



The cover:

**Aerial photo of the Black Lake
joint venture operation.**

CORPORATE PROFILE

Under a Joint Venture Agreement with Lac d'Amiante du Québec, Ltée, a wholly owned subsidiary of ASARCO Inc., United Asbestos Inc. receives between 50% and 60% of the profits of the Black Lake asbestos mine and mill situated in the Province of Quebec. In fiscal 1981, United's share was \$14.7 million or 58.6% of the mine's operating profit. United Asbestos' margins are among the best in the Canadian asbestos industry. Ore reserves of 97 million tons are adequate for approximately 25 years at the present rate of production and contain an estimated 3.7 million tons of quality asbestos.

United Asbestos owns 100% of the Midlothian mine in the Province of Ontario which includes a \$63 million mill. Operations were at 35% of capacity on a tune-up basis when, in March 1977, Midlothian was closed by creditor action. The Midlothian deposit is estimated to contain 150 million tons of ore of which 25 million tons of ore containing approximately 1.2 million tons of cement grade asbestos fibre are engineered for mining. Resumption of operations are dependent on improvement of industrial activity worldwide as well as the clarification by the Province of Ontario of standards of worker exposure to asbestos.

FINANCIAL HIGHLIGHTS

For the years ended March 31	1981	1980	1979	1978	1977
(000's of Canadian dollars, except per share data)					
Revenues from operations	\$ 26,075	\$ 26,581	\$ 20,510	\$ 20,714	\$ 14,623
Income before income taxes	14,378	13,733	9,398	10,038	9,174
Income taxes	4,408	4,462	2,636	2,900	2,466
Net income	9,970	9,271	6,762	7,138	6,708
Net income per share	\$1.41	\$1.31	\$0.96	\$1.01	\$0.95
Retained earnings	53,808	43,838	34,567	27,805	20,667
Cash dividends	Nil	Nil	Nil	Nil	Nil
Net Assets	124,976	112,990	100,427	97,249	90,712
Working capital (deficiency)	13,718	10,383	(3,718)	(645)	(1,095)
Long term debt	35,000	35,000	36,615	42,056	46,408
Common shares outstanding	7,074,913	7,074,913	7,074,913	7,074,913	7,074,913

TO OUR STOCKHOLDERS:

Joint Venture with L.A.Q.

The joint venture partnership with Lac d'Amiante du Québec Ltée at Black Lake, Quebec continues to prosper in spite of the reduced industrial activity in the United States and Western Europe, causing generally weaker markets worldwide. Earnings again established record highs at \$9.97 million or \$1.41 per share for the fiscal year ended March 31, 1981 as compared with \$9.27 million or \$1.31 per share for the previous year. Sales of asbestos by the joint venture also set record highs at \$87.5 million as compared with \$86.3 million in the previous year. Tonnage shipped stood at 137,634 metric tonnes, lower by 8.8 percent over the previous year. The increased sales efforts and shifting of the product mix to fibre grades of higher values more than compensated for reduction of tonnage shipped. Production was steady at 147,000 metric tonnes.

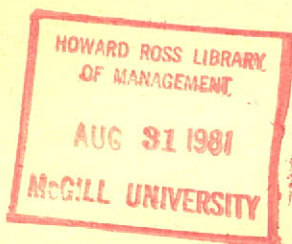
Our joint venture partner, Lac d'Amiante du Québec, is responsible for managing Black Lake. The improvement over last year's results is a tribute to the dedication and efficiency of our joint venture partner. It is fitting that we should single out, and on your behalf tender our special thanks and appreciation to, Mr. M. J. Messel, who, after 25 years of service, stepped down as President of Lac d'Amiante du Québec on April 30 of this year, and turned over his responsibilities to Mr. J. Dupéré. Mr. Messel will remain a consultant and a director of L.A.Q.

Midlothian

Our milling optimization work at the Midlothian mine has established that we can produce a superior cement grade fibre. We have also recalculated and confirmed that ore tonnages are sufficient for at least 20 years' production. Sessions of the Ontario Royal Commission on Matters of Health and Safety Arising from the Use of Asbestos are continuing and we do not expect to see their report until late in the current year. The appointment of this Commission is a welcome event. When its work is finished we expect to have final and definitive operating rules for asbestos mining and milling. These, plus the continuing appraisal of market conditions, and financing considerations, are the three significant matters to be dealt with in connection with Midlothian's immediate future.

