

*ANNUAL  
REPORT  
1972*

*Advocate Mines Limited*

# ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

**Directors**  
E. R. E. Carter  
J. M. Emsens  
Max Graf  
J. R. M. Hutcheson  
Gilbert Kerlin  
Karl V. Lindell  
W. L. VanDerbeek

**Officers**  
E. R. E. Carter, Chairman of the Board and President  
A. R. Dennis, Treasurer  
H. F. Teney, Secretary

**Registrar and  
Transfer Agents**  
Guaranty Trust Company of Canada  
Toronto and Fredericton

**Auditors**  
Loftus A. Allen & Co., Toronto, Ontario

**Head Office**  
Royal Trust Tower  
Toronto Dominion Centre, Toronto, Ontario

**Mine Office**  
Bate Verte, Newfoundland

## **Annual Meeting of Shareholders**

June 1, 1973  
in the Saskatchewan Room,  
Royal York Hotel,  
Toronto, Ontario

## **Directors' Report**

### *Net Income*

Net income was \$36,000 or less than 1¢ per common share after providing for preference dividends earned in 1972 of \$765,000. This compares with net income of \$1,824,000 and 17¢ per common share in 1971.

### *Cash Flow*

Cash from operations was \$1,472,000. From these monies there was applied \$224,000 for fixed asset additions, \$765,000 for preference dividends, \$300,000 for common dividends and \$901,000 for the redemption of preference shares.

### *Dividends*

The 1972 preference dividends were paid in half-yearly instalments on August 9 and December 29, 1972. The Company's second common dividend of 5¢ per share was paid on December 29, 1972 to shareholders of record December 13, 1972.

### *Operations*

Production was 67,175 tons of A-25 fibre and 6,020 tons of A-35 fibre (70,614 tons of A-25 and 5,107 tons of A-35 in 1971) valued at \$12,700,000 (\$13,946,000 in 1971). Shipments were 63,846 tons, a decrease of 8% from 1971. As fibre inventories are valued at net realizable value, which in effect is 'net selling price', profits are earned as fibre is produced.

### *Outlook*

1972 was most disappointing. Operations have been reviewed thoroughly to seek better performance in 1973. This coupled with a strong demand for asbestos fibre should achieve improved results in the current year.

On behalf of the Board of Directors



Chairman of the Board and President

April 30, 1973

## ADVOCATE MINES LIMITED

For the Year Ended December 31, 1972  
(with comparative figures for 1971)

### Consolidated Statement of Income

	<b>1972</b>	<b>1971</b>
Value of fibre produced . . . . .	\$12,700,503	\$13,946,670
LESS		
Operating costs . . . . .	\$11,217,786	\$10,662,069
Interest . . . . .	84,955	89,115
Depreciation — Note 5 . . . . .	1,200,000	1,200,000
Amortization of mine development costs — Note 5 . . . . .	150,000	150,000
Mining taxes . . . . .	12,000	20,838
	\$12,664,741	\$12,122,022
NET INCOME — Note 3 . . . . .	\$ 35,762	\$ 1,824,648
Earnings per Common Share after providing for preference dividends earned of \$765,225 per annum (\$805,500 in 1971)	—	17¢

For the Year Ended December 31, 1972  
(with comparative figures for 1971)

### Consolidated Statement of Retained Earnings

	<b>1972</b>	<b>1971</b>
BALANCE, BEGINNING OF YEAR . . . . .	\$ 5,795,279	\$ 5,881,631
Net income . . . . .	35,762	1,824,648
	\$ 5,813,041	\$ 7,706,279
DIVIDENDS PAID		
Preference . . . . .	\$ 765,225	\$ 1,611,000
Common . . . . .	300,000	300,000
	\$ 1,065,225	\$ 1,911,000
BALANCE, END OF YEAR . . . . .	\$ 4,765,816	\$ 5,795,279

(See accompanying notes to financial statements)

