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ANNUAL
REPORT
1978

HOWARD ROSS LIBRARY
OF MANAGEMENT

AUG 6 1979

MCGILL UNIVERSITY

Advocate Mines Limited

ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

Directors	J. Jacques Beauchemin
	E. R. E. Carter
	A. C. Crosbie
	J. M. Emsens
	Max Graf*
	M. Harris
	J. R. M. Hutcheson*
	Gilbert Kerlin*
	R. E. Sampson
	H. F. Teney

*Member of the Audit Committee

Officers	E. R. E. Carter, Chairman of the Board and President
	A. R. Dennis, Treasurer
	A. W. Oughtred, Secretary
	F. J. Lapalme, Assistant Secretary
	E. B. McKenna, Mine Manager

Manager	Johns-Manville Canada Inc.
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Registrar and Transfer Agent	Metropolitan Trust Company Toronto, Ontario
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Shares Listed	The Toronto Stock Exchange
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Auditors	Loftus A. Allen & Co., Toronto, Ontario
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Head Office	8th floor, 250 University Avenue Toronto, Ontario
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Mine Office	Baie Verte, Newfoundland
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Annual Meeting of Shareholders

11:00 a.m.
April 18, 1979
Carleton Room
The Sheraton Centre Hotel
123 Queen Street West
Toronto, Ontario

Corporate Profile

Advocate Mines Limited owns and operates an open-pit asbestos mine and mill complex at Baie Verte on the north east coast of Newfoundland. The mine has a projected life of 22 years. The mill has an operating capacity of 6,500 tonnes per day. Fibre production is shipped by boat from the Company's warehouse located on tide water one mile from the mine.

Two grades of asbestos cement grade fibre are produced and sold pursuant to long term sales contracts with Compagnie Financiere Eternit S.A. of Belgium and Johns-Manville Sales Corporation of the United States. Operations are managed by Johns-Manville Canada Inc.

At December 31, 1978 Advocate's work force included 495 hourly paid and 80 salaried employees. Operations are carried on 24 hours a day, seven days a week.

In 1978 the Company's employees were paid in excess of \$7,000,000 in wages and salaries and benefits. In the last three years Advocate has contributed on average approximately \$2,600,000 to the economy of Newfoundland in municipal, mining and income taxes and social security benefits.

Environmental control and mine safety programs are active and continuous and involve employees, management and government working together to achieve one goal, a working environment which is safe and clean.

Major shareholders of Advocate include Johns-Manville Canada Inc., Amet Corporation Inc., and Compagnie Financiere Eternit S.A.

Directors' Report

1978 was most difficult and disappointing because of:

- a strike by the hourly paid workers from February 13 to May 20;
- start-up problems following the strike;
- a significant pit wall failure in the North Pit which occurred in November, 1977 and which hampered mining throughout 1978;
- less than planned ore recoveries.

These factors caused a most significant decrease in mine productivity and substantial financial losses.

Financial Losses

The net loss for the year was \$3,431,440 as compared with net income of \$3,409,032 in 1977. Your attention is directed to the attached audited financial statements and five year financial summary.

Dividends

Because of the financial loss, your directors determined in November last that a dividend would not be paid in 1978. Dividend policy will be continually reviewed bearing in mind the financial results and needs of your Company.

Working Capital

The financial loss in 1978 resulted in a working capital deficiency of \$1,901,497 at the end of the year. Retained earnings decreased from \$9,877,311 to \$6,445,871.

Debt

At year end long term bank debt was \$4,500,000 borrowed by way of bankers' acceptances. In January of 1979 long term bank debt was increased by \$2,500,000 also borrowed by way of bankers' acceptances to finance the construction of dust control facilities in the secondary crusher and dryer areas. The long term bank debt is secured by a floating charge on your Company's assets and is repayable in equal annual instalments of \$750,000 each, the first payment due by December 31, 1979.

Operations

Production in 1978 was 39,838 tonnes of fibre valued at \$21,357,433 compared with 75,321 tonnes and \$34,474,542 in 1977. During the year 36,850 tonnes of fibre were shipped.

Manager's Report

You are referred to the Report of Johns-Manville Canada Inc. which is attached hereto.

