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ON INVITATION DANIEL SOMERS AND I VISITED B.A.T ON OCTOBER 2ND AND 3RD TO FURTHER DISCUSS THESE MATTERS. WE WERE SURPRISED TO LEARN THAT YOU HAD INITIATED AN INQUIRY INTO THE TRADING OF OUR SHARES, REQUESTED A COPY OF OUR SHAREHOLDERS' LIST, AND ENTERED INTO CONSULTATIONS WITH THIRD PARTIES WITHOUT CONSULTING US OR KEEPING US INFORMED.

WHEN IT BECAME APPARENT TO US THAT B.A.T WAS FIRM IN ITS DESIRE FOR A PRIVATE PLACEMENT, WE SUGGESTED THAT THIS WOULD BE POSSIBLE ONLY IF A PREMIUM TO MARKET WAS PAID FOR THE SHARES. I UNDERSTOOD FROM THIS MEETING THAT B.A.T WAS AGREEABLE TO PAY A PREMIUM FOR THE PRIVILEGE. I WAS ALSO ASSURED THAT THERE WOULD BE NO CHANGE IN THE RELATIONSHIP BETWEEN OUR COMPANIES EVEN THOUGH THE PRIVATE PLACEMENT WOULD BE MADE THROUGH BATUS.

ON MY RETURN TO MONTREAL I RAISED THE MATTER WITH THE EXECUTIVE COMMITTEE WHO WERE PREPARED TO LOOK FAVOURABLY UPON A PRIVATE PLACEMENT WITH A PREMIUM TO MARKET. IN ADDITION THE EXECUTIVE COMMITTEE, WITH A VIEW TO ACCOMMODATING A POSSIBLE PRIVATE PLACEMENT, AGREED TO ADVANCE THE RELEASE OF OUR SECOND QUARTER EARNINGS BY SOME TWO WEEKS.

ON OCTOBER 26, I EXPLAINED TO YOU IMASCO'S POSITION AND PROPOSED AN OFFER TO B.A.T OF 3.4 MILLION SHARES AT MARKET PLUS A PREMIUM OF APPROXIMATELY 4 PER CENT, OR A PRICE OF DOLLARS 44. PER SHARE. THE SUBJECT OF A PREMIUM SEEMED TO COME AS A SURPRISE TO YOU AND YOU MADE A COUNTER OFFER RELATING THE PRICE TO THE "AVERAGE TRADING PRICE" OVER A 20-DAY PERIOD IMMEDIATELY PRECEDING THE TRANSACTION DATE. RECOGNIZING THE DESIRABILITY OF REACHING AN AGREEMENT, I PROPOSED 3.4 MILLION SHARES AT DOLLARS 43 1/4 PER SHARE, THE HIGHEST PRICE PAID FOR IMASCO'S SHARES AND A FIGURE WHICH REPRESENTED A PREMIUM AT THE TIME. THIS LATTER OFFER WAS CONDITIONAL UPON THE MARKET PRICE BEING BELOW DOLLARS 43 1/4 UPON ACCEPTANCE.

THE FORMULA SUGGESTED BY YOU FOR ARRIVING AT A PRICE TO BE PAID FOR THE SHARES WOULD LIKELY HAVE RESULTED IN A FIGURE BELOW CURRENT MARKET AT TIME OF PURCHASE. CLEARLY ANYTHING LESS THAN PREMIUM WOULD BE UNACCEPTABLE - TO US AND TO THE FINANCIAL COMMUNITY INCLUDING THE EXCHANGES, THE BANKS, THE INSTITUTIONAL INVESTORS AND THE PRIVATE SHAREHOLDERS.

IF I MAY STATE OUR POSITION ONCE AGAIN IT IS AS FOLLOWS. WE ARE PREPARED TO PROCEED WITH AN ISSUE OF ADDITIONAL SHARES, BUT NOT UNTIL SOME TIME NEAR THE END OF NOVEMBER IN LIGHT OF THE STATE OF NEGOTIATIONS IN RESPECT OF PROJECT SWAN. WE SHOULD BE PLEASED IF B.A.T WOULD PARTICIPATE IN THE ISSUE, BUT ONLY TO THE EXTENT OF 40 PER CENT. IF B.A.T WISHES TO TAKE UP THE ENTIRE ISSUE IT WOULD HAVE TO DO SO AT AN ACCEPTABLE PREMIUM. NOT TO OFFER A PREMIUM WOULD BE SEEN BY THE INVESTMENT COMMUNITY AS AN EXPLOITATION BY B.A.T OF ITS POSITION AS THE SENIOR SHAREHOLDER. AND I NEED HARDLY ADD THAT SUCH AN OFFER COULD NOT BE SUPPORTED BY THE MANAGEMENT AND DIRECTORS OF IMASCO.

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