## ADVOCATE MINES LIMITED

### Consolidated Statement of Source and Application of Funds

	Year Ended	
	December 31	December 31
	<b>1972</b>	<b>1971</b>
<b>SOURCE OF FUNDS</b>		
Net income . . . . .	\$ 35,762	\$ 1,824,648
Depreciation . . . . .	1,200,000	1,200,000
Amortization of mine development costs . . . . .	150,000	150,000
Depreciated cost of fixed assets sold . . . . .	104,910	63,468
	<b>\$ 1,490,672</b>	<b>\$ 3,238,116</b>
 <b>APPLICATION OF FUNDS</b>		
Fixed assets purchased . . . . .	\$ 223,906	\$ 261,367
Preference dividend . . . . .	765,225	1,611,000
Common dividend . . . . .	300,000	300,000
Redemption of preference shares . . . . .	901,300	895,000
	<b>\$ 2,190,431</b>	<b>\$ 3,067,367</b>
INCREASE (DECREASE) IN WORKING CAPITAL . . . . .	<b>\$ (699,759)</b>	<b>\$ 170,749</b>
WORKING CAPITAL, BEGINNING OF YEAR . . . . .	3,278,060	3,107,311
WORKING CAPITAL, END OF YEAR . . . . .	<b>\$ 2,578,301</b>	<b>\$ 3,278,060</b>

*(See accompanying notes to financial statements)*

# ADVOCATE MINES LIMITED

(Incorporated under the Laws of Ontario)

## Consolidated Balance Sheet

### ASSETS

	December 31 <u>1972</u>	December 31 <u>1971</u>
<b>CURRENT ASSETS</b>		
Cash . . . . .	\$ 141,525	\$ 76,420
Accounts receivable . . . . .	493,573	2,533,743
Fibre inventory, at net realizable value . . . . .	5,058,632	3,542,554
Stores and supplies, at cost . . . . .	1,300,378	1,617,122
Prepaid expenses . . . . .	163,450	33,015
	<u>\$ 7,157,558</u>	<u>\$ 7,802,854</u>
MINING PROPERTIES AND RIGHTS, at Cost (Note 2) . .	<u>\$ 75,000</u>	<u>\$ 75,000</u>
 <b>FIXED ASSETS</b>		
Property, plant and equipment, at cost . . . . .	\$24,230,659	\$24,860,001
Less: Accumulated depreciation . . . . .	<u>7,544,170</u>	<u>7,092,508</u>
	<u>\$16,686,489</u>	<u>\$17,767,493</u>
 <b>OTHER ASSETS</b>		
Advance to School Boards . . . . .	\$ 859,136	\$ 859,136
Mine development costs less amounts written off . . . . .	<u>2,852,595</u>	<u>3,002,595</u>
	<u>\$ 3,711,731</u>	<u>\$ 3,861,731</u>
	<u>\$27,630,778</u>	<u>\$29,507,078</u>

Approved on behalf of the Board:

Director



Director



LIABILITIES

	December 31 <u>1972</u>	December 31 <u>1971</u>
CURRENT LIABILITIES		
Bank loan, secured . . . . .	\$ 2,790,000	\$ 2,480,000
Accounts payable . . . . .	1,693,681	1,967,692
Miscellaneous taxes payable . . . . .	95,576	77,102
	<u>\$ 4,579,257</u>	<u>\$ 4,524,794</u>
SHAREHOLDERS' EQUITY (Note 4)		
Capital		
Authorized, Issued and Fully Paid		
161,037 4¼% Cumulative, redeemable preference shares of \$100 par value (170,050 in 1971) . . . . .	\$16,103,700	\$17,005,000
6,000,000 Common shares of \$1 par value . . . . .	6,000,000	6,000,000
	<u>\$22,103,700</u>	<u>\$23,005,000</u>
Less: Discount on common shares . . . . .	3,817,995	3,817,995
	<u>\$18,285,705</u>	<u>\$19,187,005</u>
Retained Earnings . . . . .	4,765,816	5,795,279
	<u>\$23,051,521</u>	<u>\$24,982,284</u>
	<u>\$27,630,778</u>	<u>\$29,507,078</u>

(See accompanying notes to financial statements)

## ADVOCATE MINES LIMITED

### 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 exclusive prospecting and exploration rights in the Rattling Brook-White Bay area until December 31, 1973 in consideration of the expenditure of a minimum of \$150,000, on prospecting and exploration. Under this agreement and subject to certain conditions, development licenses 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 license.

