

# Asbestos Corporation Limited Société Asbestos Limitée

Annual Report 1979





# Asbestos Corporation Limited Soci t  Asbestos Limit e

(Incorporated under the laws of Canada, 6 October 1925)

## Directors

P.-E. AUGER, Eng., Ph.D. (2)  
Consultant Geologist  
Qu bec

M. P. CARSON  
Executive Vice-President  
Montr al

R. A. DUGR E  
President,  cole de  
technologie sup rieure  
Montr al

G. W. FISKE (1) (2) (3)  
Executive Vice-President – Commercial  
General Dynamics Corporation  
St. Louis, Missouri

F. R. KEARNS (1) (2) (3)  
President, Canadair Limited  
Montr al

G. E. MacDONALD (1) (3)  
Executive Vice-President – Finance  
General Dynamics Corporation  
St. Louis, Missouri

M. J. O'BRIEN (1) (2)  
President, Marblehead Lime Company  
Chicago, Illinois

W. G. SULLIVAN (1) (3)  
Vice-President – Industrial Relations  
General Dynamics Corporation  
St. Louis, Missouri

M. E. TASCHEREAU (1) (2)  
President and Chief Executive Officer  
Montr al

## Executive Officers

G. W. FISKE  
Chairman

G. E. MacDONALD  
Vice-Chairman

M. E. TASCHEREAU  
President and Chief Executive Officer

M. P. CARSON  
Executive Vice-President

W. B. R. CALLAN  
Vice-President – Operations

J. GAUDRY  
Vice-President – Sales and Marketing

B. C. JULIEN  
Vice-President – Corporate Relations

G. A. McCAMMON  
Vice-President – Finance

J. M. ROUSSEAU  
Vice-President, Secretary and General  
Counsel

Transfer Agents and Registrar:  
The Royal Trust Company  
Montr al, Toronto and Calgary

Auditors:  
Price Waterhouse & Co.  
Montr al

## Head Office

1940 Sun Life Building  
1155 Metcalfe Street  
Montr al, Qu bec, Canada H3B 2X6

## Subsidiary Companies:

ANCHOR HOLDINGS LIMITED  
(Incorporated under the laws of the  
Bahama Islands, 25 January 1962)

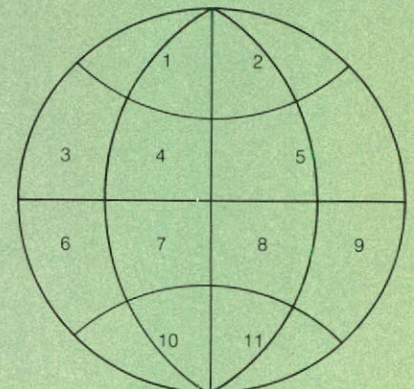
ASBESTOS CORPORATION GmbH  
(Incorporated under the laws of the  
Federal Republic of Germany, 4 July 1970)

MINOREX LIMITED  
(Incorporated under the laws of  
Canada, 19 March 1951)

- (1) – Member of the Executive Committee  
(2) – Member of the Audit Committee  
(3) – Member of the Compensation Committee

(December 31, 1979)

- Control panel at Beaver ore preparation & storage facilities – Thetford Mines.
- Asbestos-cement pipes which will supply water to an irrigation system being installed in Australia.
- Asbestos-cement sheets used in the construction of a hospital in Ipswich, Queensland, Australia.
- Asbestos-cement sheets with stained timber battens are featured in this Sydney, Australia residence.
- Asbestos fibre concentrate warehousing and ship loading facilities at Deception Bay, Ungava.
- Asbestos-cement low head irrigation pipes being installed in a scheme in Western New South Wales, Australia.
- Finished product is loaded for shipment at Asbestos Corporation GmbH dock facilities in Nordenham, Federal Republic of Germany.
- Asbestos-cement sheets featured in the construction of a Data Center in Manchester, N.Y., USA.
- Production miner opening up a stope at King-Beaver underground mine in Thetford Mines.
- Normandie complex container shipping facilities in Thetford Mines.
- Terminal at Auckland International Airport, New Zealand showing extensive use of custom moulded asbestos-cement as external cladding.



## To our Shareholders

Net income in 1979 was 13% higher than in 1978 and was the third highest in the history of Asbestos Corporation Limited (ACL). Revenue from sales was 17% higher than last year, setting a new record. This outstanding performance was accomplished in the face of rapidly rising costs and despite the time, effort and expense required to protect the interests of our shareholders threatened with the discriminatory expropriation of their assets by the Government of Québec.

On June 22, 1979, legislation was passed by the Québec National Assembly containing provisions which would enable the Government of Québec to expropriate some or all of the Company's assets. On December 13, 1979, the Québec Court of Appeal granted Asbestos Corporation's request for an interlocutory injunction, thereby preventing any expropriation action by Québec pending final determination by the courts of the constitutional questions raised in a suit filed by the Company in the Superior Court of Québec. Because this issue is so important, there is a report in a special section on page 5.

The growing demand for asbestos-cement grades of fibre (85% of ACL's production is suitable for asbestos-cement), the strong

financial position of the Company and our policy of continued reinvestment in the business place our Company in an excellent position for future growth.

### Net Income

Net income in 1979 was \$17,662,000 (\$6.22 per share), compared with \$15,651,000 (\$5.51 per share) in 1978.

Operating costs increased by \$18,844,000 (15%), due primarily to the cost of energy and general inflation. In addition, in 1978, Asbestos Hill, Nordenham and Thetford all had either operated on a reduced work week basis or experienced temporary shutdowns. Interest expense was \$920,000 higher and other income was \$1,008,000 less than in the previous year.

Even though results showed an improvement compared with last year, they were nonetheless adversely affected by the threatened expropriation of your Company. Revenues were and continue to be reduced as customers prefer to diversify their sources of supply as a hedge against the uncertainty of potential ownership by the Government. The full impact is difficult to quantify precisely, but it is substantial.