Labour Relations

A labour agreement which expires on December 31, 1979 was concluded with the hourly paid employees at the conclusion of the strike in May, 1978.

Directors

Mr. R. E. Sampson is not standing for re-election as a director this year. Management will nominate Mr. J. P. Power, Vice President, Johns-Manville Canada Inc. in his place.

Product Liability Claims

As previously reported, your Company, along with other asbestos fibre producers, has been named as a defendant in four personal injury lawsuits commenced in the United States by employees of an asbestos manufacturing facility, and members of their families, who claim substantial damages for alleged injuries to health by reason of inhalation or ingestion of asbestos fibres. These actions are being defended.

Environment

The asbestos mining industry, including Advocate, has been criticized with respect to asbestos and health. Much of the criticism is based on mistaken and distorted facts which have been unduly exaggerated. Advocate and its management are abundantly aware that undue exposure to asbestos fibre and dust in uncontrolled conditions represents a health hazard. Advocate remains committed to achieving and maintaining in close association with employee representatives and government, a working environment which is as clean as is technologically and practically possible. Advocate's manager, Johns-Manville Canada Inc., is one of the world's largest suppliers of asbestos fibre and manufacturers of asbestos products and Advocate is fortunate in being able to draw on its expertise.

Environmental, health and safety conditions at the mine and mill are under constant assessment and review. All sectors of Advocate's operations and their impact on the surrounding community have been and continue to be upgraded to provide as clean an environment as possible. In the open pit, mobile equipment operators are protected from dust in pressurized cabs and drills are equipped with dust eliminating devices to protect their operators. In the crushing, drying and milling areas, dust control systems maintain clean air both inside and out. With minor exceptions which will be removed in 1979, Advocate's operations comply with and in most cases exceed existing and proposed government emission standards.

Since commencing production, Advocate has carried out preventive medical programs by performing pre-employment and annual employee chest X-rays and pulmonary function tests to detect early signs of health problems that may be associated with asbestos exposure.

Advocate, in conjunction with the union local that represents its hourly paid employees, conducts regular dust monitoring tests to ensure that employees are not exposed to potentially harmful dust levels. The measurements taken are also used to determine compliance with government regulations concerning airborne fibre levels.

In the last five years alone Advocate has spent or authorized for expenditure more than \$6.7 million on projects designed to improve the working environment.

In 1978 considerable progress was made in the construction and installation of a \$2.1 million change-house including improved lunchroom and sanitary facilities. Double locker and shower facilities will help to eliminate dust from being carried home on workers' clothing.

A drive-through car wash for employees' vehicles is being constructed. A \$2.3 million air handling system to collect dust from the hot and cold air stacks in the secondary crusher and dryer building is close to completion and will result in the control of dust emissions in the operating and maintenance areas of the building and the surrounding atmosphere.

Considerable progress has been achieved to suppress dust on mine tailings by the manual addition of water at transfer points on tailings conveyor belts. New equipment has been proposed which will enable moisture content to be controlled automatically.

The Board of the Directors has approved the installation during 1979 of a new dust control system for the dry rock storage facilities.

Advocate's aim is to surpass government standards and to ensure that its employees and their families have a pleasant, safe and healthy place in which to work and live.

Outlook

As a result of the problems experienced in 1978 a thorough review and assessment of your Company's operations has been undertaken with Advocate's managers Johns-Manville Canada Inc. and Amet Corporation. Mr. Lionel Piuze, who has been associated with the asbestos industry for many years, has been engaged as an independent consultant. Changes have been made in operating personnel, a revised mining plan has been settled and unsatisfactory areas of operation have been identified and are being attended to. However, 1979 and 1980 will be difficult and not financially satisfactory. If the improvements in operations which have been identified as being necessary are achieved and maintained then, in the following years, your Company's operating and financial results should improve to a more acceptable level.

On behalf of the Board

March 5, 1979

E. R. E. Carler,
Chairman of the Board and President

Report of the Manager

To the President and Directors of
ADVOCATE MINES LIMITED

Production

We, as Manager of your operations at Baie Verte, Newfoundland, report hereunder for the year 1978. It should be noted that all units are metric.

