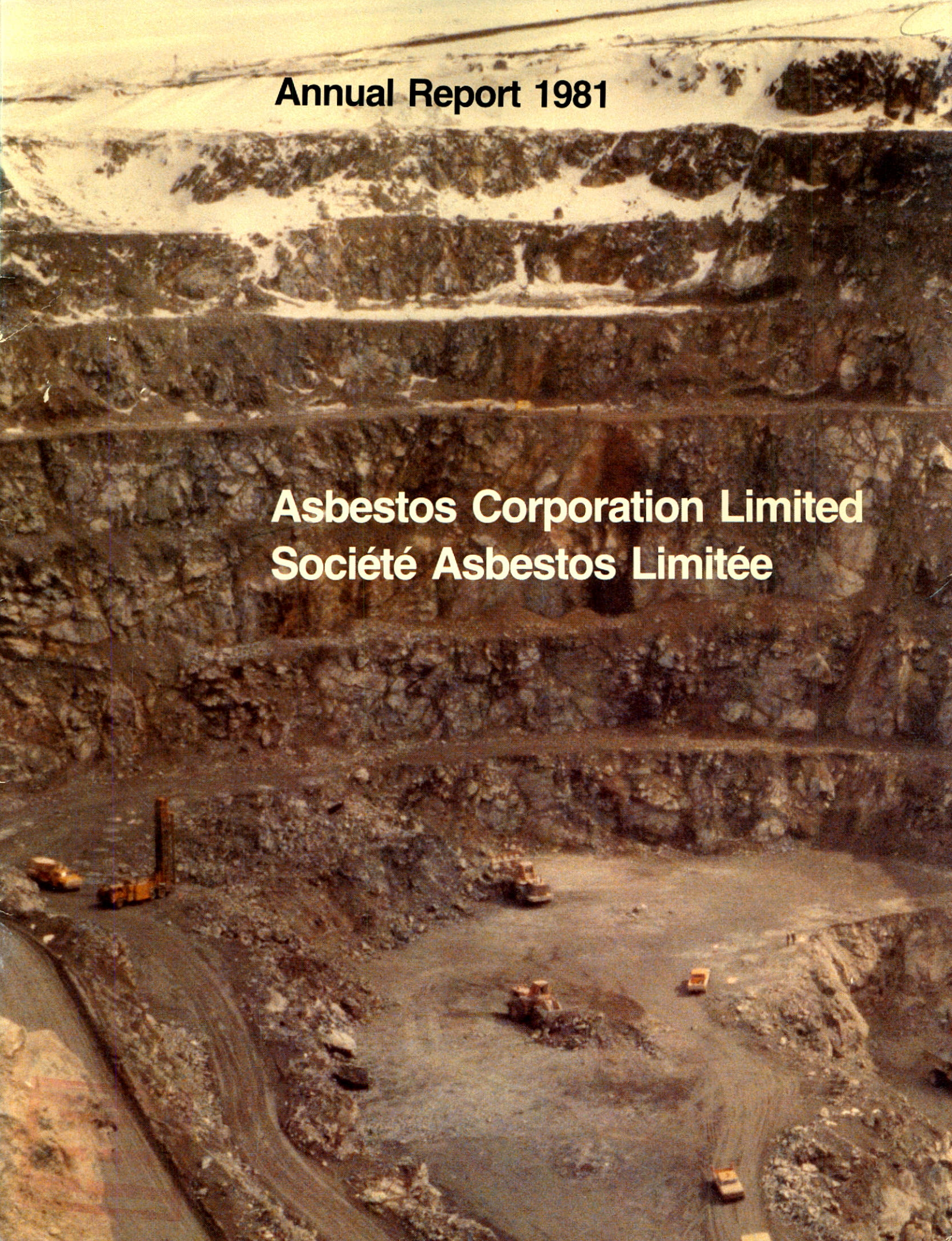


Annual Report 1981

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



COVER:
Open pit at Asbestos Hill,
Ungava



ASBESTOS

To our Shareholders:

The year 1981 was not an easy one for the asbestos industry and Asbestos Corporation Limited. The continuing world recession, the lack of foreign currencies in the Comecon countries, high interest rates and environment concerns reduced the demand for asbestos and asbestos-based products. The drop in demand and the resulting price erosion coupled with increased costs of operations and borrowing resulted in a loss of \$1,372,000 for the year. This is the first loss Asbestos Corporation has sustained since 1934.