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

In consideration of the assumption of Advocate's obligation to expend the minimum of \$150,000 on prospecting and exploration, Advocate assigned to M. J. Boylen, as of January 1, 1967, 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 two 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; and
- (c) a 20% non assessable undivided interest to Advocate in any minerals other than asbestos discovered outside the development area referred to in (a).

The interest of M. J. Boylen under the agreement were assigned on June 9, 1971 to Carroll Prospector and Associates. A total of \$428,000 has been expended on prospecting and exploration in the area up to December 31, 1972. Fourteen claims were staked in 1972 and are under option to Consolidated Rambler Mines Limited. In the event the option is exercised, Advocate will receive 20% of the net profits (as defined) from all mining operations thereon after the recovery by Consolidated Rambler and Carroll of their exploration and preproduction expenses

3. The Department of National Revenue has issued re-assessments for all taxation years to 1969 and have treated development expenses of \$4.3 million incurred in the tax exempt period 1963-66 as current operating expenses of those years. In the opinion of Counsel, the Company was entitled to claim these expenses in the years 1968 and 1969. An appeal to the Federal Court has been started but no date has been set for the trial. The cash outlay for the re-assessments was nominal as the Company claimed additional depreciation for tax purposes to offset the disallowance of the development expenses.

When timing differences occur between current accounting income and taxable income, the generally accepted accounting principle is to provide for deferred income taxes which may become payable in the future. The principal areas of timing differences for Advocate Mines Limited are:

- (a) valuation of fibre inventories;
- (b) depreciation and amortization

Prior to the issuance of the above-noted re-assessment, the two areas offset one another so that no provision for deferred income taxes was necessary. On the basis of the re-assessment, the accumulated provision for deferred income taxes at December 31, 1972 would be \$763,000 (\$13,000 and \$645,000 applicable to 1972 and 1971 respectively). However, no provision has been made on these financial statements pending the outcome of the appeal from the re-assessment.



4. Pursuant to the Financing Agreement dated September 28, 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 and payment of preference dividends. The balance is available for the payment of dividends on common shares. As of December 29, 1972, preference dividends were on a current basis. On that date, the Company redeemed 9,013 preference shares at par (\$901,300) and paid a common dividend of 5¢ per share (\$300,000).
5. Substantially all the fixed assets were acquired in 1963 when the mine commenced production. At that time, based on the earlier of the mine life or the asset life for specific assets, an annual depreciation of \$1,200,000 was determined. Depreciation on all assets is calculated annually and compared with the annual accounting charge of \$1,200,000. No adjustment has been made as the difference is not significant. Amortization of \$200,000 per annum was established in 1963 based on the then ore reserves of approximately 40 million tons mined at the rate of approximately 2 million tons per annum. Amortization of \$145,000 was established for 1966 and 1967 and \$150,000 in 1968 and subsequent years based on increased ore reserves at the time.  
  
In 1972 Advocate leased equipment requiring aggregate rental payments of \$2,102,000 over a three-year period. The lease-term approximates the estimated useful life of the equipment and all leases contain an option to purchase.
6. The aggregate remuneration paid to the directors and the five highest paid employees of the Company for 1972 and 1971 was \$98,963 and \$98,652 respectively.

## **Auditors' Report to the Shareholders**

We have examined the consolidated balance sheet of Advocate Mines Limited and its wholly owned subsidiary as at December 31, 1972 and 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, 1972 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 16, 1973

  
CHARTERED ACCOUNTANTS

## Report of the Manager

We, as Managers of your operation at Baie Verte, Newfoundland, report hereunder for the year 1972.

