C

UNITED ASBESTOS INC.

ANNUAL REPORT

For the Year Ended
March 31, 1979

1155 Dorchester Boulevard West, Montreal, Canada H3B 2J6

TO THE SHAREHOLDERS OF
UNITED ASBESTOS INC.

Submitted herewith is the annual report of United Asbestos Inc. for the year ended March 31, 1979 together with the relevant financial statements and the auditors certificate thereon.

This is the Company's twenty-first year in asbestos mining and milling operations in the Joint Venture with Lac d'Amiante du Québec Ltée. Lac d'Amiante du Québec, Ltée, a wholly owned subsidiary of Asarco, changed its name from Lake Asbestos of Quebec, Ltd. in October 1978. The joint venture products are marketed world wide under the trademark LAQ.

Net income for the year ended March 31, 1979 was $6,762,704 or 96¢ per share compared with $7,138,069 or $1.01 for the previous year. Net income was adversely affected principally by the questionable and disputed overhead items charged by Asarco for pension funding and product liability insurance.

During the year ended March 31, 1979 the cash received on the company's behalf from the Black Lake joint venture amounted to $11,681,691; of this amount $5,441,326 was used to repay the deferred debt along with $4,170,547 as interest payments to secured creditors and $331,951 representing professional fees and expenses of the secured creditors Agent and lawyers.

The company continues to reflect an improved financial position as shown in the tabulation below:

Year Ended March 31:

	1979	1978 (in thousands)	1977
Total Assets	$ 100,427	$ 97,249	$ 90,712
Deferred Debt[1]	29,615	38,056	42,408
Net Worth	46,162	39,400	32,262
Net Proceeds of Joint Venture Operations with Asarco	19,842	19,477	16,433
United's share of Net Proceeds or Cash Flow	11,320	11,420	8,430

Note: (1) excluding current portion of estimated repayment as shown on balance sheet.

Joint Venture with LAQ

Operating results reflected the strengthening demand for asbestos fibres. Sales and production were at record highs. For the year ended March 31, 1979, operations resulted in shipments of 164,129 tons and production of 162,010 tons as compared with 150,185 tons and 156,294 tons respectively for the comparable previous twelve month period. The gross value of production was $74.9 million as compared with $62.9 million in the previous year.

Regulatory uncertainties in a number of industrialized countries could affect the market for certain manufactured products containing asbestos, however market research indicated that the long term demand for asbestos remains strong with shortages of asbestos cement grades developing. The expansion of asbestos cement manufacturing facilities for asbestos cement sheets and pipe chiefly in the developing countries indicates a strong demand for the principal grades of asbestos produced by the Joint Venture.

Ore reserves were unchanged from the previous year. Lac d'Amiante du Québec, Ltée has reported that at January 1, 1978 mineable open pit reserves of the Joint Venture totalled some 104 million tons with an average yield of 3.5% asbestos. Your Directors estimate that there is sufficient ore for 25 years of operations in addition to the possible reserves. These are being reclassified yearly on diamond drilling development and added to the mineable reserves.

Your Directors wish to give recognition to the staff of Lac d'Amiante du Québec, Ltée, and in particular to its chief officer Mr. Michael J. Messel for his excellent achievements in directing the Black Lake project since its inception. It is a model operation from every point of view and a good example of innovative engineering planning, coupled with practical and sound management. The Joint Venture operation represents the third largest asbestos producer in the Western World.

Asarco's Overhead Charges

In December, 1978, Asarco chose to charge overhead operations with $4,671,850 for pension funding and product liability insurance.

The $4,671,850 is comprised of a pension fund charge of $1,942,900 and a products liability insurance charge of $2,728,950. The $1,942,900 covers the joint venture's share of the 1978 portion of future service costs and all unfunded past service costs of the pension plans.