	1978	1977
Days Operated	237	336
Tonnes A25 Produced	35,311	59,886
Tonnes A35 Produced	4,527	15,435
Concentrated Ore Milled,	982,800	1,446,200
Ore to Crusher	1,529,300	2,050,900
Ore to Stockpile	405,832	624,100
Ore from Stockpile	446,900	374,200
Waste to Dump	7,459,900	9,205,100
Waste to Roads	185,000	489,300
Waste to Ore Ratio	5.01:1	4.0:1
Recovery Mine Ore	2.60	3.67

Pit Equipment

The remaining four 90-tonne trucks were delivered and put into service by June. The 9 cubic meter electric shovel which was ordered in 1977 was delivered and also put into service.

The extension to the haulage truck garage required to service the increased fleet of larger units was pretty well completed by year end, with the exception of the installation of a larger dynamometer which is scheduled for delivery about April 1979.

At year end operational pit equipment included three 9 cubic meter shovels, four 6.1 cubic meter shovels, twenty 90 tonne electric trucks, four 45 tonne trucks, six bulldozers, three rotary drills, and four front end loaders.

Mining

During 1978 all mining was carried out in the North Pit except for 219,000 tonnes of waste from the West Pit.

In order to catch up on the waste shortfall the 1979 Mining Plan includes removing approximately 3,000,000 tonnes of waste from the West Pit. Although tenders were called for contracting this work it was felt that it was more economical to do the work with mine personnel and at the same time preserve better labour relations. This West Zone waste removal will be run as a separate operation. To do this work two 6 yard loaders and one bulldozer have been leased and four 45 tonne trucks have been put back into service.

Mining in the North Pit continues to be very tight and ore grade has not lived up to expectations. Excellent progress was made in unloading the caved area along the east wall of the North Pit. By the end of September daily tonnages were meeting or exceeding the Plan of 14,500,000 tonnes per year.

Late in December heavy wet snow, accompanied by continuous rain flooded the sink cut on the 400 foot level of the North Pit, thus denying access to higher grade ore. Mining plans are being reviewed to see if the quality and quantity of ore available for the short term can be improved.

Ore Reserves

At December 31, 1978 ore reserves amounted to 41,438,700 tonnes. During the year 461,700 tonnes of low grade ore (1.51% recovery A25 fibre) were mined from trace fibre zones contiguous with the main fibre zones. Stockpile inventory was decreased by 167,300 tonnes.

Crushing, Drying & Mining Facilities

Most of the projects undertaken or completed in these areas were to improve environmental conditions. The bag collector system to control emissions from the secondary crushing and drying building was completed by year end and was being tested. To conform to Federal Government regulations a dust collecting system was being designed for the dry rock storage building. An automatic bag opener and refeed system has been installed on the mill bagging floor. This should greatly improve working conditions and housekeeping in this area.

Other than environmental improvements work was pretty well completed on the installation of the new dedusting equipment. Routine work on relocating and extending the tailings conveyors continued throughout the year.

Shipping

30,440 tonnes of A25 fibre and 6,410 tonnes of A35 fibre were shipped for a total of 36,850 tonnes.

At year end the inventory was 17,326 tonnes of A25 fibre and 3,838 tonnes of A35 fibre.

Although most fibre was shipped in 1-1/4 tonne shrinkwrapped units using Marino slings, a trial shipment of two tonne units using steel strapping was made to the United States. The results of this trial were not conclusive.

Personnel

At year end there were 575 employees of which 80 were staff and 495 were hourly. Ten apprentices graduated as certified journeymen and twenty employees joined the plan for a total apprenticeship enrollment of forty-two.

During the year two senior staff members, Mr. R. Goodman and Mr. M. Amm took normal retirement. Mr. H. Beattie, Production Superintendent resigned in September and Mr. R. Mitten, Pit Superintendent transferred back to Johns-Manville Canada Inc. and was replaced by Mr. S. Blagdon, Pit Planning Supervisor. Effective January 1, 1979 Mr. E. B. McKenna succeeded Mr. J. G. Cole as Mine Manager.

947,790 man-hours were worked with an accident frequency rate of 17.94 per million man-hours worked.

