United Asbestos Annual Report 1974

United Asbestos Inc.

Directors

Richard F. Dooley,
Chicago, Illinois

Fred D. Jenkins,
Milwaukee, Wis.

Philip M. Malouf,
Montreal, Quebec

Max Margolis,
West Warwick, R.I.

R. J. Merrill,
Montreal, Quebec

W. R. Salter, Q.C.
Toronto, Ontario

John B. Sangster,
Regina, Sask.

J. M. Scrimgeour,
Montreal, Quebec

J. C. Shaw,
Montreal, Quebec

Officers

Philip M. Malouf,
Chairman of the Board and Chief Executive Officer

R. J. Merrill,
President and Chief Operating Officer

Richard F. Dooley,
Vice-President

J. C. Shaw,
Vice-President, Mining

J. M. Scrimgeour,
Vice-President, Finance

W. R. Salter, Q.C.,
Secretary

E. D. Hervey,
Treasurer

Head Office and Executive Office
1155 Dorchester Boulevard West, Montreal, Quebec

Mine Office
Matachewan, Ontario

Transfer Agents and Registrars
Canada Permanent Trust Co.,
Montreal and Toronto

The Bank of New York,
New York, N.Y.

Bankers,
Mercantile Bank of Canada, Montreal

Auditors,
Thorne, Gunn & Co., Montreal

Annual General Meeting

On July 31st, 1974 at 11 A.M.
in The Windsor Hotel, Montreal, P.Q.

Cover photo: Ore samples from Company's property in Midlothian, Ontario.

To the Shareholders

Your directors are pleased to present the Annual Report of your company including the audited financial statements for the fiscal year ending March 31, 1974.

As a result of the amalgamation of United Asbestos Corporation and Allied Mining Corporation into United Asbestos Inc. (approved by the shareholders on May 28, 1973) and with the change of the fiscal year to March, 31st, the notes to the financial statements have been expanded.

The results of the joint venture operation with Lake Asbestos of Quebec Ltd. have improved in all respects during the year. Mining operations of Lake Asbestos at Black Lake during the past year showed a net profit of $12,179,617 including capital expenditures and deferred developments amounting to $5,554,315. Under the terms of the 1952 Agreement with Lake Asbestos of Quebec, Ltd. (a subsidiary of American Smelting & Refining Co.), United shares a minimum of 50% and a maximum of 60% of the earnings depending on the net proceeds per ton of ore milled. In order to reach production, a total of $39,897,000 of capital advances were made by Lake Asbestos to the joint venture enterprise. Under a favourable arrangement, the funds advanced are non-interest bearing but required 75% of the earnings to be used to retire such advances. This repayment of 75% of the earnings was reduced to 50% by the September 1972 agreement which also provided for the purchase of additional mining lands. On a 50% basis, United's share of the earning power of the mine was $6,089,809 before amortization. This compares with $5,220,483 in the previous year ended March 31, 1973. Pre-production and other expenditures of the joint venture as at March 31, 1974, amounted to $551,345.

For the year ended March 31, 1974, mining operations at Lake Asbestos resulted in asbestos production of 156,937 tons and sales of 165,777 tons as compared with 141,820 tons and 156,063 tons respectively for the comparable previous 12 month period.

In 1972 and 1973, the joint venture acquired ore bearing properties adjoining the open pit operations from Asbestos Corp. Estimated proven and probable reserves now stand at some 103 million tons averaging 3.25% recoverable asbestos. Work is proceeding thereon to further expand mining operations.

The following tables reflect certain aspects of the mining and milling operations of the joint venture for the preceding five calendar years.

Calendar Year	*Tons Mined — All Material (Including Overburden)*	*Tons Overburden*
1969	11,646,840	787,056
1970	12,432,919	2,837,677
1971	12,798,223	4,399,774
1972	12,347,033	2,440,205
1973	14,856,750	537,174

	Delivered to Concentrator		*Tons Processed*	
Calendar Year	*Tons*	*Fibre % Yield*	*Tons Rejected*	*Tons Milled*
1969	3,716,140	3.37	1,392,687	2,323,453
1970	3,802,913	3.52	1,436,986	2,365,927
1971	4,088,249	3.15	1,858,823	2,229,426
1972	4,468,681	3.09	2,035,713	2,432,968
1973	4,644,670	3.34	2,066,502	2,578,168

	Tons of Fibre		
Calendar Year	*Produced*	*Shipped**	*Year End Inventory*
1969	126,769	132,631	6,219
1970	133,903	137,240	8,556
1971	128,972	129,062	14,527
1972	137,277	150,032	9,139
1973	155,095	168,875	6,731

**Includes fibre purchased for resale*

Canadian Asbestos output in 1973 of 1,974,000 tons valued at $241,000,000 was 287,000 tons higher and $35,000,000 higher than in 1972. This resulted from a continued strong world demand for asbestos in 1973 and in response to this demand, the 11 companies in Canada that operate asbestos mines, continued peak production at existing mines. The increase of 14% in sales of Canadian Asbestos in 1973 reflects a marked firming for demand in world markets and this trend in outlook appears to continue for the balance of 1974. Asbestos prices have increased by some 37% since August, 1973, offsetting increased operating costs and devaluation of U.S. currency. To meet the shortfall in demand, Canadian asbestos producers have strained their production capabilities and a number of asbestos properties are under feasibility study.