Industry Outlook

Because of the slack state of the international economy during the past year, there has been some softening of demand for asbestos. In turn, this has resulted in a build up of inventories with consequent intensifying price competition. None of this reaches at the fundamental soundness of the industry; nor, in our opinion, will it. We believe the current situation to be temporary and that over the intermediate and long term, worldwide demand will continue to rise steadily, as it has since the early 1970's. In regard to environmental considerations, the industry has responded in a positive and concerned way, by substantially improving its industrial hygiene practices.



Our Responsibilities

United Asbestos Inc. is now in a substantial financial position, with excellent ore reserves and plant facilities and significant cash on hand to develop Midlothian. Among other actions, your Company has retained Smith Barney, Harris Upham & Co. Incorporated, investment bankers in New York, as its financial advisor to evaluate its strategic options including the possible sale of the Company. Such steps are designed to protect our stockholders' interests. We are aware, and are proud to acknowledge, that we have a host of loyal stockholders, who have stayed with us through many years. While United Asbestos continues to evaluate its strategic options, we are determined that the only acceptable change in the Company's status will be one that fully and adequately recognizes the values of the Company and rewards to the fullest the steadfastness and courage of our stockholders over the years.

Sincerely,

Philip M. Malouf
Chairman

July 21, 1981

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

In the past three years the Company has become increasingly more liquid, moving from a negative working capital position to one where current assets exceed current liabilities by a ratio of 5 to 1. At March 31, 1981, cash and short-term notes receivable amounted to \$12,608,000. The figures for fiscal years 1980 and 1979 were \$6,186,000 and \$43,000, respectively.

The Company's contribution to the financing of the joint venture's unsold production (including the cost of mining, milling and warehousing) dropped from \$1,144,000 at the end of calendar year 1979 to \$914,000 at the end of calendar 1980 and was \$944,000 at the end of calendar 1981, despite the fact that there were 9,123 unsold metric tonnes (hereinafter "tonnes" shall mean metric tonnes) at the end of 1979, 5,676 tonnes at the end of 1980 and 14,138 tonnes at the end of 1981. The lack of correlation results from the terms of the joint venture agreement; each production (calendar) year is financed separately, and the Company's contribution cannot exceed its share of the net proceeds. The Company's contribution for calendar 1982 is not expected to have a material effect on its cash resources.

In the quarter ended December 31, 1980, LAQ was successful in settling approximately 70% of the outstanding claims made against it in regard to alleged health damage caused by exposure to asbestos. These settlements reduced by \$2,717,000 the portion of revenues of the joint venture received by the Company. Such reduction was treated for the purpose of joint venture accounting as an allocation of proceeds and, because the claims predated 1977, was treated for statement presentation as a prior year's adjustment pursuant to generally accepted accounting principles.

The effective income tax rate was approximately 30% for each of the past three years. Unless the pools of exploration and development expenses and earned depletion, now nearing exhaustion, are replenished through a sizeable program of investment, such as the reopening of the Midlothian mill, current and deferred taxes will increase. The current tax payable, which was zero in 1979 and \$66,000 in 1980 as a result of the Company's ability to draw upon available pools of allowances applicable against income received, including capital cost allowance, earned depletion, Canadian Development Expense and resource allowance, was \$768,000 in 1981. The Company took advantage in fiscal 1981 of certain investment tax credits which otherwise would have expired; such action resulted in an amount of tax payable approximately equivalent to the investment tax credits claimed. It should be noted that the taxable income as reported to federal and provincial tax authorities, subject to adjustments not material in size, is only the cash component of net proceeds and is not represented by addbacks of deferred charges as described in the Company's Income Statement.

The vested past service pension plan for salaried employees has been fully funded and will be amortized over the required 10 years. The full funded amount of past service appears on the balance sheet as a deferred charge. The costs of current service will be expensed as incurred, and will not materially adversely effect the liquidity of the Company.

The biggest single charge against the Company's cash resources is interest on long-term debt which, netted of \$1,340,000 earned on short-term investments, was \$4,561,000 in fiscal year 1981. For 1980 interest expense was \$4,701,000, and for 1979, \$4,171,000. The Company's interest-bearing debt is a loan obtained in January 1980 from The Toronto-Dominion Bank in the principal amount of \$35,000,000. The loan, the full principal amount of which was outstanding throughout fiscal 1981, has a nine-year term and repayments on principal will begin in the quarter following that in which the Company has accumulated \$20,000,000 for the reactivation of the Midlothian mine, or December 31, 1981, whichever is earlier. Principal repayments are to be made in not more than 28 equal quarterly installments of \$1,250,000, but the Company may apply 50% of its excess cash (as defined in the loan agreement) to reduce installment payments beginning with the last such payment first. The rates of interest are prime plus 1¾% until December 31, 1981 and prime plus 1½% thereafter. Consequently, interest charges will be significant for some time, particularly if current high interest rates prevail. The Company believes, however, that it will be able to repay its obligations without significant difficulty.

