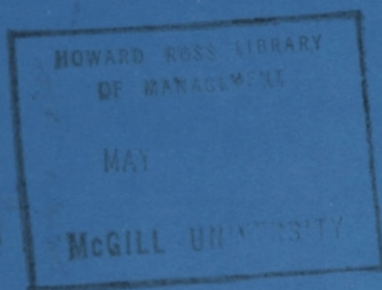


Advocate Mines Limited

*ANNUAL
REPORT*

1975



ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

Directors J. Jacques Beauchemin
E. R. E. Carter
J. M. Emsens
Max Graf*
M. Harris
(elected February 26, 1976)
J. R. M. Hutcheson*
Gilbert Kerlin*
Karl V. Lindell
H. F. Teney
W. L. VanDerbeek
(retired February 26, 1976)

*Member of the Audit Committee

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

**Registrar and
Transfer Agent** Guaranty Trust Company of Canada
Toronto

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

Head Office Suite 2400, The Bank of Nova Scotia Building
44 King Street West, Toronto, Ontario

Mine Office Baie Verte, Newfoundland

Annual Meeting of Shareholders

June 9, 1976
Algoma North Room
Four Seasons Sheraton Hotel
Toronto, Ontario

Directors' Report

Net Income

Net income for 1975 was \$709,247 (1974 — \$2,055,375). In 1975 provision was made for deferred income taxes of \$732,333 (1974 — \$987,700) which resulted from timing differences in calculating income for financial statements and income tax purposes. The lower than expected net income resulted from less fibre production than anticipated because of lower mine ore recovery. This resulted from an inability, because of slope stability problems on the west pit which were not countered until year end, to open up high grade west zone ore to improve the blend of ore during the latter part of the year.

Dividends

Preference dividends are on a current basis and were paid, in 1975, in half-yearly instalments in July and December. A dividend of 7½¢ per common share (1974, 7½¢) was paid.

Cash Flow

Operations generated \$2,238,819, against which funds were expended for, purchase of fixed assets \$665,845, preference and common dividends \$1,073,511 and redemption of preference shares \$1,350,000. Working capital decreased to \$3,227,447 at the end of the year compared with \$3,616,493 at the end of 1974.

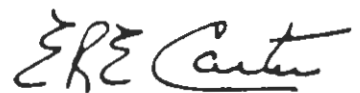
Operations

Production in 1975 was 69,600 tons of fibre valued at \$21,389,000 compared with 79,986 tons and \$18,249,000 in 1974. During the year 63,787 tons were shipped (1974 — 75,941 tons).

Outlook

Results for 1976 are projected to significantly exceed those for 1975.

On behalf of the Board



Chairman of the Board and President

May 3, 1976.

ADVOCATE MINES LIMITED

Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for 1974)

	1975	1974
Value of fibre produced	\$21,389,973	\$18,249,080
LESS		
Operating costs	\$18,136,998	\$14,149,296
Interest	294,963	86,709
Depreciation of equipment	850,000	850,000
Amortization of mine development costs	115,000	115,000
Exploration expenses	65,821	—
	<u>\$19,462,782</u>	<u>\$15,201,005</u>
Net earnings before taxes and extraordinary item	<u>\$ 1,927,191</u>	<u>\$ 3,048,075</u>
Provision for income and mining taxes		
Current	\$ 199,837	5,000
Deferred	732,333	987,700
	<u>\$ 932,170</u>	<u>\$ 992,700</u>
Net earnings before extraordinary item	<u>\$ 995,021</u>	<u>\$ 2,055,375</u>
Extraordinary item		
Capital gift to school boards, net of applicable deferred taxes of \$175,152	285,774	—
Net earnings for the year	<u>\$ 709,247</u>	<u>\$ 2,055,375</u>
Earnings per common share after providing for preference dividends earned of \$623,511 (1974 — \$679,804)		
Net earnings before extraordinary item	<u>\$.06</u>	<u>\$.23</u>
Net earnings for the year	<u>\$.01</u>	<u>\$.23</u>

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for 1974)

	1975	1974
Balance, beginning of year	\$5,775,174	\$4,849,603
Net earnings	709,247	2,055,375
	<u>\$6,484,421</u>	<u>\$6,904,978</u>
 DIVIDENDS PAID		
Preference	\$ 623,511	\$ 679,804
Common	450,000	450,000
	<u>\$1,073,511</u>	<u>\$1,129,804</u>
Balance, end of year	<u>\$5,410,910</u>	<u>\$5,775,174</u>

ADVOCATE MINES LIMITED

(Incorporated under the Laws of Ontario)