G. W. Fiske



M. E. Taschereau

<b>Year at a Glance</b>	<b>1979</b>	<b>1978</b>
Sales	<b>\$171,787,934</b>	\$147,086,707
Income before taxes	<b>22,975,652</b>	19,046,199
Provision for taxes on income	<b>5,314,000</b>	3,395,000
Income after taxes and extraordinary items	<b>17,661,652</b>	15,651,199
Earnings per common share	<b>6.22</b>	5.51
Reinvested in the business	<b>10,852,847</b>	8,842,394
Working capital at year-end	<b>70,209,197</b>	68,736,123
Depreciation and depletion	<b>10,305,519</b>	11,718,467
Total assets	<b>271,958,131</b>	259,333,688
Paid to employees during year	<b>61,275,709</b>	52,669,830
Number of employees at year-end	<b>2,331</b>	2,389
Number of common shareholders at year-end	<b>2,092</b>	2,150

## Financial Position

The Company's balance sheet at December 31, 1979 continues to reflect a strong financial position.

Funds generated from operations totalled \$30,660,000 in 1979. Additions to properties and mine development amounted to \$23,317,000, installments on long-term debt were \$2,746,000 and \$6,809,000 was paid out in dividends. Working capital increased by \$1,473,000 to \$70,209,000 (\$24.74 per share).

Short-term indebtedness was \$15.9 million at year-end, compared to \$17.2 million at the corresponding time last year. Asbestos fibre in inventory, valued at the lower of cost to produce or selling price, totalled \$22.8 million, compared with \$15.8 million last year. The ratio of current assets to current liabilities was 2.5:1 and long-term debt to equity ratio remains very healthy at 0.16:1.

## Sales and Markets

Revenue from sales increased to \$171,800,000, compared with the previous record of \$151,368,000 in 1976, and was 17% above last year.

Demand was firm for asbestos-cement grades of fibre throughout 1979. Asbestos Corporation increased fibre list prices by an average of 8% on January 1, 1979 and another 8% on July 1, 1979. The other Canadian producers did not follow our July 1st price increase despite the firm demand and the sharply rising costs faced by all producers.

In early 1980, the shortage of foreign exchange in some market areas and the potential worldwide slow-down due to economic conditions are resulting in a trend to lower customer inventories. Consequently, sales in the first half of 1980 are expected to be lower than in the same period last year.

Market research indicates that medium and long-term demand for asbestos-cement grades of fibre will continue to strengthen. There is no significant new tonnage of asbestos-cement grades scheduled

for production in the Western world during the next few years, while consumption is expected to increase. It is anticipated that Russian exports of fibre will not increase substantially from previous years because their internal consumption requirements are apparently growing. Consumption of asbestos-cement products is forecast to decrease slightly in the United States and Western Europe due to recessionary conditions and exaggerated environmental concerns, but this decrease will be more than offset by growing consumption in developing countries. The advantages of asbestos-cement pipe and sheet compared to the significantly higher energy-related costs of competitive products augur well for the future, despite balance of payment problems in a number of important market areas.

Overall sales forecasts for 1980 indicate continued improvement compared with 1979.

## Environmental Comments

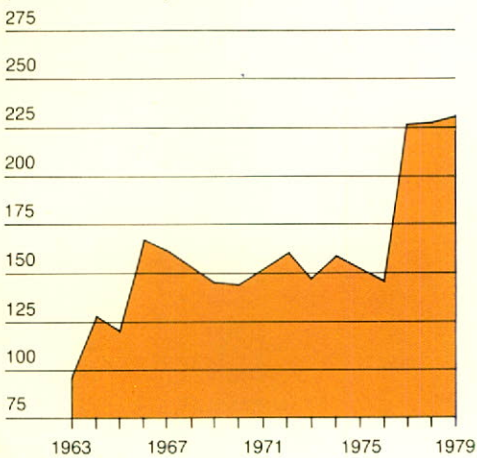
Asbestos has been in use for hundreds of years. Its special strength, flexibility, fire resistant, acid resistant and insulating qualities contribute immeasurably to worldwide public welfare. These qualities have never been equalled by synthetic or substitute products at an acceptable cost. Unquestionably, asbestos can be utilized in a perfectly safe manner if the proper control measures are undertaken.

ACL has spent \$30.4 million over the past several years to install the most modern technology, resulting in environmental conditions well within government requirements.

The latest medical evidence available shows that the measures applied almost universally by industry have reduced to a negligible level the incidence of asbestos-related health concerns. The main markets for ACL's fibre are in asbestos-cement products, where the asbestos fibre is locked in, and brake linings and pads, where the fibre is converted to an apparently harmless form. Asbestos fibre does not pose any known health risk if appropriate dust control measures are taken.

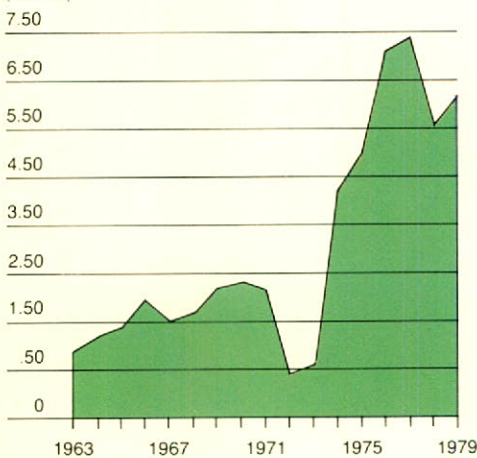
## Proven ore reserves

(millions of tons at year-end)



## Earnings per share

(dollars)



We are confident that legislative and regulatory bodies throughout the world, with the help of the medical and scientific communities, will continue to develop and implement the necessary controls for the use of asbestos that will protect the public. This will permit its uses and applications to grow, thereby providing the important advantages to society that only asbestos fibre can offer.

### Reinvestment in the Business

Your Company spent on capital and mine development a total of \$23.3 million in 1979. Approximately one-half was for completion of environmental control projects. Dust levels are well within government standards.

At Asbestos Hill, sufficient open pit ore was available to postpone the decision to proceed with the underground mine in 1979. Additional exploration and diamond

drilling to be completed in early 1980 may add to open pit reserves. The start-up of the underground mine is under active consideration.

Investment to further improve plant facilities, environmental conditions and productivity, plus the replacement and upgrading of equipment is continuing with the intent of extending the life of our orebodies, providing excellent working conditions and ensuring the long-term growth of ACL.