The loan is secured by a charge on all the assets of the Company and it is a condition of the loan that the Company must maintain with the bank an interest-earning deposit in an amount to assure payment of the next six months' loan interest (1981, \$3,500,000; 1980, \$3,000,000). (For more information on the Company's loan agreement with The Toronto-Dominion Bank, see the Company's Report on Form 8-K dated February 8, 1980.)

Results of Operations

Under the Asarco Agreement LAQ has the right to exclusive possession, management and control of Black Lake, and the Company's access to operations data is restricted. The data provided herein are based solely upon quarterly reports supplied by LAQ in accordance with the Asarco Agreement.

Revenues accruing to the joint venture increased in each of the past three years. In fiscal 1981 revenues were \$44,521,000, up by 4.4% over 1980's \$42,646,000 and 24% over 1979's \$35,870,000. The Company's share of net profits, which varies from 50% to 60% depending on the value of the ore milled, was \$26,075,000 in 1981, down slightly from the \$26,581,000 share in 1980; in 1979 the Company's share was \$20,510,000.

Net selling prices increased significantly over the past three years, going from \$405 per tonne in fiscal 1979 to \$502 in 1980 to \$563 in 1981. Shipments were 137,634 tonnes in 1981, down from 150,924 tonnes in 1980 and 148,896 tonnes in 1979. Production was steady at 147,000 tonnes in each of the past three years, and inventory of unsold production therefore increased over the three year period by approximately 3,100 tonnes. The financial impact on the joint venture of this increase is not material.

The Company's administrative expenses in 1981 were \$847,000, contrasted to \$475,000 in 1980 and \$279,000 in 1979, because in 1979 the Company's operations were virtually shut down and did not regain full functional status until the beginning of fiscal 1981.

Amortization of mining assets rose sharply in 1980 compared to 1979, but was down slightly in 1981. The most significant element is the amortization of deferred stripping, which is based on tonnes of fibre sold and which in 1981 amounted to \$5,539,000 of \$6,405,000 total amortization cost; the comparable figures in 1980 were \$5,781,000 of \$6,602,000 and in 1979, \$4,896,000 of \$5,667,000. The result of deferring and amortizing stripping has been to increase income in each of the past three years, because amounts deferred and added back to reserves have been greater than amounts amortized as a charge against revenues. Ultimately the situation will be reversed and amounts amortized will be greater than amounts deferred, but as stripping costs decrease net proceeds should increase so that the overall effect of such a reversal will not be significant.

Carrying costs of the Midlothian Township Property appear as expenses in 1979 and 1980 as \$1,073,000 and \$995,000, respectively. These costs were capitalized in 1981 as an investment of \$945,000 in the Midlothian property. In the current year expenditures are directed primarily to development so that the Midlothian mine and mill may be put back into operation with the least delay when market conditions and regulatory clarifications warrant. In this connection the flow sheet has been altered to maximize production of a superior cement-grade fibre, and extensive testing has been completed successfully. In addition, a computerized mining plan has been developed and sufficient work carried out to make a substantial number of claims eligible for long-term lease. \$116,000 of interest on the Company's long-term debt is included in the \$945,000 investment figure, based on the proportion which expenditures related to the Midlothian Township Property bear to total expenditures.

MARKET DATA FOR THE COMPANY'S COMMON STOCK

The markets for the Company's common stock are, in the United States, the American Stock Exchange, and in Canada the Toronto and Montreal Stock Exchanges. The two year high and low stock prices are shown below on a quarterly basis for each market.

