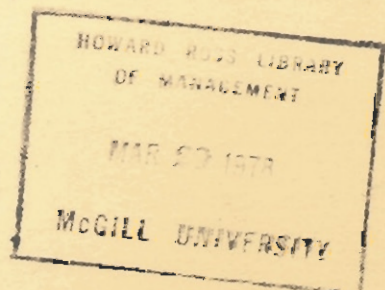


C

ANNUAL
REPORT
1977



Advocate Mines Limited

ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

Directors	J. Jacques Beauchemin
	E. R. E. Carter
	A. C. Crosbie
	J. M. Emsens
	Max Graf*
	M. Harris
	J. R. M. Hutcheson*
	Gilbert Kerlin*
	Karl V. Lindell
	H. F. Teney

*Member of the Audit Committee

Officers	E. R. E. Carter, Chairman of the Board and President
	A. R. Dennis, Treasurer
	A. W. Oughtred, Secretary
	F. J. Lapalme, Assistant Secretary

Registrar and Transfer Agent	Metropolitan Trust Company Toronto, Ontario
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Auditors	Loftus A. Allen & Co., Toronto, Ontario
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Head Office	8th floor, 250 University Avenue Toronto, Ontario
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Mine Office	Baie Verte, Newfoundland
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Annual Meeting of Shareholders

11:00 a.m.
April 18, 1978
University Room
Hotel Toronto
Toronto, Ontario

Directors' Report

<i>Net Income</i>	<p>As contemplated, 1977 was a good year. Net income was \$3,409,032 (1976 - \$4,429,130). Earnings per share were \$.57. Net income would have been greater except for a very significant failure in the east wall of the North Pit which started in late November last and adversely affected production. In 1978 earnings will be detrimentally affected to a substantial degree as the effects of this failure are overcome by removing more waste rock and less ore than planned. This will not affect medium and long term prospects which remain good.</p> <p>Your attention is directed to the attached audited financial statements and five year financial summary.</p>
<i>Dividends</i>	<p>A dividend of 18.5¢ per common share (1976 - 8.1¢) was paid in December, this being the maximum permitted under the federal Anti-Inflation Guidelines. The restraints on dividend rates are due to expire on October 13, 1978. Your Corporation's dividend policy will be continually reviewed by your board of directors, bearing in mind the financial results and needs of your Corporation.</p>
<i>Cash Flow</i>	<p>Operations generated \$5,839,077. Funds were expended for: purchase of fixed assets \$1,715,131, repayment of bank debt \$2,500,000 and common share dividends \$1,110,000. Working capital at the end of the year was \$4,221,299. Retained earnings increased from \$7,578,279 at the beginning of the year to \$9,877,311.</p>
<i>Debt</i>	<p>At year end the term bank debt was \$7,500,000. Since then the current portion of \$2,500,000 was converted and added to your Corporation's operating line of credit resulting in reduced interest charges. Arrangements with your Corporation's bankers were concluded in March 1978 whereby the remaining \$5,000,000, borrowed by way of bankers' acceptances and secured by a floating charge on your Corporation's assets, will be repayable over 10 years in equal annual instalments of \$500,000 each with the first payment due by December 31, 1979 instead of two repayments of \$2,500,000 due December 31, 1979 and 1980. These arrangements are subject to review at the end of 1981.</p>
<i>Operations</i>	<p>Production in 1977 was 75,318 metric tons of fibre valued at \$34,474,542 compared with 84,446 metric tons and \$31,790,277 in 1976. During the year 64,758 metric tons of fibre were shipped.</p>
<i>Manager's Report</i>	<p>You are referred to the Report of Canadian Johns-Manville Company, Limited which is attached hereto.</p>
<i>General</i>	<p>Mr. Karl V. Lindell, a director of your Corporation since 1958, will not seek re-election as a director at the Annual Meeting of Shareholders. His contribution to the Corporation during that period was invaluable and vital and deep appreciation is due to him. Standing for election as a director at the annual meeting will be Mr. Ross E. Sampson, a Vice-President and Director of Manufacturing of Canadian Johns-Manville Company, Limited who has been associated with your Corporation for many years.</p>
<i>Sales Contracts</i>	<p>During 1977 your Corporation entered into fibre sales contracts with each of Compagnie Financiere Eternit S. A. and Johns-Manville Sales Corporation under which the latter have agreed to purchase substantially all of your Corporation's fibre production for the period ending December 31, 1985 and at the option of the parties for an additional period of five years. These contracts provide your Corporation with assured markets for its production.</p>