### Ore Reserves

Proven ore reserves at year-end were as follows:

	1979	1978
	(thousands of tons)	
King-Beaver mine	83,634	78,774
British Canadian mine	75,101	80,747
Normandie mine	31,638	31,638
Asbestos Hill	20,838	17,389
Others	17,920	17,920
	229,131	226,468

Approximately 10.8 million tons were mined in Thetford and Asbestos Hill in 1979. New proven ore reserves exceeded the tons mined by 2.7 million tons. In addition, probable and possible ore reserves exceed 240 million tons.

### Operations

A comparison of operating statistics during the last two years follows:

	1979	1978
	(tons)	
<b>Thetford</b>		
Rock mined	26,671,000	24,636,000
Ore crushed	9,209,000	8,308,000
Asbestos produced	219,600	213,400
<b>Asbestos Hill – Nordenham</b>		
Rock mined	7,102,000	6,594,000
Ore crushed	1,620,000	1,342,000
Ungraded fibre produced	262,800	218,200
Asbestos produced	92,000	71,700

### Distribution of Income Dollar 1979

(expressed as a percentage)

Wages, salaries and fringe benefits

Materials, supplies and services

Reinvested in the business

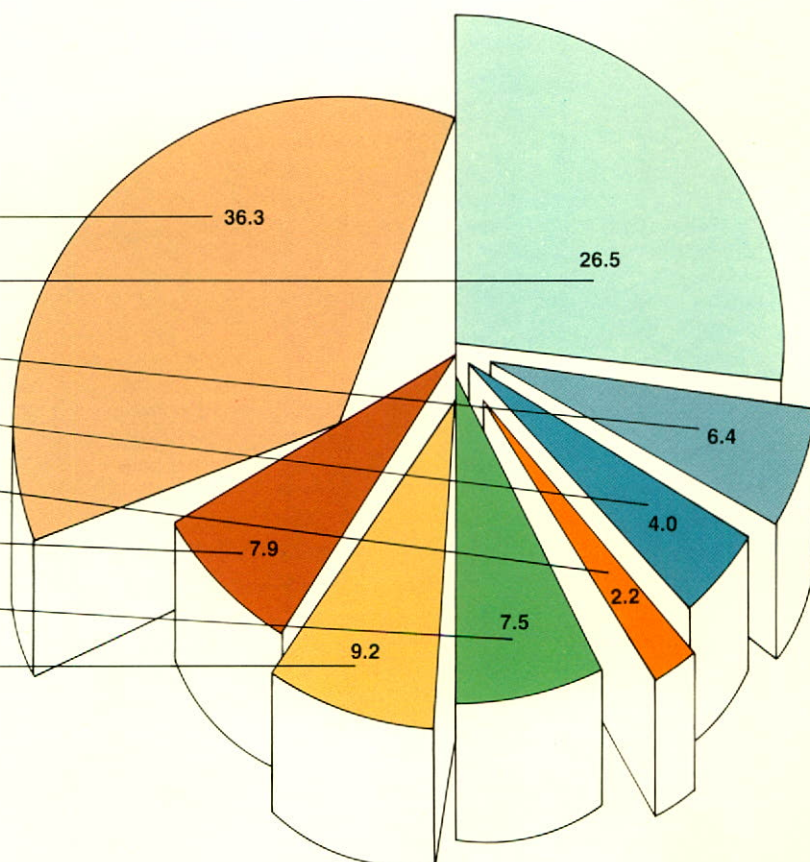
Dividends

Interest expense

Taxes and insurance

Depreciation, depletion and deferred development

Fuel and power



All mines and mills operated at capacity during the year. Mill equipment improvements resulted in a higher proportion of fibre production in the more valuable asbestos-cement grades.

An additional eleven-cubic yard shovel and five new 100-ton haulage trucks were put into service in the British Canadian open pit.

The Collective Agreements with Thetford Mines hourly-rated employees and syndicated staff expired on February 29, 1980. At the time of writing, negotiations were in progress.

### General

Annual dividends amounted to \$2.40 per share in 1979.

Minorex Limited, the exploration company wholly-owned by ACL and reactivated in 1977, increased the scope of its activities carrying out claim staking, geochemical and geophysical work, diamond drilling and joint ventures in mineral exploration in Canada, plus several international investigative projects. Follow-up work is continuing.

Mr. Jean Gaudry was appointed Vice-President – Sales and Marketing and an Officer of the Company in 1979. Mr. Gaudry joined ACL in 1977 following several years of international mineral sales experience with the Noranda Group.

We wish to record our appreciation to all employees for their contribution to the outstanding results in 1979. These were attained in a year of rising costs, negative publicity in the marketplace and the problems relating to the threat of expropriation by the Government of Québec.

G. W. Fiske  
Chairman

M. E. Taschereau  
President and Chief Executive Officer

Montréal, Québec  
March 1, 1980

Thetford Mines, Québec — one of six trucks, each of 110-ton capacity, transporting ore from the King-Beaver pit via a 900-foot rock tunnel to the Normandie mill.



## The Matter of Expropriation of Asbestos Corporation Limited by the Government of Québec

In October 1977, the Premier of Québec announced the Government's intention to acquire control of Asbestos Corporation either by acquiring General Dynamics' 54.6% majority interest in the Company or by expropriation. General Dynamics made it clear that it did not wish to dispose of its holdings in this valuable resource company but, as a matter of practicality, it would be willing to negotiate the matter with the Québec Government with the hope of finding a solution that could be satisfactory to the shareholders, the employees and the people of Québec.

In our Annual Report of 1978, the reasons why expropriation would work to the disadvantage of the Company, its shareholders and employees and the people of Québec, were presented. These same reasons still apply and it is not our intention to repeat them here, but rather to outline the legal situation as it now stands.

### The Legal Situation

On June 22, 1979, Bill 121 was passed by the National Assembly of Québec. Bill 121 contains provisions which would enable the Government of Québec to expropriate some or all of the Company's assets, both present and future, with the related employees and specifically its marketing organization, all for the account of the Société nationale de l'amiante, the Government company established by Bill 70, enacted May 25, 1978. Expropriation would be completed by mere service of notice and the indemnity would be fixed later by arbitration.