	American Stock Exchange*		Toronto and Montreal Stock Exchanges**	
	High	Low	High	Low
1981				
quarter ended June 30, 1980	5 $\frac{1}{8}$	4	9 $\frac{1}{8}$	4 $\frac{3}{4}$
quarter ended September 30, 1980	6 $\frac{3}{4}$	4 $\frac{3}{4}$	7 $\frac{1}{2}$	5 $\frac{3}{8}$
quarter ended December 31, 1980	7	4 $\frac{7}{8}$	8	5 $\frac{3}{8}$
quarter ended March 31, 1981	9 $\frac{1}{4}$	5 $\frac{1}{4}$	10 $\frac{3}{4}$	6 $\frac{3}{4}$
1980				
quarter ended June 30, 1979	not traded		3.60	2.80
quarter ended September 30, 1979	not traded		3.70	2.90
quarter ended December 31, 1979	not traded		6.70	3.40
quarter ended March 31, 1980	5 $\frac{5}{8}$	5 $\frac{1}{8}$	9.25	5.00

*U.S. Currency

**Canadian Currency

The Company had 11,500 shareholders of record as of June 1, 1981. 7,074,913 common shares were issued as of that date.



Aerial photo of Midlothian milling plant.

UNITED ASBESTOS INC.

(Incorporated under the laws of Quebec)

BALANCE SHEETSAs at March 31, 1981 and 1980
(thousands of Canadian dollars)

	1981	1980
ASSETS		
Current Assets		
Cash	\$ 13	\$ 12
Short term investments	9,108	3,186
Accounts receivable	3,307	4,138
Share of unsold production, Black Lake	944	914
Prepaid interest deposit	3,500	3,000
Prepaid expenses	56	
	16,928	11,250
Mining Assets		
Black Lake	43,632	38,672
Midlothian	62,943	61,997
	106,575	100,669
Other		
Deferred refinancing costs, net of amortization	955	1,071
Deferred pension costs	518	
	1,473	1,071
	\$124,976	\$112,990

On behalf of the Board

Philip M. Malouf,
Director*Peter J. Malouf,*
Director

	1981	1980 (restated)
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,240	\$ 801
Legal claims		2,717
Income taxes payable	720	66
Current portion of long term debt	1,250	
	3,210	3,584
Long Term Debt	33,750	35,000
Deferred Income Taxes	24,500	20,860

SHAREHOLDERS' EQUITY

Capital Stock

Authorized

10,000,000 shares without par value

Issued

7,074,913 shares	8,882	8,882
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Contributed Surplus	826	826
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Retained Earnings	53,808	43,838
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	63,516	53,546
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	\$124,976	\$112,990
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The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Shareholders of United Asbestos Inc.

We have examined the balance sheets of United Asbestos Inc. as at March 31, 1981 and 1980 and the statements of income, retained earnings and changes in financial position for each of the three years ended March 31, 1981 and have obtained all the information and explanations we have required. 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, and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at March 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years ended March 31, 1981 in accordance with generally accepted accounting principles applied on a consistent basis.

Montreal, Canada
May 11, 1981

THORNE RIDDELL
Chartered Accountants

UNITED ASBESTOS INC.

STATEMENTS OF INCOME

Years ended March 31, 1981, 1980 and 1979
(thousands of Canadian dollars)

	1981	1980	1979
Revenues*			
Net proceeds from operation of Black Lake property	\$20,961	\$26,717	\$19,842
Add items deducted in arriving at net proceeds			
Capital expenditures and deferred development	18,878	15,695	16,384
Supplies inventory	153	234	(356)
Settlement of prior years' legal claims	4,529		
Income before amortization	44,521	42,646	35,870
Less share accruing to Lac d'Amiante du Québec, Ltée	18,446	16,065	15,360
Share to United Asbestos from operations, before amortization	26,075	26,581	20,510
Operating Expenses			
Administration	847	474	279
Amortization of mining assets	6,405	6,602	5,667
Carrying costs, Midlothian property		1,073	995
Interest on secured debt, net	4,561	4,701	4,171
Less interest capitalized	(116)	(2)	
	11,697	12,848	11,112
Income before income taxes	14,378	13,733	9,398
Income taxes			
Current	768	66	
Deferred	3,640	4,396	2,636
	4,408	4,462	2,636
Net Income	\$ 9,970	\$ 9,271	\$ 6,762
Earnings per Share	\$1.41	\$1.31	\$0.96

*Revenues were derived from participation in the net proceeds, shared with the operator Lac d'Amiante du Québec, Ltée, derived from the production of asbestos and sale of asbestos fibres at Black Lake, Que.

The accompanying notes are an integral part of the financial statements.

UNITED ASBESTOS INC.

STATEMENTS OF RETAINED EARNINGS

Years ended March 31, 1981, 1980 and 1979
(thousands of Canadian dollars)

	1981	1980	1979
Retained earnings at beginning of year			
As previously reported	\$45,726	\$36,455	\$29,693
Company's portion of legal claims applicable to years prior to 1977 deducted in determining Net Proceeds, net of deferred income taxes of \$829,577	(1,888)	(1,888)	(1,888)
As restated	43,838	34,567	27,805
Net income	9,970	9,271	6,762
Retained Earnings at end of year	\$53,808	\$43,838	\$34,567

The accompanying notes are an integral part of the financial statements.