Labour Relations

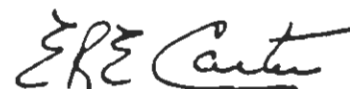
On February 13, 1978 your Corporation's hourly paid employees went on strike bringing all operations at the mine at Baie Verte to a standstill. The labour agreement with the Corporation's hourly paid employees expired December 31, 1977. Preliminary negotiations were held with Local 7713 of the United Steel Workers of America which represents the hourly paid workers prior to the strike and certain matters were settled. As of the date of preparation of this report no further negotiations have been held although management is prepared to meet with the union leadership at any time.

Outlook

Although 1978 will be disappointing for the reasons above, the outlook for your Corporation remains good for the medium and long term. The forecast is that although 1978 will be a difficult year by all counts, the work done in 1978 will in fact place your Corporation in a normal position for 1979 and in an even stronger position for 1980 and forward.

The efforts of all connected with your Corporation's operations during the past year are greatly appreciated.

On behalf of the Board

A handwritten signature in dark ink, appearing to read "ERE Carter". The signature is fluid and cursive, with the first part "ERE" being more distinct than the last name "Carter".

Chairman of the Board and President

March 17, 1978.

Report of the Manager

To the President and Directors of
ADVOCATE MINES LIMITED

We, as the Managers of your operations at Baie Verte, Newfoundland, report hereunder for the year 1977. It should be noted that all units are metric.

Production

	1977	1976
Days Operated	336	343
Tonnes A-25 Produced	59,886	66,118
Tonnes A-35 Produced	15,435	10,490
Concentrate Ore Milled	1,446,200	1,389,300
Ore to Crusher	2,050,900	1,887,100
Ore to Stockpile	624,100	523,900
Ore from Stockpile	374,200	532,100
Waste to Dump	9,205,100	8,104,000
Waste to Roads	489,300	425,900
Waste to Ore Ratio	4.0:1	4.3:1
Recovery Mine Ore	3.67	4.06

Pit Equipment

Additional larger mining equipment was approved for acquisition in 1977. Eight 90 tonne electric haulage trucks were ordered. Four were put into service from October through December; the remaining four are to be operational early in 1978. Also, one 9 cubic meter electric shovel was ordered for delivery in early 1978.

Primary drilling capacity was increased by the addition of a tire mounted machine capable of drilling up to 230 mm diameter holes. The present track mounted drills are required to travel extensively because of the nature of pit mining. The mobility of the new drill will improve this situation.

Construction was started on an extension to the haulage truck garage to provide the type of space required to service the increased fleet of larger units.

At year end, operational pit equipment included: two 8.4 cubic meter shovels, four 6.1 cubic meter electric shovels, sixteen 990 tonne electric trucks, eight 45 tonne trucks, six bulldozers, three rotary drills, and three front end loaders.

Mining

During 1977, all mining was carried out in the North Pit, except for, 195,000 tonnes of ore and 256,000 tonnes of waste from the West Pit.

Mining in the North Pit has become very tight because of continuing waste shortfall which amounted to 2.8 million tonnes in 1977. The main reason for the waste shortfall is attributed to drilling problems which resulted in a shortage of well-broken muck for most of the year. A major fire on one of the track drills reduced drill capacity by fifty percent from early April until late July. Drilling improved with the start of operation of the new tire-mounted drill. However, some problems still exist with drill performance, and a new system of maintenance and operations procedures are to be initiated early in 1978.

