

*ANNUAL
REPORT
1969*

Advocate Mines Limited

Annual Meeting of Shareholders

June 8, 1970, 11:30 a.m.
in the Newfoundland Room
Royal York Hotel, Toronto, Ontario

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
	Max Graf

	M. J. Boylen, Chairman of the Board
	E. R. E. Carter, President
Officers	J. Kaczowski, 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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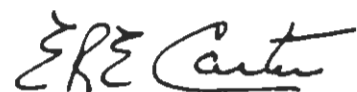
Head Office	7 King Street East, Toronto, Ontario
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Mine Office	Baie Verte, Newfoundland
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Directors' Report

Net Income	<p>Net income was \$1,500,000 or 12¢ per common share after providing for preference dividends earned in 1969 of \$805,000. This compares with net income of \$1,257,000 and 8¢ per common share in 1968.</p> <p>A strike closed the mine from May 22 to July 31, resulting in 256 days of mill operation as against 297 days last year. Its adverse effects were overcome in major part by a reduction in the management fee from 9% to 6%, effective January 1, 1969.</p>
Cash Flow	<p>Cash from operations was \$2,805,000. After providing \$625,000 for fixed asset additions and \$805,000 for preference dividends, net cash flow was \$1,375,000 or 23¢ per common share. (\$1,361,000 and 23¢ per common share in 1968).</p>
Management Fee	<p>Under an agreement dated September 29, 1958, Canadian Johns-Manville Co., Limited (C.J.M.) and Amet Corporation Inc. (Amet) receive for management and other services 6% and 3%, respectively, of the Company's gross revenue from the sale of all fibre during each year that such services are rendered. Such payments were to be made for a period of ten years from the date upon which the Company commenced commercial production, August 31, 1963. It was agreed on October 6, 1969 to amend this agreement as follows:</p> <ol style="list-style-type: none">(1) reduce the total management and service fees from 9% to 6% effective January 1, 1969,(2) extend the period of the said agreement for a minimum of two years, that is from September 1, 1973 to August 31, 1975, to be terminable at any time after September 1, 1973 on two years' written notice by C.J.M. or the Company,(3) provide for management and service fees for the period in which the agreement is in effect after September 1, 1973 at 4% of the Company's gross revenue from the sale of all fibre during such period. <p>Although net income has been adjusted to reflect fees of 6% in lieu of 9%, the amendments to the agreement of September 29, 1958 are subject to Shareholders' Approval and such approval will be sought at the 1970 Annual General Meeting.</p>
Dividends	<p>The 1968 preference dividend was paid on March 18, 1969 and the 1969 preference dividend will be paid on April 2, 1970.</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.</p> <p>The strike caused the initial redemption of preference shares and payment of a common dividend to be deferred until 1970.</p>
Operations	<p>Production was 55,435 tons (62,407 tons in 1968) valued at \$10,345,000 or \$186.61 per ton (\$10,947,000 and \$175.41 per ton in 1968). Shipments were 58,513 tons, 15% less than in 1968. As inventories of fibre are valued at net realizable value, which in effect is 'net selling price', profits are earned as fibre is produced. Progress is satisfactory on the installation of equipment to produce Group VI, A-35 fibre and production is expected to commence in July with sales of 3,500 tons planned for 1970.</p>
Outlook	<p>A 3% fibre price increase became effective on January 1, 1970. This combined with lower management fees and higher planned operating levels could result in substantially increased earnings.</p>

On behalf of the Board of Directors



President

March 31, 1970

ADVOCATE MINES LIMITED

Consolidated Statement of Income

	Year Ended	December 31 1969	December 31 1968
REVENUE			
Value of fibre produced		\$10,345,000	\$10,947,000
EXPENSES			
Operating costs		7,536,000	8,227,000
Interest		172,000	104,000
Depreciation (Note 6)		1,000,000	1,200,000
Amortization of mine development costs (Note 6)		125,000	150,000
Mining taxes		12,000	9,000
		<u>8,845,000</u>	<u>9,690,000</u>
NET INCOME (Note 3)		<u>\$ 1,500,000</u>	<u>\$ 1,257,000</u>