UNITED ASBESTOS INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended March 31, 1981, 1980 and 1979
(thousands of Canadian dollars)

	1981	1980	1979
Working Capital derived from			
Operations			
Net income	\$ 9,970	\$ 9,271	\$ 6,762
Add (deduct) items not involving working capital			
Deferred income taxes	3,640	4,396	2,636
Amortization of mining assets	6,405	6,602	5,667
Amortization of refinancing costs	123	20	
Company's share of capital expenditures, deferred development and supplies inventory, Black Lake	(11,365)	(10,359)	(9,496)
	8,773	9,930	5,569
Proceeds of bank term loan		35,000	
	8,773	44,930	5,569
Working Capital applied to			
Additions to Midlothian assets	946	122	
Deferred refinancing costs	7	1,092	
Deferred pension costs	518		
Repayment of deferred debt payable		36,615	5,441
Increase (decrease) in current portion of long-term debt payable	1,250	(7,000)	3,000
	2,721	30,829	8,441
Increase (decrease) in Working Capital	\$ 6,052	\$14,101	\$ (2,872)
Changes in components of Working Capital			
Cash and short term investments	\$ 5,923	\$ 3,155	\$ 16
Accounts receivable	(831)	1,689	(3)
Share of unsold production, Black Lake	30	(231)	(665)
Prepaid interest deposit and expenses	556	3,000	
Accounts payable and accrued liabilities	(439)	(446)	780
Legal claims	2,717		
Income taxes payable	(654)	(66)	
Current portion of long term debt	(1,250)	7,000	(3,000)
Increase (decrease) in Working Capital	\$ 6,052	\$14,101	\$ (2,872)

The accompanying notes are an integral part of the financial statements.

UNITED ASBESTOS INC.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Share of unsold production, Black Lake

Net proceeds represent revenues from the Black Lake property which, under agreement, is operated by the company's joint venture partner, Lac d'Amiante du Québec, Ltée. The share of unsold production is the amount withheld by Lac d'Amiante from the company's share of net proceeds pending sale of inventory.

Mining assets

(a) Black Lake:

Black Lake mining assets represent the unamortized balances of the following deferred charges:

- (1) the capitalization of the company's interest in the cost of certain fixed assets which by agreement are deductible in the determination of net proceeds from operations
- (2) the capitalization of amounts contributed by the company out of its share of net proceeds for the fixed assets and preproduction expenditures originally paid for by Lac d'Amiante
- (3) the capitalization of the company's interest in deferred development, consisting of the costs of waste tonnage removal (stripping) and dredging which have been charged by Lac d'Amiante against current operations of the respective years in which they were incurred, the benefits of which will, however, in the opinion of the directors of United, accrue over the life of the mine
- (4) the company's own expenditures of the preproduction period.

Amortization charges have been provided in the statement of income in respect of those items capitalized as referred to above based on the life of mining operations estimated to terminate in 2003. The amortization policy is based on projections of the company's engineers who have placed their own interpretation, which is believed to be reasonable and conservative, upon figures made available to the company by Lac d'Amiante as to ore reserves, waste tonnages and yield. Preproduction expenditures and stripping and dredging costs are being amortized at average costs on the basis of tons of fibre shipped. Capital expenditures charged against United's share of net proceeds are amortized on a straight-line basis over the estimated useful lives of the assets.

(b) Midlothian

All preproduction and tune-up costs, less revenue from fibre sales, incurred in the exploration and development of this mine up to March 2, 1977 (the date of closure) have been capitalized, including interest and a portion of administrative expenses. During the period beginning March 2, 1977 and ending January 31, 1980 (the date debt was refinanced) all such costs were charged against income. Costs incurred subsequent to the refinancing of debt and applicable interest thereon have been capitalized. The amortization of capitalized net costs on the unit-of-production method based on total estimated ore reserves will commence at such time as the mine comes into commercial production, which is the point at which production reaches 60% of rated milling capacity. Buildings, machinery and equipment located on the mine site are recorded at cost and, when operations are resumed, they will be depreciated on a straight-line basis over their useful lives commencing at the date the mine comes into commercial production.