On the same day, June 22, Asbestos Corporation filed an action in the Superior Court of Québec to prevent the expropriation of the Company on the basis that Bills 121 and 70 are unconstitutional and beyond the legislative power of the National Assembly of Québec. The Company also requested the Superior Court to issue an interlocutory injunction which would prevent any expropriation action pending final determination by the courts of the questions raised by the action.

On June 27, 1979, the Superior Court issued a temporary injunction for a period of ten days. On July 25, 1979, after an eleven-day hearing, the

Superior Court declined to grant an interlocutory injunction on the ground that the request was premature. The Court found that there was not at that particular time any reason to believe that the Government would abuse its discretion and give a precipitate notice of expropriation. In other respects, the Court found that there were substantial questions of law to be determined and that the Company would be seriously prejudiced if, during the litigation, it was deprived of its property and the courts ultimately decided its action to be well founded.

The Superior Court decision that the request for an injunction was premature was appealed to the Québec Court of Appeal. This appeal was heard on October 30 and 31, 1979. On December 13, 1979, the Court granted the Company's request for an interlocutory injunction, thereby preventing any expropriation action of its assets by the Québec Government pending final determination by the courts of the action filed by the Company. The Court of Appeal found that there were substantial issues of discrimination and constitutional questions to be determined.

In early January 1980, Government lawyers advised the Chief Justice of the Superior Court of Québec that the injunction would be appealed to the Supreme Court of Canada. The Chief Justice of the Superior Court decided to delay the previously scheduled hearing of January 14, 1980 on the main action until the Supreme Court had decided the injunction issue. On January 17, 1980, the Québec Government reversed itself and announced that it would not appeal the injunction to the Supreme Court of Canada at that time. Instead, it plans to proceed with the main action before the Superior Court. Chief Justice Jules Deschênes of the Superior Court of Québec has scheduled the main action to be heard commencing April 14, 1980.

### Comments

Asbestos Corporation believes that Bill 70 and Bill 121 are discriminatory, unconstitutional and beyond the legislative powers of the National Assembly of Québec. ACL will continue to take appropriate action to defend all of its shareholders.

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## Thetford Mines

The Thetford Mines operations consist of three primary and secondary mills that are fed from four ore preparation and storage plants.

Three separate mining operations, Beaver pit, British Canadian pit and King underground supply ore to the plants at the rate of 30,500 tons per day. Daily mining rates are 31,000, 60,000 and 4,500 tons respectively. Beaver pit ore is beneficiated and transported over a seven-mile all-weather road to the Normandie mill. King underground ore is transported to the British Canadian plants with minor quantities shipped to the Normandie complex.

The Normandie plant has the capacity to mill in excess of 8,000 tons of rock per day, whereas the two British Canadian mills process in excess of 7,000 tons per day.

The orebodies mined are such that the mills produce predominantly asbestos-cement grades. Approximately 85% of our production falls in the 4, 5 and 6-group fibre categories.

All mills have the capability of producing 3-group and 7-group fibre as well. Strict quality control of all production enables us to supply high-quality grades to the various markets throughout the world.

The Thetford operations have a work force of 1,925 employees. All plants operate on a three-shift per day, six-day per week basis, producing in excess of 215,000 tons of finished fibre per year.

Proven ore reserves in the Thetford area are adequate to support operations for many years to come.

## Asbestos Hill-Nordenham

The Asbestos Hill mine and plant are located in the Ungava peninsula, 1,130 miles due north of Montreal and 300 miles north of the tree limit line. This operation consists of an open pit mine, an ore preparation and storage plant, and a primary mill that produces ungraded fibre.

The Asbestos Hill mining and milling site is connected by a 40-mile haulage road to the Deception Bay storage and ship loading facilities. Due to its arctic location, the Deception Bay harbour is only navigable during the months of August, September and October for ocean-going transport, and approximately 265,000 tons of ungraded fibre must be outloaded in these three months.

The Asbestos Hill-Deception Bay operation employs approximately 460 people during the peak production and shipping season. In excess of 1.5 million tons of ore is mined on a continuous basis during the 315 yearly operating days. The ore preparation plant and mill operate 300 days per year and produce approximately 265,000 tons of ungraded fibre.

The Asbestos Hill orebody is comprised basically of 4-group fibre. The mill is designed to produce a high-quality ungraded fibre that yields 35% asbestos when processed in the Nordenham mill.

Ungraded fibre is loaded into bulk carriers for shipment to our Nordenham finishing mill, which is located on the Weser River across from Bremerhaven, Federal Republic of Germany. Two ship unloaders work concurrently to unload the bulk carriers into a 250,000-ton ungraded fibre warehouse.

The Nordenham mill works on a three-shift per day, five-day per week operation, and has an average work force of 138 employees.

Our Nordenham finishing mill automatically reclaims the ungraded fibre and produces high-quality, high-strength asbestos-cement grades. The production from the Nordenham mill supplies asbestos-cement customers throughout Eastern and Western Europe, North Africa and the Middle East.

Residential, milling and maintenance complex located at the extraction site, Asbestos Hill, Ungava.










Ship unloading and loading facilities at Nordenham complex, Federal Republic of Germany.

Open pit wall scaling at Asbestos Hill, Ungava.