In the Province of Ontario, the Midlothian Township Asbestos Property — which the company owns — will provide a new source of asbestos and work is proceeding to place the mine into production at an initial rated annual capacity of 100,000 tons of asbestos per year. Independent consultants have estimated the north zone to contain 35.5 million tons of cross fibre chrysotile asbestos reserves with an estimated grade of 9.65% recoverable asbestos. United Asbestos has given a contract to General Engineering Company of Toronto, a division of the international engineering firm of Surveyer Nenninger and Chevevert, Montreal, for the detailed design and management of construction of the crushing and milling plants, to be followed by tune up of milling operations. The contracted target date to turn over the mill facilities to United for full scale commercial production is July 1, 1975.

During the past year, United has designed and pilot tested the flow sheet for the new mill and directed the designing of the plant around it. Access roads have been built and the power line is under construction. Foundations have been poured and the structural steel is being erected. The buildings will be closed in by fall. Some of the mining and milling equipment is already on the property; the major portion of the balance is on order for delivery and installation during the coming fall and winter. No serious delays have been encountered and management is optimistic that this momentum can be maintained to the successful conclusion of the project.

A very competent staff with many years of experience in asbestos production and marketing has been assembled who will go a long way toward meeting the planned objectives. The mining crew is currently being used on pit operation and recruiting for the milling group will start later in the year.

Preliminary samples sent to major asbestos users around the world have been very well received. These have led to requests for larger samples for industrial trials which are being prepared in pilot mill facilities using the same processing techniques as will be used in the mill.

Management plans to sell some of its output through distributors and the well-known firm of Kanematsu-Gosho has been awarded the exclusive asbestos sales distributorship in Japan. Negotiations are going forward with potential representatives in other parts of the world.

It is estimated that the capital requirements to bring the property into production are $26,000,000 for a plant capable of treating some 4,000 tons per operating day to produce 100,000 tons of asbestos annually.

The first $6,000,000 has now been spent or committed by the Company from current assets. The balance of $20,000,000 will be borrowed from the Mercantile Bank of Canada $15,000,000 and Kanematsu-Gosho of Japan $5,000,000. United Asbestos is now preparing a Trust Deed covering $20,000,000 in First Mortgage Debentures which will hypothecate all of its assets. Of this issue, the Mercantile Bank proposes to take down a total of $15,000,000 covering their loan and Kanematsu-Gosho take down a total of $5,000,000 covering their loan. Under the terms of the Trust Deed, the $5,000,000 of debentures issued to Kanematsu-Gosho will rank second to the $15,000,000 of debentures issued to the Mercantile Bank of Canada.

United Asbestos Inc., with its Midlothian mine coming into production, will be of sufficient magnitude in terms of mineable reserves, production and cash flow to provide a strong base for future growth of the enterprise in the mining industry. The Company will have two sources of income. —

(1) from the present 50% share of the net proceeds in the joint venture with Lake Asbestos of Quebec, Ltd. — which it does not operate;

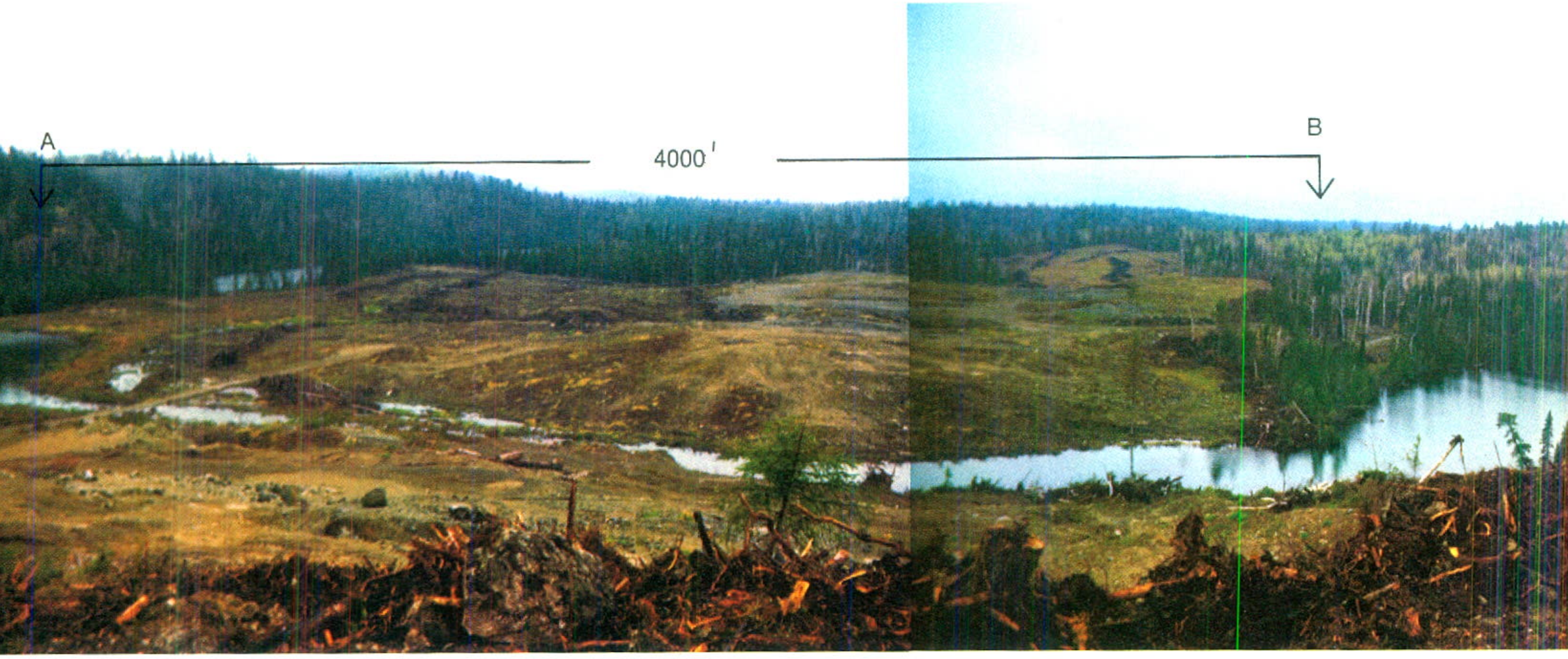
(2) and from its 100% ownership of the Midlothian mine, which is now being prepared for production and which it will operate.