### Production

The Mill operated 328 days, resulting in production of 67,175 tons of A-25 fibre and 6,020 tons of A-35 fibre. 2,335,200 tons of dry ore were delivered to the Crushing and Drying Plant, with a mine ore recovery of 3.15%.

During the early and latter part of the year difficulties were experienced with crusher throughput because of wet and frozen ore. However, some of the lost production was regained in the warmer and drier months when increased ore deliveries resulted in the highest quarterly fibre production on record — 20,608 tons.

During the year, 6,908,000 tons of waste and overburden, 2,486,800 tons of ore and 214,200 tons of road rock were mined. Total mined material was 9,609,000 tons with a waste to ore ratio of 2.78:1 compared to 2.56:1 in 1971.

During 1972 four (4) 50 ton Haulage Trucks were obtained on a 36 month lease. These units were leased in mid-January as replacements in the existing fleet. A new 10 cu. yd. Front End Loader was leased on the same basis in May to provide auxiliary crusher feed and to augment Front End Loader availability. A new 8 cu. yd. Electric Shovel was obtained on a 60 month lease in November; this unit will be used to increase Pit production. Four additional Haulage Trucks, a Rotary Drill capable of drilling 9 $\frac{1}{2}$ " holes, and an 8 cu. yd. Shovel have been leased for delivery early in 1973.

### Summary of Operating Data

	1972	1971
Days Operated . . . . .	328	335
Tons A-25 produced . . . . .	67,175	70,614
Tons A-35 produced . . . . .	6,020	5,107
Concentrated Ore Milled . . . . .	1,293,700	1,299,900
Ore to Crusher . . . . .	2,335,200	2,429,500
Ore to Stockpile . . . . .	327,100	200,900
Ore from Stockpile . . . . .	175,500	57,200
Waste Mined . . . . .	7,122,200	6,831,000
Waste to Ore Ratio . . . . .	2.78 :1	2.56 :1
Recovery from Ore Mined . . . . .	3.15%	3.12%

### Ore Reserves

At December 31, 1972, reserves amounted to 53,032,000 tons; 2,580,000 tons were extracted during 1972 and an additional 1,720,000 tons were deleted as a result of information obtained from a Diamond Drill Program carried out in the East Valley, North Zone and South-East corner, West Zone.

### Facilities

Work is in progress replacing the sifters in the BA circuit with flat screens. This program will result in a substantial reduction in maintenance costs and improvement in quality of product.

Extension of the T-6 Tailings Conveyor to give additional tailings disposal area is almost complete.

Installation of the necessary ducting in the Secondary Crusher and Dryer Building to allow the dryer air to be taken directly from the outside is awaiting arrival of materials. This proposal will considerably reduce the negative pressure in the Secondary Crusher Building and improve both environmental and winter operating conditions.

*Shipping*

The last boat of the previous shipping season was cleared on March 17th and the first boat of the present season arrived on June 24th.

A shipping delay from October 7th to December 16th resulted in a shortage of storage space for fibre. This was critical by the end of November and it was necessary to store fibre outside. Shipments in December partially alleviated the problem. Although space remained very tight at year end, planned shipments will clear the 1972 inventory and bring the storage problem under control before cessation of shipping.

59,119.50 tons of A-25 fibre and 4,730 tons of A-35 fibre were shipped in 1972.

*Personnel*

At year end there were 498 employees, of which 55 were staff and 443 hourly. During the year five (5) apprentices graduated as certified Journeymen and three (3) employees joined the plan for a total apprenticeship enrollment of 22 at the end of the year.

Communications and relations between Company and the Union remained effective and stable. A new 3 year contract with the Union was signed giving improvements in wages and fringe benefits, with the Company improving contract language in the areas of Management Rights, Seniority and Qualifications. The new Agreement expires December 31, 1974.

1,022,428 manhours were worked for an accident frequency of 9.8 per million manhours worked.

*General*

The Computer Mining Program was reviewed during 1972 to make technical improvements in the program and to include information gained from Diamond Drilling in the West and North Zones.