Deferred refinancing costs

These include financing agency, legal and other fees associated with the \$35,000,000 refinancing of debt on January 31, 1980 and are being amortized on a straight-line basis over the term of the loan.

Deferred pension costs

Effective March 31, 1981 the company reintroduced a pension plan for all salaried employees at a cost of \$517,733 to cover past service liability. This cost will be amortized on a straight-line basis over a ten-year period commencing April 1, 1981.

2. MINING ASSETS

	Black Lake (thousands of Canadian dollars)	Midlothian
Unamortized costs, April 1, 1978	\$31,086	\$61,875
Additions	9,496	
Amortization	40,582	61,875
	5,667	
Unamortized costs, April 1, 1979	34,915	61,875
Additions	10,359	122
Amortization	45,274	61,997
	6,602	
Unamortized costs, March 31, 1980	38,672	61,997
Additions	11,365	946
Amortization	50,037	62,943
	6,405	
Unamortized costs, March 31, 1981	\$43,632	\$62,943

Details of amounts comprising the above balances are shown in Supplementary Information.

3. LONG TERM DEBT

	1981 (thousands of Canadian dollars)	1980
Balance at beginning of year	\$35,000	\$36,615
Repayment of debt during year		36,615
Long term loan, Toronto-Dominion Bank	35,000	NIL 35,000
Less estimated repayments within one year included in current liabilities	35,000	35,000
Balance at end of year	1,250 \$33,750	

The loan from The Toronto-Dominion Bank has a nine year term and repayments on principal will begin in the quarter following that in which the company has accumulated \$20,000,000 for the reactivation of the Midlothian mine, or December 31, 1981, whichever is earlier. Principal repayments are to be made in not more than 28 equal quarterly instalments, but the number of instalments may be reduced in inverse order by the application of 50% of excess cash as defined in the loan agreement. The rates of interest are prime plus 1¼% until December 31, 1981 and prime plus 1½% thereafter. The loan is secured by a charge on all the assets of the company and it is a condition of the loan that the company must maintain with the bank an interest-earning deposit in an amount to assure payment of the next six months' loan interest (1981, \$3,500,000; 1980, \$3,000,000). No dividend payments may be made prior to the commencement of principal repayments and thereafter only to the extent of 50% of excess cash as defined.

Principal payments on long term debt during the succeeding five years are estimated to be as follows:

Year ending March 31,	
1982	\$1,250,000
1983	5,000,000
1984	5,000,000
1985	5,000,000
1986	5,000,000

4. INCOME TAXES

Deferred income taxes are provided in recognition of differences between amounts claimed for income tax purposes and amounts recorded in the accounts where such differences are offset by corresponding amounts in other periods. The sources of these differences and the tax effect of each are as follows:

	1981	1980	1979
	(thousands of Canadian dollars)		
Credits to income arising from capitalization of interest in capital expenditures, development costs, etc., at Black Lake property, less related amortization	\$2,563	\$1,867	\$1,868
Excess of mine development costs expensed in tax calculations over related amounts expensed in the accounts	1,077	2,529	768
Deferred income tax expense	3,640	4,396	2,636
Current income tax expense	768	66	
Tax expense	\$4,408	\$4,462	\$2,636

The ratio of applicable taxes to income before income taxes is less than the statutory Federal and Provincial income tax rates. The reasons for the differences, and their effect on the tax ratio, are as follows:

	1981	1980	1979
	%	%	%
Statutory tax rates	51.1	48.9	48.0
Increase (reduction) in taxes resulting from:			
Depletion	(11.6)	(12.3)	(10.4)
Mining taxes	9.0	11.7	9.7
Resource allowance	(17.9)	(16.8)	(20.0)
Receivership legal expenses9	
Other items1	.1	.8
Tax expense	30.7%	32.5%	28.1%

It is anticipated that subsequent to March 31, 1982 the ratio of applicable taxes to income before income taxes will increase to approximately 40% due to the virtual exhaustion of earned depletion available in the determination of taxes.

5. PRIOR PERIODS' ADJUSTMENT

On December 30, 1980 settlement was effected of approximately 70% of the pending legal claims for alleged health damage due to exposure to asbestos of employees of purchasers of the material. Settlements during calendar 1980 amounted to \$4,528,755 of which the Company's portion was \$2,717,253. As these claims related to periods prior to 1977, prior periods' earnings, net of income taxes of \$829,577, have been reduced by \$1,887,676. It is not possible to estimate the amount of any remaining claims but such settlements, if any, will be treated as prior periods' adjustments. Comparative figures for 1980 have been restated to give effect to this adjustment.

