REICHHOLD

Reichhold Limited

1981 ANNUAL REPORT

REICHHOLD

Reichhold Limited

Our year at a glance

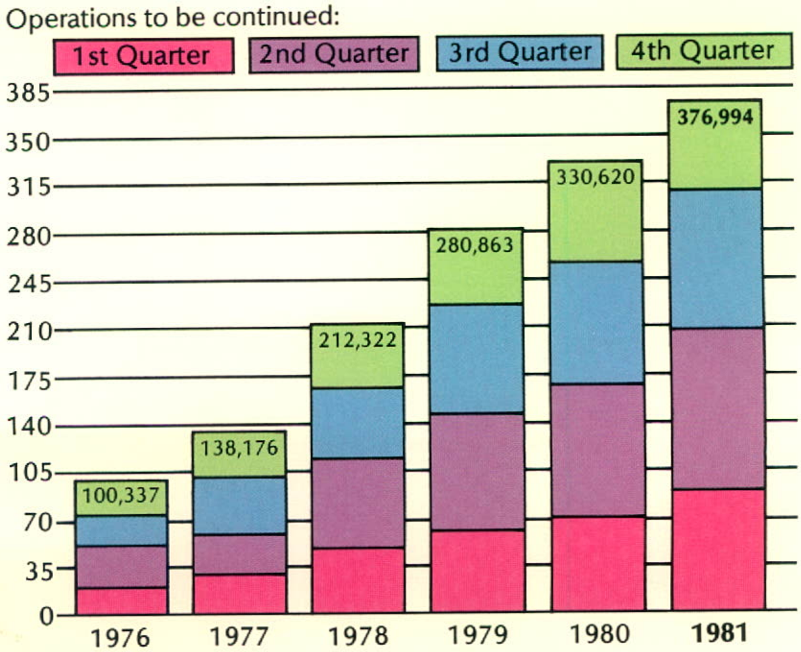
(Thousands of dollars except per share items)

	1981	1980
Operations to be continued:		
Sales	**$ 376,994**	$ 330,620
Earnings	**4,088**	7,564
Loss from operations to be discontinued	**(6,675)**	(1,167)
Extraordinary items	**(6,700)**	–
Net earnings (loss)	**(9,287)**	6,397
Fully diluted earnings per share:		
From operations to be continued	**0.48**	1.80
Before extraordinary item	**(1.43)**	1.51
Net	**(3.35)**	1.51
Book value per common share	**9.85**	13.80

*See note at foot of 10 year financial review on page 24.

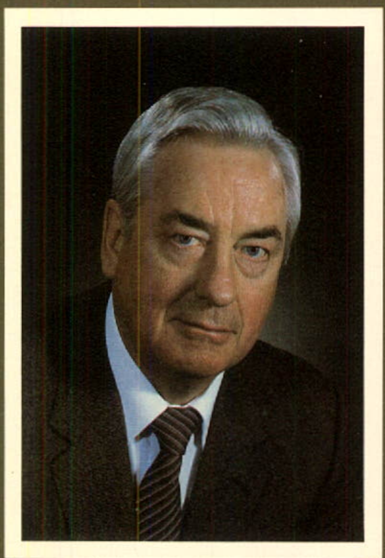
Consolidated sales by quarter

Operations to be continued:

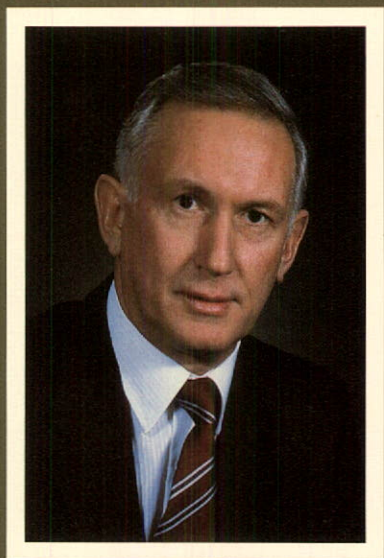


REICHHOLD

Message to shareholders



DONALD G. McNABB
Chairman & Chief Executive Officer



DONALD J. McLEOD
President & Chief Operating Officer

1981 was a difficult year for our Company and as you have seen from "Our Year at a Glance," resulted in a major loss of earnings. High interest rates and a deteriorating economy were major contributing factors to the poor results but problems with some recent acquisitions, particularly the United States printing ink subsidiary, were responsible for a substantial part of the losses.