Consolidated Balance Sheet

DECEMBER 31, 1975

(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 165,660	\$ 89,183
Accounts receivable	5,232,583	1,478,889
Fibre inventory — at net realizable value	6,421,145	3,698,040
Stores and supplies — at cost	2,418,594	2,730,915
Prepaid expenses	38,144	37,785
	<u>\$14,276,126</u>	<u>\$ 8,034,812</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	\$24,327,021	\$23,821,133
Less: Accumulated depreciation	<u>8,894,705</u>	<u>8,193,678</u>
	<u>\$15,432,316</u>	<u>\$15,627,455</u>
OTHER ASSETS		
Advance to school boards	\$ 401,238	\$ 859,136
Mine development costs less amounts written off	<u>2,507,595</u>	<u>2,622,595</u>
	<u>\$ 2,908,833</u>	<u>\$ 3,481,731</u>
	<u>\$32,692,275</u>	<u>\$27,218,998</u>

Approved on behalf of the Board:

 Director

 Director

LIABILITIES	1975	1974
CURRENT LIABILITIES		
Bank loans — secured (Note 4)	\$ 6,630,000	\$ 1,750,000
Accounts payable	4,014,600	2,501,894
Income and mining taxes payable	190,843	—
Miscellaneous taxes payable	176,436	166,425
Due on redemption of preferred shares	36,800	—
	<u>\$11,048,679</u>	<u>\$ 4,418,319</u>
Deferred Taxes (Note 3)	<u>\$ 1,544,881</u>	<u>\$ 987,700</u>
 SHAREHOLDERS' EQUITY		
Capital (Note 5)		
Authorized, Issued and Fully Paid		
125,058 4½% cumulative, redeemable preference shares of \$100 par value (1974 — 138,558)	\$12,505,800	\$13,855,800
6,000,000 common shares of \$1 par value	<u>6,000,000</u>	<u>6,000,000</u>
	\$18,505,800	\$19,855,800
Less: Discount on common shares	<u>3,817,995</u>	<u>3,817,995</u>
	\$14,687,805	\$16,037,805
Retained Earnings	<u>5,410,910</u>	<u>5,775,174</u>
	<u>\$20,098,715</u>	<u>\$21,812,979</u>
	<u>\$32,692,275</u>	<u>\$27,218,998</u>

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

ADVOCATE MINES LIMITED

FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for 1974)

Consolidated Statement of Changes in Financial Position

	1975	1974
FUNDS WERE PROVIDED BY:		
OPERATIONS		
Net earnings	\$ 709,247	\$2,055,375
Add: Expenses not requiring an outlay of funds:		
Depreciation	850,000	850,000
Amortization of mine development costs	115,000	115,000
Loss on sale of fixed assets	7,391	16,060
Deferred income taxes		
On earnings before extraordinary item	732,333	987,700
Reduction applicable to extraordinary item	(175,152)	—
	\$2,238,819	\$4,024,135
Reduction of advance to school boards	457,898	—
Proceeds on sale of fixed assets	3,593	4,632
	\$2,700,310	\$4,028,767
FUNDS WERE USED FOR:		
Purchase of fixed assets	\$ 665,845	\$ 605,904
Preference dividends	623,511	679,804
Common dividends	450,000	450,000
Redemption of preference shares	1,350,000	1,350,000
	\$3,089,356	\$3,085,708
Increase (decrease) in working capital	\$ (389,046)	\$ 943,059
Working capital, beginning of period	3,616,493	2,673,434
Working capital, end of period	\$3,227,447	\$3,616,493

ADVOCATE MINES LIMITED

Notes to Consolidated Financial Statements

DECEMBER 31, 1975

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 previous 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 the 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 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 of \$850,000 (1974 — \$850,000) is provided 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 23 years from 1975.

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 1975 were \$986,400 (1974 — \$1,110,700).

(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 based on ore reserves and tons mined.

(e) *Income 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 income tax purposes;
- ii) excess depreciation on fixed assets as recorded in the accounts over the amount claimed for income tax purposes;
- iii) excess amortization of mine development costs as claimed for income tax purposes over the amount recorded in the accounts.

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) Eight mining claims 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 recovery of the exploration and preproduction expenses.
- (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 whereby Advocate has a 7½% 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.
- (f) A 10% interest in the net proceeds (as defined) from the future operation of 48 mining claims managed and controlled by Consolidated Rambler Mines Limited after recovery of all expenditures made in exploring, developing, equipping and bringing the property into production. Consolidated Rambler Mines Limited may terminate the agreement at any time. So long as the agreement remains in effect and the property has not been brought into commercial production, Advocate Mines Limited will receive advances against future share of the net proceeds of \$12,500 per annum for 1980 to 1983 inclusive and \$25,000 per annum for 1984 onward.

3. REASSESSMENT OF INCOME TAXES

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.

The deferred taxes as shown in the financial statements has been calculated on the basis that the appeal by the Company of the above mentioned reassessment is successful.