Consolidated Statement of Retained Earnings

	Year Ended	December 31 1969	December 31 1968
BALANCE, BEGINNING OF YEAR		\$ 4,468,000	\$ 5,657,000
Net income		1,500,000	1,257,000
Profit (loss) on sale of fixed assets		85,000	(29,000)
		<u>6,053,000</u>	<u>6,885,000</u>
Preference dividends paid		805,000	2,417,000
BALANCE, END OF YEAR		<u>\$ 5,248,000</u>	<u>\$ 4,468,000</u>

(See accompanying notes to financial statements)

ADVOCATE MINES LIMITED

Consolidated Balance Sheet

ASSETS

	December 31 1969	December 31 1968
CURRENT ASSETS		
Cash	\$ —	\$ 38,000
Accounts receivable	3,434,000	1,020,000
Fibre inventory, at net realizable value	791,000	1,266,000
Stores and supplies, at cost	1,126,000	804,000
Special refundable tax	8,000	66,000
Prepaid expenses	69,000	102,000
	<u>5,428,000</u>	<u>3,296,000</u>
 MINING PROPERTIES AND RIGHTS, at cost (Note 2) ...	 75,000	 75,000
 FIXED ASSETS		
Property, plant and equipment, at cost	24,146,000	24,066,000
Less: Accumulated depreciation	5,156,000	4,606,000
	<u>18,990,000</u>	<u>19,460,000</u>
 OTHER ASSETS		
Advances to school boards	859,000	859,000
Mine development costs, less amounts written off	3,303,000	3,428,000
	<u><u>\$28,655,000</u></u>	<u><u>\$27,118,000</u></u>

(See accompanying notes to financial statements)

LIABILITIES

	December 31 1969	December 31 1968
CURRENT LIABILITIES		
Bank loan, secured	\$ 1,359,000	\$ 800,000
Accounts payable	1,897,000	1,717,000
Miscellaneous taxes payable	69,000	51,000
	<u>3,325,000</u>	<u>2,568,000</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	5,248,000	4,468,000
	<u>25,330,000</u>	<u>24,550,000</u>
	<u>\$28,655,000</u>	<u>\$27,118,000</u>

Approved by the Board:

Director

M. J. Boylan

Director

ERE Carter

ADVOCATE MINES LIMITED

Consolidated Statement of Source and Application of Funds

	Year Ended	December 31	December 31
		1969	1968
SOURCE OF FUNDS			
Net income		\$1,500,000	\$1,257,000
Depreciation		1,000,000	1,200,000
Amortization of mine development costs		125,000	150,000
Sale of fixed assets		180,000	44,000
		<u>2,805,000</u>	<u>2,651,000</u>
APPLICATION OF FUNDS			
Fixed assets		625,000	484,000
Preference dividend		805,000	2,417,000
		<u>1,430,000</u>	<u>2,901,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL		1,375,000	(250,000)
WORKING CAPITAL, BEGINNING OF YEAR		728,000	978,000
WORKING CAPITAL, END OF YEAR		<u>\$2,103,000</u>	<u>\$ 728,000</u>

(See accompanying notes to financial statements)

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 Province of Newfoundland granted the Company the exclusive prospecting and exploration rights in the Rattling Brook-White Bay Area until December 31, 1973. Under this agreement and subject to certain conditions, development licences for a period of five years may be obtained for areas not exceeding 40 square miles in the aggregate. A mining lease may then be obtained for any or all of the area covered by a development licence.

In 1964, 1968 and 1969 Advocate was granted, near the Town of Baie Verte, two 50-year mining leases covering 623 acres and a development license expiring in 1973 covering 416 acres.

Advocate has assigned to M. J. Boylen its rights under the agreement with the Province of Newfoundland except:

- (a) all rights in a development area of approximately 5 square miles which includes the above noted 2 mining leases and one development license;
- (b) any asbestos minerals discovered outside the development area referred to in (a), subject to a 20% non-assessable undivided interest to M. J. Boylen in such asbestos minerals;
- (c) a 20% non-assessable undivided interest to Advocate in any minerals other than asbestos discovered outside the development area referred to in (a).

