

Asbestos Corporation Limited Société Asbestos Limitée

Annual Report 1980



Asbestos Corporation Limited Soci t  Asbestos Limit e

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

Directors

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

R. A. DUGR  ^{(1) (2)}
President,  cole de
technologie sup rieure
Montr al

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

F. R. KEARNS ^{(1) (2)}
President, Canadair Limited
Montr al

G. E. MacDONALD
Executive Vice-President — Finance
General Dynamics Corporation
St. Louis, Missouri

G. A. McCAMMON ⁽³⁾
Vice-President — Finance
Montr al

M. J. O'BRIEN ^{(1) (3)}
President, Marblehead Lime Company
Chicago, Illinois

W. G. SULLIVAN ^{(2) (3)}
Vice-President — Industrial Relations
General Dynamics Corporation
St. Louis, Missouri

M. E. TASCHEREAU ⁽³⁾
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

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 Finance and
Audit Committee

(2) — Member of the Compensation Committee

(3) — Member of the Pension Committee

(December 31, 1980)

COVER:

Bags of Thetford Mines asbestos
fibre. Fibre grades 4T and 6D are
used extensively in the asbestos-
cement industry.

To our Shareholders:

In 1980, sales dropped 33% from 1979. The greatest impact was due to a three-month strike at our Thetford Mines operations, from March through May, but other problems also reduced sales and earnings during the year. These were: the recessionary conditions in the United States and Western Europe; very high interest rates which discouraged buying; a shortage of hard currencies in several developing countries; the effects of negative publicity concerning environmental issues; and the threat of expropriation by the Government of Québec with its consequent effect on sales, heavy legal costs and reduced efficiency by diversion of effort.

As a result of these circumstances, earnings in the first half showed a loss of \$3.8 million. In the second half, a profit of \$6.3 million was generated, resulting in earnings of \$2.5 million for the year. Second-half earnings included foreign exchange gains of \$3.5 million.

While 1981 is expected to show improvement, many of the adverse conditions experienced in 1980 are continuing. However, over the longer term, prospects remain highly favorable, with market research indicating continued increasing demand for asbestos-cement grades of fibre (85% of ACL's production is suitable for asbestos-cement). In the Free World, no new significant production of asbestos-cement grades of fibre is forecast for the next few years and Russia appears to require

most of its production for internal consumption. Competitive products such as ductile iron, concrete and plastic pipe or aluminum and galvanized sheet cost more and require four to seven times more energy to produce than asbestos-cement pipe or sheet.

The fully industrialized countries seem, nevertheless, to prefer more sophisticated products and while their asbestos-cement consumption level may well decrease, it appears that any reduction in demand will be more than offset by the growing requirements of the developing countries. There is no better product than asbestos-cement to meet the anticipated demand in vast areas of the world for siding and roofing in residential, commercial and industrial buildings and piping for irrigation, sewage, fresh water and drainage systems.

This demand, the strong financial position of the Corporation and its extensive ore reserves of excellent quality fibre, as well as its technical expertise, place Asbestos Corporation in an excellent position for the future.

Net Income

Net income in 1980 was \$2,528,000 (\$0.89 per share), compared with \$17,662,000 (\$6.22 per share) in 1979.

Revenues of \$114,400,000 in 1980 were 33% lower than in 1979 due to the strike, economic conditions and the threatened expropriation of your Corporation.

Operating costs were \$41,669,000 (28%) lower in 1980 than in 1979 due primarily to the strike. Interest expense more than doubled from \$3,784,000 in 1979 to \$7,699,000 in 1980 due to increased bank borrowings and higher interest rates. The provision for income taxes is low at \$200,000 (\$5,314,000 in 1979) because Thetford operations incurred a loss and certain foreign exchange gains were not taxable.

Financial Position

Funds generated from operations totalled \$15,541,000 in 1980. Additions to properties and mine development amounted to \$12,698,000. Installments on long-term debt were \$3,781,000 and dividends paid were \$3,404,000. Working capital thus was decreased by \$4,295,000 to \$65,914,000.