On behalf of the Board of Directors,

Philip M. Malouf
Chairman and Chief Executive Officer

Robert J. Merrill
President and Chief Operating Officer

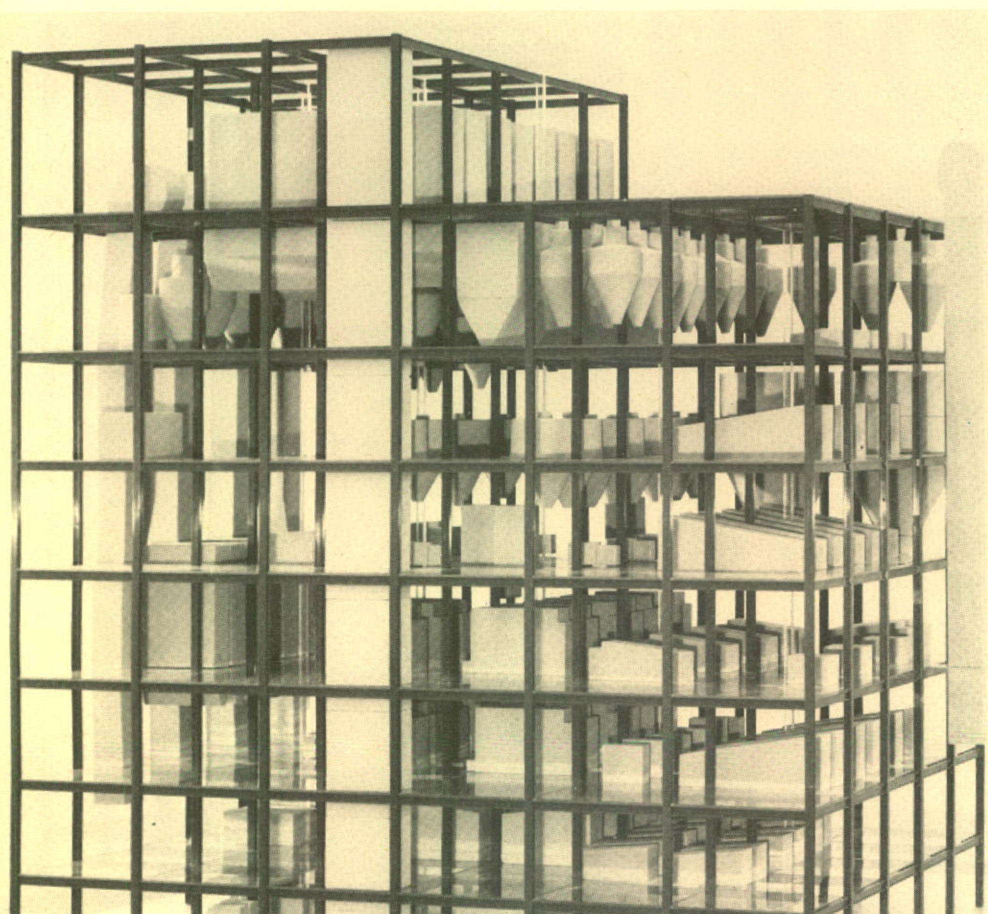
Montreal, Quebec
June 20, 1974



Above: Portion of North Zone ore body 4000 feet long, cleared of forest growth and ready for open pit development.

Right: Pouring of first mill foundation.

Above: Mill foundations readied for steel erection.



Left: Model to scale of the Midlothian mill which will be 135 feet in height.

Above: Placing of 20 foot cables to anchor mill building.

Right: Aggregate crushing plant at Midlothian.

Above: Panoramic view of Black Lake, Quebec, mine operation producing asbestos since 1958.

Left: View across mill site to rock storage area.

United Asbestos Inc. (note 1 (a))

(Incorporated under the laws of Quebec)

Balance Sheets

March 31, 1974 and 1973

Assets

	1974	1973
Current Assets		
Cash	$ 47,763	$ 163,842
Short-term bank deposit	1,100,000	3,700,000
Short-term commercial paper	700,000	
Marketable securities (note 1 (f))	119,000	391,360
Accounts receivable	577,346	340,629
Principal due within one year on investment in other companies (note 3)	150,000	175,000
Income taxes recoverable	—	117,172
	2,694,109	4,888,003
Deferred Account Receivable (note 2 (f))	136,299	210,952
Investment in Other Companies (note 3)	150,001	300,001
Mining Assets (notes 4, 5 and 6)		
Black Lake	21,567,425	18,741,428
Midlothian	5,905,249	2,068,653
Other properties	25,001	182,299
	27,497,675	20,992,380
Fixed Assets, at cost less accumulated depreciation	42,451	20,112
	$30,520,535	$26,411,448

Auditors' Report

To the Shareholders of
United Asbestos Inc.