The deposit premium for the products liability insurance amounted to $3,896,338 of which $2,932,600 has been allocated to the joint venture. The partner has charged $2,727,950 of the $2,932,600 against 1978 operations and the remaining $203,650 will be charged by the partner against 1979 operations. Asarco has advised the company that the deposit premium is expected to be $1,025,000 (U.S.) for the period from March 15, 1979 through March 15, 1980.

The deposit premiums for the product liability insurance are payable to a newly formed wholly-owned Bermudian subsidiary company of the partner's parent company.

The incurrence of one time charge of the $4,671,850 does not unduly detract from the stated cash earnings power to United of $14,000,000-$15,000,000 per annum as the charges cover periods longer than one year. Management feels that Asarco need not have charged both items in the above manner, and was not consulted in this regard. Management can think of no other unusual items of similar magnitude which the partner would have the legal right to charge in the future.

United Asbestos and the principal secured creditor's Agent have questioned these charges and formal objections have been filed.

Midlothian Mine Asset

United Asbestos invested some $60 million in the Midlothian Mine asset in the Province of Ontario. When the company was placed in default by its secured creditors on March 2, 1977, operations on a tune up basis which were at 35% of capacity were suspended. The Midlothian Mine assets thereafter fell under the control and management of the Agent appointed by the major secured creditor pending repayment of the deferred debt. The plant and mine housing development are presently on a maintenance basis. The Midlothian ore deposit is indicated to contain 150 million tons of which some 26.5 million tons averaging 7.5% asbestos have been engineered for mining. Plant facilities are designed for operations of over 20 years at an annual productive capacity of 84,000 to 100,000 tons of asbestos. Fibre quality is excellent, and it is estimated that 70% of the mine output or 83% of value, is in cement grade fibres. United Asbestos, during its production period, had established general market acceptance of its products. In the past three years price increases of 45% were established for asbestos cement grades and some 33% for shorts.

With marketing surveys indicating shortages of Asbestos Cement grades for many years, with the developing demand for Group 5 fibre in those countries where processing is becoming more sophisticated, and with the prohibitive cost in establishing new mine production facilities, United Asbestos is in an enviable position for resumption of operations as a supplier of asbestos to world markets.

Refinancing

The Company has had a number of refinancing negotiations in the past year and has turned down a major refinancing proposal which it did not feel was in the best interest of the company and its shareholders. The income flow from the joint venture operations with Asarco and regular financial reporting, has significantly enhanced United's stature and credibility in the eyes of financial institutions. Currently, negotiations are under way for a restructuring of the company's debt in a manner which is more suitable to its shareholders.

On behalf of the Board of Directors

Philip M. Malouf
Chairman & Chief Executive Officer

Montreal, August 6th, 1979

UNITED ASBESTOS INC.

(incorporated under the laws of Quebec)

BALANCE SHEETS AS AT MARCH 31, 1979 AND 1978 (note 1)

ASSETS	1979	1978
CURRENT ASSETS		
Cash	$ 43,148	$ 27,448
Accounts receivable	2,449,205	2,451,954
Share of unsold production, Black Lake	1,144,208	1,809,789
Supplies inventory, Midlothian	201,000	201,000
	3,837,561	4,490,191
MINING ASSETS (note 3)		
Black Lake	34,178,873	30,171,236
Midlothian	61,674,295	61,674,295
	95,853,168	91,845,531
OTHER		
Share of supplies inventory, Black Lake	735,814	913,662
	$100,426,543	$97,249,384

Approved by the Board

Philip M. Malouf, Director

Peter J. Malouf, Director

AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED ASBESTOS INC.

We have examined the balance sheets of United Asbestos Inc. as at March 31, 1979 and 1978 and the statements of income and retained earnings and changes in financial position for the years then ended 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 procedures as we considered necessary in the circumstances.

As described in note 1, the company lost possession and control, but not ownership, of its assets on March 2, 1977 as a result of action initiated under the terms of a trust deed held on behalf of two major creditors. In order to regain possession and control of its assets, the company will have to obtain new long term financing and/or make such other arrangements as are required to attain profitable operations at its Midlothian mine.