During the year, lower quality ore than forecasted resulted in a reduced amount of A-25 fibre and an increased amount of A-35 fibre, as compared to plan. Ore from elevation 550 ft., West Pit and the south advance of elevation 450 ft., North Pit, did not turn out as well as expected based on results mined from the level above. Most significant was the lower grade from elevation 450 ft. in the North Pit, however, this situation is expected to improve as the level is mined south.

The plan to start mining high grade ore from elevation 400 ft. North Pit in December has been delayed mainly because of instability along the high east wall above the proposed sink cut. At year end, the mining plan was being reviewed to assess the effect of the instability on the availability of ore for 1978.

Ore Reserves

At December 31, 1977, reserves amounted to 42,339,000 tonnes. During the year 486,000 tonnes of low grade ore (1.94 percent recovery A-25 fibre) was mined from trace fibre zones contiguous with the main fibre zones. 250,000 tonnes of this ore was placed in stockpile. Stockpile inventory at the end of the year was 502,000 tonnes with an estimated recovery of 2.0% A-25 fibre.

Crushing, Drying & Mining Facilities

Most projects undertaken or completed in this area were to improve environmental conditions. These include 1) installation of a bag filter which has reduced the emission of dust from the primary crusher, 2) start of construction of a bag collector system to control emission from the secondary crushing and drying building, 3) purchase of equipment to increase the efficiency of the Mill vacuum system to improve housekeeping conditions; and 4) installation of individual dust lines to each pressure packer to increase the amount of air for improved dust control.

Other than environmental improvements, the other major projects were: 1) the purchase and installation of a new type of dedusting equipment to upgrade the quality of one of the fibre fractions contributing to the A25 production; and 2) purchase and installation of equipment to adequately protect conveyor galleries and hydraulic equipment from fire as required by increased fire protection standards.

Shipping

53,957.49 tonnes of A-25 fibre and 10,801.09 tonnes of A-35 fibre were shipped for a total of 64,758.58 tonnes.

At year end, fibre inventory was 12,453.45 tonnes of A-25 fibre and 5,718.75 tonnes of A-35 fibre.

Shipment of fibre in 1½ tonne stretchwrapped units was initiated during the year.

Personnel

At year end, there were 541 employees of which 76 were staff and 465 hourly. 14 apprentices graduated as certified journeymen and 14 employees joined the plan for a total enrollment of 34. Labour turnover amounted to less than six percent of the total workforce.

1,227,928 manhours were worked with an accident frequency rate of 15.5 per million manhours worked.

General

At year end negotiations were proceeding to renew the Collective Agreement which expired December 31, 1977. Relations with the Union were excellent over the past year.

Dr. Irving Selikoff and his Mount Sinai Medical Team released their preliminary report and recommendations in December. The report will be studied by a Tripartate Committee of Company, Union, and the Provincial Government.

Company and Union Committees continued work on implementation of the Cooperative Wage Study. Job descriptions have been finalized but points of disagreement exist in job classifications.

The Management of your mine is very pleased to acknowledge the cooperation of the Directors and Officers of the Company during 1977.

December 31, 1977.

Respectfully submitted,
CANADIAN JOHNS MANVILLE COMPANY, LIMITED



J. R. M. Hutcheson
Chairman of the Board

ADVOCATE MINES LIMITED

(Incorporated under the Laws of Ontario)


Consolidated Balance Sheet

DECEMBER 31, 1977

(with comparative figures for 1976)

ASSETS	1977	1976
CURRENT ASSETS		
Cash	\$ 218,292	\$ 2,849,084
Accounts receivable	6,770,169	5,160,208
Fibre inventory - at net realizable value (Note 1 (b))	7,331,774	2,982,415
Stores and supplies - at cost	3,004,223	3,235,826
Prepaid expenses	123,494	119,223
	<u>\$ 17,447,952</u>	<u>\$ 14,346,756</u>
MINING PROPERTIES AND RIGHTS - AT COST (Note 2)	\$ 75,000	\$ 75,000
FIXED ASSETS		
Property, plant and equipment - at cost (Note 1 (c))	\$ 25,913,160	\$ 24,745,710
Less Accumulated depreciation	9,966,547	9,322,259
	<u>\$ 15,946,613</u>	<u>\$ 15,423,451</u>
OTHER ASSETS		
Mine development costs less amounts written off (Note 1 (d))	\$ 2,277,595	\$ 2,392,595
	<u>\$ 35,747,160</u>	<u>\$ 32,237,802</u>

