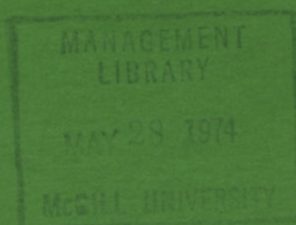


*ANNUAL
REPORT
1973*

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
*Member of Audit Committee

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 Baie Verte, Newfoundland

Annual Meeting of Shareholders

June 19, 1974
in the New Brunswick Room,
Royal York Hotel,
Toronto, Ontario

Directors' Report

- Net Income* Net income was \$1,108,000 or 6¢ per common share after providing for preference dividends earned in 1973 of \$725,000. This compares with net income of \$36,000 and less than 1¢ per common share in 1972.
- Cash Flow* Cash from operations was \$2,400,000. From these monies there was applied \$383,000 for fixed asset additions, \$725,000 for preference dividends, \$300,000 for common dividends and \$898,000 for the redemption of preference shares.
- Dividends* The 1973 preference dividends were paid in half-yearly instalments on September 5 and December 31, 1973. The Company's common dividend of 5¢ per share was paid on December 28, 1973 to shareholders of record December 7, 1973.
- Operations* Production was 80,349 tons of fibre (73,195 tons in 1972) valued at \$15,125,000 (\$12,700,000 in 1972). Shipments were 98,622 tons, an increase of 54% from 1972. As fibre inventories are valued at net realizable value, which in effect is 'net selling price', profits are earned as fibre is produced.
- Outlook* 1973 results were encouraging. Strong world demand for fibre and higher prices should prevail during 1974.

On behalf of the Board of Directors



Chairman of the Board and President

May 7, 1974

ADVOCATE MINES LIMITED

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Value of fibre produced.....	\$15,125,125	\$12,700,503
LESS		
Operating costs.....	\$12,788,524	\$11,217,786
Interest.....	131,148	84,955
Depreciation—(Note 5).....	970,000	1,200,000
Amortization of mine development costs—(Note 5).....	115,000	150,000
Mining taxes.....	12,000	12,000
	\$14,016,672	\$12,664,741
NET INCOME—(Note 3).....	\$ 1,108,453	\$ 35,762
Earnings per Common Share after providing for preference dividends earned of \$724,666 per annum (\$765,225 in 1972)	\$.06	\$ —

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
BALANCE, BEGINNING OF YEAR.....	\$ 4,765,816	\$ 5,795,279
Net income.....	1,108,453	35,762
	\$ 5,874,269	\$ 5,831,041
DIVIDENDS PAID		
Preference.....	\$ 724,666	\$ 765,225
Common.....	300,000	300,000
	\$ 1,024,666	\$ 1,065,225
BALANCE, END OF YEAR.....	\$ 4,849,603	\$ 4,765,816

See accompanying notes to financial statements

ADVOCATE MINES LIMITED

Consolidated Statement of Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
SOURCE OF FUNDS		
Net income.....	\$ 1,108,453	\$ 35,762
Depreciation.....	970,000	1,200,000
Amortization of mine development costs.....	115,000	150,000
Depreciated cost of fixed assets sold.....	207,830	104,910
	<u>\$ 2,401,283</u>	<u>\$ 1,490,672</u>
APPLICATION OF FUNDS		
Fixed assets purchased.....	\$ 383,584	\$ 223,906
Preference dividend.....	724,666	765,225
Common dividend.....	300,000	300,000
Redemption of preference shares.....	897,900	901,300
	<u>\$ 2,306,150</u>	<u>\$ 2,190,431</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	\$ 95,133	\$ (699,759)
WORKING CAPITAL, BEGINNING OF YEAR.....	<u>2,578,301</u>	<u>3,278,060</u>
WORKING CAPITAL, END OF YEAR.....	<u>\$ 2,673,434</u>	<u>\$ 2,578,301</u>