In the event that the reassessment is upheld by the Federal Court, the accumulated provision for deferred taxes at December 31, 1975 would be \$2,940,100 with \$557,000 and \$1,251,000 applicable to 1975 and 1974 respectively and the residual amount applicable to prior years.

4. **BANK LOAN**

The bank loans, which are repayable on demand, are secured by two debentures dated April 1963 in the total amount of \$7,000,000, registered in the names of the Canadian Imperial Bank of Commerce and the Bank of Nova Scotia with a first floating charge on all the company's undertaking, property and assets.

5. **REDEMPTION OF PREFERENCE SHARES**

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, 1975, preference dividends were on a current basis. During the year, the company redeemed 13,500 preference shares at par value (\$1,350,000). Common dividends of \$450,000 were paid in 1975.

6. **LONG-TERM COMMITMENTS**

The company is obligated in respect of long-term leases for mine equipment with expiry dates extending until 1984. The aggregate liability over the balance of the term of the leases is \$4,949,000 of which \$1,112,000 is applicable in 1976.

7. **REMUNERATION OF DIRECTORS AND OFFICERS**

The aggregate remuneration paid to the directors and the five highest paid employees of the company for 1975 was \$126,200 (1974 — \$135,200).

**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, 1975 and consolidated statements of earnings, retained earnings and changes in financial position 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, 1975 and the results of their operations and the changes in their 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 5, 1976.



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 1975:

Production

	<u>1975</u>	<u>1974</u>
Days Operated	342½	337½
Tons A-25 Produced	56,100	73,227
Tons A-35 Produced	13,500	6,759
Concentrated Ore Milled	1,507,342	1,279,100
Ore to Crusher	2,444,841	2,143,000
Ore to Stockpile	364,700	555,000
Ore from Stockpile	174,241	322,100
Waste to Dump	7,646,300	7,446,500
Waste to Roads	509,700	381,500
Waste to Ore Ratio	2.9:1	3.13:1
Recovery Mine Ore	2.85%	3.73%

Pit Equipment

A 6 c.y. front end loader, 45R rotary drill, and a mobile secondary drill, which were ordered in 1974, were delivered in 1975. Additional major equipment received in 1975 was a 10 c.y. front end loader and a D-8 bulldozer. All equipment, with the exception of the secondary drill, is on lease purchase agreements.

In conjunction with the revision of the five year mining plan, equipment requirements were assessed based on the need for increased labour productivity. As a result, equipment for additions and future replacements will be larger in capacity. Because of increasing waste tonnage removal starting in 1976, orders were placed for additional equipment in November and included: a) 1-15 c.y. front end loader for January 1976 delivery, b) 4-100 ton trucks for January 1976 delivery, c) 1-12 c.y. electric shovel for mid 1976 delivery, and d) 4-100 ton trucks for mid 1976 delivery.

Costs of new equipment which had escalated rapidly during the past two years showed some signs of levelling off and indeed some of the equipment purchased for 1976 deliveries was negotiated at a firm price.

Mining

The reduction in fibre production is a reflection of lower mine ore recovery. The 2.85 per cent average was significantly lower than the average grade of ore mined since operations started in 1963. As mentioned in the 1974 Annual Report, plans were implemented to open up high grade west zone ore to improve the blend of ore during the latter part of the year. However, because of slope stability problems in the west pit, the plan was delayed and only at year end was this development sufficiently advanced to supply high grade ore.

In mid-year the five-year mining plan was revised. The new plan calls for an acceleration of the waste removal to mine an additional 7,000,000 tons of waste over a three-year period, starting in 1976.

The main benefits of the plan are: 1) improved mining flexibility to give more operating room for major mining equipment and 2) improved ore availability. A slight increase in fibre production is planned when these benefits are fully realized in 1978.

Crushing, Drying and Milling Facilities

The only major equipment added to this system in 1975 was two pressure packers.

Significant modifications include: 1) The replacement of the existing three 40-inch impactors in the secondary crushing by a single larger unit. This installation will both reduce maintenance cost of the impacting circuit and give improved availability. The simplified flowline will also result in improved environmental conditions. This work is currently in progress and is expected to be completed by the end of March 1976. 2) thirty-five degree troughing idlers are being installed on a number of conveyors in the mill and crusher to give improved environmental control.

Work has started to relocate tailings conveyor T-3 to gain access to additional disposal area as required during interruptions on the main disposal heading. Work is also in progress to install the first section of a new conveyor extension (T-8) on the main disposal heading.

Ore Reserves

At December 31, 1975, reserves amounted to 50,091,000 tons. During 1975, only 1,324,000 tons of ore were mined from the ore reserves. An additional 1,311,000 tons of ore were mined outside the ore contacts as defined by diamond drilling. As in the past, most of this ore was from areas that were previously outlined as trace fibre zones contiguous with the main fibre zones.

