and drying plant, giving a recovery of 3.27%. This recovery was lower than the 3.36% obtained in 1967, but all the fibre produced was graded at a single higher quality level.

During the year, 2,040,649 tons of ore, 8,470,264 tons of waste and overburden, and 212,028 tons of road rock were mined. This provided a total of 10,722,941 tons, an increase of 6% over the 1967 figure. The waste to ore ratio was 4.15:1, compared to 4.10:1 in 1967. Four additional 50 ton trucks were received in May, to increase waste tonnages so that a 4.5:1 waste to ore ratio can be maintained.

Tabulated below are the operating data for the years 1967 and 1968.

	1967	1968
Days operated	303	297
Tons fibre produced	63,664	62,407
Concentrated ore milled	1,024,220	992,248
Ore to crusher	1,894,948	1,953,250
Ore to stockpile	65,950	95,139
Ore from stockpile	120,878	7,740
Waste mined	8,211,069	8,682,292
Waste to ore ratio	4.10:1	4.15:1
Recovery from ore mined	3.36%	3.27%

Ore Reserves

At December 31, 1968, reserves were 63,345,369 tons. The program of shallow diamond drilling was completed in the Spring. All other development drilling was done by the rotary drills ahead of mining faces, and the intensive program of geological mapping and sampling continued throughout the year.

Facilities

The experimental double trommel line was installed and placed in service in October. It is operating at original design tonnages and further improvements will be achieved as experience is obtained.

Net additions to plant and equipment in 1968 amounted to \$484,414.

Shipping

The last boat of the previous shipping season was cleared on February 17, and the first boat of the 1968 season on July 10.

69,184 tons of A-25 fibre were shipped during the year.

Personnel

At year end there were 406 employees, of which 59 were staff and 347 hourly. Labour turnover at 16% was well below normal with the exception of skilled trades. The latter group had a turnover of 26%, due to the continued demand for tradesmen from construction projects. Excellent results are continuing to be obtained from the Provincial Government apprenticeship program.

In 1968, there were some minor lost time accidents. However, four production shifts exceeded 250,000 hours and the milling department 800,000 hours without a lost time injury.

Co-operation and labour relations between the Company and the local Asbestos Workers were again maintained at a highly satisfactory level throughout 1968. The last labour agreement expired on November 30, and a new agreement has not yet been negotiated.

Government Relations

Excellent co-operation again prevailed throughout the year between the Company and all departments of the Provincial Government.

General

All mine operations were closed down during the last two weeks of August for frequency changeover from 50 to 60 cycle power.

Concession Exploration

Expenditures on the Concession during 1968 totalled \$53,093.

These expenditures were made by the M. J. Boylen (1967) Prospectors Limited who carried out exploration on the basis of the provisional agreement set forth in the Advocate annual report of 1967.

We wish to extend to management and all employees, our sincere appreciation for their loyal and efficient service throughout the year.

Canadian Johns-Manville Company, Limited



Karl V. Lindell
Chairman of the Board

February 24, 1969

Five Year Financial Summary

ADVOCATE

	1968	1967	1966	1965	1964
For the Year (in thousands)					
Value of fibre produced	\$ 10,947	\$ 10,941	\$ 10,804	\$ 9,778	\$ 8,419
Operating costs	8,236	7,560	6,812	6,008	5,295
Amortization and depreciation	1,350	1,345	1,336	1,447	1,399
Interest	104	170	149	241	198
	<u>9,690</u>	<u>9,075</u>	<u>8,297</u>	<u>7,696</u>	<u>6,892</u>
Net income	1,257	1,866	2,507	2,082	1,527
Provision for cumulative preference dividend ...	806	806	805	805	805
Net income to common shareholders	<u>\$ 451</u>	<u>\$ 1,060</u>	<u>\$ 1,702</u>	<u>\$ 1,277</u>	<u>\$ 722</u>
Per share	8¢	18¢	28¢	21¢	12¢
Funds generated	\$ 2,607	\$ 3,211	\$ 3,842	\$ 3,529	\$ 2,926
Per share	43¢	54¢	64¢	59¢	49¢
Funds applied					
Preference dividend	\$ 2,417	\$ 1,143	\$ 823	—	—
Fixed assets (net)	440	853	1,882	2,468	1,924
Mine development	—	165	274	—	—
At the Year End (in thousands)					
Working capital	\$ 729	\$ 979	\$ 89	\$ (741)	\$ (1,587)
Fixed assets (net)	19,460	20,248	20,672	20,202	18,981
Preproduction and mine development (net)	3,428	3,578	3,558	3,428	3,628
Other assets	933	934	771	739	546
Total shareholders' equity	<u>24,550</u>	<u>25,739</u>	<u>25,090</u>	<u>23,628</u>	<u>21,568</u>
Preference shares, par value	17,900	17,900	17,900	17,900	17,900
Common shares, book value	6,650	7,839	7,190	5,728	3,668
Less arrears, cumulative preference dividends ...	806	2,417	2,754	2,772	1,967
Common shares, net value	<u>\$ 5,844</u>	<u>\$ 5,422</u>	<u>\$ 4,436</u>	<u>\$ 2,956</u>	<u>\$ 1,701</u>
Per share	97¢	90¢	74¢	49¢	28¢
Production					
Fibre produced (tons)	62,407	63,664	65,201	61,641	59,342
Material mined (thousands of tons)					
Ore	2,041	1,904	2,014	2,145	2,096
Waste and overburden	8,682	8,211	6,236	4,480	2,537
	<u>10,723</u>	<u>10,115</u>	<u>8,250</u>	<u>6,625</u>	<u>4,633</u>
Waste to ore ratio	4.15:1	4.10:1	3.10:1	2.09:1	1.21:1
Recovery from ore crushed	3.27%	3.36%	3.25%	2.94%	2.84%
Ore reserves (thousands of tons)	63,345	67,000	55,000	36,369	38,514