See accompanying notes to financial statements

ADVOCATE MINES LIMITED

(Incorporated under the Laws of Ontario)

Consolidated Balance Sheet

DECEMBER 31, 1973

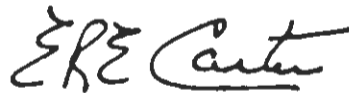
(with comparative figures for 1972)

ASSETS

	<u>1973</u>	<u>1972</u>
CURRENT ASSETS		
Cash	\$ 61,083	\$ 141,525
Accounts receivable	3,864,214	493,573
Fibre inventory at net realizable value	2,102,156	5,058,632
Stores and supplies—at cost	1,573,914	1,300,378
Prepaid expenses	81,270	163,450
	<u>\$ 7,682,637</u>	<u>\$ 7,157,558</u>
MINING PROPERTIES AND RIGHTS—at cost—(Note 2) . .	<u>\$ 75,000</u>	<u>\$ 75,000</u>
FIXED ASSETS		
Property, plant and equipment—at cost	\$23,615,671	\$24,230,659
Less: Accumulated depreciation—(Note 5)	<u>7,723,428</u>	<u>7,544,170</u>
	<u>\$15,892,243</u>	<u>\$16,686,489</u>
OTHER ASSETS		
Advance to School Boards	\$ 859,136	\$ 859,136
Mine development costs less amounts written off—(Note 5) .	<u>2,737,595</u>	<u>2,852,595</u>
	<u>\$ 3,596,731</u>	<u>\$ 3,711,731</u>
	<u>\$27,246,611</u>	<u>\$27,630,778</u>

Approved on behalf of the Board:

Director



Director



LIABILITIES

	<u>1973</u>	<u>1972</u>
CURRENT LIABILITIES		
Bank loan—secured	\$ 1,650,000	\$ 2,790,000
Accounts payable	3,242,512	1,693,681
Miscellaneous taxes payable	116,691	95,576
	<u>\$ 5,009,203</u>	<u>\$ 4,579,257</u>

SHAREHOLDERS' EQUITY—(Note 4)

Capital

Authorized, Issued and Fully Paid

152,058 4½% Cumulative, redeemable preference shares of \$100 par value (161,037 in 1972)	\$15,205,800	\$16,103,700
6,000,000 Common shares of \$1 par value	6,000,000	6,000,000
	<u>\$21,205,800</u>	<u>\$22,103,700</u>
Less: Discount on common shares	3,817,995	3,817,995
	<u>\$17,387,805</u>	<u>\$18,285,705</u>
Retained Earnings	4,849,603	4,765,816
	<u>\$22,237,408</u>	<u>\$23,051,521</u>
	<u>\$27,246,611</u>	<u>\$27,630,778</u>

See accompanying notes to financial statements

ADVOCATE MINES LIMITED

Notes to Consolidated Financial Statements

DECEMBER 31, 1973

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 granted to the company by the Province of Newfoundland in the Rattling Brook - White Bay area expired on December 31, 1973. Under this agreement and before the end of 1973, Advocate obtained near the Town of Baie Verte--
 - (a) Two 50 year mining leases covering 623 acres expiring in 2014 and 2019 respectively.
 - (b) Two development licenses covering 1,575 acres.
 - (c) Three development licenses covering 19,446 acres and 22 mining claims held subject to a 20% non assessable undivided interest to others in any asbestos minerals and discovered therein and reserving to Advocate a 20% non assessable undivided interest in any minerals other than asbestos discovered therein.
 - (d) Fourteen mining claims currently under option to Consolidated Rambler Mines Ltd. In the event the option is exercised, Advocate will receive 20% of the net profits (as defined) from all mining operations thereon after recovery of the exploration and preproduction expenses.
 - (e) A 10% interest in the net proceeds (as defined) realized from the future operation of 72 mining claims held by American Smelting and Refining Company after recovery of the total expenditures made in exploring, developing, equipping and bringing the property into production and after provision for working capital.
 - (f) Two hundred and thirty-two mining claims currently under negotiation and discussion for their exploration and development.
3. The Department of National Revenue has issued reassessments 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 lodged but no date has been set for the trial. The cash outlay for the reassessment 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 reassessment, the two areas offset one another so that no provision for deferred income taxes was necessary. On the basis of the reassessment, the accumulated provision for deferred income taxes at