Long-term debt at year-end was \$20,758,000, resulting in a long-term debt-to-equity ratio of 0.13 to 1. Short-term indebtedness was \$61,352,000 at year-end. Asbestos and ungraded fibre inventories, valued at the lower of cost to produce or selling price, totalled \$87,739,000. Reduced work schedules were instituted in late 1980 and will remain in effect until the anticipated market improvement occurs. In addition, aggressive action is being taken to reduce costs and inventories.

Sales and Markets

Revenue from sales was \$114,400,000, compared with the record \$171,788,000 in 1979.

The drop in sales revenue occurred almost entirely in the first half of the year. Customers delayed purchases in January and February as they worked down year-end inventories. Then our Thetford operations were on strike for three months and our customers were able to satisfy their requirements elsewhere. In addition, it became apparent that this was an opportunity for some customers to diversify their sources of supply away from the threat of expropriation.

Effective January 1, 1981, competitor list prices for various fibre grades were increased by 10% to 14%. ACL's list prices were raised to equivalent levels. It is apparent that our competitors feel as we do — that there is buyer resistance due to high interest rates and unsettled economic conditions, but that market fundamentals indicate a close balance in the demand and supply of high-quality asbestos-cement grades of fibre. Sales in 1981 should improve significantly.

Ore Reserves

Proven ore reserves at year-end were as follows:

	<u>1980</u>	<u>1979</u>
	(thousands of tons)	
King Beaver mine	83,972	83,634
British Canadian mine	71,937	75,101
Normandie mine	31,639	31,639
Asbestos Hill mine	15,683	20,838
Others	<u>17,920</u>	<u>17,920</u>
	221,151	229,132

Approximately 8.5 million tons of ore were mined in Thetford and Asbestos Hill in 1980. At Asbestos Hill, 3.3 million tons of proven ore were reclassified as

probable and at King Beaver, 3.6 million tons of probable ore were reclassified as proven following additional diamond drilling and detailed mine planning.

In addition to the proven ore reserves, there are probable and possible reserves of approximately 250 million tons.

Operations

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

	<u>1980</u>	<u>1979</u>
	(tons)	
Thetford Mines		
Rock mined	22,315,000	26,671,000
Ore crushed	6,839,000	9,209,000
Asbestos produced	158,200	219,600
Asbestos Hill-Nordenham		
Rock mined	6,765,000	7,102,000
Ore crushed	1,748,000	1,620,000
Ungraded fibre produced	286,200	262,800
Asbestos produced	82,000	92,000

As noted previously, Thetford Mines operations were shut down for twelve weeks in March, April and May due to a strike by hourly-rated unionized employees. In addition, operations were suspended from December 21, 1980 until January 26, 1981. During the year, a severe cost reduction program was implemented.

At Asbestos Hill, Nordenham and head office, further economies, including reduced work schedules, have been instituted.

The Expropriation Issue

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 Corporation or by expropriation. General Dynamics made it clear that it did not wish to dispose of its holdings in this valuable resource corporation 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 Reports of 1978 and 1979, the reasons why expropriation would work to the disadvantage of the Corporation, 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.

On May 26, 1980, the Québec Superior Court ruled that Bill 121, the expropriation legislation, and Bill 70, which established the Government company, Société nationale de l'amiante, were valid. This decision was immediately appealed by the Corporation to the Québec Court of Appeal. On March 4, 1981, the Court of Appeal ruled that the legislation was valid and lifted the interlocutory injunction that prevented any expropriation action by the Government of Québec. ACL immediately requested leave to appeal this decision to the Supreme Court of Canada but this permission was

refused by the Supreme Court on March 16, 1981.

Asbestos Corporation will continue to take appropriate action to defend the rights and interests of all its shareholders.

Environmental Issues

Sufficient medical evidence is now available for regulatory authorities to initiate environmental regulations and standards that will permit the continued growth of the asbestos industry with, to all intents and purposes, no risk to the workers nor to the general public.

In-depth medical and epidemiological studies of thousands of workers exposed to varying dust levels for 20 to 40 years have been completed (British Journal of Industrial Medicine — 1980, Vol. 37-11). The results of these studies show that at dust levels of 20 fibres per cc and exposure over 20 years, it would be difficult to establish an increase in risk. ACL, and most of its competitors and customers, have already met or are below 2 fibres per cc in plant operations — 10 times lower than what is considered a minimal risk level.

