

*ANNUAL
REPORT
1970*

Advocate Mines Limited

Annual Meeting of Shareholders
June 4, 1971, 11:00 a.m.
in the Newfoundland Room
Royal York Hotel, Toronto, Ontario

ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

Directors	E. R. E. Carter D. T. Colton André Emsens J. R. M. Hutcheson Gilbert Kerlin Karl V. Lindell Max Graf
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Officers	E. R. E. Carter, Chairman of the Board and President A. R. Dennis, Treasurer F. van de Water, Secretary R. W. Howard, Assistant-Secretary
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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

We record with deep sorrow the passing of Dr. M. J. Boylen on July 7, 1970. As your company's founder and first President and then Chairman of the Board, he was instrumental in ensuring that your company achieved production.

Net Income

Net income was \$1,439,000 or 11¢ per common share after providing for preference dividends earned in 1970 of \$805,000. This compares with net income of \$1,585,000 and 13¢ per common share in 1969.

Lower income in 1970 resulted from inclement weather adversely affecting drilling operations and deliveries of ore to the mill.

Cash Flow

Cash from operations was \$2,891,000. After providing \$1,081,000 for fixed asset additions and \$805,000 for preference dividends, net cash flow was \$1,005,000 or 17¢ per common share. (\$1,375,000 and 23¢ per common share in 1969).

Dividends

The 1969 preference dividend was paid on April 2, 1970 and the 1970 preference dividend was paid on January 20, 1971.

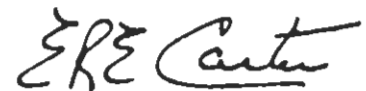
Operations

Production was 70,835 tons of A-25 fibre and 2,096 tons of A-35 fibre (55,435 tons of A-25 in 1969 when affected by a 71 day strike) valued at \$13,622,000 or \$186.78 per ton (\$10,345,000 and \$186.61 per ton in 1969). Shipments were 62,727 tons, 13% more than in 1969 and slightly higher than 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. As expected, production of A-35 fibre commenced in 1970 with total production of 2,096 tons and shipments of 125 tons.

Outlook

It is intended to increase fibre prices effective July 1, 1971 which should result in more satisfactory earnings in 1971.

On behalf of the Board of Directors



Chairman of the Board and President

March 31, 1971.

ADVOCATE MINES LIMITED

Consolidated Statement of Income

	Year Ended	December 31 1970	December 31 1969
REVENUE			
Value of fibre produced		\$13,622,000	\$10,345,000
EXPENSES			
Operating costs (Note 2)		10,678,000	7,451,000
Interest		133,000	172,000
Depreciation (Note 7)		1,200,000	1,000,000
Amortization of mine development costs (Note 7)		150,000	125,000
Mining taxes		22,000	12,000
		<u>12,183,000</u>	<u>8,760,000</u>
NET INCOME (Note 4)		<u>\$ 1,439,000</u>	<u>\$ 1,585,000</u>

Consolidated Statement of Retained Earnings

	Year Ended	December 31 1970	December 31 1969
BALANCE, BEGINNING OF YEAR		\$ 5,248,000	\$ 4,468,000
Net income		1,439,000	1,585,000
		<u>6,687,000</u>	<u>6,053,000</u>
Preference dividends paid		805,000	805,000
BALANCE, END OF YEAR		<u>\$ 5,882,000</u>	<u>\$ 5,248,000</u>

(See accompanying notes to financial statements)

ADVOCATE MINES LIMITED

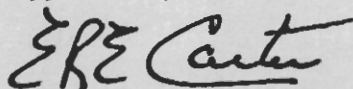
Consolidated Balance Sheet

ASSETS		
	December 31 1970	December 31 1969
CURRENT ASSETS		
Cash	\$ 99,000	\$ —
Accounts receivable	2,270,000	3,434,000
Fibre inventory, at net realizable value	2,442,000	791,000
Stores and supplies, at cost	1,698,000	1,126,000
Special refundable tax	—	8,000
Prepaid expenses	22,000	69,000
	<u>6,531,000</u>	<u>5,428,000</u>
MINING PROPERTIES AND RIGHTS, at cost (Note 3) ..	75,000	75,000
FIXED ASSETS		
Property, plant and equipment, at cost	24,841,000	24,146,000
Less: Accumulated depreciation	6,072,000	5,156,000
	<u>18,769,000</u>	<u>18,990,000</u>
OTHER ASSETS		
Advances to school boards	859,000	859,000
Mine development costs, less amounts written off	3,153,000	3,303,000
	<u>\$29,387,000</u>	<u>\$28,655,000</u>
(See accompanying notes to financial statements)		

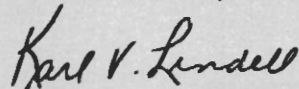
LIABILITIES

	December 31 1970	December 31 1969
CURRENT LIABILITIES		
Bank loan, secured	\$ 1,530,000	\$ 1,359,000
Accounts payable	1,804,000	1,897,000
Miscellaneous taxes payable	89,000	69,000
	<u>3,423,000</u>	<u>3,325,000</u>
 SHAREHOLDERS' EQUITY (Notes 5 and 6)		
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	5,882,000	5,248,000
	<u>25,964,000</u>	<u>25,330,000</u>
	<u><u>\$29,387,000</u></u>	<u><u>\$28,655,000</u></u>

Approved by the Board:



E. R. E. CARTER, Director.



KARL V. LINDELL, Director.