December 31, 1973 would be \$1,132,000 (\$369,000 and \$13,000 applicable to 1973 and 1972 respectively). However, no provision has been made on these financial statements pending the outcome of the appeal from the reassessment.

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 31, 1973, preference dividends were on a current basis. On that date, the company redeemed 8,979 preference shares at par (\$897,900). A common dividend of 5¢ per share (\$300,000) was paid on December 28, 1973.
5. The annual provision for depreciation is based on the earlier of mine life or asset life. The annual amortization of mine development costs is based on ore reserves and tons mined.

Advocate has leased equipment for varying periods up to five years. The rental payments made in 1973 were \$927,728 and the aggregate liability over the balance of the term amounts to \$2,104,000.

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 1973 and 1972 was \$118,915 and \$98,963 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, 1973 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, 1973 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 15, 1974.


Chartered Accountants

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 1973.

	<u>1973</u>	<u>1972</u>
<i>Production</i>		
Days operated	340½	328
Tons A-25 produced	76,286	67,175
Tons A-35 produced	4,063	6,020
Concentrated ore milled	1,293,100	1,293,700
Ore to crusher	2,173,700	2,335,200
Ore to stockpile	166,700	327,100
Ore from stockpile	173,200	175,500
Waste to dump	7,901,800	6,908,000
Waste to roads	326,200	214,200
Waste to ore ratio	3.65:1	2.78:1
Recovery mine ore	3.70%	3.15%

Pit Equipment

Four additional 50-Ton trucks, one 8-Yard shovel and a replacement D-8 tractor were leased in 1973. These units greatly improved pit production. An additional rotary drill capable of 9½" holes was leased in February. This equipment allows widespread use on An-Fo as an explosive and has substantially reduced blasting and drilling costs.

The Replacement Program, embarked upon several years ago, will continue. This program emphasizes the changing economics of equipment based on cost of maintenance and labour.

Crushing, Drying, and Milling Facilities

In 1973 several projects were started to improve milling efficiency.

A revision to the secondary fibre system was put into operation. This project involved removal of all sifters and replacement by gyratory screens. The sifters were replaced because of high maintenance, low availability and environmental problems. Installation of screens also cut the number of pieces of equipment in the circuit from 47 to 17.

In the Dryer Building, ducting was installed to provide outside make-up air for the dryers as a means to reduce negative pressure in the building and improve environmental conditions.

The main tailing disposal conveyor, T6, was extended and two additional portable conveyors purchased for this area. Work was also started to extend the emergency tailings disposal heading.

Ore Reserves

At December 31, 1973, reserves amounted to 52,659,000 tons. During 1973, 499,000 tons were mined outside the ore contacts defined by drilling. This additional ore was mainly from the 650 level, West Zone and 550 level North Zone. Also, a diamond drilling program carried out in the south-east corner, West Zone to obtain detailed information for long range mine planning added 1,300,000 tons of ore.

Shipping

Increased shipping eliminated the backlog of fibre from 1972 that necessitated outside storage during the early part of 1973. At year end, fibre inventory was 10,376.50 tons of A-25; and 1,834.00 tons of A-35, and no storage problems are anticipated.

92,032.50 tons of A-25 fibre and 6,590.00 tons of A-35 fibre were shipped in 1973.

Personnel

At year end, there were 505 employees, of which 59 were staff and 446 hourly. During the year, eight apprentices graduated as certified Journeymen and thirteen employees joined the plan for a total apprenticeship enrollment of twenty-six at the end of the year.