LIABILITIES

	1979	1978
CURRENT LIABILITIES		
Due to Agent (note 4)	$ 280,951	$ 868,357
Accounts payable and accrued liabilities	73,892	86,705
Capital taxes payable by Agent		180,000
Estimated repayment of deferred debt payable (note 5)	7,000,000	4,000,000
	7,354,843	5,135,062
DEFERRED DEBT PAYABLE (note 5)	29,615,075	38,056,401
DEFERRED INCOME TAXES	17,294,000	14,658,000

SHAREHOLDERS' EQUITY

	1979	1978
CAPITAL STOCK		
Authorized		
10,000,000 shares without par value		
Issued		
7,074,913 shares	8,881,638	8,881,638
CONTRIBUTED SURPLUS	825,732	825,732
RETAINED EARNINGS	36,455,255	29,692,551
	46,162,625	39,399,921
	$100,426,543	$97,249,384

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

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, subject to the effects, if any, on the financial statements of the ultimate resolution of the matters referred to in the preceding paragraph, these financial statements present fairly the financial position of the company as at March 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

These financial statements are prepared on the basis that the company will continue to operate as a going concern. A failure to continue as a going concern would require that stated amounts of assets and liabilities be reflected on a liquidation basis which may differ materially from the going concern basis.

Montreal, Canada
June 15, 1979

THORNE RIDDELL & CO.
Chartered Accountants

UNITED ASBESTOS INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended March 31, 1979 and 1978

	1979	1978
REVENUES		
Net proceeds from operation of Black Lake property	$19,841,619	$19,477,421
Add (deduct) items deducted (added) in arriving at net proceeds		
Capital expenditures and deferred development	16,384,537	14,499,108
Supplies inventory	(355,695)	1,827,323
Income before amortization	35,870,461	35,803,852
Less share accruing to Lac d'Amiante du Québec, Ltée	15,360,056	15,089,850
Share to United Asbestos from operations, before amortization	20,510,405	20,714,002
OPERATING EXPENSES		
Administration	279,223	290,026
Amortization of mining assets (note 3)	5,666,754	4,644,511
Carrying costs, Midlothian property (note 2(b))	995,177	1,924,239
Interest on secured debt (note 2(b))	4,170,547	3,817,157
	11,111,701	10,675,933
Income before income taxes	9,398,704	10,038,069
Deferred income taxes	2,636,000	2,900,000
NET INCOME	6,762,704	7,138,069
RETAINED EARNINGS AT BEGINNING OF YEAR	29,692,551	22,554,482
RETAINED EARNINGS AT END OF YEAR	$36,455,255	$29,692,551
EARNINGS PER SHARE	$0.96	$1.01

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended March 31, 1979 and 1978

	1979	1978
WORKING CAPITAL DERIVED FROM		
Operations		
Net income	$ 6,762,704	$ 7,138,069
Add (deduct) items not involving working capital		
Deferred income taxes	2,636,000	2,900,000
Amortization of mining assets	5,666,754	4,644,511
Company's share of capital expenditures, deferred development and supplies inventory, Black Lake	(9,496,543)	(9,912,320)
Other		15,959
	5,568,915	4,786,219
Proceeds of disposal of other fixed assets		15,749
	5,568,915	4,801,968
WORKING CAPITAL APPLIED TO		
Repayment of deferred debt payable	5,441,326	4,351,390
Increase in current portion of deferred debt payable	3,000,000	
	8,441,326	4,351,390
INCREASE (DECREASE) IN WORKING CAPITAL	(2,872,411)	450,578
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	(644,871)	(1,095,449)
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ (3,517,282)	$ (644,871)

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

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 1979 and 1978

1. STATUS OF COMPANY

As a result of action initiated under the terms of a Trust Deed (issued in conjunction with Collateral Mortgage Bonds) held on behalf of two major creditors, the company lost possession and control, but not ownership, of its assets on March 2, 1977. The assets are now under the control and management of an Agent appointed by the principal secured creditor, except for cash for corporate operating expenses included in current assets.