During the year, aggressive action was continued to recover markets, reduce costs and inventories. Operations were curtailed at all locations, staff was reduced and only those capital expenditures necessary to maintain operations at their current levels were incurred.

The outlook for 1982 is not bright as we do not foresee any substantial improvement in overall demand and prices, or significant reduction in inflationary pressures and interest rates. Intensive efforts to continue reducing costs, improving productivity and restructuring the Corporation to meet the changing conditions are underway. Although the financial position of the Corporation is sound, it must be improved and also our ability to meet the many problems facing the industry.

Sales and Markets

Revenue from sales was \$122,952,000 compared with

\$114,400,000 in 1980. The increase in sales revenue occurred entirely in the first half of the year when sales were \$17,042,000 ahead of the previous year during which Thetford operations were on strike for three months.

As demand continued to decline steadily throughout the year, it became necessary to adjust selling prices with the result that revenues were lower in the second half of the year.

In 1981, western world demand for asbestos declined by an estimated 10% over 1980 and approximately 28% over 1979. Despite the drop in demand, ACL was able to improve its market share in 1981. Demand will not recover until the building industry picks up, in particular in the developing countries.

All asbestos producers of the western world built up large inventories of unsold fibres throughout the year. This added to the increasing competition between suppliers and precluded a price increase at the end of 1981.

Financial Results

A loss of \$1,372,000 (\$0.48 per share) was incurred in 1981 compared with a net income of \$2,528,000 (\$0.89 per share) in 1980.

Revenues of \$122,952,000 in 1981 were 7.5% higher than in 1980, mainly as a result of an increase in volume. Sales to the Middle East, Latin America and

Africa improved substantially while those to the Comecon countries declined drastically. Sales to other areas varied slightly from those realized in 1980.

Operating costs were \$12,867,000, or 11.8% higher than in 1980, mainly due to escalating wage and material costs and the increase in sales. As fibre prices were soft and costs increased, operating profits declined by \$4,316,000 to \$928,000. Interest and other income and exchange gains at \$5,374,000 were slightly ahead of the \$5,184,000 recorded in 1980 but interest costs of \$12,779,000 were up by \$5,080,000 due to higher interest rates and a small increase in borrowings. The provision for income tax recovery resulting from the loss is high as certain foreign exchange gains are not taxable.

Financial Position

Funds from operations were \$2,925,000 in 1981. Additions to properties and mine development were \$2,931,000 and long-term debt was reduced by \$2,325,000. Working capital decreased by \$2,331,000 to \$63,583,000 (\$22.41 per share).

Short-term debt at year-end was \$68,390,000 and long-term debt, including installments due within one year, was reduced by \$1,995,000 to \$22,545,000 with a long-term debt to equity ratio of 0.15 to 1. Asbestos and ungraded fibre inventories were reduced from \$87,740,000 to \$84,490,000.

Ore Reserves

Proven ore reserves at year-end were as follows:

	<u>1981</u>	<u>1980</u>
	(thousands of tons)	
King Beaver Mine	86,725	83,972
British Canadian Mine	69,717	71,937
Normandie Mine	37,379	31,639
Asbestos Hill Mine	14,593	15,683
Others	<u>17,920</u>	<u>17,920</u>
Total	<u>226,334</u>	<u>221,151</u>

Approximately 6.6 million tons of ore were mined at Thetford and Asbestos Hill in 1981. Detailed mine planning and minor diamond drilling programs permitted the reclassification of approximately 11 million tons of probable ore to the category of proven ore.

In addition to the proven ore reserves, there are probable and possible ore reserves of approximately 244 million tons.

Operations

Operating statistics for the years 1980 and 1981 are as follows:

	<u>1981</u>	<u>1980</u>
	(tons)	
Thetford Mines		
Rock mined	17,220,000	22,315,000
Ore crushed	5,377,000	6,839,000
Asbestos produced	125,100	158,200
Asbestos Hill-Nordenham		
Rock mined	1,457,000	6,765,000
Ore crushed	444,000	1,748,000
Ungraded fibre produced	95,600	286,200
Asbestos produced	45,900	82,000

Due to high fibre inventories and reduced demand, Thetford operations were shut down for varying periods throughout 1981. All operations remained on a five-day, three-shift schedule.