Approved on behalf of the Board:

 Director

 Director

LIABILITIES

	<u>1977</u>	<u>1976</u>
CURRENT LIABILITIES		
Bank loans - secured (Note 3)	\$ 4,460,000	\$ —
Accounts payable	5,217,424	6,070,796
Income and mining taxes payable	787,085	1,833,937
Miscellaneous taxes payable	262,144	234,670
Current portion of long term debt	2,500,000	2,500,000
	<u>\$ 13,226,653</u>	<u>\$ 10,639,403</u>
Long Term Debt - secured (Note 3).	\$ 5,000,000	\$ 7,500,000
Deferred Taxes	<u>\$ 5,461,191</u>	<u>\$ 4,338,115</u>

SHAREHOLDERS' EQUITY

Capital		
Authorized and Issued		
6,000,000 Common shares of \$1 par value	\$ 6,000,000	\$ 6,000,000
Less: Discount on common shares.	<u>3,817,995</u>	<u>3,817,995</u>
	\$ 2,182,005	\$ 2,182,005
Retained Earnings	<u>9,877,311</u>	<u>7,578,279</u>
	<u>\$ 12,059,316</u>	<u>\$ 9,760,284</u>
	<u>\$ 35,747,160</u>	<u>\$ 32,237,802</u>

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

ADVOCATE MINES LIMITED

Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

	1977	1976
Value of fibre produced	\$ 34,474,542	\$ 31,790,277
LESS		
Operating costs	\$ 27,035,741	\$ 22,410,527
Interest	939,994	57,298
Depreciation of equipment	1,160,000	970,000
Amortization of mine development costs	115,000	115,000
Exploration expenses	—	75,606
	<u>\$ 29,250,735</u>	<u>\$ 23,628,431</u>
Net earnings before taxes and extraordinary item	\$ 5,223,807	\$ 8,161,846
Provision for income and mining taxes		
Current	\$ 691,699	\$ 1,748,272
Deferred	1,123,076	1,733,834
	<u>\$ 1,814,775</u>	<u>\$ 3,482,106</u>
Net earnings before extraordinary item	\$ 3,409,032	\$ 4,679,740
Extraordinary item		
Capital gift to school boards, net of applicable deferred taxes of \$153,600 in 1976	—	250,610
Net earnings for the year	<u>\$ 3,409,032</u>	<u>\$ 4,429,130</u>
Earnings per common share after providing for preference dividends earned of \$562,761 in 1976		
Net earnings before extraordinary item	<u>\$.57</u>	<u>\$.69</u>
Net earnings for the year	<u>\$.57</u>	<u>\$.64</u>

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

	1977	1976
Balance, beginning of year	\$ 7,578,279	\$ 4,197,910
Net earnings	3,409,032	4,429,130
	<u>\$ 10,987,311</u>	<u>\$ 8,627,040</u>
DIVIDENDS PAID		
Preference	\$ —	\$ 562,761
Common	1,110,000	486,000
	<u>\$ 1,110,000</u>	<u>\$ 1,048,761</u>
Balance, end of year	<u>\$ 9,877,311</u>	<u>\$ 7,578,279</u>

ADVOCATE MINES LIMITED

Information Circular

This Information Circular is forwarded in connection with the solicitation of proxies by the Management of Advocate Mines Limited (hereinafter called the "Corporation") for use at the Annual Meeting of Shareholders of the Corporation to be held on April 18, 1978 at 11:00 o'clock in the forenoon (Toronto time) in the University Room, Hotel Toronto, Toronto, Ontario, for the purposes set forth in the Notice of Meeting which accompanies this Information Circular, and at any adjournment or adjournments thereof.

VOTING OF PROXIES

The shares represented by a proxy in the form enclosed will be voted by the persons named therein.