General

As evidenced by the loss incurred by the Company in 1978, operations were far from satisfactory. The three month strike of the Company's hourly paid employees in the spring and the significant North Pit wall failure encountered late in 1977 contributed significantly to the low level of production achieved. As well, other areas of concern have developed. We, as your manager, in conjunction with representatives of your board of directors, are reviewing and assessing Advocate's overall operations and where necessary steps have been and will continue to be taken to ensure a return to acceptable levels of production and profitability.

The strike by the hourly paid employees which commenced on February 12 ended in mid-May and a collective agreement which terminates December 31, 1979 was signed. The tripartite committee of Company, union and government representatives which was formed in 1977 to study the Selikoff report on Advocate met twice in 1978 and has proved to be an effective communicating medium for the parties involved. During 1978 a Cooperative Wage Study by the Company and the union was finalized and new job classifications put into force.

A special tribute should be paid to the salaried staff who spent long hours maintaining the mine on a stand-by basis during the strike.

The Management of your mine is pleased to acknowledge the cooperation of the Directors and Officers of the Company during 1978.

March 5, 1979.

Respectfully submitted,
JOHNS-MANVILLE CANADA INC.

J. R. M. Hutcheson
Chairman of the Board

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of ADVOCATE MINES LIMITED as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its 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 16, 1979.

Loftus A. Allen & Co.
Chartered Accountants

ADVOCATE MINES LIMITED

(Incorporated under the Laws of Ontario)

Consolidated Balance Sheet

DECEMBER 31, 1978

(with comparative figures for 1977)

ASSETS	1978	1977
CURRENT ASSETS		
Cash	\$ 127,639	\$ 218,292
Accounts receivable	2,624,594	6,770,169
Income and mining taxes receivable	602,321	—
Fibre inventory — at net realizable value (Note 1 (b))	10,106,972	7,331,774
Stores and supplies — at cost	2,718,341	3,004,223
Prepaid expenses	201,390	123,494
	<u>\$ 16,381,257</u>	<u>\$ 17,447,952</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 (Note 1 (c))	\$ 28,510,315	\$ 25,913,160
Less: Accumulated depreciation	10,724,902	9,966,547
	<u>\$ 17,785,413</u>	<u>\$ 15,946,613</u>
OTHER ASSETS		
Mine development costs less amounts written off (Note 1 (d))	2,197,595	\$ 2,277,595
	<u>\$ 36,439,265</u>	<u>\$ 35,747,160</u>

Approved on behalf of the Board:

E. R. E. Carter — Director

J. R. M. Hutcheson — Director

LIABILITIES	1978	1977
CURRENT LIABILITIES		
Bank loans - secured (Note 3)	\$ 12,340,000	\$ 4,460,000
Accounts payable	4,910,010	5,217,424
Income and mining taxes payable	—	787,085
Miscellaneous taxes payable	370,546	262,144
Current portion of long term debt	662,198	2,500,000
	<u>\$ 18,282,754</u>	<u>\$ 13,226,653</u>
LONG TERM LIABILITIES		
Bank loans and credits (Note 3)	\$ 4,500,000	\$ 5,000,000
Conditional sales contract (Note 4)	1,121,870	—
	<u>\$ 5,621,870</u>	<u>\$ 5,000,000</u>
DEFERRED TAXES	<u>\$ 3,906,765</u>	<u>\$ 5,461,191</u>
SHAREHOLDERS' EQUITY		
Capital		
Authorized and Issued		
6,000,000 Common shares of \$1 par value	\$ 6,000,000	\$ 6,000,000
Less: Discount on common shares.	3,817,995	3,817,995
	<u>\$ 2,182,005</u>	<u>\$ 2,182,005</u>
Retained Earnings	6,445,871	9,877,311
	<u>\$ 8,627,876</u>	<u>\$ 12,059,316</u>
	<u><u>\$ 36,439,265</u></u>	<u><u>\$ 35,747,160</u></u>

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

ADVOCATE MINES LIMITED

Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1978

(with comparative figures for 1977)