We are convinced that workers in our industry and the general public can be protected from all risks associated with asbestos dust through the application of appropriate regulations and work methods. We are committed to providing the best possible working conditions in our plants and to provide pertinent

information to our employees, clients and the general public. In addition, we continue to provide significant support for further in-depth medical research and make the results of this work available to all concerned.

General

Dividends amounted to \$1.20 per share in 1980 compared with \$2.40 per share in 1979. Following the difficult period in the first half of 1980, dividends were suspended for the third and fourth quarters.

We deeply regret the untimely death of M. P. Carson. Mr. Carson was Executive Vice-President and a Director of ACL for several years. During his twenty years of service, he made a significant contribution to the Corporation's well being and was a most respected and able Officer. His sound advice, concern and contribution to the Corporation and its employees will be greatly missed.

We are pleased to announce that Mr. G. A. McCammon, Vice-President — Finance, was named to the Board of Directors in November.

Serious and complex economic, market, labour and political difficulties came together in 1980. These challenges were met in a professional and business-like manner. Many significant cost reduction measures were taken for the long-term good of the Corporation, its employees and shareholders.

These actions, and the sustained and dedicated efforts of our employees, have placed ACL in a strong competitive position to take advantage of the market recovery that we anticipate will occur in the months and years to come.

G. W. Fiske
Chairman

M. E. Taschereau
President and Chief Executive Officer

Montréal, Québec
March 9, 1981

Société Asbestos Limitée
Asbestos Corporation Limited and Subsidiary Companies

**Consolidated
Balance Sheet**

ASSETS

December 31

1980

1979

Current assets:

Cash	\$ 310,115	\$ 176,507
Accounts and bills receivable (Note 2)	33,490,466	39,923,582
Inventories (Notes 2 and 3)	109,640,482	72,046,600
Prepaid taxes, insurance, etc.	8,437,224	4,476,647
	<u>151,878,287</u>	<u>116,623,336</u>

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

127,853,143	130,182,339
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Unamortized exploration and mine development (Note 5)

28,277,200	24,252,826
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Other assets

757,743	899,630
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<u>\$308,766,373</u>	<u>\$271,958,131</u>
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LIABILITIES

Current liabilities:

Bank indebtedness (Note 2)	\$ 61,352,495	\$ 15,904,219
Accounts payable and accrued liabilities	17,090,773	22,921,544
Amount due to an affiliated company	53,569	124,840
Income and other taxes	2,678,905	3,465,602
Installments due within one year on long-term debt (Note 6)	4,788,134	3,997,934
	<u>85,963,876</u>	<u>46,414,139</u>

Long-term debt (Note 6)

20,758,465	24,492,493
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Deferred income taxes

45,613,000	43,744,000
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Shareholders' equity:

Capital stock (Note 7) —		
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 8)	123,119,350	123,995,817
	<u>156,431,032</u>	<u>157,307,499</u>

Contingencies (Notes 11 and 12)

<u>\$308,766,373</u>	<u>\$271,958,131</u>
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Approved by the Board:

Guy W. Fiske, Director

M. E. F. [Signature], Director

**Consolidated
Statement of Income
and Retained
Earnings**

	Year ended December 31	
	1980	1979
Sales	\$114,400,076	\$171,787,934
Cost of sales, selling, general and administrative expenses	<u>104,782,749</u>	<u>146,451,360</u>
Operating profit before taking into account the undernoted items	9,617,327	25,336,574
Interest and other income	<u>809,979</u>	<u>1,422,914</u>
	10,427,306	26,759,488
Interest expense —		
Long-term debt	\$3,022,921	\$2,918,946
Short-term debt	<u>4,676,450</u>	<u>864,890</u>
	7,699,371	3,783,836
	2,727,935	22,975,652
Provision for income taxes (Note 1)	<u>200,000</u>	<u>5,314,000</u>
Net income (per share: 1980 — \$0.89; 1979 — \$6.22)	2,527,935	17,661,652
Retained earnings, January 1	<u>123,995,817</u>	<u>113,142,970</u>
	126,523,752	130,804,622
Dividends paid (per share: 1980 — \$1.20; 1979 — \$2.40)	<u>3,404,402</u>	<u>6,808,805</u>
Retained earnings, December 31	<u>\$123,119,350</u>	<u>\$123,995,817</u>