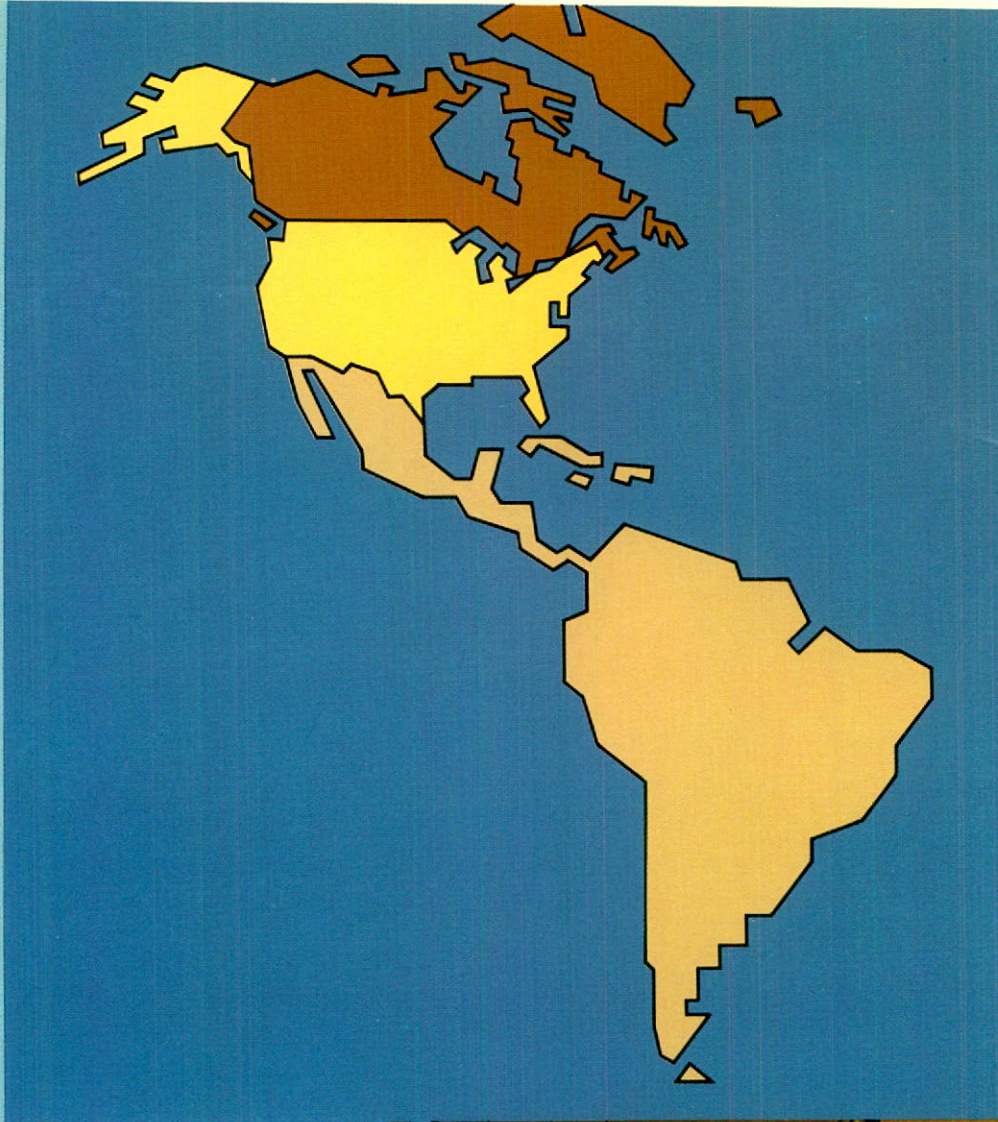
**Asbestos Corporation Limited**  
**WORLDWIDE SALES OF FIBRE 1979**

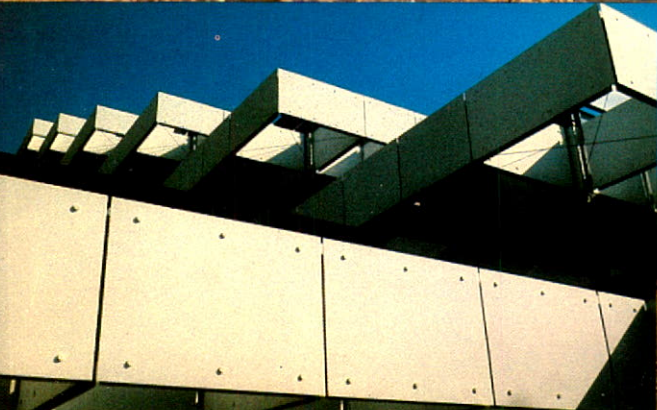
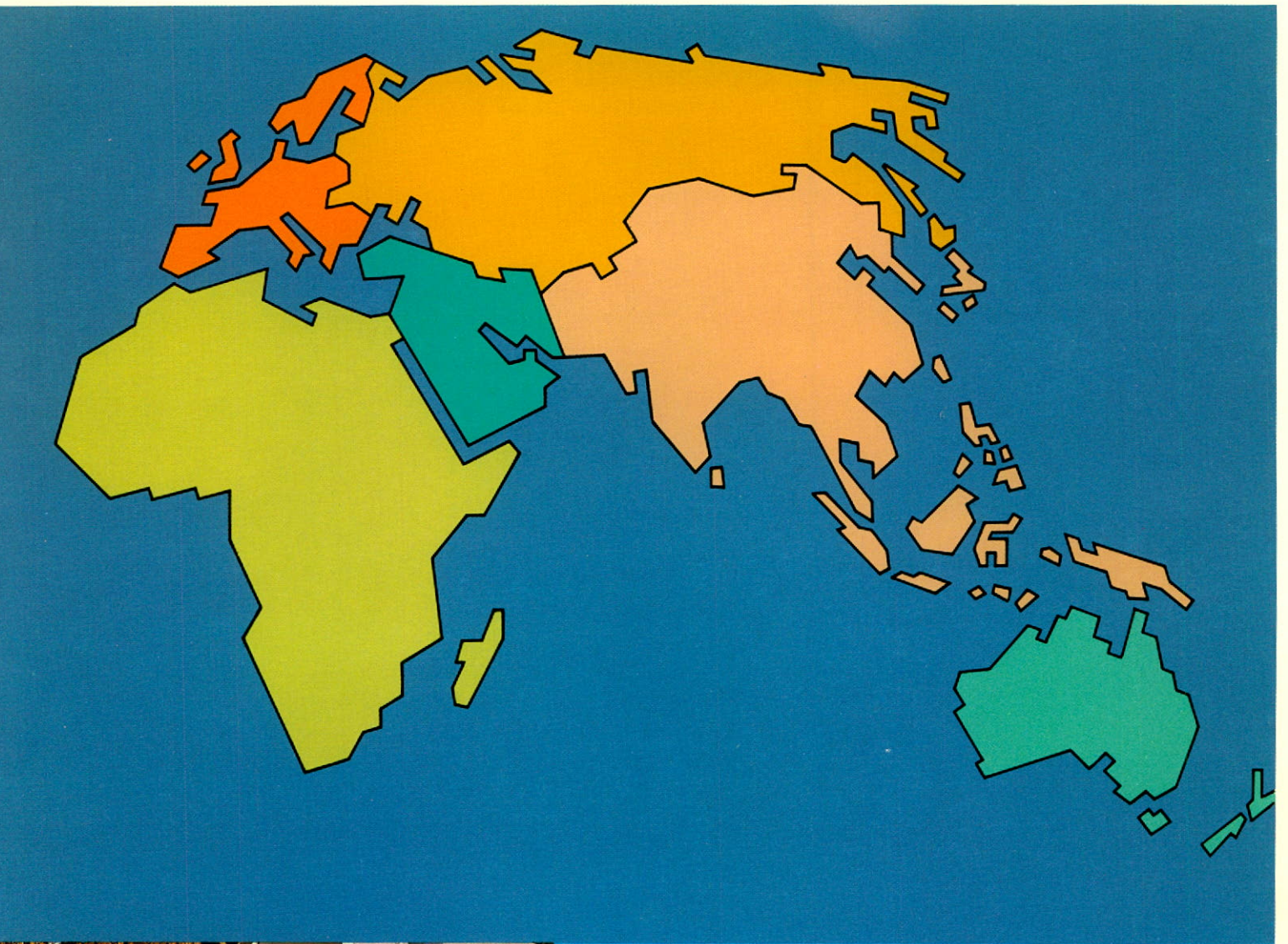
Percentage of total gross sales:		%
	WESTERN EUROPE	43.0
	COMECON	20.0
	ASIA	14.5
	LATIN AMERICA	11.5
	MIDDLE EAST	4.0
	UNITED STATES	3.0
	AFRICA	2.0
	OCEANIA	1.5
	CANADA (Quebec 0.4%)	0.5
		<b>100.0%</b>