On March 4, 1977 the company made a Proposal to its creditors, which after several amendments, was accepted by them and then ratified by the Court on December 14, 1977.

The Proposal reflects agreement between secured and unsecured creditors that all creditors will be fully paid from the net proceeds of the joint venture operations of the Black Lake mining property. Management estimates that the period of repayment will be a maximum of four to five years. In the event of the Midlothian property being sold in the interim period, all proceeds from the sale would reduce the obligations of the company, thus accelerating the projected period of repayment.

The major secured creditor has committed itself to not causing the company's interest in the Black Lake joint venture to be sold or otherwise disposed of for five years (from December 14, 1977) unless the cash flow (interest and principal payments) to that creditor is less than $6,500,000 during any twelve month period ($5,000,000 in certain circumstances).

The Proposal requires that the Midlothian mining assets be maintained intact for a period of six months (from December 14, 1977) unless there is prior agreement among the company and its creditors to "dismantle" and for a further period of eighteen months unless there is consent by a majority vote of the Creditors Committee.

Production at the Midlothian mine, which had reached 35% of rated capacity, ceased as of March 2, 1977 and all carrying costs of this property and other corporate expenses have been met on a current basis.

Management is satisfied that the Midlothian mine is a viable operation, but due to the shutdown, will require a substantial additional investment to achieve commercial production.

Management believes that the company should become fully operational within the foreseeable future. The nature of any new arrangements regarding the Midlothian mine cannot at present be forecasted. Attention is being directed to entering a joint venture arrangement and/or re-organizing the long term financing, in a manner acceptable to the present creditors.

The circumstances, as summarized above, are such that it is management's contention that it is appropriate to continue, at this time, to present financial statements on a going concern basis. In the event it becomes necessary to restate assets on a liquidation basis, management is satisfied that the liquidation value of the right to income from the Black Lake joint venture (using as a basis the present value of anticipated future income) substantially exceeds carrying value and that the resultant gain should exceed any loss arising on the liquidation of the company's investment in its Midlothian mining property.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation of financial statements

These financial statements are presented on a going concern basis as described in note 1.

Share of unsold production, Black Lake

Net proceeds represents 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.

Supplies inventory, Midlothian

This inventory is valued at the lower of cost and estimated net realizable value.

Mining assets (note 3)

(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. The restart of operations at Midlothian either by way of refinancing or joint venture is management's primary objective. 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.

Until Midlothian mining operations are resumed, all costs subsequent to March 2, 1977 have been charged against income as Carrying Costs, Midlothian Property, except for interest on secured debt which is charged separately to income.

Income taxes

The company records deferred income taxes which arise from claiming depreciation and other items for tax purposes in amounts differing from amounts recorded in the accounts.

3. MINING ASSETS

Year ended March 31, 1979

Black Lake	*Balance at beginning of year*	*Additions*	*Amortization*	*Balance at end of year*
Interest in preproduction expenditures, fixed assets and development costs, net of amortization				
Fixed assets charged against net proceeds	$ 1,382,256	$ 180,435	$ 246,122	$ 1,316,569
Amounts contributed to fixed assets and preproduction expenditures originally paid for by Lac d'Amiante	10,994,948	305,713	439,514	10,861,147
Stripping costs	15,992,812	9,188,243	4,895,623	20,285,432
Dredging costs	497,399		23,609	473,790
United Asbestos' preproduction expenditures recoverable out of net proceeds	923,890		43,852	880,038
	29,791,305	9,674,391	5,648,720	33,816,976
United Asbestos' administrative and other expenses of preproduction period, net of amortization	379,931		18,034	361,897
	30,171,236	9,674,391	5,666,754	34,178,873
Midlothian				
Mining claims, buildings, machinery and equipment, at cost	35,066,626			35,066,626
Preproduction and tune-up costs, net of amortization, and net of sales to March 2, 1977 of $2,974,831	15,951,466			15,951,466
Mine project financing costs	7,167,608			7,167,608
Employees' housing, at cost	3,488,595			3,488,595
	61,674,295			61,674,295
	$91,845,531	$9,674,391	$5,666,754	$95,853,168