	1978	1977
Value of fibre produced	\$ 21,357,433	\$ 34,474,542
LESS		
Operating costs	\$ 24,350,527	\$ 27,035,741
Interest	1,557,097	939,994
Depreciation of equipment	790,000	1,160,000
Amortization of mine development costs	80,000	115,000
	<u>\$ 26,777,624</u>	<u>\$ 29,250,735</u>
Net earnings (loss) before taxes	\$ (5,420,191)	\$ 5,223,807
Provision for (recovery of) income and mining taxes		
Current	\$ (434,325)	\$ 691,699
Deferred	(1,554,426)	1,123,076
	<u>\$ (1,988,751)</u>	<u>\$ 1,814,775</u>
Net earnings (loss) for the year	\$ (3,431,440)	\$ 3,409,032
Earnings (loss) per common share	<u>\$ (.57)</u>	<u>\$.57</u>

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1978

(with comparative figures for 1977)

	1978	1977
Balance, beginning of year	\$ 9,877,311	\$ 7,578,279
Net earnings (loss) for the year	(3,431,440)	3,409,032
	<u>\$ 6,445,871</u>	<u>\$ 10,987,311</u>
DIVIDENDS PAID		
Common	\$ —	\$ 1,110,000
Balance, end of year	<u>\$ 6,445,871</u>	<u>\$ 9,877,311</u>

ADVOCATE MINES LIMITED

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1978

(with comparative figures for 1977)

	1978	1977
SOURCE OF WORKING CAPITAL:		
Net earnings	\$ —	\$ 3,409,032
Add: Items not affecting working capital:		
Depreciation	—	1,160,000
Amortization of mine development costs	—	115,000
Gain on sale of fixed assets	—	(126,932)
Deferred income taxes	—	1,123,076
	\$ —	\$ 5,680,176
Conditional sales contract	1,284,068	—
Proceeds on sale of fixed assets	8,958	158,901
	<u>\$ 1,293,026</u>	<u>\$ 5,839,077</u>
USE OF WORKING CAPITAL:		
Net loss	\$ 3,431,440	\$ —
Add: Items not affecting working capital:		
Depreciation	(790,000)	—
Amortization of mine development costs	(80,000)	—
Gain on sale of fixed assets	8,958	—
Deferred income taxes, reduction	1,554,426	—
	<u>\$ 4,124,824</u>	<u>\$ —</u>
Purchase of fixed assets	2,628,800	1,715,131
Common dividends	—	1,110,000
Current portion of long term debt	662,198	2,500,000
	<u>\$ 7,415,822</u>	<u>\$ 5,325,131</u>
Increase (Decrease) in working capital	\$ (6,122,796)	\$ 513,946
Working capital, beginning of period	4,221,299	3,707,353
Working capital (deficiency), — end of period	<u>\$ (1,901,497)</u>	<u>\$ 4,221,299</u>

ADVOCATE MINES LIMITED

Notes to Consolidated Financial Statements

DECEMBER 31, 1978

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 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 the 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 expense of \$790,000 (1977 - \$1,160,000) was provided for the year 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 22 years from 1978.

A strike closed the mine from February 13 to May 20, 1978. Depreciation was not provided during this period as such charge to income is directly related to the life of the mine or the asset.

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 1978 were \$3,163,951 (1977 - \$2,448,807).

(d) Mine Development Costs

All costs incurred in developing and placing the mine in production have been capitalized. The 1978 amortization of these costs was \$80,000 (1977 - \$115,000) and is based on ore reserves and tons mined.

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

2. 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) A 20% interest in the net profits (as defined) from all mining operations carried on by Consolidated Rambler Mines Limited on two 21 year mining leases (known as the Ming Extension), after recovery of all exploration and preproduction expenses incurred by that company. The cumulative net profits from the Ming Extension have not yet exceeded the exploration expenses and no income was due to Advocate in 1978.

- (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 under which 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) Approximately 500 acres of land held in fee simple on which the Company's dock, mill, office, garage and houses are located.

3. BANK LOAN AND CREDITS

The bank operating loan, bank term credit and bankers' acceptances credit are secured by a debenture dated November 15, 1976 in the total amount of \$22,000,000, registered in the name of Canadian Imperial Bank of Commerce and The Bank of Nova Scotia constituting a first floating charge on all the Company's undertaking, property and assets.

The bank operating loan is repayable on demand and is subject to annual review.

The bank term credit and the bankers' acceptances credit were amended to provide for reduction of \$500,000 per annum subject to review in 1981. Interest is payable on the bank term credit at the banks' minimum lending rate plus 1½% per annum. The interest payable and the service fee on the bankers' acceptances credit shall be the current rate in effect from time to time.