**HELPING TO BUILD A BETTER WORLD**

The exceptional strength of the fibre produced by Asbestos Corporation Limited is recognized around the world principally in asbestos-cement applications. The comparatively low energy requirements in manufacturing asbestos-cement products provide an important competitive advantage to such end-products as large water and sewer pipes, roof tiles, external building panels and corrugated sheets which are used in all continents.

These applications are exemplified by the pictures appearing below showing the products in use in Europe, Japan, Australia, New Zealand and the U.S.A.





**Société Asbestos Limitée** and Subsidiary Companies  
**Asbestos Corporation Limited**

**Consolidated  
Balance Sheet**

ASSETS	December 31	
	1979	1978
<b>Current assets:</b>		
Cash	\$ 176,507	\$ 1,140,737
Accounts and bills receivable	39,923,582	48,876,282
Inventories (Note 2)	72,046,600	63,830,524
Prepaid taxes, insurance, etc.	4,476,647	2,732,092
	116,623,336	116,579,635
<b>Properties</b> , at cost less depreciation and depletion (Notes 3 and 4)	130,182,339	121,725,851
<b>Unamortized exploration and mine development</b> (Note 4)	24,252,826	20,056,706
<b>Other assets</b>	899,630	971,496
	<b>\$271,958,131</b>	<b>\$259,333,688</b>
 <b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Bank indebtedness	\$ 15,904,219	\$ 14,207,849
Accounts payable and accrued liabilities	22,921,544	26,926,978
Amounts due to affiliated companies	124,840	4,228,277
Income and other taxes	3,465,602	562,835
Installments due within one year on long-term debt (Note 5)	3,997,934	1,917,573
	46,414,139	47,843,512
<b>Long-term debt</b> (Note 5)	24,492,493	23,553,524
<b>Deferred income taxes</b>	43,744,000	41,482,000
<b>Shareholders' equity:</b>		
Capital stock —		
Preferred shares —		
Authorized and unissued —		
500,000 shares par value \$50 each issuable in series		
Common shares of no par value —		
Authorized — 3,600,000 shares		
Outstanding — 2,837,002 shares	33,311,682	33,311,682
Retained earnings (Note 6)	123,995,817	113,142,970
	157,307,499	146,454,652
	<b>\$271,958,131</b>	<b>\$259,333,688</b>
 <b>Approved by the Board:</b>		
G. W. Fiske, Director		
M. E. Taschereau, Director		

**Consolidated  
Statement of Income  
and Retained  
Earnings**

	<u>Year ended December 31</u>	
	<u>1979</u>	<u>1978</u>
Sales	<b>\$171,787,934</b>	\$147,086,707
Cost of sales, selling, general and administrative expenses	<b><u>146,451,360</u></b>	<u>127,607,191</u>
Operating profit before taking into account the undernoted items	<b>25,336,574</b>	19,479,516
Interest and other income	<b><u>1,422,914</u></b>	<u>2,431,012</u>
	<b>26,759,488</b>	21,910,528
Interest expense —		
Long-term debt	\$2,918,946	\$2,542,549
Other	<u>864,890</u>	<u>321,780</u>
	<b>3,783,836</b>	2,864,329
	<b><u>22,975,652</u></b>	<u>19,046,199</u>
Provision for income taxes	<b><u>5,314,000</u></b>	<u>3,395,000</u>
Net income (per share: 1979 — \$6.22; 1978 — \$5.51)	<b>17,661,652</b>	15,651,199
Retained earnings, January 1	<b><u>113,142,970</u></b>	<u>104,300,576</u>
	<b>130,804,622</b>	119,951,775
Dividends paid (per share \$2.40)	<b><u>6,808,805</u></b>	<u>6,808,805</u>
Retained earnings, December 31	<b><u><u>\$123,995,817</u></u></b>	<u><u>\$113,142,970</u></u>

**Société Asbestos Limitée**  
**Asbestos Corporation Limited** and Subsidiary Companies

**Consolidated  
Statement of  
Changes in  
Financial Position**

	Year ended December 31	
	<u>1979</u>	<u>1978</u>
<b>Source of funds:</b>		
Net income	<b>\$ 17,661,652</b>	\$ 15,651,199
Depreciation, depletion and amortization (Note 4)	<b>10,736,234</b>	12,202,180
Deferred income taxes	<b>2,262,000</b>	1,822,000
Funds from operations	<b>30,659,886</b>	29,675,379
Net increase in long-term debt	<b>3,684,593</b>	4,612,524
Transfer of income taxes from current to deferred	<b>—</b>	2,950,000
	<b>34,344,479</b>	37,237,903
<b>Application of funds:</b>		
Addition to properties and mine development	<b>23,316,976</b>	20,810,782
Installments due within one year on long-term debt (Note 5)	<b>2,745,624</b>	1,570,469
Dividends paid	<b>6,808,805</b>	6,808,805
	<b>32,871,405</b>	29,190,056
Increase in working capital	<b>1,473,074</b>	8,047,847
Working capital, January 1	<b>68,736,123</b>	60,688,276
Working capital, December 31	<b>\$ 70,209,197</b>	\$ 68,736,123

## Notes to Consolidated Financial Statements

December 31, 1979

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Principles of consolidation —

The consolidated financial statements include the accounts of the Company and subsidiaries, all of which are wholly-owned. All inter-company items and transactions are eliminated on consolidation.