3. MINING ASSETS (Continued)

Year ended March 31, 1978

Black Lake	*Balance at beginning of year*	*Additions*	*Amortization*	*Balance at end of year*
Interest in preproduction expenditures, fixed assets and development costs, net of amortization				
Fixed assets charged against net proceeds	$ 1,176,987	$ 450,659	$ 245,390	$ 1,382,256
Amounts contributed to fixed assets and preproduction expenditures originally paid for by Lac d'Amiante	10,820,752	615,274	441,078	10,994,948
Stripping costs	11,893,572	7,932,725	3,833,485	15,992,812
Dredging costs	521,440		24,041	497,399
United Asbestos' preproduction expenditures recoverable out of net proceeds	968,544		44,654	923,890
	25,381,295	8,998,658	4,588,648	29,791,305
United Asbestos' administrative and other expenses of preproduction period, net of amortization	398,294		18,363	379,931
	25,779,589	8,998,658	4,607,011	30,171,236
Midlothian				
Mining claims, buildings, machinery and equipment, at cost	35,066,626			35,066,626
Preproduction and tune-up costs, net of amortization, and net of sales to March 2, 1977 of $2,974,831	15,988,966		37,500	15,951,466
Mine project financing costs	7,167,608			7,167,608
Employees' housing, at cost	3,488,595			3,488,595
	61,711,795		37,500	61,674,295
	$87,491,384	$8,998,658	$4,644,511	$91,845,531

4. DUE TO AGENT

Amounts due to the Agent who has control and management of the company's assets are as follows:

	Expenses	*Midlothian receivable collections, etc.*	*Transactions with creditors and United Asbestos Inc.*	*Due to Agent*
Balances, March 31, 1977	$ 485,791	$ (98,604)	$ (122,500)	$ 264,687
April 1, 1977 to March 31, 1978				
Adjustment of termination pay advance			24,608	24,608
Corporate operating allowance			50,000	50,000
Payments to creditors			269,719	269,719
Expenses and collections	1,981,240	(528,892)		1,452,348
	2,467,031	(627,496)	221,827	2,061,362
Pledged collections offset against Mercantile Bank loans		627,496		627,496
Reimbursement of disbursements	(1,820,501)			(1,820,501)
Balances, March 31, 1978	646,530		221,827	868,357
April 1, 1978 to March 31, 1979				
Repayment of termination pay advance			97,892	97,892
Corporate operating allowance			164,543	164,543
Corporate capital taxes			332,205	332,205
Payments to creditors			115,636	115,636
Expenses	995,177			995,177
	1,641,707		932,103	2,573,810
Reimbursement of disbursements	(1,483,657)		(809,202)	(2,292,859)
Balances, March 31, 1979	$ 158,050		$ 122,901	$ 280,951

4. DUE TO AGENT (Continued)

Details of amounts comprising expenses of $3,462,208 are as follows:

	March 2, 1977 to March 31, 1977	*April 1, 1977 to March 31, 1978*	*April 1, 1978 to March 31, 1979*	*March 2, 1977 to March 31, 1979*
Professional fees and expenses		$ 435,651	$331,951	$ 767,602
Mine maintenance, etc.	$ 98,702	461,842	391,985	952,529
Engineering, diamond drilling and testing for mine evaluation		266,821	16,844	283,665
Personnel termination costs	230,052	4,006	1,482	235,540
Insurance	23,000	530,264	137,372	690,636
Selling costs of fibre, etc.	82,799	38,773		121,572
Administrative expenses	51,238	105,101	405	156,744
Interest		105,911	42,716	148,627
Townsite costs		32,871	72,422	105,293
	$485,791	$1,981,240	$995,177	$3,462,208