In January 1982, the Board of Directors decided to divest Sunniland Corporation and Florida Seed and Feed Company, Inc. and to restructure and curtail the operations of Century Inks. This decision was based on our estimate of the long-term potential of these enterprises within Reichhold Limited. The 1981 financial statements were structured to reflect these changes. Please refer to the notes on the Consolidated Financial Statements (Note # 2) which explains this in detail.

Several divisions of the Company performed well in 1981, notwithstanding the poor economic climate. The Sears division enjoyed the best year in its history, both in sales and earnings and the results of the Molsberry division showed an improvement over 1980. The Travis division was able to maintain the same level of sales and profitability as in 1980 and would have performed better but for the uncertainty prevailing in the oil and gas industry in Western Canada. The Resin division was profitable but housing starts in the U.S. and Canada slowed dramatically in the fourth quarter and reduced its profitability to less than budgeted levels.

Canada Printing Ink's profitability was severely affected by start-up problems associated with a new lithographic plate plant and the very competitive ink market. New ink technology and improved production facilities should allow Canada Printing Ink to obtain significantly improved profitability in 1982. The purchase of Sleight & Hellmuth Inks in 1980, by *Century Inks*, was undertaken with the objective of expanding sales of ink products into the U.S. market. Problems relating to market penetration have led to a restructuring of this group designed to bring current costs into line with existing sales levels.

The agricultural chemical divisions both in Canada and the United States also had a difficult year. The U.S. divisions were seriously affected by depressed farm incomes, which have declined sharply in recent years, and reduced government loan assistance. These problems resulted in a special receivable write-off of $3.9 million U.S. in our Woolfolk division. Credit controls have been tightened and with a more profitable product mix being emphasized, we are expecting considerable improvement in profitability for Woolfolk in 1982.

A major concentration on financial management improvement in 1981 resulted in an almost $8 million net positive cash flow from operations after all expenses, dividends, capital expenditures of approximately $8 million and changes in working capital. These efforts will be continued.

Major problems of the company have been identified and plans are being implemented to overcome them. Assuming there is some slight improvement in the economy in the second half of the year, we believe that we will have a net cash inflow again in 1982 and positive earnings, although the level of earnings is difficult to predict at this time given the degree of uncertainty surrounding the Canadian economic environment.

REICHHOLD

The people

Reichhold's successes, past, present and future are dependent on the integrity, ingenuity and dedication of the people who keep the company functioning efficiently.

Reichhold's researchers, in all manufacturing operations, not only develop products and formulations to serve our customer's needs better but create new ones. Operators in our plants fill, move, check, control and handle equipment and materials. Reichhold's chemists test and evaluate the quality and consistency of production throughout the manufacturing cycle. We take pride in the engineers who design and the tradesmen that build plants, maintain manufacturing equipment and keep them operating.

Reichhold's product handling involves the warehouse personnel who move, store and ship products and raw materials and the drivers who transport the goods safely and on schedule.

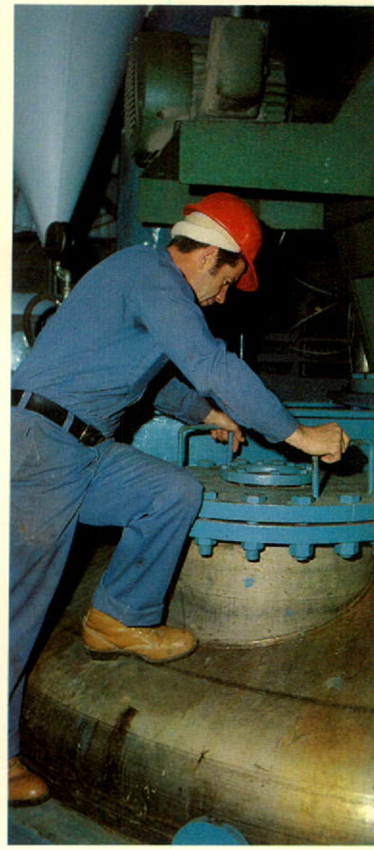
There are the technicians who install and service complex graphic arts equipment to ensure that each one performs to its potential.