#### Translation of foreign currencies —

Asset and liability accounts in currencies other than Canadian are translated into Canadian dollars at year-end rates of exchange except that certain inventories, fixed assets (and related depreciation) and long-term debt are at rates prevailing at dates of production, acquisition or borrowing. Income and expense accounts, except certain inventories and depreciation, are translated at average rates prevailing during the year. A net exchange loss in 1979 of \$132,476 has been charged to income (1978 — a loss of \$2,163,955).

#### Inventories —

Asbestos and ungraded fibre are stated at the lower of cost and estimated net realizable value; supplies are stated at cost.

#### Properties —

Properties including mine development expenditures are stated at cost less applicable depreciation, depletion and amortization. The provisions for depletion of mineral areas and amortization of mine development expenditures are calculated so as to write off the cost of the assets on the unit-of-production method based on the recoverable ore as estimated by Company management. The provision for depreciation of plant and equipment, including assets under capital leases, roads and marine structures is calculated on a straight-line basis over a period which is the shorter of the estimated useful life of the asset or of the related orebody.

#### Income taxes —

Provision is made for deferred income taxes resulting from deducting certain expense items for tax purposes (principally depreciation and mine development expenditure) in periods different from those used for financial reporting and the deferral of taxes in respect of gains on disposal of fixed assets. Investment tax credits reduce income taxes as realized.

### 2. INVENTORIES:

	1979	1978
Asbestos	\$ 22,783,364	\$ 15,755,698
Ungraded asbestos fibre	29,250,199	32,014,962
Supplies	20,013,037	16,059,864
	<u>\$ 72,046,600</u>	<u>\$ 63,830,524</u>

### 3. PROPERTIES, AT COST LESS DEPRECIATION AND DEPLETION:

	1979	1978
Thetford Mines, Québec —		
Land and mineral areas	\$ 10,014,062	\$ 10,014,062
Less: Accumulated depletion	7,690,145	7,158,045
	<u>2,323,917</u>	<u>2,856,017</u>
Plant and equipment	99,685,385*	84,641,787
Less: Accumulated depreciation	48,542,645	45,928,014
	<u>51,142,740</u>	<u>38,713,773</u>
	<u>53,466,657</u>	41,569,790
Ungava, Québec —		
Mining leases and exploration costs	13,717,000	13,717,000
Less: Accumulated depletion	3,979,687	3,355,020
	<u>9,737,313</u>	<u>10,361,980</u>
Plant and equipment, roads and marine structures	80,530,027	78,549,369
Less: Accumulated depreciation	27,586,555	23,620,366
	<u>52,943,472</u>	<u>54,929,003</u>
Less: Credit arising on exchange of common shares for mining leases	2,088,699	2,088,699
	<u>60,592,086</u>	63,202,284
Nordenham, West Germany —		
Plant and equipment and marine structures	25,332,939	24,791,860
Less: Accumulated depreciation	9,648,453	8,277,193
	<u>15,684,486</u>	16,514,667
Land	439,110	439,110
	<u>16,123,596</u>	16,953,777
	<u>\$130,182,339</u>	<u>\$121,725,851</u>

\*Includes equipment of \$3,792,804 acquired under capital leases.

4. DEPRECIATION, DEPLETION AND AMORTIZATION:

	<u>1979</u>	<u>1978</u>
Provision for depreciation	\$ 9,148,752	\$ 10,521,241
Provision for depletion	1,156,767	1,197,226
Amortization of exploration and mine development	430,715	483,713
	<u>\$ 10,736,234</u>	<u>\$ 12,202,180</u>

5. LONG-TERM DEBT:

	<u>1979</u>	<u>1978</u>
9¾% Sinking fund debentures Series A maturing July 15, 1990. Annual sinking fund requirements are \$1,000,000. Debentures in the face amount of \$1,112,000 have been purchased in anticipation of requirements	\$ 12,888,000	\$ 12,888,000
Secured bank loans under credit agreements for West German DM 23,475,000 due DM 3,425,000 through 1986 at various rates of interest ranging annually from 5½% to 9½%	7,304,528*	7,623,469
Balance of special Workmen's Compensation assessment payable annually with interest at 8% through 1982	3,360,996	4,612,524
Obligation under capital leases payable \$657,217 annually including interest at 9.3% through 1987	3,684,593	—
	<u>27,238,117</u>	<u>25,123,993</u>
Less: Installments due within one year included in current liabilities (equivalent, after conversion of German portion at year-end rate of exchange, to \$3,997,934; 1978 — \$1,917,573)	2,745,624	1,570,469
	<u>\$ 24,492,493</u>	<u>\$ 23,553,524</u>

\*The Canadian dollar equivalent has been expressed at the exchange rate prevailing at the dates of borrowing. If translated at the exchange rate prevailing at December 31, 1979, the Canadian dollar equivalent of this debt, after deducting the installment due in 1980, would be increased by \$7,331,042.

6. DIVIDEND RESTRICTIONS:

Pursuant to certain provisions of the trust agreement relating to the 9¾% sinking fund debentures \$35,436,436 of the retained earnings of \$123,995,817 at December 31, 1979 is not available for the payment of cash dividends on the common shares.

7. REMUNERATION OF DIRECTORS AND OFFICERS:

During 1979, ten persons were directors of the Company, of whom four were also officers; their remuneration as directors was \$51,704 (1978 — \$53,030).

During 1979, ten persons were officers of the Company; their remuneration as officers, as well as that of two former officers, amounted to \$544,332 (1978 — \$567,769).