In consideration of such assignment, M. J. Boylen agrees to expend the \$150,000 required by the Province of Newfoundland for prospecting and exploration in the area.

3. Depreciation and amortization provided in the financial statements since the start of production on September 1, 1963 exceeds the amount claimed for tax purposes. The amount so claimed has been equal to the income before depreciation and amortization from the close of the tax exempt period on August 31, 1966 to December 31, 1969.

Accordingly, no deferred or current liability for income taxes is required for 1969 or 1968. Had income taxes been payable, the tax provision would have been \$524,000 in 1969 and \$425,000 in 1968.

4. Pursuant to the Financing Agreement dated September 29, 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, 1968 and the amount presently in arrears is \$805,500.
6. A strike closed the mine from May 22 to July 31, 1969. Depreciation and amortization of mine development costs were not provided for during this period as such charges to earnings are directly related to the life of the mine.

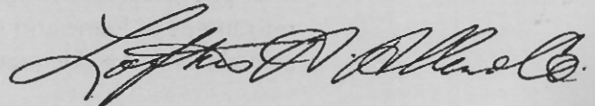
7. Canadian Johns-Manville Co. Limited (C.J.M.) and Amet Corporation Inc. (Amet) agreed on October 6, 1969 to amend the agreement dated September 29, 1958 as follows:
 - (a) reduce the total management and service fees from 9% to 6% effective January 1, 1969,
 - (b) extend the period of the said agreement for a minimum of two years, that is from September 1, 1973 to August 31, 1975, to be terminable at any time after September 1, 1973 on two years' written notice by C.J.M. or the Company,
 - (c) provide for management and service fees for the period in which the agreement is in effect after September 1, 1973 at 4% of the Company's gross revenue from the sale of all fibre during such period.Although net income has been adjusted to reflect fees of 6% in lieu of 9% the amendments to the agreement of September 29, 1958 are subject to Shareholders' Approval and such approval will be sought at the Annual Meeting of Shareholders.
8. The aggregate remuneration paid to the directors and the five highest paid employees of the Company for 1969 and 1968 was \$103,183 and \$79,806 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, 1969 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, 1969 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 6, 1970.

CHARTERED ACCOUNTANTS

Report of the Manager

We, as Manager of your operations at Baie Verte, Newfoundland, report hereunder for the year 1969.

Production

Due to a strike from May 22 to July 31, the mill operated only 256 days, resulting in production of 55,435 tons of A-25 fibre. 1,758,518 tons of dry ore were delivered to the Crushing and Drying Plant, with a recovery of 3.23%. Mill weekly production schedules were increased by one shift on August 1, and by two shifts on September 2. The addition of two Sunday shifts provide 20 production shifts per week against the previous 18 shifts.

During the year, 1,784,727 tons of ore, 6,915,599 tons of waste and overburden, and 174,431 tons of road rock were mined. This provided a total of 8,874,757 tons, with a waste to ore ratio of 3.96:1, against 4.15:1 in 1968. To provide for increased tonnages, three additional 50-ton trucks, one rubber tired bulldozer and one rubber tired tractor-shovel were purchased during the year. In addition, both 6-yard shovels have now been converted to 8-yard machines, and a third rotary drill has been ordered.

Summary of Operating Data

	1969	1968
Days operated	256	297
Tons Fibre Produced	55,435	62,407
Concentrated Ore Milled	891,197	992,248
Ore to Crusher	1,758,518	1,953,250
Ore to Stockpile	28,768	95,139
Ore from Stockpile	2,559	7,740
Waste Mined	7,090,030	8,682,292
Waste to Ore Ratio	3.96:1	4.15:1
Recovery from Ore Mined	3.23%	3.27%

Ore Reserves

At December 31, 1969 reserves amounted to 61,564,000 tons. Although no development drilling was done during the year, the program of geological mapping and sampling was maintained with further development drilling, utilizing the rotary machines, planned for 1970.

Facilities

A project to produce a Group VI, A-35 fibre, is in progress. Design has been completed and equipment installation begun, with production expected to commence in July.

Additions to plant and equipment in 1969 amounted to \$625,000.