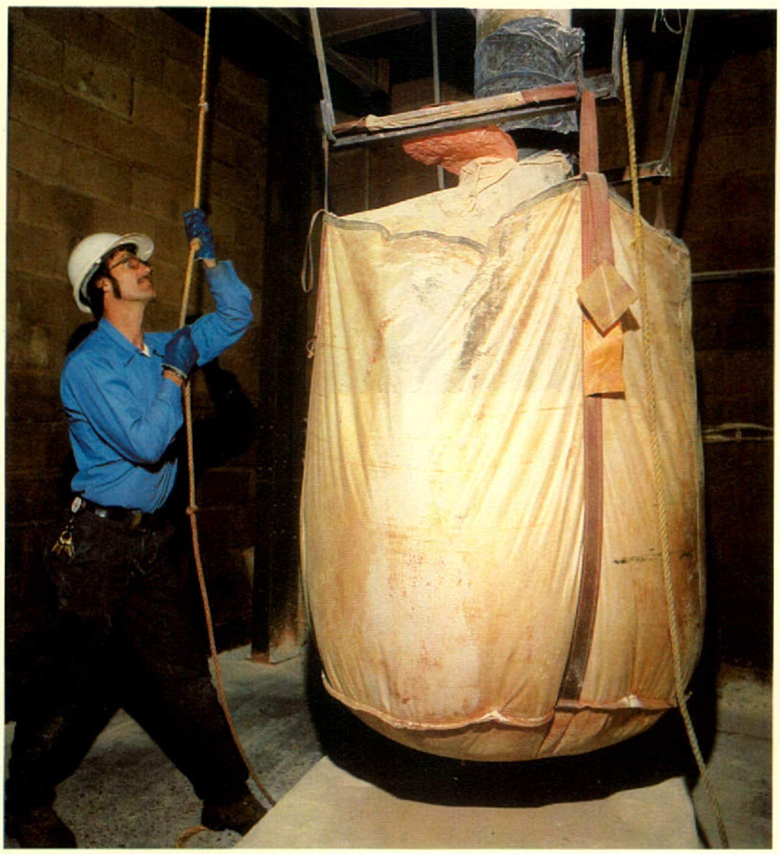
We have sales people who know their products, markets and customers, accounting personnel who efficiently keep paperwork processed and under control and people who answer questions, take orders and keep correspondence flowing.

We manufacture resins for forestry products, plastics and surface coatings. We formulate agricultural products for farm, lawn and garden care. We provide chemicals, products and vegetation management systems for the oil and gas industry. We distribute equipment, supplies and inks for the graphic arts industry.

Products and services that require dedicated and knowledgable people. People whose combined efforts toward the common goal of Reichhold's success will be the key to realizing the potential of our many strengths.


