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In-Depth Independent Reporting on Special Situations
Particularly AMEX Listed Companies and Companies
in the Rapidly Growing West

Phones: [illegible]

United Asbestos Corporation Limited

Listed: American, Toronto and Canadian Stock Exchanges — DO NOT [illegible] — Authorized ($1 par)-- 6,000,000 shs. Outstanding-- 1,949,133 shs.

(Shares are exempt from list of foreign securities under United States "Interest Equalization Tax".)

HIGHLIGHTS

United Asbestos is a co-venturer with American Smelting & Refining in producing one of the world's major asbestos mines, located near Black Lake in southeastern Quebec. Asarco's wholly owned subsidiary, Lake Asbestos of Quebec, Ltd., is the operator of this property, in which $20 million has been invested. --- United's share of earnings is 5[illegible]%, [illegible] later may run as high as 60% in this highly successful venture, which last year earned the joint venturers $4,526,000 before amortization, up from $[illegible],934,000 in 1964. --- In 1965, United earned 31¢ a share, up from 22¢ in 1964. --- Of 1965 earnings, $1,304,000 or 26¢ came from asbestos operations, and $244,000, or 5¢, from affiliated concrete products companies. --- 1966 earnings are projected at 53¢ a share of which 46¢ is expected from asbestos and 7¢ from concrete products. --- Even after contractual repayment of Lake Asbestos' preproduction expenses from joint venture mine profit, United's cash flow in 1965 from asbestos was $549,000, up from $454,000 in 1964 and $395,000 in 1963. --- In 1965, demand for asbestos caught up with supply, firming up depressed priced by 5% to 10%. Future outlook for asbestos demand and prices is regarded as excellent with a further 5% price increase generally expected by September or October. This contrasts with the unfavorable conditions from the time of the mine's opening in mid-1958 to 1965, particularly in 1963 and 1964. --- The mine expects to produce and ship 120,000 tons of fiber this year, up from shipments of 106,551 tons in 1965, gradually stepping production up to present mill capacity of 150,000 tons. --- This plus lower unit costs could permit sharp increases in United's share of earnings and cash flow from the mine starting this year, reaching startling proportions by 1971, when preproduction expenses are expected to be repaid. --- In that year, cash flow to United could reach well over $5,000,000 before taxes. --- Proven reserves of the present open pit are estimated at [illegible]0 million tons. This does not include ore extensions in the present pit, or other ore reserves on the property outside the open pit. --- United's policy of diversification has led to substantial ownership of a number of plants active in concrete products in [illegible] Ontario and in Montreal, where construction outlook continues good. Last year, these operations grossed $12,880,000, and earned about $[illegible]50,000, of which United's share was $2[illegible],000, a 19% return on United's equity investment of $1,298,000. --- United's financial position is strong and highly liquid, with but nominal liabilities and no borrowings, pending litigation, nor debt guarantees. --- It goes without saying that United will have ample cash flow in the years ahead to pursue a program of diversified growth in mineral, industrial and other areas which may offer attractive opportunities. --- World wide demand for asbestos continues to grow rapidly, particularly in grades produced by the company. This asbestos operation is unique in its ability to increase production substantially with relatively small capital outlays.

THE ASBESTOS OPERATION

History Of Operations--United Asbestos was incorporated in the Province of Quebec in 19[illegible]. In 195[illegible], United entered into its original agreement with American Smelting & Refining Co. covering examination of United's Black Lake asbestos area of southeast Quebec, about

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-five miles from the town of Thetford Mines. The main property later transferred to Lake Asbestos of Quebec, Asarco's subsidiary, comprises about 600 acres under and adjoining Black Lake, of which United had been granted outright ownership from the Quebec government, and other mining concessions and development licenses in or near Black Lake. Some $40,160,000 has been spent by Asarco in bringing these deposits under production, and United has spent over $2,000,000.

The capital debt advance, under terms of the agreement, is being repaid without interest during the operation. While earnings are basicly divided 50-50 between Lake Asbestos and United, the two companies are securing return of their advances on a pro rata basis from 75% of such earnings (as defined by the agreement) until repayment is complete. Thereafter, net proceeds from the asbestos operation are allocated not less than 50% and not more than 60% to United. As of Dec. 31, 1965, the remaining balance owing Lake Asbestos was $22,204,000, and owing United, $1,379,010.

After such payout, now projected in 1970, United is to receive 60% of the net proceeds if the net proceeds per ton of ore milled in any fiscal year exceed $5.00, and a lesser proportion if the net proceeds are less than $5.00, scaling down to $3.00, but in no case is United to receive less than 50% of the proceeds.