ADVOCATE MINES LIMITED

Consolidated Statement of Source and Application of Funds

	Year Ended	December 31 1970	December 31 1969
SOURCE OF FUNDS			
Net income		\$1,439,000	\$1,585,000
Depreciation		1,200,000	1,000,000
Amortization of mine development costs		150,000	125,000
Depreciated cost of fixed assets sold (Note 2)		102,000	95,000
		<u>2,891,000</u>	<u>2,805,000</u>
APPLICATION OF FUNDS			
Fixed assets		1,081,000	625,000
Preference dividend		805,000	805,000
		<u>1,886,000</u>	<u>1,430,000</u>
INCREASE IN WORKING CAPITAL		1,005,000	1,375,000
WORKING CAPITAL, BEGINNING OF YEAR		2,103,000	728,000
WORKING CAPITAL, END OF YEAR		<u>\$3,108,000</u>	<u>\$2,103,000</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. Gains on disposal of fixed assets in the normal course of business have been included as a credit within the operating costs on the statement of income as recommended by The Canadian Institute of Chartered Accountants. The amounts of such gains in 1970 and 1969 were \$100,006 and \$85,178 respectively. The 1969 comparative statements of income, retained earnings and source and application of funds have been adjusted to reflect this change in accounting presentation.
3. 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 licence expiring in 1973 covering 416 acres.

Advocate 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 licence;
- (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 expended the \$150,000 required by the Province of Newfoundland for prospecting and exploration in the area.

4. 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, 1970.

Accordingly, no deferred or current liability for income taxes is required for 1970 or 1969. Had income taxes been payable, the tax provision would have been \$475,000 in 1970 and \$524,000 in 1969.

5. 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.
6. The dividend on the cumulative preference shares has been paid to December 31, 1969 and the amount in arrears at December 31, 1970 was \$805,000. The arrears were paid in January, 1971.
7. 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.
8. The aggregate remuneration paid to the directors and the five highest paid employees of the Company for 1970 and 1969 was \$90,264 and \$103,183 respectively.

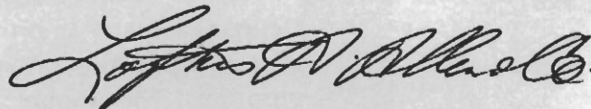
**Auditors'
Report to the
Shareholders**

LOFTUS A. ALLEN & COMPANY

We have examined the consolidated balance sheet of Advocate Mines Limited and its wholly owned subsidiary as at December 31, 1970 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, 1970 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 after restatement of the financial statements for that year as described in Note 2 with which we concur.

Toronto, Ontario,
February 10, 1971.



CHARTERED ACCOUNTANTS

Report of the Manager

We, as Manager of your operations at Baie Verte, Newfoundland, report hereunder for the year 1970.

Production

The mill operated 340 days, resulting in production of 70,835 tons of A-25 fibre. In July, installation of Group VI facilities was completed and, by year end, 2,096 tons of A-35 fibre had been produced. 2,245,413 tons of ore were delivered to the crushing and drying plant, with a recovery of 3.22%.

During the year, 2,320,862 tons of ore, 8,914,495 tons of waste and overburden, and 332,900 tons of road rock were mined. This provided a total of 11,568,257 tons, with a waste to ore ratio of 3.85:1, against 3.96:1 in 1969. To provide for increased tonnages, two 50-ton trucks were added during 1970, making a total fleet of 22 trucks at year end. In addition, one 4-yard shovel was successfully converted to a 6-yard bucket, and a second rubber-tired bulldozer was purchased. Increased drilling flexibility was provided by the addition of a third rotary drill.

Summary of Operating Data

	1970	1969
Days operated	340	256
Tons A-25 Fibre Produced	70,835	55,435
Tons A-35 Fibre Produced	2,096	—
Concentrated Ore Milled	1,200,318	891,197
Ore to Crusher	2,245,413	1,758,518
Ore to Stockpile	102,362	28,768
Ore from Stockpile	26,913	2,559
Waste Mined	9,247,395	7,090,030
Waste to Ore Ratio	3.85:1	3.96:1
Recovery from Ore Mined	3.22%	3.23%

Ore Reserves

At December 31, 1970 reserves amounted to 59,319,000 tons. Some development drilling (2,500 ft. in the North Zone and 1,000 ft. in the West Zone) was done in 1970 and additional drilling is planned for 1971.