8. LITIGATION:

Numerous actions have been filed in the United States by employees or former employees of users of asbestos against suppliers of asbestos fibre and asbestos products, claiming impaired health as a result of long-term exposure to asbestos fibre. The Company is named as a defendant in some of these cases along with numerous other suppliers of asbestos fibre and manufacturers of asbestos products. The Company denies all liability in these actions. Most are still in their early stages and all are being vigorously contested. Although the damages sought in these cases aggregate to very large amounts, insurance is available to cover a substantial portion of whatever amounts, if any, might ultimately be assessed by judgment against the Company.

9. PENSIONS:

The unfunded past service liability under the Company's pension plans as at December 31, 1979 is estimated to be \$9,455,000. The Company intends to pay and to charge operations with the foregoing amount over a period which will not extend beyond the year 1993 as permitted by applicable legislation.

10. POSSIBLE EXPROPRIATION OF THE COMPANY'S PROPERTIES:

On October 21, 1977, the Government of Québec announced its intention to acquire control of the Company, initially through the purchase of General Dynamics Corporation's 54.6% shareholding and subsequently, through the acquisition of all other shares. Since this announcement separate studies were commissioned by the Government and General Dynamics to value the shares of the Company. The conclusions reached in these studies differ substantially.

On September 21, 1979, a formal offer of \$42 per share was made to General Dynamics for its shares. General Dynamics' Board of Directors unanimously rejected this offer.



On June 22, 1979, the National Assembly of Québec passed Bill 121 which contains provisions which would enable the Government of Québec to expropriate some or all of the Company's assets for the account of the Société nationale de l'amiante, the Government company previously established by Bill 70. On the same day the Company filed suit in the Superior Court of the Province of Québec asking that Bill 121 and Bill 70 be declared null on the basis that they are unconstitutional and beyond the legislative power of the National Assembly of Québec. This suit is scheduled to be heard beginning on April 14, 1980. Any action to expropriate before the final determination by the courts of the validity of the legislation is prevented by an interlocutory injunction issued on December 13, 1979 by the Québec Court of Appeal.

In the event that (1) the legislation be declared valid, (2) the Government proceed with expropriation and (3) the Company and the Government are unable to agree on the indemnity payable, it will be fixed by a board of arbitration composed of three members. One member of the board will be appointed by the Société nationale de l'amiante (the company organized by the Government to own and operate its interest in the asbestos industry), another by the Company and the third, who will be chairman, will be appointed by the Government on the joint recommendation of the other two members; he will be chosen from among the judges of the Provincial Court or of the Court of the Sessions of the Peace sitting on the Expropriation Tribunal. Bill 121 provides that the indemnity will be computed "according to the fair market value of the property established in relation to its continued operation at the time the Société became the owner thereof".

The Company believes that any amount received for its properties should and must be significantly in excess of the book values set forth in the Company's balance sheet and that the present threat of expropriation, if realized, should not result in any impairment of its overall consolidated financial position. The Company's opinion is based, among other things, upon the following factors:

1. The present fair value of its fixed assets is approximately double the depreciated cost shown in the accompanying balance sheet;
2. The low book value at which its proven and developed orebodies are shown in the accounts (approximately 15 cents per ton);
3. The value of its on-going organization, including expertise in general management, operations, mining engineering, sales, finance, etc.;
4. The Company's studies which show that tax reserves presently provided are adequate for any taxes that might be required if an amount equivalent to the book values set forth on its balance sheet was received.

## Auditors' Report

To the Shareholders of  
Société Asbestos Limitée —  
Asbestos Corporation Limited:

January 28, 1980

We have examined the consolidated balance sheet of Société Asbestos Limitée — Asbestos Corporation Limited as at December 31, 1979 and the consolidated statements of income and 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, 1979 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.

*Price Waterhouse & Co.*

Chartered Accountants

**Société Asbestos Limitée** and Subsidiary Companies  
**Asbestos Corporation Limited**

**10 Year Summary**

	1979	1978	1977
Sales	<b>\$171,787,934</b>	\$147,086,707	\$145,344,178
Income before taxes	<b>22,975,652</b>	19,046,199	38,413,146
Provision for taxes on income	<b>5,314,000</b>	3,395,000	17,392,000
Income after taxes and extraordinary items	<b>17,661,652</b>	15,651,199	21,021,146
Earnings per common share (assuming conversion of preferred stock)	<b>6.22</b>	5.51	7.40
Dividends paid per common share	<b>2.40</b>	2.40	1.60
Paid to shareholders as dividends — common shares	<b>6,808,805</b>	6,808,805	4,539,203
Re-invested in the business	<b>10,852,847</b>	8,842,394	16,481,943
Depreciation and depletion	<b>10,305,519</b>	11,718,467	10,882,413
Total assets	<b>271,958,131</b>	259,333,688	228,676,080
Paid to employees during the year	<b>61,275,709</b>	52,669,830	48,828,086
Number of employees at year-end	<b>2,331</b>	2,389	2,351
Number of common shareholders at year-end	<b>2,092</b>	2,150	2,280

1976	1975	1974	1973	1972	1971	1970
\$151,368,425	\$ 84,834,412	\$108,475,180	\$ 66,209,138	\$ 49,520,868	\$ 52,320,410	\$ 53,583,354
40,210,069	14,334,367	21,142,229	1,381,177	2,117,088	9,954,514	10,604,915
19,788,000	6,720,000	9,635,197	650,000	741,000	3,748,000	4,190,000
20,422,069	14,239,332	11,850,032	1,706,177	1,376,088	6,156,514	6,414,915
7.19	5.01	4.17	0.60	0.48	2.17	2.26
1.25	—	—	—	0.45	1.00	1.00
3,546,253	—	—	—	1,276,651	2,837,002	2,837,002
17,585,067	13,530,081	11,850,032	1,706,177	99,437	3,319,512	3,577,913
9,888,337	9,037,205	8,830,533	7,377,183	4,605,383	3,337,666	3,140,260
220,093,010	191,679,639	176,575,127	166,313,282	162,074,401	143,580,262	115,159,867
41,230,700	23,899,250	31,187,968	26,421,565	22,889,982	20,586,137	19,083,867
2,268	2,113	1,798	2,421	2,386	2,324	2,343
2,640	2,948	3,307	3,549	3,794	3,973	4,507

**ASBESTOS**

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a better world