During 1973, a housing shortage in the town of Baie Verte caused extreme difficulty in securing skilled labour.

1,075,147 man-hours were worked for an accident frequency of 15.8 per million man-hours worked.

General

76,286 tons of A-25 fibre in 1973 was 5,451 tons above the previous highest production in 1970. A combination of high recovery and high Mill throughput produced a record—8,886.25 tons of A-25 fibre—for one month.

Communications between the company and the union remained effective during the year. The slowness of receiving arbitration awards caused irritation to many of the employees.

Continued emphasis was placed on environmental control during the year.

The management of your mine is very pleased to acknowledge the cooperation of the directors and the officers of the company during the year.

Respectfully submitted,

CANADIAN JOHNS-MANVILLE CO. LTD.


J. R. M. HUTCHESON,
Chairman of the Board.

March 7, 1974.

Five Year Financial Summary

	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>
FOR THE YEAR (in thousands)					
Value of fibre produced	\$15,125	\$12,700	\$13,946	\$13,622	\$10,345
Operating costs	12,801	11,229	10,683	10,700	7,463
Amortization and depreciation	1,085	1,350	1,350	1,350	1,125
Interest	131	85	89	133	172
	<u>14,017</u>	<u>12,664</u>	<u>12,122</u>	<u>12,183</u>	<u>8,760</u>
Net income	1,108	36	1,824	1,439	1,585
Provision for cumulative preference dividend	725	765	806	805	805
Net income to common shareholders	<u>\$ 383</u>	<u>\$ 0</u>	<u>\$ 1,018</u>	<u>\$ 634</u>	<u>\$ 780</u>
Per share	6¢	0¢	17¢	11¢	13¢
Funds generated	2,401	1,491	3,238	2,891	2,805
Per share	40¢	24¢	54¢	48¢	47¢
Funds applied					
Preference dividend	\$ 725	\$ 765	\$ 1,611	\$ 805	\$ 805
Common dividend	300	300	300	—	—
Redemption of preferred shares	898	901	895	—	—
Fixed Assets	384	224	262	1,081	625
Mine development	—	—	—	—	—
Advances to school boards	—	—	—	—	—
AT THE YEAR END (in thousands)					
Working capital	\$ 2,673	\$ 2,579	\$ 3,278	\$ 3,108	\$ 2,103
Fixed assets	15,892	16,686	17,767	18,769	18,990
Preproduction and mine development	2,738	2,853	3,003	3,153	3,303
Other assets	934	934	934	934	934
Total shareholders' equity	<u>22,237</u>	<u>23,052</u>	<u>24,982</u>	<u>25,964</u>	<u>25,330</u>
Preference shares, par value	15,206	16,104	17,005	17,900	17,900
Common share, book value	7,031	6,948	7,977	8,064	7,430
Less arrears, cumulative preference dividends	0	—	—	805	805
Common shares, net value	<u>\$ 7,031</u>	<u>\$ 6,948</u>	<u>\$ 7,977</u>	<u>\$ 7,259</u>	<u>\$ 6,625</u>
Per share	\$ 1.17	\$ 1.15	\$ 1.33	\$ 1.21	\$ 1.10
PRODUCTION					
Fibre produced (tons) A-25	76,286	67,175	70,614	70,835	55,435
A-35	4,063	6,020	5,107	2,096	—
Material mined (thousands of tons)					
Ore	2,167	2,486	2,573	2,321	1,785
Waste and overburden	7,902	6,908	6,831	9,247	7,090
	<u>\$10,069</u>	<u>\$ 9,394</u>	<u>\$ 9,404</u>	<u>\$11,568</u>	<u>\$ 8,875</u>
Waste to ore ratio	3.65:1	2.78:1	2.56:1	3.85:1	3.96:1
Recovery from ore crushed	3.70%	3.15%	3.12%	3.22%	3.23%
Ore reserves (thousands of tons)	52,679	54,846	57,332	59,319	61,564