If at any time no market exists for bankers' acceptances so that Advocate is unable to issue bankers' acceptances, the amount of such bankers' acceptances shall be advanced by the banks to Advocate under the bank term credit and thereafter shall be treated in all respects as an advance under the bank term credit.

The detail of the outstanding amount as shown on the balance sheet is -

Bankers' acceptances credit	\$5,000,000
Instalment due in 1979 and shown as a	
current liability	<u>500,000</u>
	<u>\$4,500,000</u>

Subsequent to December 31, 1978, the Company arranged a bankers' acceptances credit of \$2,500,000 with its bankers, to be reduced annually by \$250,000 subject to review in 1981.

4. CONDITIONAL SALES CONTRACT

In 1978 the Company acquired certain fixed assets under a conditional sales contract which provides that title is to remain with the seller until the full purchase price is paid. The principal payments are \$13,516 per month for 96 months with interest at ½% over prime.

The details of the outstanding amount at December 31, 1978 are as follows:

Total Liability	\$1,284,068
Instalments due in 1979 and shown as a	
current liability	<u>162,198</u>
	<u>\$1,121,870</u>

5. LONG TERM LEASES

The Company is obligated in respect of long-term leases for mine equipment with expiry dates extending until 1986. The aggregate liability over the balance of the term of the leases is \$17,053,665 of which \$3,217,377 is applicable to 1979.

6. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid to the directors and the five highest paid employees of the Company for 1978 was \$173,933 (1977 - \$168,604).

7. PENSION PLANS

The Company maintains pension plans which cover substantially all of its employees. During 1978 the Company revised one of its pension plans to provide surviving spouse benefits and this change increased the unfunded liability for past service costs to \$628,800 as at December 31, 1978 (1977 - \$465,000). The unfunded liability will be paid and charged to earnings over a period of 18 years by annual instalments of \$56,400.

8. LEGAL ACTIONS

The Company, together with others, is a defendant in product liability suits in the United States in which substantial damages are claimed for alleged injuries to the health of asbestos workers by reason of inhalation of asbestos fibre. The Company denies all liability in these actions. Neither the existence of liability nor the extent of any possible damages can be determined at this time and accordingly, no provision for such liability, if any, has been made in the financial statements. In 1977, the Company wharf, at Baie Verte, Newfoundland, was damaged by a ship during loading operations and the Company sued the ship's owners for approximately \$20,000. The ship's owners filed a counter suit in which they claim damages of approximately \$250,000 to the ship.

by reason of an alleged failure by the Company to provide a safe berth. There is insufficient information available at this time to determine the merits of the counter suit.

9. INCOME TAX RE-ASSESSMENT

Late in 1978, the Company received a Federal income tax re-assessment in respect of the 1976 taxation year for approximately \$375,000 arising principally from the disallowance of earned depletion. The Company, on advice from legal counsel, has filed a notice of objection to the re-assessment and maintains that it is entitled to the deduction for earned depletion. Full provision for income taxes has been made in the financial statement for adjustments other than the disallowance for earned depletion.

10. FEDERAL GOVERNMENT ANTI-INFLATION PROGRAM

Until December 31, 1978, the Company was subject to mandatory compliance with legislation which controls prices, profits, dividends, wages and salaries. Because the Company's sales are for the export market, the controls on prices and profits have little effect.

Following the settlement of the strike of hourly paid workers, the Union and the Company were advised by the Anti-Inflation Board that the wage settlement exceeded the guidelines. Accordingly, the hourly paid employees have been required to refund to the Company in 1979 amounts aggregating approximately \$60,000. The Company and the Union have both requested the Board to reconsider the decision.

With the exception of the excess wage payment outlined in the preceding paragraph, the Company is of the opinion that it is in compliance with the requirements of the Anti-Inflation Legislation.

11. POTENTIAL FUTURE TAX BENEFITS

The 1978 loss for income tax purposes was approximately \$9,100,000 of which \$4,000,000 was carried back to 1977. The balance of the loss of \$5,100,000 may be carried forward and applied to reduce future taxable incomes until 1983. The potential future tax benefit attributable to the loss carry forward is approximately \$2,550,000.