Emphasis on Environmental Control continued and at year end the number of stations over TLV was below the annual target.

A fibre boat collided with the dock and substantial damage was sustained. Repairs are being effected without interruption in fibre loading.

Facilities in the town continue to improve. During the year an addition to the High School was completed and construction of a natural ice stadium was started and is presently near completion.

Canadian Johns-Manville Company, Limited



J. R. M. HUTCHESON  
Chairman of the Board

April 30, 1973

## Five Year Financial Summary

	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>
<b>FOR THE YEAR (in thousands)</b>					
Value of fibre produced . . . . .	\$12,700	\$13,946	\$13,622	\$10,345	\$10,947
Operating costs . . . . .	11,229	10,683	10,700	7,463	8,265
Amortization and depreciation . . . . .	1,350	1,350	1,350	1,125	1,350
Interest . . . . .	85	89	133	172	104
	<u>12,664</u>	<u>12,122</u>	<u>12,183</u>	<u>8,760</u>	<u>9,719</u>
Net income . . . . .	36	1,824	1,439	1,585	1,228
Provision for cumulative preference dividend . . . . .	765	806	805	805	806
Net income to common shareholders . . . . .	<u>\$ 0</u>	<u>\$ 1,018</u>	<u>\$ 634</u>	<u>\$ 780</u>	<u>\$ 422</u>
Per share . . . . .	0¢	17¢	11¢	13¢	7¢
Funds generated . . . . .	1,491	3,238	2,891	2,805	2,651
Per share . . . . .	24¢	54¢	48¢	47¢	44¢
Funds applied					
Preference dividend . . . . .	\$ 765	\$ 1,611	\$ 805	\$ 805	\$ 2,417
Common dividend . . . . .	300	300	—	—	—
Redemption of preferred shares . . . . .	901	895	—	—	—
Fixed Assets . . . . .	224	262	1,081	625	484
Mine development . . . . .	—	—	—	—	—
Advances to school boards . . . . .	—	—	—	—	—
<b>AT THE YEAR END (in thousands)</b>					
Working capital . . . . .	\$ 2,579	\$ 3,278	\$ 3,108	\$ 2,103	\$ 728
Fixed assets . . . . .	16,686	17,767	18,769	18,990	19,460
Preproduction and mine development . . . . .	2,853	3,003	3,153	3,303	3,428
Other assets . . . . .	934	934	934	934	934
Total shareholders' equity . . . . .	<u>23,052</u>	<u>24,982</u>	<u>25,964</u>	<u>25,330</u>	<u>24,550</u>
Preference shares, par value . . . . .	16,104	17,005	17,900	17,900	17,900
Common share, book value . . . . .	6,948	7,977	8,064	7,430	6,650
Less arrears, cumulative preference dividends . . . . .	—	—	805	805	806
Common shares, net value . . . . .	<u>\$ 6,948</u>	<u>\$ 7,977</u>	<u>\$ 7,259</u>	<u>\$ 6,625</u>	<u>\$ 5,844</u>
Per share . . . . .	\$ 1.15	\$ 1.33	\$ 1.21	\$ 1.10	97¢
<b>PRODUCTION</b>					
Fibre produced (tons) A-25 . . . . .	67,175	70,614	70,835	55,435	62,407
A-35 . . . . .	6,020	5,107	2,096	—	—
Material mined (thousands of tons)					
Ore . . . . .	2,486	2,573	2,321	1,785	2,041
Waste and overburden . . . . .	6,908	6,831	9,247	7,090	8,682
	<u>\$ 9,394</u>	<u>\$ 9,404</u>	<u>\$11,568</u>	<u>\$ 8,875</u>	<u>\$10,723</u>
Waste to ore ratio . . . . .	2.78 :1	2.56 :1	3.85 :1	3.96 :1	4.15 :1
Recovery from ore crushed . . . . .	3.15%	3.12%	3.22%	3.23%	3.27%
Ore reserves (thousands of tons) . . . . .	54,846	57,332	59,319	61,564	63,345