**Consolidated
Statement of
Changes in
Financial Position**

	Year ended December 31	
	1980	1979
Source of funds:		
Net income	\$ 2,527,935	\$ 17,661,652
Depreciation, depletion and amortization (Note 5)	11,144,330	10,736,234
Deferred income taxes	<u>1,869,000</u>	<u>2,262,000</u>
Funds from operations	15,541,265	30,659,886
Net increase in long-term debt	<u>47,026</u>	<u>3,684,593</u>
	15,588,291	34,344,479
Application of funds:		
Addition to properties and mine development	12,697,621	23,316,976
Installments due within one year on long-term debt (Note 6)	3,781,054	2,745,624
Dividends paid	<u>3,404,402</u>	<u>6,808,805</u>
	19,883,077	32,871,405
Increase (decrease) in working capital	(4,294,786)	1,473,074
Working capital, January 1	<u>70,209,197</u>	<u>68,736,123</u>
Working capital, December 31	<u>\$ 65,914,411</u>	<u>\$ 70,209,197</u>

Soci t  Asbestos Limit e and Subsidiary Companies Asbestos Corporation Limited

Notes to Consolidated Financial Statements December 31, 1980

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 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 gain of \$4,374,018 has been recorded as a reduction in cost of sales in 1980 (1979 — a net loss of \$132,476).

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. Investment tax credits reduce income taxes as realized. Losses of some DM 9,000,000 (which at year-end rate of exchange is equivalent to \$5,446,800) are available to the German subsidiary for offset against future profits. The potential tax benefit will be reflected in earnings when 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 29,800,000 (equivalent to \$18,035,000 at year-end rate of exchange).

3. INVENTORIES:

	1980	1979
Asbestos	\$ 53,160,699	\$ 22,783,364
Ungraded asbestos fibre	34,578,830	29,250,199
Supplies	21,900,953	20,013,037
	<u>\$109,640,482</u>	<u>\$ 72,046,600</u>

4. PROPERTIES, AT COST LESS DEPRECIATION AND DEPLETION:

	1980	1979
Thetford Mines, Qu�bec —		
Land and mineral areas	\$ 10,089,260	\$ 10,014,062
Less: Accumulated depletion	7,825,815	7,690,145
	<u>2,263,445</u>	<u>2,323,917</u>
Plant and equipment	105,069,860*	99,685,385
Less: Accumulated depreciation	51,881,581	48,542,645
	<u>53,188,279</u>	<u>51,142,740</u>
	<u>55,451,724</u>	<u>53,466,657</u>
Ungava, Qu�bec —		
Mining leases and exploration costs	13,717,000	13,717,000
Less: Accumulated depletion	4,628,857	3,979,687
	<u>9,088,143</u>	<u>9,737,313</u>
Plant and equipment, roads and marine structures	82,436,456	80,530,027
Less: Accumulated depreciation	32,461,283	27,586,555
	<u>49,975,173</u>	<u>52,943,472</u>
Less: Credit arising on exchange of common shares for mining leases	2,088,699	2,088,699
	<u>56,974,617</u>	<u>60,592,086</u>
Nordenham, West Germany —		
Plant and equipment and marine structures	25,952,969	25,332,939
Less: Accumulated depreciation	11,063,878	9,648,453
	<u>14,889,091</u>	<u>15,684,486</u>
Land	537,711	439,110
	<u>15,426,802</u>	<u>16,123,596</u>
	<u>\$127,853,143</u>	<u>\$130,182,339</u>

*Includes equipment of \$3,845,631 acquired under capital leases.