A prospectus issued by United Asbestos in 1953 showed ore reserves of [illegible]2,525,608 tons containing 6.86% asbestos fiber (25,000,000 tons have since been discovered by diamond drilling Mining commenced in mid-1958. Up to Dec. 31, 1965 tonnage milled was 14,154,419 with a fiber recovery of [illegible] tons, or 4.73%. The lesser recovery is largely due to the fact that the upper portions of the open pit which are first mined, contained a lower fiber content than the overall grade of the reserve.

As of Jan. 1, 1966 economic open pit reserves stood at some 60 million tons containing 2.5 million tons asbestos fiber. About [illegible] million tons are high grade and [illegible] million tons are lesser grade material. Latter is being beneficiated by concentration and upgrading. The reserve estimates do not include extension of ore in the pit limits and other ore reserves on property outside the open pit.

Starting in 1963, ore values to the mill were increased by rejection by magnetic separation of low grade and worthless rock after crushing. During 1964, some 27% of tonnage mined and crushed was rejected (up from 20% in 1963) and ore values to the mill were increased by 38%. In 1965, 37% of tons crushed were rejected increasing ore values to the mill by nearly 60%. It is anticipated that process of rock rejection could be further increased, permitting mining of lower content asbestos ore and lower costs, thereby extending the life of the present known reserves. Johns-Manville and others have recently implemented similar procedures.

Lake Asbestos apparently has a determined policy to mine all ore in the open pit benches

Lake Asbestos	Tons of Ore Milled	Tons of Fiber Produced	Tons of Fiber Shipped	Profit From Mine*
1965	2,7[illegible],000	11[illegible]	106,551	$3,25[illegible]
1964	2,169,000	103,582	115,325	2,680,75[illegible]
1963	1,894,000	90,066	89,829	2,336,311
1962	1,865,000	100,015	96,071	3,267,5[illegible]
1961	1,752,000	93,696	92,364	3,630,689
1960	1,650,000	86,621	90,698	2,931,727
1959	1,297,000	56,890	47,830	(858,138)

Mining started in the second half of 1958. During 1958, the mine produced 22.799 tons of fiber, shipped 11,205 tons, and had a loss of $886,846.

*As calculated under joint venture agreement, before disbursement of profits and repayment of production expense to Lake Asbestos and United. Before addition of capital expenditures and deferred development deducted in arriving at net proceeds (under United's new method of accounting), amounting to $1,275,593 in 1965 and $1,253,392 in 1964 (such figures unavailable for prior years). It is believed that $4,526,000 for 1965 and $3,934,000 for 1964, and similarly higher amounts for prior years would more realistically portray the profitability of the mine, before depreciation and amortization (which are taken by each co-venturer in their own accounts).

for the overall purpose of extending the life of the mine. Ratio of tons mined to waste rock has been probably higher than it may run in future years, and the same may be true of removal and stripping of overburden. Latter ran 3,685,000 tons in 1965 vs. 1,042,000 in 1964.

This year's mining is expected to approximate 2,700,000 tons with a waste to ore ratio of 2½ to 1, about the same as 1965 but well below 1964. This excludes ore from the low grade stockpile already mined, which will be upgraded. Overburden removal of 2,400,000 tons at $1.000,000 cost is expected, down sharply from 1965. This year's total tonnage milled should be higher, and company should benefit by utilizing a higher proportion of its milling capacity, which had been increased by 50% from its former 100,000 ton of fibers level two years ago. Production and sales level this year may reach or exceed 120,000 tons of fiber.

Enlargement of mine productive capacity is continuing. During 1966, five 50-ton trucks are to be purchased to replace five 22-ton units, adding further trucking capacity, increased 25% over the last two years. Conveyor drives will be strengthened to handle additional tonnages provided by the second primary crusher (400 tons an hour) which became operative early this year. Additional fiber packing machines are to be installed.

Outlook For Asbestos--Asbestos fibers are the reinforcing sinews for thousands of products that most of us take for granted. Asbestos is used in floor tiles and acoustical ceilings, in clutch facings and brake linings, in adhesives and paints. Asbestos insulates pipes and electric wires and dampens sound in ductworks. Asbestos cement pipe is widely used in water systems throughout the world. Asbestos is used in protective clothing, ironing board covers, roof and siding shingles, gaskets and filters, as a filler and reinforcement in plastics. Research and technology are discovering new uses and applications for asbestos every year.

From 1950 to 1964, world production of asbestos fiber has increased from 1,225,000 tons to 3,603,000 tons, of which Canadian production was 1,273,000 tons. Annual compound growth increment over this period averaged 6%. Over the 8 years preceding 1965, there were no price increases and excess supply sources tended to act as a price depressant. By the end of 1964 constantly increasing demand caught up with supply and price increases of 5% to 10% became effective Jan. 1, 1965. Discount allowances from posted prices were also reduced by 15% early in 1965. The growing demand has been particularly strong in the asbestos cement grades, in which Lake Asbestos is a major supplier.