We have examined the balance sheets of United Asbestos Inc. as of March 31, 1974 and March 31, 1973 and the statements of income, retained earnings and changes in financial position for the year ended March 31, 1974 and for the three months ended March 31, 1973 and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Except that the provision for income taxes has not been determined on the tax allocation basis (see note 7), 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, 1974 and March 31, 1973 and the results of its operations and the changes in its financial position for the year ended March 31, 1974 and the three months ended March 31, 1973, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the amalgamation referred to in note 1.

Thorne Gunn & Co.
Chartered Accountants

Montreal, Canada
May 9, 1974

Liabilities

	1974	1973
Current Liabilities		
Accounts payable and accrued liabilities	$ 615,708	$ 245,304
Share of Net Proceeds attributable to future periods (note 2 (e))	539,663	31,591
Long-term Debt		
Note payable, non-interest bearing, maturing April 1, 1978 (note 6 (a))	1,000,000	1,000,000
Advances repayable in 1977, non-interest bearing (note 2 (c))	425,000	
	1,425,000	1,000,000

Shareholders' Equity

Capital Stock (note 8)		
Authorized		
10,000,000 shares without par value		
Issued		
7,074,913 shares (1973, 7,039,913 shares)	8,881,638	8,776,638
Contributed Surplus	825,732	825,732
Retained Earnings	18,232,794	15,532,183
	27,940,164	25,134,553
	$30,520,535	$26,411,448

Pension Plan (note 9)

Other Information (note 10)

Approved by the Board

J. B. Sangster, Director

J. M. Scrimgeour, Director

Statement of Income
(note 7 (b))

Year ended March 31, 1974 and
three months ended March 31, 1973 (note 1 (c))

(with comparative figures for the year ended March 31, 1973)

	Year ended March 31, 1974	Three months ended March 31, 1973	Year ended March 31, 1973
Revenues:			
Net proceeds from joint venture, operations of Black Lake property	$ 6,625,302	$ 1,230,503	$ 6,036,117
Add capital expenditures and deferred development deducted in arriving at net proceeds	5,554,315	1,176,223	4,404,849
Net profit of joint venture before amortization	12,179,617	2,406,726	10,440,966
Less share accruing to Lake Asbestos of Quebec, Ltd., 50% of net profit	6,089,809	1,203,363	5,220,483
Share to United Asbestos from operations of joint venture, before amortization	6,089,808	1,203,363	5,220,483
Investment income	237,546	63,115	357,373
	6,327,354	1,266,478	5,577,856
Operating Expenses:			
Administration	408,990	74,198	324,833
Depreciation	6,390	1,721	5,790
Mining assets (note 6)			
Amortization	2,543,926	577,634	2,356,307
Exploration expenditures	177,633	16,111	87,103
	3,136,939	669,664	2,774,033
Income before income taxes and extraordinary item	3,190,415	596,814	2,803,823
Income taxes (note 7)	109,642	104,000	225,000
Income before extraordinary item	3,080,773	492,814	2,578,823
Merger expenses, less applicable income taxes (note 7 (f))	37,797	56,000	140,000
Net Income for the Period	$ 3,042,976	$ 436,814	$ 2,438,823
Earnings per share (1974, based on weighted average number of shares outstanding)			
Number of shares	7,054,496	7,039,913	7,039,913
Income before extraordinary item	44¢	7¢	37¢
Extraordinary item	(1¢)	(1¢)	(2¢)
Net income for the period	43¢	6¢	35¢

Statement of Retained Earnings

Year ended March 31, 1974 and
three months ended March 31, 1973 (note 1 (c))

(with comparative figures for the year ended March 31, 1973)

	Year ended March 31, 1974	Three months ended March 31, 1973	Year ended March 31, 1973
Balance at beginning of period	$15,532,183	$	$13,464,988
As previously reported		15,062,184	
Adjustment of prior years' income taxes		33,185	(7,715)
As restated		15,095,369	13,457,273
Net income for the period	3,042,976	436,814	2,438,823
	18,575,159	15,532,183	15,896,096
Cash dividends	342,365		336,052
Elimination arising from intercorporate purchase of shares during period			27,861
	342,365		363,913
Balance at end of Period	$18,232,794	$15,532,183	$15,532,183

Statement of Changes in Financial Position

Year ended March 31, 1974 and
three months ended March 31, 1973 (note 1 (c))

(with comparative figures for the year ended March 31, 1973)

	Year ended March 31, 1974	Three months ended March 31, 1973	Year ended March 31, 1973
Source of Funds			
Operations			
Net income for the period	$3,042,976	$ 436,814	$2,438,823
Add items not involving current funds			
Amortization of mining assets (note 6)	2,543,926	577,634	2,356,307
Deferred exploration written off (note 6)	177,633	16,111	87,103
Depreciation	6,390	1,721	5,790
Other	2,401		214
	5,773,326	1,032,280	4,888,237
Decrease (increase) in deferred account receivable	74,653	(9,295)	52,733
Share of net proceeds attributable to future periods	508,072	31,591	31,591
Total Funds Derived from Operations	6,356,051	1,054,576	4,972,561
Principal due within one year on investment in other companies	150,000		175,000
Advances repayable in 1977	425,000		
Issuance of capital stock	105,000		
Total Additions	7,036,051	1,054,576	5,147,561
Application of Funds			
Additions to mining assets (note 6)	9,226,854	1,101,079	5,287,715
Additions to fixed assets	31,130	4,662	10,154
Dividends paid	342,365		336,052
Purchase of intercorporate shares			60,064
Total Deductions	9,600,349	1,105,741	5,693,985
Decrease in Working Capital	2,564,298	51,165	546,424
Working Capital at Beginning of Period			
Balance at beginning	4,642,699	4,660,679	5,196,838
Adjustment of prior years' income taxes		33,185	(7,715)
As restated	4,642,699	4,693,864	5,189,123
Working Capital at End of Period	$2,078,401	$4,642,699	$4,642,699
Working capital represented by:			
Current assets	$2,694,109	$4,888,003	$4,888,003
Current liabilities	615,708	245,304	245,304
	$2,078,401	$4,642,699	$4,642,699