Asbestos Hill operations were reduced to ore mining only in conjunction with an abbreviated mill operating period. The Nordenham mill continued on a short work schedule through the year. Reductions in head office staff were also effected.

Environment

Over the past several years, ACL has invested more than \$35 million installing the latest environmental control technology in its plants with the result that ACL meets or is below the norms imposed under various government regulations.

Concern over the impact of asbestos on the environment and health of the workers has intensified over the last decade and a great deal of scientific research has been undertaken. In May 1982, a world symposium on asbestos, sponsored by the Government of Canada, the Government of Québec and the Commission of the European Communities, will be held in Montréal.

Acquisition of Control of ACL

On November 9, 1981, the Government of Québec and General Dynamics Corporation announced that they had entered into an agreement whereby the Société nationale de l'amiante ("SNA"), the company set up by the Government of Québec to own and operate the Government's interests in the asbestos industry, would acquire a majority of the voting shares in General Dynamics Corporation (Canada) Limited ("GD Canada"), the company which

holds 54.6% of the shares of Asbestos Corporation Limited.

On February 12, 1982, the transfer in voting control in GD Canada was effected and the name of this corporation changed to Mines SNA Inc.

General

In view of the difficulties experienced in 1981, no dividend was declared.

In 1982, subsequent to the acquisition of a controlling interest in GD Canada by the Société nationale de l'amiante, Messrs. B. Cartier, M. Dorais, D. Perlstein and C. Tremblay were appointed to the Board. Mr. D. Perlstein was appointed Chairman of the Board and Mr. M. Dorais, President and Chief Executive Officer.

We wish to express to our employees, who were faced with serious and complex problems in 1981, our appreciation for their sustained and dedicated efforts on the Corporation's behalf. Their efforts have helped to maintain ACL in a strong competitive position. We have the resources to meet the challenges of 1982 and take advantage of the market recovery that lies ahead.

D. Perlstein
Chairman

M. Dorais
President and Chief Executive Officer

Montréal, Québec
May 5, 1982

Asbestos Corporation Limited Société Asbestos Limitée

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

Directors

P.-E. AUGER, Eng., Ph. D. ^{(1) (3)}
Consultant Geologist
Québec

B. CARTIER ⁽²⁾
Secretary and Administrative Director
Société nationale de l'amiante
Thetford Mines

M. DORAIS ⁽³⁾
President and Chief Executive Officer
Thetford Mines

R. A. DUGRÉ ^{(1) (2) (3)}
General Director
École de technologie supérieure
Montréal

G. A. McCAMMON ⁽³⁾
Vice-President, Finance
Montréal

D. PERLSTEIN ^{(2) (3)}
President and General Manager
Société nationale de l'amiante
Québec

C. TREMBLAY ⁽¹⁾
Vice-President, Finance and
Planning
Société nationale de l'amiante
Québec

Executive Officers

D. PERLSTEIN
Chairman

M. DORAIS
President and Chief Executive Officer

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

J. GAUDRY
Vice-President, Assistant to the President

B. C. JULIEN
Vice-President, Assistant to the President

G. A. McCAMMON
Vice-President, Finance

D. POUTIATINE
Vice-President, Sales

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

Head Office

1940 Sun Life Building
1155 Metcalfe Street
Montréal, Québec, 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)

Transfer Agents and Registrar

The Royal Trust Company
Montréal, Toronto and Calgary

Auditors

Price Waterhouse
Montréal

(1) — Member of the Finance and
Audit Committee

(2) — Member of the Compensation Committee

(3) — Member of the Pension Committee

(May 5, 1982)

Société Asbestos Limitée
Asbestos Corporation Limited and Subsidiary Companies

**Consolidated
Balance Sheet**

ASSETS

December 31

1981

1980

Current assets:

Cash	\$ 1,870,466	\$ 310,115
Accounts and bills receivable (Note 2)	35,381,878	33,490,466
Income taxes recoverable	2,470,732	—
Inventories (Notes 2 and 3)	107,887,108	109,640,482
Prepaid taxes, insurance, etc.	5,336,417	8,437,224
	<u>152,946,601</u>	<u>151,878,287</u>

Properties, at cost less depreciation and depletion (Notes 4 and 5)

121,069,725 127,853,143

Unamortized exploration and mine development (Note 5)