The form of proxy enclosed herewith confers discretionary authority with respect to amendments or variations to matters identified in the Notice of Meeting and other matters which may properly come before the meeting.

A shareholder has the right to appoint a person, who need not be a shareholder, to represent him at the meeting, other than the persons designated in the form of proxy enclosed with the Notice of Meeting. To exercise this right, the shareholder may insert the name of the desired person in the blank space provided in the form of proxy or may submit another form of proxy.

REVOCABILITY OF PROXIES

A shareholder giving a proxy in the form enclosed may revoke the proxy by instrument in writing executed by him or his attorney authorized in writing, or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Corporation at any time up to and including the last business day preceding the date of the meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such meeting on the day of the meeting, or adjournment thereof.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

6,000,000 common shares of the Corporation of the par value of \$1 each are outstanding. The holders of record thereof at the time of the meeting are entitled to one vote for each share held.

The Corporation has been informed that the following shareholders own directly or indirectly more than 10% of the issued common shares of the Corporation:

	Number of Common Shares Owned	Percentage of Outstanding Common Shares
Amet Corporation Inc. and associates	978,499	16.31
Canadian Johns-Manville Company, Limited	1,835,938	30.60
Compagnie Financiere Eternit S.A.	997,200	16.62

ELECTION OF DIRECTORS

The Board of Directors of the Corporation consists of ten Directors to be elected annually. The following information is furnished with respect to the persons it is proposed shall be nominated for election as Directors to serve until the next annual meeting of shareholders or until their successors are elected or appointed. If any such person is not available to act as a Director, a substitute may be nominated. All of the persons listed below with the exception of R.E. Sampson are now Directors of the Corporation and have been since the dates indicated.

<u>Name</u>	<u>Other positions and offices held with the Corporation</u>	<u>Principal Occupation or Employment</u>	<u>Period served as Director</u>	<u>Approximate number of common shares of the Corporation beneficially owned directly or indirectly</u>
J. Jacques Beauchemin	None	President, Sullivan Mining Group Ltd. (mining company)	1974 to date	100
E.R.E. Carter Q.C.	President, Chairman of the Board	Counsel, Borden & Elliot (legal firm)	1958 to date	1
Andrew C. Crosbie	None	Company Director	1977	2,000
J.M. Emsens	None	Director, Compagnie Financiere Eternit S. A. (holding Company)	1971 to date	1
M. Graf	None	President, Amet Corporation Inc. (holding company)	1969 to date	1
M. Harris	None	Senior Vice-President, Johns-Manville Corporation (mining and manufacturing company)	1976 to date	—
J. R. M. Hutcheson	None	Chairman, Canadian Johns-Manville Company, Limited (mining and manufacturing company)	1971 to date	1
G. Kerlin	None	Partner, Shearman & Sterling (legal firm)	1958 to date	80,112
R.E. Sampson	None	Vice-President and Director of Manufacturing, Canadian Johns-Manville Company, Limited (mining and manufacturing company)	—	—
H.F. Teney Q.C.	None	President, Hambro Canada Limited (investment company)	1974 to date	1

Note. 1. Mr. R.E. Sampson has been a senior officer of Canadian Johns-Manville Company, Limited for a period in excess of five years.

2. The Corporation has been informed with regards to holdings of its shares as indicated above.

Proxies, given pursuant to this solicitation by the management of the Corporation, will be voted for the election of the foregoing persons, if available, as Directors.

REMUNERATION OF MANAGEMENT AND OTHERS

The aggregate direct remuneration paid or payable by the Corporation and its subsidiaries, whose financial statements are consolidated with those of the Corporation, to the directors, senior officers, and five highest paid employees of the Corporation during the Corporation's last completed financial year was \$168,604.

The estimated aggregate cost to the Corporation and its subsidiaries in the last completed financial year of all pension benefits proposed to be paid under any normal retirement age, directly or indirectly by the Corporation or any of its subsidiaries to such directors and senior officers was \$7,067.