Notes to Financial Statements

1. Amalgamation

(a) On June 28, 1973 United Asbestos Corporation Limited and Allied Mining Corporation were amalgamated under the terms of an Amalgamation Agreement dated February 26, 1973 whereby they continue under the name United Asbestos Inc. On amalgamation, the issued and outstanding shares of the amalgamating companies, reduced by the cancellation of intercorporate holdings prior to amalgamation, were converted into 7,039,913 issued and outstanding shares of United Asbestos Inc. on a one-for-one basis. The authorized capital of United Asbestos Inc. consists of 10,000,000 shares without par value.

(b) The amalgamation has been accounted for on a pooling of interests basis and the financial information contained herein is presented after giving retroactive effect to this amalgamation.

(c) Concurrent with the amalgamation, the fiscal year end of United Asbestos Inc. became March 31 whereas the fiscal year end of the constituent companies was December 31.

(d) The details of the results of operations of the previously separate companies for the period from January 1, 1973 to June 28, 1973, the date of amalgamation, are as follows and are reconciled on a pooling of interests basis to the results of operations of the amalgamated company, applied retroactively, for the three month period ended March 31, 1973 and for the period from April 1, 1973 to June 28, 1973:

	United Asbestos	*Allied Mining*	*Total*
Three months ended March 31, 1973			
Revenues	$ 1,254,759	$ 5,777	$ 1,260,536
Income (loss) before extraordinary item	$ 527,032	$ (42,543)	$ 484,489
Merger expenses			
United Asbestos, less applicable income taxes of $19,000	(33,500)		(33,500)
Allied Mining		(22,500)	(22,500)
Net income (loss) of separate companies for the period	$ 493,532	$ (65,043)	428,489
Pooling adjustment			
Valuation adjustment applicable to Allied's holdings of United's shares			8,325
Pooled net income for three months ended March 31, 1973 as shown in accompanying statement of income			$ 436,814
Period from April 1, 1973 to June 28, 1973			
Revenues	$ 1,295,675	$ 8,096	$ 1,303,771
Net income (loss) of separate companies for the period	$ 528,465	$ (76,811)	451,654
Pooling adjustments			
Intercorporate dividend			(3,866)
Valuation adjustment applicable to Allied's holdings of United's shares			41,476
Pooled net income for the period from April 1, 1973 to June 28, 1973, included in net income for the year ended March 31, 1974			$ 489,264

(e) The details of the changes in shareholders' equity of the previously separate companies for the period from January 1, 1973 to June 28, 1973, the date of amalgamation, are as follows and only affect the retained earnings (deficit) of those companies, and are reconciled on a pooling of interests basis, applied retroactively, to the retained earnings of the amalgamated company at March 31, 1973 and June 28, 1973:

	United Asbestos	Allied Mining	Total
Three months ended March 31, 1973			
Retained earnings (deficit) at beginning of period			
As previously reported	$18,052,823	$ (2,481,561)	$15,571,262
1972 provision for estimated costs of amalgamation	(105,000)	(45,000)	(150,000)
Adjustment of prior years' income taxes	33,185		33,185
As restated	17,981,008	(2,526,561)	15,454,447
Net income (loss) for the period	493,532	(65,043)	428,489
Retained earnings (deficit) of separate companies at end of period	$18,474,540	$ (2,591,604)	15,882,936
Pooling adjustments			
Valuation adjustment applicable to Allied's holdings of United's shares			83,451
Elimination arising from intercorporate purchase of shares			(434,204)
Pooled retained earnings at March 31, 1973 as shown in accompanying statement of retained earnings			$15,532,183
Period from April 1, 1973 to June 28, 1973			
Retained earnings (deficit) at beginning of period, as above	$18,474,540	$ (2,591,604)	$15,882,936
Net income (loss) for the period	528,465	(76,811)	451,654
	19,003,005	(2,668,415)	16,334,590
Cash dividend, including intercorporate dividend of $3,866	(346,231)		(346,231)
	United Asbestos	Allied Mining	Total
Retained earnings (deficit) of separate companies at end of period	$18,656,774	$ (2,668,415)	15,988,359
Pooling adjustments			
Valuation adjustment applicable to Allied's holdings of United's shares			124,927
Elimination arising from intercorporate purchase of shares			(434,204)
Pooled retained earnings, June 28, 1973			$15,679,082

(f) Marketable securities are valued at cost or lower, and quoted market values at March 31, 1974 and 1973 were $110,000 and $390,508 respectively. Prior to amalgamation on June 28, 1973, Allied Mining carried its marketable securities in its accounts at cost, reduced to quoted market value, and United Asbestos carried its marketable securities in its accounts at cost.