Security
THINK GREEN
THINK SECURITY
EZE






HEIDELBERG
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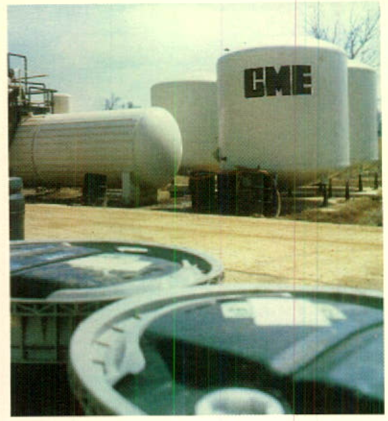
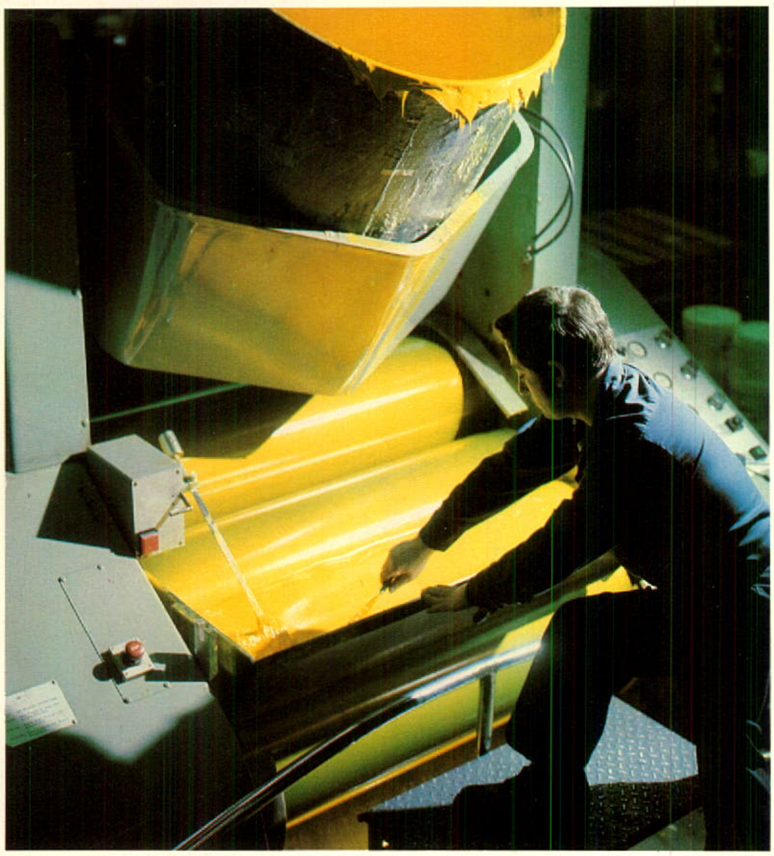

CME

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Reichhold Limited

Consolidated statement of earnings(loss)

Year ended December 31, 1981 with comparative figures for 1980 (note 2) (thousands of dollars except for per share items)

	1981	1980
Operations to be continued:		
Sales (note 3)	$ 376,994	330,620
Cost of goods sold	297,434	261,790
Gross profit	79,560	68,830
Selling, general and administrative expenses	65,038	50,183
Operating profit	14,522	18,647
Interest expense (net) (note 4)	7,529	6,880
Earnings before income taxes	6,993	11,767
Income taxes (note 5):		
Current	1,747	2,380
Deferred	1,158	1,823
	2,905	4,203
Earnings from operations to be continued	4,088	7,564
Loss from operations to be discontinued (note 2)	(6,675)	(1,167)
Earnings (loss) before extraordinary item	(2,587)	6,397
Extraordinary item (note 2)	(6,700)	–
Net earnings (loss)	$ (9,287)	6,397
Earnings (loss) per common share:		
Basic (calculated on the weighted average number of common shares outstanding during the year, being 3,487,014 for 1981 and 3,319,295 for 1980):		
From operations to be continued	$ 0.48	2.08
Before extraordinary item	$ (1.43)	1.72
Net	$ (3.35)	1.72
Fully diluted:		
From operations to be continued	$ 0.48	1.80
Before extraordinary item	$ (1.43)	1.51
Net	$ (3.35)	1.51
The statement of earnings (loss) includes the following expenses:		
Depreciation and amortization of property, plant and equipment	$ 5,377	4,375
Amortization of deferred charges	$ 67	65
Amortization of goodwill	$ 131	161

See accompanying notes to consolidated financial statements.