Environmental Control

In 1975 the Newfoundland Department of Mines and Energy changed their method of measuring asbestos dust emissions and are now using the membrane filter method.

Increased emphasis was placed on environmental control and dust surveys showed a decided improvement. Both Federal and Provincial environmentalists made several visits to the plant and have commented favourably on our planned program for control of dust emissions.

Shipping

Inventories remained high throughout the year due to the large amount of refeed fibre. At year end, fibre inventory was 16,764.75 tons of A-25 and 5,303.00 tons of A-35. In total, the inventory was approximately 6,000 tons higher than 1974 year-end.

52,557.00 tons of A-25 fibre and 11,230.00 tons of A-35 fibre were shipped in 1975.

Personnel

At year end there were 513 employees of which 69 were staff and 444 were hourly. During 1975, two apprentices graduated as certified journeymen and 14 employees joined the plan for a total apprenticeship enrollment of 38.

General

The Company and the Union maintained good relations during the first year of the new Collective Agreement. The use of single arbitrators from a list acceptable to both parties worked very well. All grievances were settled satisfactorily with the exception of one which is slated for arbitration.

The Company continues to take all appropriate environmental measures, having regard to the health of the employees, residents of the Baie Verte area and the environment generally.

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 COMPANY, LIMITED



J. R. M. Hutcheson
Chairman of the Board

Five Year Financial Summary

	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
FOR THE YEAR (in thousands)					
Value of fibre produced	\$21,389	\$18,249	\$15,125	\$12,700	\$13,946
Operating costs	18,136	14,149	12,801	11,229	10,683
Amortization and depreciation	965	965	1,085	1,350	1,350
Exploration	66	—	—	—	—
Interest	295	87	131	85	89
Gift to school board	286	—	—	—	—
Provision for income and mining taxes	932	993	—	—	—
	<u>20,680</u>	<u>16,194</u>	<u>14,017</u>	<u>12,664</u>	<u>12,122</u>
Net Income	709	2,055	1,108	36	1,824
Provision for cumulative preference dividend	624	680	725	765	806
Net income to common shareholders	<u>\$ 85</u>	<u>\$ 1,375</u>	<u>\$ 383</u>	<u>\$ 0</u>	<u>\$ 1,018</u>
Per share	01¢	23¢	6¢	0¢	17¢
Funds generated	\$ 2,700	\$ 4,029	\$ 2,401	\$ 1,491	\$ 3,238
Per share	45¢	67¢	40¢	24¢	54¢
Funds applied					
Preference dividend	\$ 624	\$ 680	\$ 725	\$ 765	\$ 1,611
Common dividend	450	450	300	300	300
Redemption of preferred shares	1,350	1,350	898	901	895
Fixed Assets	666	606	384	224	262
AT THE YEAR END (in thousands)					
Working capital	\$ 3,228	\$ 3,616	\$ 2,673	\$ 2,579	\$ 3,278
Fixed assets	15,432	15,627	15,892	16,686	17,767
Preproduction and mine development	2,508	2,623	2,738	2,853	3,003
Other assets	476	934	934	934	934
	<u>21,644</u>	<u>22,800</u>	<u>22,237</u>	<u>23,052</u>	<u>24,982</u>
Less: Deferred taxes	1,545	988	—	—	—
Total shareholders' equity	<u>20,099</u>	<u>21,812</u>	<u>22,237</u>	<u>23,052</u>	<u>24,982</u>
Preference shares, par value	12,506	13,855	15,206	16,104	17,005
Common shares, book value	7,593	7,957	7,031	6,948	7,977
Common shares, net value	<u>\$ 7,593</u>	<u>\$ 7,957</u>	<u>\$ 7,031</u>	<u>\$ 6,948</u>	<u>\$ 7,977</u>
Per share	<u>\$ 1.26</u>	<u>\$ 1.33</u>	<u>\$ 1.17</u>	<u>\$ 1.15</u>	<u>\$ 1.33</u>
PRODUCTION					
Fibre produced (tons) A-25	56,100	73,227	76,286	67,175	70,614
A-35	13,500	6,759	4,063	6,020	5,107
Material mined (thousands of tons)					
Ore	2,635	2,376	2,167	2,486	2,573
Waste and overburden	7,646	7,446	7,902	6,908	6,831
	<u>10,281</u>	<u>9,822</u>	<u>10,069</u>	<u>9,394</u>	<u>9,404</u>
Waste to ore ratio	2.9:1	3.13:1	3.65:1	2.78:1	2.65:1
Recovery from ore crushed	2.85%	3.73%	3.70%	3.15%	3.12%
Ore reserves (thousands of tons)	50,091	51,415	52,679	54,846	57,332