2. Joint Venture with Lake Asbestos of Quebec, Ltd.

(a) Under an agreement dated September 17, 1952 and the supplemental agreements thereto between United Asbestos Corporation Limited and Lake Asbestos of Quebec, Ltd., referred to therein as Asarco, to which its parent company, American Smelting & Refining Company, is also a party, Asarco undertook to equip and operate the company's property at Black Lake, Quebec, and the agreement sets out the basis for the distribution of net proceeds of operations as defined therein. In general, subject to certain modifications contained in the supplemental agreement dated September 5, 1972 described in note 2(b) hereinafter, until such time as the respective companies shall have received a share of the net proceeds equal to their respective preproduction and other expenditures referred to in the agreement, 75% of the net proceeds is to be distributed between them in the proportion that their respective preproduction and other expenditures bear to the total of such expenditures of both companies. The remaining 25% of net proceeds of operations is distributed on a different formula which also applies to the distribution of 100% of the net proceeds of operations after the respective companies have received a portion of net proceeds equal to their total preproduction and other expenditures as referred to above. Under this latter formula, United is to receive 60% of the net proceeds if the net proceeds per ton of ore milled in any fiscal year exceeds $5 and a lesser proportion if the net proceeds per ton of ore milled are less than $5 but in no case is United to receive less than 50% of the net proceeds. During the year ended March 31, 1974 and the three month period ended March 31, 1973, the net proceeds per ton of ore milled were such that United's proportion of net proceeds was 50% before providing for reimbursement to Lake Asbestos of its proportion of preproduction and other expenditures.

(b) In December, 1971, Asarco purchased from Asbestos Corporation Limited, for the sum of $1,750,000, certain rights in mining lands adjoining the Black Lake Properties. United Asbestos did not consider this acquisition as a permissable charge against the joint venture constituted by the Asarco Agreement and so advised Asarco. Subsequently by letter of United Asbestos dated September 5, 1972, and accepted by Asarco September 8, 1972, Asarco and United Asbestos agreed that the aforementioned mining rights so acquired would form part of the Black Lake Properties and the acquisition costs, as well as other capital outlays therefor, would be treated as part of Asarco's preproduction and other expenditures under the Asarco Agreement; provided that commencing with the realization of the net proceeds from ore milled in 1973 and in subsequent years, 50% (instead of 75%) of the net proceeds of the joint venture will be applied in repayment to Asarco and United Asbestos, pro rata and without interest, of their respective unrecovered preproduction and other expenditures, the remaining 50% (instead of 25%) of the net proceeds to be divided between Asarco and United Asbestos in accordance with the formula under the Asarco Agreement for the division of net proceeds not allocated to repay preproduction and other expenditures to Asarco and United Asbestos. After Asarco's and United Asbestos' preproduction and other expenditures have been repaid, net proceeds will be distributed between Asarco and United Asbestos pursuant to the original terms of the Asarco Agreement.

(c) In September, 1973, Asarco acquired additional mineral land for $1,525,949, of which $275,949 was satisfied by the transfer to the vendor of other land. Of the remaining consideration of $1,250,000, Asarco has agreed to advance to United Asbestos $625,000 in instalments of $225,000 on September 30, 1973, $200,000 on December 31, 1973 and $200,000 on June 30, 1974 to finance United Asbestos' 50% interest in the acquisition. These advances are non-interest bearing and are repayable in instalments of $200,000 on January 1, 1977, $200,000 on June 30, 1977 and $225,000 on December 31, 1977.

(d) The continuity of preproduction and other expenditures of Lake Asbestos of Quebec, Ltd. (Asarco) recoverable from net proceeds, as referred to above, is as follows:

Balance recoverable at December 31, 1972	$3,312,499
Recoveries from asbestos production, three months ended March 31, 1973	872,797
Balance recoverable at March 31, 1973	2,439,702
Capital expenditures, year ended March 31, 1974	3,329,641
	5,769,343
Recoveries from asbestos production, year ended March 31, 1974	5,217,998
Balance recoverable, March 31, 1974	$ 551,345

The land purchase of $1,525,949, referred to in note 2(c) was charged by Lake Asbestos against operations but has been reclassified by United Asbestos as a capital expenditure and forms part of the capital expenditures of $3,329,641. The recoveries of $5,217,998 shown above include full recovery of this land acquisition.

(e) Under the terms of the agreement referred to in note 2(b) above, 50% of net proceeds (instead of 75%) would be applied in repayment of unrecovered preproduction and other expenditures. The accounting interpretation by Lake Asbestos of this agreement is to continue applying 75% of net proceeds to repayment of such expenditures and to adjust to 50% of net proceeds realized by the payment of additional amounts to United Asbestos, which will be recovered by Lake Asbestos from future production.

(f) The deferred account receivable represents amounts withheld by Lake Asbestos pending sale of inventory, per agreement referred to in note 2(a).

3. Investments in Other Companies

	1974	1973
Transit Mixed Concrete & Builders Supply Limited:		
Note receivable, non-interest bearing, payable $25,000 annually, maturing December 15, 1973	$	$ 25,000
1,929 Preference shares, at cost of $192,900, less provision for decline in value	1	1
Fermo Holdings Limited:		
7½% debenture, payable $150,000 annually maturing December 21, 1975	300,000	450,000
	300,001	475,001
Less principal included in current assets	150,000	175,000
	$150,001	$300,001

The investments in other companies are without quoted market value. The debenture is secured by personal guarantees.

4. Accounting Presentation of Black Lake Mining Assets

The financial statements reflect the following:

(a) the capitalizing of United Asbestos' interest in certain fixed assets which by agreement are charged against United's share of net proceeds.

(b) the capitalizing of amounts contributed by United Asbestos, out of its share of net proceeds, to the fixed assets and preproduction expenditures of the Black Lake project originally paid for by Lake Asbestos of Quebec, Ltd.

(c) the deferment of certain stripping and dredging costs which have been charged by Lake Asbestos 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.