27,959,674 28,277,200

Other assets

705,855 757,743

\$302,681,855 \$308,766,373

LIABILITIES

Current liabilities:

Bank indebtedness (Note 2)	\$ 68,390,020	\$ 61,352,495
Accounts payable and accrued liabilities	15,888,385	17,090,773
Amount due to an affiliated company	25,999	53,569
Income and other taxes	200,250	2,678,905
Installments due within one year on long-term debt (Note 6)	4,858,525	4,788,134
	<u>89,363,179</u>	<u>85,963,876</u>

Long-term debt (Note 6)

18,433,183 20,758,465

Deferred income taxes

39,826,875 45,613,000

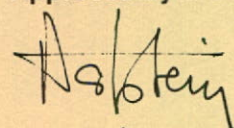
Shareholders' equity:

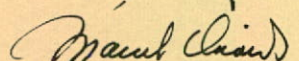
Capital stock —		
Preferred shares —		
Authorized and unissued —		
unlimited shares of no par value		
issuable in series		
Common shares —		
Authorized — unlimited shares of		
no par value		
Outstanding — 2,837,002 shares	33,311,682	33,311,682
Retained earnings (Note 7)	121,746,936	123,119,350
	<u>155,058,618</u>	<u>156,431,032</u>

Contingency (Note 11)

\$302,681,855 \$308,766,373

Approved by the Board:

 , Director

 , Director

**Consolidated
Statement of Income
and Retained
Earnings**

	Year ended December 31	
	1981	1980 (Note 12)
Sales	\$122,951,763	\$114,400,076
Cost of sales, selling, general and administrative expenses	<u>122,024,229</u>	<u>109,156,767</u>
Operating profit before taking into account the undernoted items	927,534	5,243,309
Interest and other income	1,004,527	809,979
Exchange gain	<u>4,369,715</u>	<u>4,374,018</u>
	6,301,776	10,427,306
Interest expense —		
Long-term debt	\$ 2,732,100	\$3,022,921
Short-term debt	<u>10,047,090</u>	<u>4,676,450</u>
	(6,477,414)	2,727,935
Income taxes (Note 8)	<u>(5,105,000)</u>	<u>200,000</u>
Net (loss) income (per share: 1981 — \$(0.48); 1980 — \$0.89)	(1,372,414)	2,527,935
Retained earnings, January 1	<u>123,119,350</u>	<u>123,995,817</u>
	121,746,936	126,523,752
Dividends paid (per share: 1981 — nil; 1980 — \$1.20)	—	3,404,402
Retained earnings, December 31	<u>\$121,746,936</u>	<u>\$123,119,350</u>

**Consolidated
Statement of
Changes in
Financial Position**

	Year ended December 31	
	1981	1980
Source of funds:		
Net (loss) income	\$ (1,372,414)	\$ 2,527,935
Depreciation, depletion and amortization (Note 5)	10,083,765	11,144,330
Deferred income taxes	<u>(5,786,125)</u>	<u>1,869,000</u>
Funds from operations	2,925,226	15,541,265
Net increase in long-term debt	<u>1,786,120</u>	<u>47,026</u>
	4,711,346	15,588,291
Application of funds:		
Addition to properties and mine development	2,930,933	12,697,621
Installments due within one year on long-term debt (Note 6)	4,111,402	3,781,054
Dividends paid	—	3,404,402
	7,042,335	19,883,077
Decrease in working capital	2,330,989	4,294,786
Working capital, January 1	<u>65,914,411</u>	<u>70,209,197</u>
Working capital, December 31	<u>\$ 63,583,422</u>	<u>\$ 65,914,411</u>

Société Asbestos Limitée and Subsidiary Companies Asbestos Corporation Limited

Notes to Consolidated Financial Statements

December 31, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation —

The consolidated financial statements include the accounts of the Corporation and subsidiaries, all of which are wholly-owned. All intercompany 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.

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 Corporation 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 expenditures) in periods different from those used for financial reporting and the deferral of taxes in respect of gains on disposal of fixed assets. The potential tax benefits associated with losses incurred and investment tax credits are not reflected in earnings in the year they arise, unless there is virtual certainty that they will be realized.

2. BANK INDEBTEDNESS:

The accounts receivable and fibre inventories of the Corporation's German subsidiary have been pledged as collateral against German bank indebtedness of DM 12,200,000 (equivalent to \$6,457,500 at year-end rate of exchange).