APPOINTMENT OF AUDITORS

It is proposed that Messrs. Loftus A. Allen & Company, Chartered Accountants, the Corporation's auditors, be re-appointed. They were first appointed auditors of the Corporation in 1955. Proxies, given pursuant to this solicitation by the management of the Corporation, will be voted for their re-appointment at a remuneration to be fixed by the Board of Directors.

CONTRACTS

The Corporation is a party to an Agreement dated September 29, 1958, as amended, along with Canadian Johns-Manville Company, Limited (hereinafter called "C.J.M.") of P.O. Box 1500, Asbestos, Quebec; Amet Corporation Inc. (hereinafter called "Amet") of P.O. Box 409, Panama City, R.P.; and Compagnie Financiere Eternit S.A. (hereinafter called "Eternit") of 9 rue Ducale, Bruxelles 1, Belgium, which provides, among other things, that C.J.M. will manage the operations of the Corporation subject to termination by either the Corporation or C.J.M. upon two years written notice. The Corporation has agreed to pay C.J.M. a fee equal to 2.67% of the Corporation's gross revenues derived from the sale of asbestos fibre together with C.J.M.'s actual costs, expenses and disbursements but excluding a charge for time of any personnel who are officers of C.J.M., its subsidiaries or affiliates, and not in the employ of the Corporation. The Corporation, under the agreement has agreed to pay Amet for certain management, engineering and technical services a fee equal to 1.33% of the Corporation's gross revenues derived from the sale of asbestos fibre together with Amet's actual costs, expenses, and disbursements but excluding a charge for time of any personnel who are officers of Amet, its subsidiaries or affiliates and not in the employ of the Corporation. Pursuant to the agreement, since the commencement of the Corporation's last completed financial year the amounts paid or payable to C.J.M. and Amet respectively were \$919,321 and \$459,660.

The Corporation is a party to fibre sales agreements dated as of January 1, 1977 with each of Eternit and Johns-Manville Sales Corporation, Ken-Caryl Ranch, Denver, Colorado, (an affiliate of C.J.M.) by which Eternit and Johns-Manville Sales Corporation have agreed to purchase substantially all of the Corporation's asbestos fibre production up to December 31, 1985 and at the option of the parties for an additional period of five years thereafter.

GENERAL

The management of the Corporation knows of no matters to come before the meeting other than as referred to in the Notice of Meeting. However, if any other matters which are not known to the management of the Corporation should properly come before the meeting, forms of proxy given pursuant to this solicitation by the management of the Corporation will be voted in accordance with the best judgment of the person voting the proxy.

DATED as of March 23, 1978.

ADVOCATE MINES LIMITED

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
SOURCE OF WORKING CAPITAL:		
Net earnings	\$ 3,409,032	\$ 4,429,130
Add. Items not affecting working capital:		
Depreciation	1,160,000	970,000
Amortization of mine development costs	115,000	115,000
Loss (gain) on sale of fixed assets	(126,932)	290,248
Deferred income taxes on earnings before extraordinary item	1,123,076	1,733,834
Reduction applicable to extraordinary item	—	(153,600)
Provided from operations	<u>\$ 5,680,176</u>	<u>\$ 7,384,612</u>
Reduction of advance to school boards	—	401,238
Proceeds on sale of fixed assets	158,901	17,246
Long term debt	<u>—</u>	<u>10,000,000</u>
	<u>\$ 5,839,077</u>	<u>\$ 17,803,096</u>
USE OF WORKING CAPITAL:		
Purchase of fixed assets	\$ 1,715,131	\$ 1,268,629
Preference dividends	—	562,761
Common dividends	1,110,000	486,000
Redemption of preference shares	—	12,505,800
Current portion of long term debt	<u>2,500,000</u>	<u>2,500,000</u>
	<u>\$ 5,325,131</u>	<u>\$ 17,323,190</u>
Increase in working capital	\$ 513,946	\$ 479,906
Working capital, beginning of period	<u>3,707,353</u>	<u>3,227,447</u>
Working capital, end of period	<u><u>\$ 4,221,299</u></u>	<u><u>\$ 3,707,353</u></u>

ADVOCATE MINES LIMITED

Notes to Consolidated Financial Statements

DECEMBER 31, 1977

1. ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with generally accepted accounting principles and their basis of application is consistent with that of the preceding year. Outlined below are those policies considered particularly significant.