Facilities

The Group VI facility, completed in July, has performed to expectations. Emphasis during the year, however, has been on environmental control aspects of the milling operation. Additions to plant and equipment in 1970 amounted to \$1,081,000.

Shipping

The last boat of the previous shipping season was cleared March 4, and the first vessel of the present season arrived on July 4. 62,602 tons of A-25 fibre and 125 tons of A-35 fibre were shipped in 1970.

Personnel

At year end, there were 535 employees, of which 64 were staff and 471 hourly. Turnover has been minimal and the Provincial Government Apprenticeship program continues to produce satisfactory results.

During the year, the Union, with the co-operation of the C.L.C. and the U.S.W.A., has changed its status from an independent local affiliated with the C.L.C. to that of a local affiliated with the United Steelworkers of America. The Labour Relations Board of the Province has recognized the change.

Union relations were excellent during the year. The present contract expires November 30, 1971.

General

During the year, there were three minor lost time accidents. Total time lost was the lowest of the 15 reporting mines and quarries in the Province.

Government Relations

Excellent co-operation prevailed during the year between the Company and all departments of the Government.

Planning for the expansion of the present Town of Baie Verte has gone forward during the year, and present plans call for the development of building lots, schools and recreational facilities in 1971, some of which will be directly financed by the Federal and Provincial Governments.

Contracts for paving and upgrading of the 45-mile access road to Baie Verte were let during the year and, at the end of the year, approximately 12 miles remained to be paved. Completion is expected in 1971. The project was financed under an outright grant from the Department of Regional Economic Expansion.

Canadian Johns-Manville Company, Limited

A handwritten signature in black ink, appearing to read "J. R. M. Hutcheson", with a long horizontal flourish extending to the right.

J. R. M. HUTCHESON
Vice-President

March 31, 1971

Five Year Financial Summary

	1970	1969	1968	1967	1966
FOR THE YEAR (in thousands)					
Value of fibre produced	\$ 13,622	\$ 10,345	\$ 10,947	\$ 10,941	\$ 10,804
Operating costs	10,700	7,463	8,265	7,637	7,033
Amortization and depreciation	1,350	1,125	1,350	1,345	1,336
Interest	133	172	104	170	149
	<u>12,183</u>	<u>8,760</u>	<u>9,719</u>	<u>9,152</u>	<u>8,518</u>
Net income	1,439	1,585	1,228	1,789	2,286
Provision for cumulative preference dividend	805	805	806	806	805
Net income to common shareholders	<u>\$ 634</u>	<u>\$ 780</u>	<u>\$ 422</u>	<u>\$ 983</u>	<u>\$ 1,481</u>
Per share	11¢	13¢	7¢	16¢	25¢
Funds generated	2,891	2,805	2,651	3,270	3,941
Per share	48¢	47¢	44¢	55¢	66¢
Funds applied					
Preference dividend	\$ 805	\$ 805	\$ 2,417	\$ 1,143	\$ 823
Fixed assets	1,081	625	484	909	1,981
Mine development	—	—	—	165	274
Advances to school boards	—	—	—	163	32
AT THE YEAR END (in thousands)					
Working capital	\$ 3,108	\$ 2,103	\$ 728	\$ 979	\$ 89
Fixed assets	18,769	18,990	19,460	20,248	20,672
Preproduction and mine development	3,153	3,303	3,428	3,578	3,558
Other assets	934	934	934	934	771
Total shareholders' equity	<u>25,964</u>	<u>25,330</u>	<u>24,550</u>	<u>25,739</u>	<u>25,090</u>
Preference shares, par value	17,900	17,900	17,900	17,900	17,900
Common shares, book value	8,064	7,430	6,650	7,839	7,190
Less arrears, cumulative preference dividends	805	805	806	2,417	2,754
Common shares, net value	<u>\$ 7,259</u>	<u>\$ 6,625</u>	<u>\$ 5,844</u>	<u>\$ 5,422</u>	<u>\$ 4,436</u>
Per share	\$ 1.21	\$ 1.10	97¢	90¢	74¢
PRODUCTION					
Fibre produced (tons) A-25	70,835	55,435	62,407	63,664	65,201
A-35	2,096				
Material mined (thousands of tons)					
Ore	2,321	1,785	2,041	1,904	2,014
Waste and overburden	9,247	7,090	8,682	8,211	6,236
	<u>11,568</u>	<u>8,875</u>	<u>10,723</u>	<u>10,115</u>	<u>8,250</u>
Waste to ore ratio	3.85:1	3.96:1	4.15:1	4.10:1	3.10:1
Recovery from ore crushed	3.22%	3.23%	3.27%	3.36%	3.25%
Ore reserves (thousands of tons)	59,319	61,564	63,345	67,000	55,000