Shipping

The last boat of the previous shipping season was cleared on February 20, and the first boat of the 1969 season was on August 17.

58,513 tons of A-25 fibre were shipped during the year.

Personnel

Extended contract negotiations resulted in a work slowdown during April and May, culminating in a strike on May 22. A three year agreement was finally negotiated, with operations resuming on July 31. Co-operation and labor relations between the Company and the local Asbestos Workers have been good since that time.

General

Additional employees were hired to implement both the 40-hour work week and the extended Sunday operations. At year end there were 486 employees of which 59 were staff and 427 hourly. The shortage of tradesmen is gradually being overcome through the Government sponsored Apprenticeship Program.

In 1969 there were three minor lost time accidents. Accident frequency dropped to 3.3% and two milling and one maintenance shift exceeded 250,000 hours without a lost time injury.

Government Relations

Excellent relations again prevailed throughout the year between the Company and all departments of the Provincial Government.

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

A handwritten signature in black ink, reading "Karl V. Lindell". The signature is written in a cursive, flowing style.

Karl V. Lindell
Chairman of the Board

February 16, 1970

Five Year Financial Summary

	1969	1968	1967	1966	1965
FOR THE YEAR (in thousands)					
Value of fibre produced	\$ 10,345	\$ 10,947	\$ 10,941	\$ 10,804	\$ 9,778
Operating costs	7,548	8,236	7,560	6,812	6,008
Amortization and depreciation	1,125	1,350	1,345	1,336	1,447
Interest	172	104	170	149	241
	<u>8,845</u>	<u>9,690</u>	<u>9,075</u>	<u>8,297</u>	<u>7,696</u>
Net income	1,500	1,257	1,866	2,507	2,082
Provision for cumulative preference dividend ...	805	806	806	805	805
Net income to common shareholders	<u>\$ 695</u>	<u>\$ 451</u>	<u>\$ 1,060</u>	<u>\$ 1,702</u>	<u>\$ 1,277</u>
Per share	12¢	8¢	18¢	28¢	21¢
Funds generated	\$ 2,805	\$ 2,651	\$ 3,270	\$ 3,941	\$ 3,529
Per share	47¢	44¢	55¢	66¢	59¢
Funds applied					
Preference dividend	\$ 805	\$ 2,417	\$ 1,143	\$ 823	—
Fixed assets	625	484	909	1,981	2,490
Mine development	—	—	165	274	—
Advances to school boards	—	—	163	32	194
AT THE YEAR END (in thousands)					
Working capital	\$ 2,103	\$ 728	\$ 979	\$ 89	\$ (741)
Fixed assets	18,990	19,460	20,248	20,672	20,202
Preproduction and mine development	3,303	3,428	3,578	3,558	3,428
Other assets	934	934	934	771	739
Total shareholders' equity	<u>25,330</u>	<u>24,550</u>	<u>25,739</u>	<u>25,090</u>	<u>23,628</u>
Preference shares, par value	17,900	17,900	17,900	17,900	17,900
Common shares, book value	7,430	6,650	7,839	7,190	5,728
Less arrears, cumulative preference dividends ...	805	806	2,417	2,754	2,772
Common shares, net value	<u>\$ 6,625</u>	<u>\$ 5,844</u>	<u>\$ 5,422</u>	<u>\$ 4,436</u>	<u>\$ 2,956</u>
Per share	\$ 1.10	97¢	90¢	74¢	49¢
PRODUCTION					
Fibre produced (tons)	55,435	62,407	63,664	65,201	61,641
Material mined (thousands of tons)					
Ore	1,785	2,041	1,904	2,014	2,145
Waste and overburden	7,090	8,682	8,211	6,236	4,480
	<u>8,875</u>	<u>10,723</u>	<u>10,115</u>	<u>8,250</u>	<u>6,625</u>
Waste to ore ratio	3.96:1	4.15:1	4.10:1	3.10:1	2.09:1
Recovery from ore crushed	3.23%	3.27%	3.36%	3.25%	2.94%
Ore reserves (thousands of tons)	61,564	63,345	67,000	55,000	36,369