5. DEFERRED DEBT PAYABLE

Obligations arising out of secured debt default on March 2, 1977, are as follows:

	1979	1978
Balance at beginning of year	$42,056,401	$46,407,791
Repayment of debt during year, net	5,441,326	4,351,390
	36,615,075	42,056,401
Less estimated repayments within one year included in current liabilities	7,000,000	4,000,000
Balance at end of year	$29,615,075	$38,056,401
Consisting of:		
Secured creditors' loans, including interest to date		
The Mercantile Bank of Canada	$23,715,196	$26,909,165
Kanematsu-Gosho (Canada) Ltd.	4,442,697	5,781,524
Banque Canadienne Nationale	1,309,289	1,178,660
	29,467,182	33,869,349
Other creditors, net of funds held on their behalf by the trustee	7,147,893	8,187,052
	36,615,075	42,056,401
Less estimated repayments within one year included in current liabilities	7,000,000	4,000,000
	$29,615,075	$38,056,401

The loans of the Mercantile Bank of Canada are secured by issuance of $25,000,000 15% Collateral Mortgage Bonds (out of an authorized issue of $30,000,000) and a $10,000,000 18% Demand Debenture issued February 7, 1977 (out of an authorized issue of $20,000,000), payable on demand and secured by a trust deed hypothecating all of the assets of the company, except employees' housing located in the Town of Matachewan, Ontario. The series of loans are at interest rates ranging between 1½% and 3% above the bank's prime lending rate.

The loan from Kanematsu-Gosho (Canada) Ltd. is secured by the remaining $5,000,000 of 15% Collateral Mortgage Bonds referred to above, but are subordinated in favour of those held by the bank. Interest on the loan is at a rate of 2.25% above the prime rate of the Toronto-Dominion Bank.

The loan from the Banque Canadienne Nationale is secured by a demand note supported by a collateral mortgage on the employees' housing. The bank diminished its secured claim by $2,219,184 at a creditors' meeting on June 29, 1977 and the secured portion is at an interest rate of 1½% above the bank's prime lending rate with the minimum interest rate being 10%. The rights of the bank to revalue its security in the future are acknowledged.

The estimated repayments of $7,000,000 within one year from March 31, 1979 are based on the assumption that cash proceeds from Black Lake operations will be at least $12,000,000.

6. CONTINGENT LIABILITIES

In the opinion of management and the company's lawyers, contingent liabilities reported as being $1,733,642 at March 31, 1978 have been reduced to immaterial amounts at March 31, 1979.

7. QUARTERLY DATA

(Quarters unaudited)

	Revenues	*Net income*	*Earnings per share*
Quarter ended			
June 30, 1978	$ 5,353,286	$1,919,701	27¢
September 30, 1978	6,502,582	2,708,863	38¢
December 31, 1978	3,975,554	805,184	11¢
March 31, 1979	4,678,983	1,328,956	20¢
Year ended			
March 31, 1979	$20,510,405	$6,762,704	96¢
Quarter ended			
June 30, 1977	$ 4,973,099	$1,884,062	27¢
September 30, 1977	5,695,956	2,086,323	29¢
December 31, 1977	5,147,291	1,650,702	23¢
March 31, 1978	4,897,656	1,516,982	22¢
Year ended			
March 31, 1978	$20,714,002	$7,138,069	$1.01

UNITED ASBESTOS INC.