6. UNITED STATES ACCOUNTING PRINCIPLES

The Company follows Canadian accounting principles which are different from those applicable in the United States with respect to the prior period adjustment. Under United States principles income would have been affected as follows:

	1981	1980	1979
	(thousands of Canadian dollars)		
Net income based on Canadian accounting principles	\$ 9,970	\$ 9,271	\$ 6,762
Legal claims, net of income tax	(1,888)		
Net income based on United States accounting principles	\$ 8,082	\$ 9,271	\$ 6,762
Earnings per share			
Canadian	\$ 1.41	\$ 1.31	\$ 0.96
United States	\$ 1.14	\$ 1.31	\$ 0.96

The cumulative effect of the application of United States accounting principles on retained earnings would be as follows:

	1981	1980	1979
	(thousands of Canadian dollars)		
Retained earnings based on Canadian accounting principles	\$53,808	\$43,838	\$34,567
Legal claims, net of income tax		1,888	1,888
Retained earnings based on United States accounting principles	\$53,808	\$45,726	\$36,455

The effect of the application of United States accounting principles on working capital would be as follows:

	1981	1980	1979
	(thousands of Canadian dollars)		
Increase (decrease) in working capital based on			
Canadian accounting principles	\$ 6,052	\$14,101	\$ (2,872)
Legal claims	(2,717)		
Increase (decrease) in working capital based on			
United States accounting principles	\$ 3,335	\$14,101	\$ (2,872)

7. QUARTERLY DATA
(Quarters unaudited)

	Revenues	Net income	Earnings per share
Quarter ended	(thousands of Canadian dollars)		
June 30, 1980	\$ 6,764	\$ 2,643	\$.37
September 30, 1980	7,571	3,168	.45
December 31, 1980	6,508	2,572	.36
March 31, 1981	5,232	1,587	.23
Year ended March 31, 1981	\$26,075	\$ 9,970	\$1.41
Quarter ended			
June 30, 1979	\$ 6,569	\$ 2,463	\$.35
September 30, 1979	6,773	2,593	.36
December 31, 1979	6,187	1,655	.24
March 31, 1980	7,052	2,560	.36
Year ended March 31, 1980	\$26,581	\$ 9,271	\$1.31

8. SHAREHOLDERS' EQUITY

	1981	1980	1979
	(thousands of Canadian dollars)		
Retained earnings at beginning of year			
As previously reported	\$45,726	\$36,455	\$29,693
Company's portion of legal claims applicable to years prior to 1977 deducted in determining Net Proceeds, net of deferred income taxes of \$829,577	(1,888)	(1,888)	(1,888)
As restated	43,838	34,567	27,805
Net income	9,970	9,271	6,762
Retained earnings at end of year	53,808	43,838	34,567
Contributed surplus	826	826	826
Capital stock			
Authorized — 10,000,000 shares without par value	8,882	8,882	8,882
Issued — 7,074,913 shares	8,882	8,882	8,882
	\$63,516	\$53,546	\$44,275

9. SUPPLEMENTARY INFORMATION

Mining assets	<i>Balance at beginning of year</i>	<i>Additions (Deductions)</i>	<i>Amortization</i>	<i>Balance at end of year</i>
Year ended March 31, 1981				
Black Lake				
Interest in preproduction expenditures, fixed assets and development costs, net of amortization		(thousands of Canadian dollars)		
Fixed assets charged against net proceeds	\$ 1,529	\$ 977	\$ 358	\$ 2,148
Amounts contributed to fixed assets and preproduction expenditures originally paid for by Lac d'Amiante	10,695	402	427	10,670
Stripping costs	23,796	10,080	5,539	28,337
Dredging costs	450		23	427
United Asbestos' preproduction expenditures recoverable out of net proceeds	835		41	794
Supplies inventory charged against net proceeds	1,024	(94)		930
	38,329	11,365	6,388	43,306
United Asbestos' administrative and other expenses of preproduction period, net of amortization	343		17	326
	38,672	11,365	6,405	43,632
Midlothian				
Mining claims, buildings, machinery and equipment, at cost	35,067			35,067
Preproduction and tune-up costs, net of amortization, and net of sales to March 2, 1977 of \$2,974,831	16,071	830		16,901
Mine project financing costs	7,170	116		7,286
Employees' housing, at cost	3,488			3,488
Supplies inventory, at lower of cost and estimated net realizable value	201			201
	61,997	946		62,943
	\$100,669	\$12,311	\$6,405	\$106,575
Year ended March 31, 1980				
Black Lake				
Interest in preproduction expenditures, fixed assets and development costs, net of amortization		(thousands of Canadian dollars)		
Fixed assets charged against net proceeds	\$ 1,317	\$ 491	\$ 279	\$1,529
Amounts contributed to fixed assets and preproduction expenditures originally paid for by Lac d'Amiante	10,861	288	454	10,695
Stripping costs	20,285	9,292	5,781	23,796
Dredging costs	474		24	450
United Asbestos' preproduction expenditures recoverable out of net proceeds	880		45	835
Supplies inventory charged against net proceeds	736	288		1,024
	34,553	10,359	6,583	38,329
United Asbestos' administrative and other expenses of preproduction period, net of amortization	362		19	343
	34,915	10,359	6,602	38,672
Midlothian				
Mining claims, buildings, machinery and equipment, at cost	35,067			35,067
Preproduction and tune-up costs, net of amortization, and net of sales to March 2, 1977 of \$2,974,831	15,951	120		16,071
Mine project financing costs	7,168	2		7,170
Employees' housing, at cost	3,488			3,488
Supplies inventory, at lower of cost and estimated net realizable value	201			201
	61,875	122		61,997
	\$96,790	\$10,481	\$6,602	\$100,669