3. INVENTORIES:

	1981	1980
Asbestos	\$ 48,401,337	\$ 53,160,699
Ungraded asbestos fibre	36,088,872	34,578,830
Supplies	23,396,899	21,900,953
	<u>\$107,887,108</u>	<u>\$109,640,482</u>

4. PROPERTIES, AT COST LESS DEPRECIATION AND DEPLETION:

	1981	1980
Thetford Mines, Québec —		
Land and mineral areas	\$ 10,089,260	\$ 10,089,260
Less: Accumulated depletion	7,950,815	7,825,815
	<u>2,138,445</u>	<u>2,263,445</u>
Plant and equipment	107,271,969*	105,069,860
Less: Accumulated depreciation	55,169,167	51,881,581
	<u>52,102,802</u>	<u>53,188,279</u>
	<u>54,241,247</u>	55,451,724
Ungava, Québec —		
Mining leases and exploration costs	13,717,000	13,717,000
Less: Accumulated depletion	5,127,542	4,628,857
	<u>8,589,458</u>	<u>9,088,143</u>
Plant and equipment, roads and marine structures	82,644,758	82,436,456
Less: Accumulated depreciation	36,383,001	32,461,283
	<u>46,261,757</u>	<u>49,975,173</u>
Less: Credit arising on exchange of common shares for mining leases	2,088,699	2,088,699
	<u>52,762,516</u>	56,974,617
Nordenham, West Germany —		
Plant and equipment and marine structures	25,992,229	25,952,969
Less: Accumulated depreciation	12,463,978	11,063,878
	<u>13,528,251</u>	<u>14,889,091</u>
Land	537,711	537,711
	<u>14,065,962</u>	<u>15,426,802</u>
	<u>\$121,069,725</u>	<u>\$127,853,143</u>

*Includes equipment of \$4,697,074 acquired under capital leases (1980 — \$3,845,631).

5. DEPRECIATION, DEPLETION AND AMORTIZATION:

	<u>1981</u>	<u>1980</u>
Provision for depreciation	\$ 9,112,474	\$ 10,044,777
Provision for depletion	623,684	784,841
Amortization of exploration and mine development	<u>347,607</u>	<u>314,712</u>
	<u>\$ 10,083,765</u>	<u>\$ 11,144,330</u>

6. LONG-TERM DEBT:

	<u>1981</u>	<u>1980</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 \$35,000 have been purchased in anticipation of requirements	\$ 11,965,000	\$ 12,888,000
Secured bank loans under credit agreements for West German DM 16,625,000 due DM 3,425,000 through 1986 at various rates of interest ranging annually from 10.25% to 13.85%	5,173,068*	6,238,798
Obligation under capital leases payable \$882,176 annually including interest at 10.45% through 1987	3,829,953	3,403,374
Balance of special assessment of the Commission de la santé et de la sécurité du travail payable annually with interest at 8% through 1982	<u>1,576,564</u>	<u>2,009,347</u>
	<u>22,544,585</u>	<u>24,539,519</u>
Less: Installments due within one year included in current liabilities equivalent after conversion of German portion at year-end rate of exchange, to \$4,858,525 (1980 — \$4,788,134)	<u>4,111,402</u>	<u>3,781,054</u>
	<u>\$ 18,433,183</u>	<u>\$ 20,758,465</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, 1981 the Canadian dollar equivalent of this debt, after deducting the installment due in 1982, would be increased by \$2,879,422 (1980 — \$4,888,382).

7. DIVIDEND RESTRICTIONS:

Pursuant to certain provisions of the trust agreement relating to the 9¾% sinking fund debentures \$35,650,374 of the retained earnings of \$121,746,936 at December 31, 1981 is not available for the payment of cash dividends on the common shares.

8. INCOME TAXES:

In 1981, the Corporation incurred a loss of \$6,477,414 net of non-taxable exchange gains of \$3,527,000. The tax benefits resulting from recovery of taxes paid in Canada in 1980 and the potential effect of this loss on future profits in Canada have been recorded in the accounts.

At December 31, 1981, the German subsidiary had accumulated tax losses of some DM 10,500,000 (which at year-end rate of exchange is equivalent to \$5,576,000) to offset against future profits.