SUMMARY OF OPERATIONS AND STATEMENT OF RETAINED EARNINGS

Five Years ended March 31, 1979

	1975	1976	1977	1978	1979
REVENUES*					
Net proceeds from operation of Black Lake property	$11,024,132	$ 4,279,917	$16,432,529	$19,477,421	$19,841,619
Add (deduct) items deducted (added) in arriving at net proceeds					
Capital expenditures and deferred development	6,262,098	3,866,320	12,073,818	14,499,108	16,384,537
Supplies inventory				1,827,323	(355,695)
Income before amortization	17,286,230	8,146,237	28,506,347	35,803,852	35,870,461
Less share accruing to Lac d'Amiante du Québec, Ltée	8,643,115	4,073,118	13,883,355	15,089,850	15,360,056
Share to United Asbestos from operations, before amortization	8,643,115	4,073,119	14,622,992	20,714,002	20,510,405
Investment income	121,364	10,710			
	8,764,479	4,083,829	14,622,992	20,714,002	20,510,405
OPERATING EXPENSES					
Administration	650,228	600,873	638,165	290,026	279,223
Mining assets					
Amortization	2,572,605	1,613,235	4,016,353	4,644,511	5,666,754
Exploration expenditures	16,001				
Carrying costs, Midlothian property			490,443	1,924,239	995,177
Interest on secured debt	558,816	2,787,082	4,149,064	3,817,157	4,170,547
Less interest capitalized	(558,816)	(2,787,082)	(3,844,557)		
	3,238,834	2,214,108	5,449,468	10,675,933	11,111,701
Income before income taxes	5,525,645	1,869,721	9,173,524	10,038,069	9,398,704
Deferred income taxes	1,667,000	463,000	2,466,000	2,900,000	2,636,000
NET INCOME	3,858,645	1,406,721	6,707,524	7,138,069	6,762,704
Retained earnings at beginning of year	11,070,794	14,440,237	15,846,958	22,554,482	29,692,551
Dividends paid, less intercorporate dividends	(489,202)				
RETAINED EARNINGS AT END OF YEAR	$14,440,237	$15,846,958	$22,554,482	$29,692,551	$36,455,255
Earnings per share:					
Number of shares outstanding	7,074,913	7,074,913	7,074,913	7,074,913	7,074,913
Net income	55¢	20¢	95¢	$1.01	96¢
Cash dividends per share	7¢				

*Revenues, other than investment income, derived solely from production and sale of asbestos fibre at Black Lake property under agreement with Lac d'Amiante du Québec, Ltée.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

1979-78

Total revenues for the year ended March 31, 1979 decreased by $203,597 or 1%. Although fibre tons sold increased by 9%, mine operations were adversely affected by costs of $4,875,500 incurred by the joint-venture partner for three-year retroactive product liability insurance and for past service pension funding.

Operating expenses increased by $435,768 or 4%, of which increases of $1,022,243 (22%) in amortization charges and $353,390 (9%) in interest costs were offset by decreases of $929,062 (48%) in Midlothian carrying costs and $10,803 in administration expenses. Amortization increased due to the 9% increase in fibre tons sold and an increase of 7% in the average waste ton unit cost. Interest increased due to substantial interest rate increases during the year.

Deferred income taxes decreased by $264,000 or 9%.

1978-77

Total revenues for the year ended March 31, 1978 increased by $6,091,010 or 42%. Our share of the Black Lake proceeds increased as did the revenue add-backs for capital items and supplies inventory charged against these proceeds.

Operating expenses increased by $5,226,465 or 95% primarily due to increases of $3,512,650 in interest charges and $1,433,796 in the carrying costs of the Midlothian mine. Such costs were capitalized prior to the mine's closure on March 2, 1977.

Deferred income taxes increased by $434,000 or 18%.

MARKET PRICE FOR COMPANY'S SHARES

	1979		1978		1977	
Quarter Ending:	*High*	*Low*	*High*	*Low*	*High*	*Low*
March	3.40	2.45	1.40	.80	3.85	2.00
June	3.60	2.80	1.75	1.25	3.10	.90
September	—	—	2.25	1.50	1.25	.90
December			2.70	1.75	1.00	.80

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