(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;

(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 of \$1,160,000 (1976 - \$970,000) 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 21 years from 1977.

The Company leases various types of mine equipment with terms which approximate their estimated useful life and with options to purchase. The lease expenses for 1977 were \$2,448,807 (1976 - \$1,814,662).

(d) Mine Development Costs

All costs incurred in developing and placing the mine in production have been capitalized. The annual amortization of these costs is \$115,000 and is based on ore reserves and tons mined.

(e) Income and Mining Taxes

The Company follows the tax allocation method of accounting with respect to all timing differences between reported net income and taxable income.

The deferred taxes on these timing differences pertain to the following:

(i) the adjustment of the fibre inventory valuation to the lower of cost and net realizable value for tax purposes;

(ii) excess depreciation on fixed assets as claimed for tax purposes over the amount recorded in the accounts;

(iii) excess amortization of mine development costs as claimed for tax purposes over the amount recorded in the accounts.

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) One development license covering two square miles which expires on June 4, 1979.

(c) One development license covering three square miles, expiring on June 4, 1979 held subject to a 20% non-assessable undivided interest to others in any asbestos minerals discovered therein and reserving to Advocate a 20% non-assessable undivided interest in any minerals other than asbestos discovered therein.

(d) 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. The cumulative net profits from the Ming Extension have not yet exceeded the exploration expenses and no income has accrued to Advocate.

(e) Three development licenses, covering thirty square miles and expiring on June 4, 1979, and twenty-eight mining claims all held under an agreement with Selco Mining Corporation Limited under which Advocate has 7% 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.

3. BANK LOAN AND CREDITS

The bank operating loan, bank term credit and bankers' acceptances credit are secured by a debenture dated November 15, 1976 in the total amount of \$22,000,000, registered in the names of the Canadian Imperial Bank of Commerce and the Bank of Nova Scotia constituting a first floating charge on all the Company's undertaking, property and assets.

The bank operating loan is repayable on demand and is subject to annual review.

The bank term credit and the bankers' acceptances credit are repayable at \$2.5 million per annum with final payment due December 31, 1980 and with provision for prepayment of any instalment. Interest is payable on the bank term credit at the banks' minimum lending rate plus 1½% per annum. The interest payable and the service fee on the bankers' acceptances credit shall be the current rate in effect from time to time.

If at any time no market exists for bankers' acceptances so that the Company is unable to issue bankers' acceptances, the amount of such bankers' acceptances shall be advanced by the banks to the Company under the bank term credit and thereafter shall be treated in all respects as an advance under the bank term credit.

The detail of the outstanding amounts as shown on the balance sheet is -

Bank term credit	\$2,500,000
Bankers' acceptances credit	5,000,000
	<u>\$7,500,000</u>
Instalment due December 31, 1978 and shown as a current liability	<u>2,500,000</u>
	<u>\$5,000,000</u>

4. LONG-TERM LEASES

The Company is obligated in respect of long-term leases for mine equipment with expiry dates extending until 1986. The aggregate liability over the balance of the term of the leases is \$12,754,132 of which \$2,353,478 is applicable to 1978. In addition, there are lease commitments for equipment on order and facilities under construction with an aggregate liability of \$7,200,000.

5. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate paid to the directors and the five highest paid employees of the Company for 1977 was \$168,604 (1976 - \$155,466).

6. PENSION PLANS

The Company maintains pension plans which cover substantially all of its employees. During 1977 the Company made further revisions to one of its pension plans and the change created an unfunded liability for past service costs of \$465,000 as at December 31, 1977. The unfunded liability will be paid and charged to earnings over a period of 19 years by annual instalments of \$42,000.

**Auditors'
Report to the
Shareholders**

We have examined the consolidated balance sheet of ADVOCATE 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, 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.

Toronto, Ontario
February 10, 1978.