9. PENSIONS:

The past service pensions liability of the Corporation's pension plans is estimated to be fully funded as at December 31, 1981. Improvement in plan performance and the value of assets are the factors which eliminated the December 31, 1980 past service liability estimate of \$4,975,000.

10. SEGMENTED INFORMATION:

Industry segments — The Board of Directors has determined that the Corporation's operations represent only one industry segment comprising mining, milling and selling asbestos fibre.

Geographic segments — All the Corporation's ore is mined in Canada and all primary milling is carried out in Canada at four primary mills. Of the Corporation's four finishing mills, three are located in Canada and only one in the Federal Republic of Germany. The West German finishing mill is entirely dependent on the supply of ungraded fibre from the Canadian operations. The West German operation does not itself contribute significantly to the Corporation's operating profits. At the end of 1981, assets employed in Canada were \$224,843,027 (1980 — \$224,512,291) and the Federal Republic of Germany \$77,838,828 (1980 — \$84,254,082).

Export sales — Sales were as follows:

	Canada	Republic of Germany	<u>1981</u>	<u>1980</u>
Canada	\$ 309,718	\$ —	\$ 309,718	\$ 756,886
United States	3,259,837	—	3,259,837	1,136,757
Oceania	2,540,772	—	2,540,772	3,570,534
Middle East	12,450,775	8,555,372	21,006,147	6,488,233
Latin America	9,557,076	—	9,557,076	6,791,050
Africa	4,557,273	7,866,295	12,423,568	8,479,218
Western Europe	11,874,607	20,293,936	32,168,543	32,444,840
Asia	29,489,261	747,798	30,237,059	30,209,041
Comecon	7,219,264	4,229,779	11,449,043	24,523,517
	<u>\$81,258,583</u>	<u>\$41,693,180</u>	<u>\$122,951,763</u>	<u>\$114,400,076</u>

11. 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 Corporation is named as a defendant in some of these cases along with numerous other suppliers of asbestos fibre and manufacturers of asbestos products. The Corporation denies all liability in these actions. Many 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 judgement against the Corporation or be agreed to by way of settlement.

12. RECLASSIFICATION:

The financial statements reflect the reclassification of certain items in 1980 to conform with the 1981 presentation. This reclassification does not affect earnings for 1980.

Auditors' Report

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

We have examined the consolidated balance sheet of Société Asbestos Limitée — Asbestos Corporation Limited as at December 31, 1981 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 Corporation as at December 31, 1981 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.

Pricewaterhouse

February 11, 1982

Chartered Accountants

Société Asbestos Limitée
Asbestos Corporation Limited and Subsidiary Companies

10 Year Summary
(thousands of dollars
except where noted)

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Sales	\$122,952	\$114,400	\$171,788	\$147,087	\$145,344	\$151,368	\$ 84,834	\$108,475	\$ 66,209	\$ 49,521
Income (loss) before taxes	(6,477)	2,728	22,976	19,046	38,413	40,210	14,334	21,142	1,381	2,117
Income taxes	(5,105)	200	5,314	3,395	17,392	19,788	6,720	9,635	650	741
Income (loss) after taxes and extraordinary items	(1,372)	2,528	17,662	15,651	21,021	20,422	14,239	11,850	1,706	1,376
Earnings (loss) per share	(\$0.48)	\$0.89	\$6.22	\$5.51	\$7.40	\$7.19	\$5.01	\$4.17	\$0.60	\$0.48
Dividends paid	—	\$1.20	\$2.40	\$2.40	\$1.60	\$1.25	—	—	—	\$0.45
Paid to shareholders as dividends	—	3,404	6,809	6,809	4,539	3,546	—	—	—	1,277
Depreciation and depletion	9,736	10,830	10,306	11,718	10,882	9,888	9,037	8,831	7,377	4,605
Total assets	302,682	308,766	271,958	259,334	228,676	220,093	191,680	176,575	166,313	162,074
Paid to employees during the year	44,176	57,653	61,276	52,670	48,828	41,231	23,899	31,188	26,422	22,890
Number of employees at year-end	1,802	1,906	2,331	2,389	2,351	2,268	2,113	1,798	2,421	2,386
Number of common shareholders at year-end	1,712	19,26	2,092	2,150	2,280	2,640	2,948	3,307	3,549	3,794



Helping to build
a better world