5. DEPRECIATION, DEPLETION AND AMORTIZATION:

	<u>1980</u>	<u>1979</u>
Provision for depreciation	\$ 10,044,777	\$ 9,148,752
Provision for depletion	784,841	1,156,767
Amortization of exploration and mine development	314,712	430,715
	<u>\$ 11,144,330</u>	<u>\$ 10,736,234</u>

6. LONG-TERM DEBT:

	<u>1980</u>	<u>1979</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 \$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 20,050,000 due DM 3,425,000 through 1986 at various rates of interest ranging annually from 6% to 10¼%	6,238,798*	7,304,528
Obligation under capital leases payable \$670,484 annually including interest at 9.3% through 1987	3,403,374	3,684,593
Balance of special assessment of la Commission de la santé et de la sécurité du travail payable annually with interest at 8% through 1982	2,009,347	3,360,996
	<u>24,539,519</u>	<u>27,238,117</u>
Less: Installments due within one year included in current liabilities (equivalent, after conversion of German portion at year-end rate of exchange, to \$4,788,134; 1979 — \$3,997,934)	3,781,054	2,745,624
	<u>\$ 20,758,465</u>	<u>\$ 24,492,493</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, 1980 the Canadian dollar equivalent of this debt, after deducting the installment due in 1981, would be increased by \$4,888,382 (1979 — \$7,331,042).

7. CAPITAL STOCK:

Effective December 11, 1980 the Corporation was continued under the Canada Business Corporations Act and the Articles of Continuance provided that the Corporation is authorized to issue an unlimited number of common and preferred shares.

8. DIVIDEND RESTRICTIONS:

Pursuant to certain provisions of the trust agreement relating to the 9¾% sinking fund debentures \$27,805,174 of the retained earnings of \$123,119,350 at December 31, 1980 is not available for the payment of cash dividends on the common shares.

9. PENSIONS:

The unfunded past service liability under the Corporation's pension plans as at December 31, 1980 is estimated to be \$4,975,000. The Corporation 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. SEGMENTED INFORMATION:

The Board of Directors has determined that the Corporation's operations represent only one industry segment comprising mining, milling and selling asbestos fibre. The Corporation does business from two geographic segments, Canada and West Germany.

Canadian operations include the mining of ore as well as four primary mills and three finishing mills. The West German operations consist of a single finishing mill.

As the West German finishing mill is entirely dependent on the supply of ungraded fibre from the Canadian operations, segmented information additional to that provided in the Corporation's annual report would not be meaningful.

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.

12. POSSIBLE EXPROPRIATION OF THE CORPORATION'S PROPERTIES:

On October 21, 1977, the Government of Québec announced its intention to acquire control of the Corporation, 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 Corporation. 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 Corporation'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 Corporation 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. Any action to expropriate before the final determination by the courts of the validity of the legislation was prevented by an interlocutory injunction issued on December 13, 1979 by the Québec Court of Appeal. On May 26, 1980, the Québec Superior Court ruled that Bill 121 and Bill 70 were valid. This decision was confirmed by the Québec Court of Appeal on March 4, 1981 and became final on March 16, 1981 when the Supreme Court of Canada refused the Corporation's motion for leave to appeal.

In the event that (1) the Government proceeds with expropriation and (2) the Corporation 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 Corporation 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 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 Corporation believes that any amount received for its properties should and must be significantly in excess of the book values set forth in the Corporation'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 Corporation'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 Corporation'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:

We have examined the consolidated balance sheet of Société Asbestos Limitée — Asbestos Corporation Limited as at December 31, 1980 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, 1980 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.