In accordance with generally accepted accounting principles, this potential tax benefit has not been recognized in the accounts.

Five Year Financial Summary

	1978	1977	1976	1975	1974
FOR THE YEAR (in thousands)					
Value of fibre produced	\$ 21,357	\$ 34,475	\$ 31,790	\$ 21,389	\$ 18,249
Operating costs	24,351	27,036	22,410	18,136	14,149
Amortization and depreciation	870	1,275	1,085	965	965
Exploration	—	—	76	66	—
Interest	1,557	940	57	295	87
Gifts to school board	—	—	251	286	—
Provision for (recovery of) income and mining taxes	(1,989)	1,815	3,482	932	993
	<u>\$ 24,789</u>	<u>\$ 31,066</u>	<u>\$ 27,361</u>	<u>\$ 20,680</u>	<u>\$ 16,194</u>
Net income (loss)	\$ (3,432)	\$ 3,409	\$ 4,429	\$ 709	\$ 2,055
Provision for cumulative preference dividend	—	—	563	624	680
Net income (loss) for common shareholders	<u>\$ (3,432)</u>	<u>\$ 3,409</u>	<u>\$ 3,866</u>	<u>\$ 85</u>	<u>\$ 1,375</u>
Per share	<u>\$ (.57)</u>	<u>\$.57</u>	<u>\$.64</u>	<u>\$.01</u>	<u>\$.23</u>
Working capital generated	(4,116)	5,839	7,803	2,700	4,029
Per share	(.69)	.97	1.30	.45	.67
Working capital from long-term loan	1,284	—	10,000	—	—
Working capital used for					
Preference dividend	\$ —	\$ —	\$ 563	\$ 624	\$ 680
Common dividend	—	1,110	486	450	450
Redemption of preference shares	—	—	12,506	1,350	1,350
Fixed assets	2,629	1,715	1,269	666	606
Current portion of long-term debt	662	2,500	2,500	—	—
AT THE YEAR END (in thousands)					
Working capital (deficiency)	\$ (1,902)	\$ 4,221	\$ 3,707	\$ 3,228	\$ 3,616
Fixed assets	17,785	15,946	15,423	15,432	15,627
Preproduction and mine development costs	2,198	2,278	2,393	2,508	2,623
Other assests costs	75	75	75	476	934
	<u>\$ 18,156</u>	<u>\$ 22,520</u>	<u>\$ 21,598</u>	<u>\$ 21,644</u>	<u>\$ 22,800</u>
Less: Long-term debt	4,500	5,000	7,500	—	—
Less: deferred taxes *	3,907	5,461	4,338	2,758	2,201
Less: Conditional Sales Contract	1,121	—	—	—	—
Total shareholders' equity	<u>\$ 8,628</u>	<u>\$ 12,059</u>	<u>\$ 9,760</u>	<u>\$ 18,886</u>	<u>\$ 20,599</u>
Preference shares, par value	—	—	—	12,506	13,855
Common shares, book value — total	<u>\$ 8,628</u>	<u>\$ 12,059</u>	<u>\$ 9,760</u>	<u>\$ 6,380</u>	<u>\$ 6,744</u>
Common shares book value per share *	<u>\$ 1.44</u>	<u>\$ 2.01</u>	<u>\$ 1.63</u>	<u>\$ 1.06</u>	<u>\$ 1.12</u>
PRODUCTION					
Fibre production (tonnes) A-25	35,311	59,886	66,118	50,894	66,431
A-35	4,527	15,435	10,490	12,247	6,131
Material mined (thousands of tonnes)					
Ore	1,488	2,301	1,879	2,390	2,156
Waste and overburden	7,460	9,205	8,104	6,936	6,755
	<u>8,948</u>	<u>11,506</u>	<u>9,983</u>	<u>9,326</u>	<u>8,911</u>
Waste to ore ratio	5.01:1	4.0:1	4.3:1	2.9:1	3.13:1
Recovery from ore crushed	2.60%	3.67%	4.06%	2.85%	3.73%
Ore reserves (thousands of tonnes)	41,439	42,339	44,155	45,443	46,644

* 1975 and prior years are restated to give retroactive effect to full tax allocation accounting for mining taxes and the settlement of federal income tax reassessments for 1968 and 1969.