5. Amortization Policy

(a) Black Lake property:
Amortization charges have been provided in the statement of income in respect of those items capitalized and deferred as described in note 4 based on the life of the mining operations estimated to terminate in 1998.
The amortization policy is based on projections derived from figures made available to the company by Lake Asbestos of Quebec, Ltd. as to the ore reserves and future operating capacity. The company's engineers have placed their own interpretation, which is believed to be reasonable and conservative, upon these figures.
Preproduction expenditures and deferred stripping and dredging costs are being amortized 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 average life of the assets.
During the year ended March 31, 1974, the company revised its estimates of the fibre tonnage available over the life of mining operations and the amortization of preproduction expenditures and deferred stripping and dredging costs was revised accordingly without retroactive adjustment. This revision resulted from the acquisition of the mineral land referred to in note 2(c).

(b) Midlothian property:
The company has adopted a policy which will result in the capitalizing of all costs, including a portion of administrative expenses, incurred in the exploration and development of the Midlothian property. Amortization of such costs on the unit-of-production method based on total estimated ore reserves will begin at such time as the mine becomes productive, with the exception that preliminary expenses relating to a special payment to secure the services of a senior mining executive will be amortized at $50,000 per annum over the five-year term of an employment contract which commenced on January 1, 1973.
No depreciation will be provided on buildings, machinery and equipment, and vehicles which will be located on the mine site until such time as the mine becomes productive.

6. Mining Assets

	Balance at beginning	Additions	Amortization	Exploration expenditures written off	Balance at end
Year ended March 31, 1974					
Black Lake					
Interest in preproduction expenditures, fixed assets and development costs; net of amortization (note 5(a))					
Fixed assets charged against net proceeds	$ 819,695	$ 258,070	$ 195,927		$ 881,838
Amounts contributed to fixed assets and preproduction expenditures originally paid for by Lake Asbestos	8,834,710	2,542,765	443,925		10,933,550
Stripping costs	6,876,629	2,519,088	1,760,375		7,635,342
Dredging costs	610,392		25,875		584,517
United Asbestos' preproduction expenditures recoverable out of net proceeds	1,133,767		48,061		1,085,706
	18,275,193	5,319,923	2,474,163		21,120,953
United Asbestos' administrative and other expenses of pre-production period, net of amortization (note 5(a))	466,235		19,763		446,472
	18,741,428	5,319,923	2,493,926		21,567,425
Midlothian					
Mining claims, at cost (note 6(a))	1,048,552	3,252			1,051,804
Construction in progress, at cost	100,042	1,646,983			1,747,025
Preproduction expenses, at cost	682,559	2,236,361			2,918,920
Other preliminary expenses, net of amortization (note 5(b))	237,500		50,000		187,500
	2,068,653	3,886,596	50,000		5,905,249
Other properties					
Gabarouse Bay, N.S., at cost	157,298			$ 157,298	
Other, at estimated or nominal value	25,001	20,335		20,335	25,001
	182,299	20,335		177,633	25,001
	$20,992,380	$9,226,854	$2,543,926	$ 177,633	$27,497,675
Three months ended March 31, 1973	$20,485,046	$1,101,079	$ 577,634	$ 16,111	$20,992,380

(a) Mining claims, Midlothian, Ontario
19 leasehold patented claims and 51 unpatented claims (22 unpatented claims acquired during the year ended March 31, 1974), of which 3 of the leaseholds are subject to a 10% third-party interest. Acquisition costs to March 31, 1974 amount to $1,051,804 (December 31, 1972 and March 31, 1973, $1,048,552), of which $1,000,000 covers the acquisition on December 15, 1971 of 6 of the leaseholds by issuance of a note payable to Asbestos Lloyd Mines Limited under an option to purchase agreement dated December 30, 1970. The original maturity date of this note was December 15, 1973, however, by subsequent agreements, the maturity of the note has been extended to April 1, 1978. Although the note is non-interest bearing, no portion of its face amount has been allocated to interest, since such allocation is not common Canadian practice. In the event of default at maturity, the note will bear interest at 5% per annum from April 1, 1978.

(b) Commitments
In connection with the development of the Midlothian property, the company has the following commitments at March 31, 1974:
(1) commitment to a Chartered Bank for a line of credit of $12,000,000 against which no advances will be made until the company has expended $5,500,000 of its own funds on the project. The advances will be secured by a hypothecation of all the company's assets and interest will be at 125% of the bank's prime rate.
(2) commitments to contractors and others of approximately $3,500,000 for equipment and for the construction of certain mine facilities.
Subsequent to March 31, 1974, the company has granted an exclusive distributorship to Kanematsu-Gosho Ltd. for the marketing of Midlothian asbestos fibres in Japan. This company has agreed in principle to provide United Asbestos with a line of credit of U.S. $5,000,000 to be used for completion of the production facilities at the Midlothian mine.