January 30, 1981
except for note 12 for
which the date is
March 26, 1981

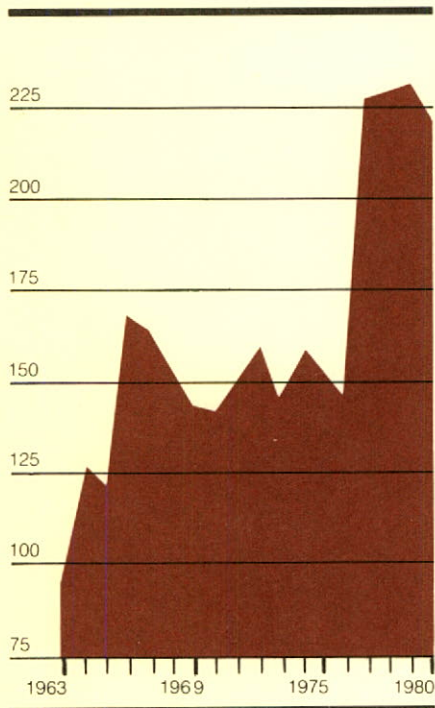
Chartered Accountants

Société Asbestos Limitée Asbestos Corporation Limited and Subsidiary Companies

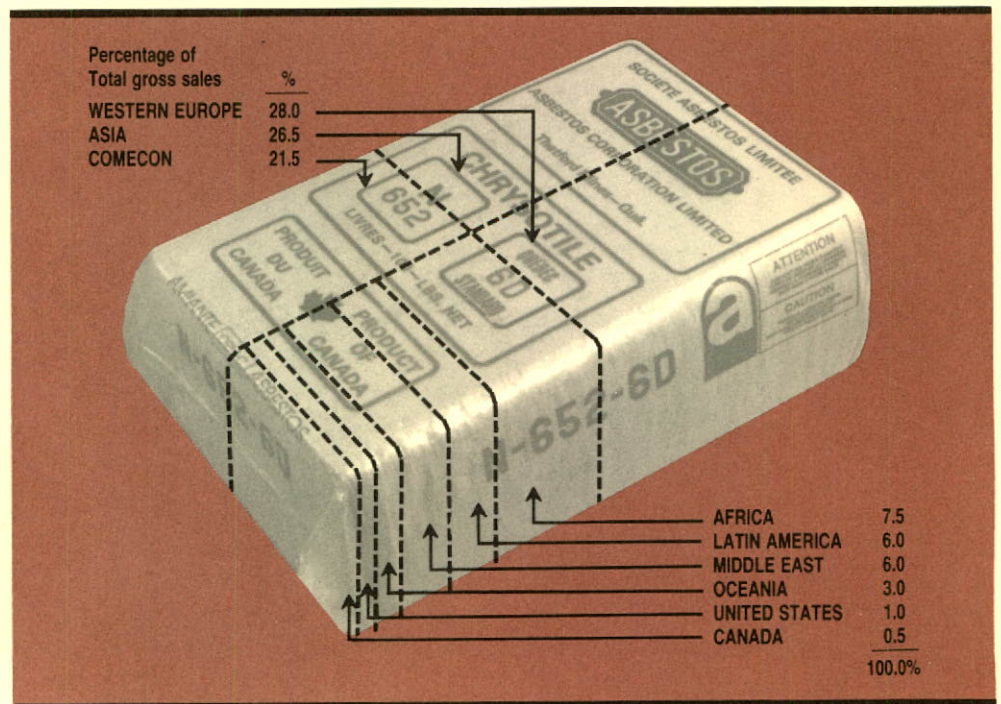
10 Year Summary
(thousands of dollars
except where noted)

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Sales	\$114,400	\$171,788	\$147,087	\$145,344	\$151,368	\$ 84,834	\$108,475	\$ 66,209	\$ 49,521	\$ 52,320
Income before taxes	2,728	22,976	19,046	38,413	40,210	14,334	21,142	1,381	2,117	9,955
Provision for taxes on income	200	5,314	3,395	17,392	19,788	6,720	9,635	650	741	3,748
Income after taxes and extraordinary items	2,528	17,662	15,651	21,021	20,422	14,239	11,850	1,706	1,376	6,157
Earnings per common share (assuming conversion of preferred stock)	0.89	\$6.22	\$5.51	\$7.40	\$7.19	\$5.01	\$4.17	\$0.60	\$0.48	\$2.17
Dividends paid per common share	1.20	\$2.40	\$2.40	\$1.60	\$1.25	—	—	—	\$0.45	\$1.00
Paid to shareholders as dividends — common shares	3,404	6,809	6,809	4,539	3,546	—	—	—	1,277	2,837
Depreciation and depletion	10,830	10,306	11,718	10,882	9,888	9,037	8,831	7,377	4,605	3,338
Total assets	308,766	271,958	259,334	228,676	220,093	191,680	176,575	166,313	162,074	143,580
Paid to employees during the year	57,653	61,276	52,670	48,828	41,231	23,899	31,188	26,422	22,890	20,586
Number of employees at year-end	1,906	2,331	2,389	2,351	2,268	2,113	1,798	2,421	2,386	2,324
Number of common shareholders at year-end	1,926	2,092	2,150	2,280	2,640	2,948	3,307	3,549	3,794	3,973

Proven ore reserves (millions of tons at year-end)



Asbestos Corporation Limited WORLDWIDE SALES OF FIBRE 1980





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