Chartered Accountants

Five Year Financial Summary

	1977	1976	1975	1974	1973
FOR THE YEAR (in thousands)					
Value of fibre produced	\$ 34,475	\$ 31,790	\$ 21,389	\$ 18,249	\$ 15,125
Operating costs	27,036	22,410	18,136	14,149	12,801
Amortization and depreciation	1,275	1,085	965	965	1,085
Exploration	—	76	66	—	—
Interest	940	57	295	87	131
Gift to school board	—	251	286	—	—
Provision for income and mining taxes	1,815	3,482	932	993	—
	<u>\$ 31,066</u>	<u>\$ 27,361</u>	<u>\$ 20,680</u>	<u>\$ 16,194</u>	<u>\$ 14,017</u>
Net income	\$ 3,409	\$ 4,429	\$ 709	\$ 2,055	\$ 1,108
Provision for cumulative preference dividend	—	563	624	680	725
Net income for common shareholders	<u>\$ 3,409</u>	<u>\$ 3,866</u>	<u>\$ 85</u>	<u>\$ 1,375</u>	<u>\$ 383</u>
Per share	57c	64c	01c	23c	6c
Working capital generated	\$ 5,839	\$ 7,803	\$ 2,700	\$ 4,029	\$ 2,401
Per share97	1.30	45c	67c	40c
Working capital from long-term loan	—	10,000	—	—	—
Working capital used for					
Preference dividend	\$ —	\$ 563	\$ 624	\$ 680	\$ 725
Common dividend	1,110	486	450	450	300
Redemption of preference shares	—	12,506	1,350	1,350	898
Fixed assets	1,715	1,269	666	606	384
Current portion of long-term debt	2,500	2,500	—	—	—
AT THE YEAR END (in thousands)					
Working capital	\$ 4,221	\$ 3,707	\$ 3,228	\$ 3,616	\$ 2,673
Fixed assets	15,946	15,423	15,432	15,627	15,892
Preproduction and mine development	2,278	2,393	2,508	2,623	2,738
Other assets	75	75	476	934	934
	<u>\$ 22,520</u>	<u>\$ 21,598</u>	<u>\$ 21,644</u>	<u>\$ 22,800</u>	<u>\$ 22,237</u>
Less: Long-term debt	5,000	7,500	—	—	—
Less: deferred taxes (1)	5,461	4,338	2,758	2,201	1,213
Total shareholders' equity	<u>\$ 12,059</u>	<u>\$ 9,760</u>	<u>\$ 18,886</u>	<u>\$ 20,599</u>	<u>\$ 21,024</u>
Preference shares, par value	—	—	12,506	13,855	15,206
Common shares, book value — total	<u>\$ 12,059</u>	<u>\$ 9,760</u>	<u>\$ 6,380</u>	<u>\$ 6,744</u>	<u>\$ 5,818</u>
Common shares book value per share (1)	<u>\$ 2.01</u>	<u>\$ 1.63</u>	<u>\$ 1.06</u>	<u>\$ 1.12</u>	<u>\$.97</u>
PRODUCTION					
Fibre production (metric tons) A-25 (2)	59,886	66,118	50,894	66,431	69,207
A-35 (2)	15,435	10,490	12,247	6,131	3,684
Material mined (thousands of metric tons) (2)					
Ore (2)	2,301	1,879	2,390	2,156	1,966
Waste and overburden (2)	9,205	8,104	6,936	6,755	7,169
	<u>11,506</u>	<u>9,983</u>	<u>9,326</u>	<u>8,911</u>	<u>9,135</u>
Waste to ore ratio	4.0:1	4.3:1	2.9:1	3.13:1	3.65:1
Recovery from ore crushed	3.67%	4.06%	2.85%	3.73%	3.70%
Ore reserves (thousands of metric tons) (2)	42,339	44,155	45,443	46,644	47,790

(1) 1975 and prior years are restated to give retroactive effect to full tax allocation accounting for mining taxes and the settlement of federal income tax reassessments for 1968 and 1969.

(2) Restated for the years 1973 to 1976 in metric tons.