7. Income Taxes

(a) The company claims deductions for income tax purposes in excess of related amounts reflected in the accounts, and provides in the accounts only for the taxes payable on taxable income for the period.
This accounting treatment differs from the tax allocation basis under which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed during the year ended March 31, 1974 and the three month period ended March 31, 1973, the reductions of net income and the cumulative amount of deferred tax credits would have been as follows (with comparative figures for the year ended March 31, 1973):

	Year ended March 31, 1974	*Three months ended March 31, 1973*	*Year ended March 31, 1973*
Balance of deferred tax credits at beginning of period if tax allocation basis had been followed	$6,033,000		$5,882,400
As previously reported		$ 6,489,000	
Adjustment of prior periods' deferred income taxes (note 7(c))		(564,000)	(569,400)
As restated		5,925,000	5,313,000
Reduction of net income if the tax allocation basis had been followed	999,000	108,000	720,000
Balance of deferred tax credits at end of period if tax allocation basis had been followed	$7,032,000	$6,033,000	$6,033,000

(b) If the income tax provision had been determined on the tax allocation basis during the year ended March 31, 1974 and the three month period ended March 31, 1973, the net income, earnings per share, and retained earnings would have been as follows (with comparative figures for the year ended March 31, 1973):

Income before income taxes and extraordinary item as shown on accompanying statement of income	$3,190,415	$ 596,814	$2,803,823
Income taxes			
Current	109,642	104,000	225,000
Deferred	999,000	108,000	720,000
	1,108,642	212,000	945,000
Income before extraordinary item	2,081,773	384,814	1,858,823
Extraordinary item (note 7(f))	37,797	56,000	140,000
NET INCOME FOR THE PERIOD, reflecting tax allocation	$2,043,976	$ 328,814	$1,718,823
Earnings per share			
Number of shares outstanding, 1974 determined on weighted average basis	7,054,496	7,039,913	7,039,913
Income before extraordinary item	29¢	5¢	26¢
Extraordinary item		(1¢)	(2¢)
Net income for the period	29¢	4¢	24¢
Retained earnings at beginning of period, as shown on accompanying statement of retained earnings, as restated	$15,532,183	$15,095,369	$13,457,273
Deduct deferred tax credits at beginning of period as shown in note 7(a) above, as restated	6,033,000	5,925,000	5,313,000
Retained earnings at beginning of period, reflecting tax allocation	9,499,183	9,170,369	8,144,273
Net income for the period, reflecting tax allocation	2,043,976	328,814	1,718,823
	11,543,159	9,499,183	9,863,096
Deduct			
Cash dividends	342,365		336,052
Elimination arising from intercorporate purchase of shares during period			27,861
	342,365		363,913
RETAINED EARNINGS AT END OF PERIOD, reflecting tax allocation	$11,200,794	$ 9,499,183	$ 9,499,183

(c) Prior to amalgamation, Allied Mining had approximately $2,637,000 of unclaimed exploration and development costs of which approximately $1,750,000 had been charged against its income since its inception. The adjustment of prior years' deferred income taxes as shown in note 7(a) reflects the reduction of deferred income taxes as a result of recognizing the virtual certainty of claiming for tax purposes the amounts previously expensed against future income from the Midlothian mine.

(d) If income taxes had been determined on the tax allocation basis, the deferred income tax expense as shown in note 7 (b) would result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each would be as follows for the year ended March 31, 1974 (with comparative figures for 1973):

	1974	1973
Credits to income arising from capitalization of interest in preproduction expenditures, fixed assets and development costs at Black Lake property, less amortization related thereto; excluded in the determination of taxable income	$1,520,276	$1,047,812
Exploration costs expensed in tax calculations, but deferred in the accounts	113,049	103,103
Other exploration costs written off in the current year, but claimed for taxes in prior years	(79,829)	(9,763)
Other	(67,919)	(58,581)
Tax effect of timing differences	1,485,577	1,082,571
Depletion	(486,577)	(362,571)
Deferred income tax expense	$ 999,000	$ 720,000

(e) If the income tax provision had been determined on the tax allocation basis, the ratio of applicable taxes to income before income taxes would have been less than the statutory Federal and Provincial income tax rates. The reasons for the differences, and their effects on the tax ratio, would have been as follows for the year ended March 31, 1974 (with comparative figures for 1973):

	1974		1973	
	Amount	*Percent*	*Amount*	*Percent*
Statutory tax rates	$1,588,789	50.75	$1,285,269	49.125
Increase (reduction) in taxes resulting from:				
Depletion	(513,198)	(16.39)	(407,510)	(15.58)
Other items, of which no individual item amounts to more than 5% of the income tax applicable to pre-tax income	11,051	0.35	19,741	0.76
Tax expense, reflecting tax allocation	$1,086,642	34.71%	$ 897,500	34.30%
Tax expense, reflecting tax allocation, as shown in note 7 (b)	$1,108,642		$ 945,000	
Less income taxes applied to reduce merger expenses (note 7 (f))	22,000		47,500	
Tax expense, reflecting tax allocation	$1,086,642		$ 897,500	

(f) The accompanying statement of income reflects the net amounts of an extraordinary item after the deduction of applicable income taxes. The gross amounts and related income taxes are as follows:

	Year ended March 31, 1974	*Three months ended March 31, 1973*	*Year ended March 31, 1973*
Merger expenses	$59,797	$75,000	$187,500
Less applicable income taxes	22,000	19,000	47,500
	$37,797	$56,000	$140,000

8. Capital Stock

By resolution of the Board of Directors and acting in accordance with the terms of an Employment Agreement, an option was granted to an employee to acquire 35,000 shares of the common stock of the company. The option was exercised by the employee on October 31, 1973 at $3 per share.

9. Pension Plan

On January 29, 1974, the Board of Directors gave final approval of a pension plan for salaried employees. The unfunded liability for past services under the plan is estimated to be $428,000 at March 31, 1974 and the company intends to fund this liability over periods not exceeding 17 years by annual contributions in addition to the cost of funding current service benefits. No payments for current or past services are included in the accompanying financial statements.

10. Other Information

The company's wholly-owned investment subsidiary, Detinu Holdings Limited, was dissolved on December 31, 1973 and its net assets were transferred to the parent company.

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