9. SUPPLEMENTARY INFORMATION (Continued)

Mining assets (Continued)				
Year ended March 31, 1979	Balance at beginning of year	Additions (Deductions)	Amortization	Balance at end of year
Black Lake				
Interest in preproduction expenditures, fixed assets and development costs, net of amortization		(thousands of Canadian dollars)		
Fixed assets charged against net proceeds	\$ 1,383	\$ 180	\$ 246	\$ 1,317
Amounts contributed to fixed assets and preproduction expenditures originally paid for by Lac d'Amiante	10,995	306	440	10,861
Stripping costs	15,993	9,188	4,896	20,285
Dredging costs	497		23	474
United Asbestos' preproduction expenditures recoverable out of net proceeds	924		44	880
Supplies inventory charged against net proceeds	914	(178)		736
	30,706	9,496	5,649	34,553
United Asbestos' administrative and other expenses of preproduction period, net of amortization	380		18	362
	31,086	9,496	5,667	34,915
Midlothian				
Mining claims, buildings, machinery and equipment, at cost	35,067			35,067
Preproduction and tune-up costs, net of amortization, and net of sales to March 2, 1977 of \$2,974,831	15,951			15,951
Mine project financing costs	7,168			7,168
Employees' housing, at cost	3,488			3,488
Supplies inventory, at lower of cost and estimated net realizable value	201			201
	61,875			61,875
	\$92,961	\$9,496	\$5,667	\$96,790

UNITED ASBESTOS INC.

Directors

PHILIP M. MALOUF
Chairman of the Board,
United Asbestos Inc.
Montreal, Quebec

RICHARD F. DOOLEY
Vice-President, United Asbestos Inc.
Honorary Vice-President,
Bethlehem Copper Corp.
Chicago, Illinois

PETER J. MALOUF
Secretary-Treasurer of
United Asbestos Inc.
Montreal, Quebec

FRANK K. MCGUIRE
Controller of
United Asbestos Inc.
Montreal, Quebec

JAMES D. BEATTY
Associated with
Gardiner, Watson Ltd.
Toronto, Ontario

WARREN G. HAMER
Associated with
Corporate Property Investors,
New York, N.Y.

ENID D. HERVEY
Accountant
Montreal, Quebec

HAROLD E. JOHNSON
Executive Vice-President of
The Continental Corp.
New York, N.Y.

DAVID G. WALSH
Vice-President of
Midland Doherty Ltd.
Montreal, Quebec

Officers

PHILIP M. MALOUF
*Chairman of the Board and
Chief Executive Officer*

RICHARD F. DOOLEY
Vice-President

PETER J. MALOUF
Secretary-Treasurer

FRANK K. MCGUIRE
Controller

Corporate Information

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Matachewan, Ontario

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New York, U.S.A.
Baker, Nudleman, Lamontagne & Dupont,
Montreal, Canada

Auditors:
Thorne Riddell,
Montreal, Canada

Transfer Agents and Registrars:
Canada Permanent Trust Co.,
Montreal, Canada
The Toronto-Dominion Bank Trust Co.,
New York, U.S.A.

Stock Exchange Listings: (Symbol UAS)
American, Montreal and Toronto
Stock Exchanges