The 1966 outlook for non-residential construction is for a 10% increase in the United States and 15% in Canada, and residential construction appears to be strengthening after weakening in 1964-5. This, along with the high level of free world industrial activity indicates another strong increase in fiber use in 1966.

The United Asbestos orebody yields fibers which produce primarily the asbestos cement grades, which are in strongest demand with the largest growth potentials.

This operation enjoys perhaps a unique position in that it can expand production substantially with relatively small capital expenditures. Some of the older mines in the Canadian asbestos industry are faced with continuing operational problems and rising costs, while others may be faced with enormous capital expenditures of preparing new ore for future mining.

UNITED ASBESTOS CORPORATION LIMITED

Earnings--Net proceeds from the asbestos joint venture operation in 1965 were $3,[illegible], up from $2,560,000 in 1964, as calculated under terms of the joint venture agreem[illegible] adding capital expenditures and deferred development deducted in arriving [illegible] of $1,276,000 in 1965 and $1,253,000 in 1964, net profit of the [illegible] zation was $4,526,000 vs. $3,934,000. (In 1965, United [illegible] accounting presentation retroactively to more meaningfully portray the true profitability of the mine than the method previously used). Net profit to United Asbestos, taken at 50% of the latter figures was $2,263,000, up from $1,967,000. After expenses, and amortization of $921,000 vs. $983,000, net income was $1,303,761, or 26¢ a share, against $899,000, or 18¢. These figures do not include United' share of earnings of concrete products affiliates, estimated at $244,000, or 5¢ a share, vs. $195,000, or 4¢.

No income taxes were incurred on the asbestos operations. Company assumes that it can claim a negation of taxable income until total preproduction expenses have been retired. The Canadian Income Tax Act provides an allowance for depreciation of capital assets. As this is a joint mining venture, each party provides for its own treatment of a return of capital.

Outlook For 1966--Demand for asbestos appears strong for 1966. Shipments from the [illegible] Asbestos properties were up 80% in the 1966 first quarter over the like 1965 period--this is no criterion for the full year, as 50% to 60% of the year's shipments normally fall in the last four months. Demand is definitely stronger, and a 5% price increase is generally expected in September or October, immediately affecting about 50% of the venture's total shipments. If sanctions against Rhodesian asbestos fibers are imposed (Rhodesia's annual fiber production approximates 200,000 tons), Canadian producers might be expected to have a further 10% increase in demand to make up for the blocked supply. Worldwide demand for asbestos is climbing at an annual average rate of 6½% to 8%, against 3½% to 4% in the United States.

Reflecting higher prices, higher production and sales, and lower unit costs, United's share of earnings from Lake Asbestos is expected to increase sharply in 1966 over 1965, rising to about 46¢ a share from 26¢. Total earnings for 1966 including construction products are projected at 53¢ vs. 31¢.

Finances--As of Dec. 31, 1965, current assets were $2,236,000, including [illegible],993,000 of cash items. Total liabilities, all current, were $12,000. Total assets were stated at $13,123,000 and net worth at $13,110,000.

Last dividends were in 1962 and 1961, when 10¢ per share plus stock was paid in each year.

New company by-laws have increased authorized capital to 6,000,000 shares from 5,000,000. The common shares may not be issued at a premium of less than $5 per share above their $1 par value, except when rights to purchase are granted the shareholders.

Concrete Products Affiliates--Through its wholly-owned subsidiary, Detinu Holdings Ltd., United owns a 50% interest in General Concrete Ltd. On Feb. 1, 1966, General Concrete purchased the operating assets of other companies in this operating group in which United also has similar interests. This is resulting in a long-sought simplification of operations. In 1965, General Concrete's sales approximated $10,080,000 and its earnings $110,000. United also owns [illegible] of Transit Mixed Concrete [illegible] Supply Limited, which last year earned [illegible] on sales of $2,800,000.

The above companies now have 16 plants and/or locations in Southern Ontario and in Montreal affording a market coverage placing them in a strong position to take advantage of the continued good outlook for the construction business in the area. An increase in sales of [illegible] is forecast for 1966 with a further improvement in profits.

Management--Philip M. Malouf, Pres. & Dir., Montreal; Richard F. Dooley, V. P. & Dir., Chicago (Proprietor, Richard F. Dooley & Co.); W. H. Salter, Q.C., Sec.. Other Directors are: J. Arthur Dupont, Partner of Craig Forget & Co. Ltd., Investment Bankers, Montreal; Gaston Elie, Pres., Transit Tankers & Terminals Ltd., and Joseph Elie Ltd., Montreal; Bartlett Pinkham, Investment Banker and associate of Allen & Company, New York; Orville Taylor, Partner, Taylor, Miller, Magner, Sprowl & Hutchings, Attorneys, Chicago. Newly elected as a Director is [illegible] Ross Moore, Chm. and Pres. of Price Brothers & Company, Limited, Montreal.

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