REICHHOLD

Reichhold Limited

(Incorporated under the laws of the Province of Ontario, Canada)

Consolidated balance sheet

December 31, 1981 with comparative figures for 1980 (thousands of dollars)

Assets	**1981**	1980
Current assets:		
Cash	$ –	2,765
Receivables, net of allowance for doubtful accounts of $3,106 (1980 – $2,123)	**50,543**	66,265
Lien notes receivable (note 6)	**4,279**	2,778
Inventories:		
Raw materials	**11,898**	12,883
Finished goods	**44,327**	53,850
Total inventories	**56,225**	66,733
Income taxes receivable	**927**	890
Prepaid expenses and deposits	**1,602**	1,702
Assets of operations to be discontinued (net) (note 2)	**8,296**	–
Total current assets	**121,872**	141,133
Property, plant and equipment:		
Buildings	**15,244**	16,869
Equipment and leasehold improvements	**56,436**	51,785
	71,680	68,654
Less accumulated depreciation and amortization	**25,919**	22,341
	45,761	46,313
Land	**2,359**	2,964
Net property, plant and equipment	**48,120**	49,277
Other assets, at cost less amortization:		
Goodwill	**234**	365
Other non current assets	**511**	1,543
	745	1,908
	$ 170,737	192,318

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1981	1980
Current liabilities:		
Bank advances and acceptances, secured (note 7)	$ 29,160	40,055
Accounts payable and accrued expenses	36,910	36,378
Current portion of long term debt (note 8)	281	1,124
Current portion of deferred income taxes	208	342
Total current liabilities	66,559	77,899
Long term debt (note 8)	33,265	31,913
Deferred income taxes	11,287	9,753
Shareholders' equity (note 9):		
Capital stock:		
Authorized:		
2,422,111 First Preference Shares with a par value of $10 each, issuable in series.		
3,000,000 Second Preference Shares with a par value of $25 each, issuable in series.		
7,622,776 Common Shares without par value		
Issued:		
422,111 First Preference Shares, Series A (1980 – 494,816)	4,221	4,948
1,960,000 First Preference Shares, Series B (1980 – 2,000,000)	19,600	20,000
3,534,809 Common Shares (1980 – 3,387,016)	21,234	19,932
Contributed surplus	1,491	1,436
Retained earnings	13,080	26,437
Total shareholders' equity	59,626	72,753
Commitments (note 10)		
	$ 170,737	192,318

On behalf of the Board:

Director D.G. McNABB

Director D.J. McLEOD

REICHHOLD

Reichhold Limited

Consolidated statement of changes in financial position

Year ended December 31, 1981 with comparative figures for 1980 (thousands of dollars)

	1981	1980
Additions to working capital:		
Earnings (loss) before extraordinary item	$ (2,587)	6,397
Add charges not requiring an outlay of funds:		
Depreciation and amortization	5,575	4,601
Deferred income taxes (non current)	1,534	2,139
Additions to working capital from operations	4,522	13,137
Long term debt	23,706	21,888
Preference shares issued for cash	–	20,000
Common shares issued for cash	383	268
Proceeds on sale of fixed assets and other non-current assets	1,038	865
Total additions to working capital	29,649	56,158
Deductions from working capital:		
Reduction of long term debt	22,354	865
Additions to property, plant and equipment	8,091	14,332
Additions to other non current assets	412	758
Cash dividends	3,878	2,080
Net acquisitions	–	849
Operations to be discontinued	2,490	–
Preference share issue cost net of income tax effect	–	518
Purchase of First Preference Shares, Series B	345	–
Total deductions from working capital	37,570	19,402
Increase (decrease) in working capital	(7,921)	36,756
Working capital, beginning of year	63,234	26,478
Working capital, end of year	$ 55,313	63,234

See accompanying notes to consolidated financial statements.

REICHHOLD

Reichhold Limited

Consolidated statement of retained earnings

Year ended December 31, 1981 with comparative figures for 1980 (thousands of dollars)

	1981	1980
Retained earnings, beginning of year	**$ 26,437**	22,816
Net earnings (loss) for the year	**(9,287)**	6,397
	17,150	29,213
Deduct:		
Issue cost of preference shares, net of income tax effect	**–**	518
Cash dividends – preference shares	**2,404**	675
– common shares	**1,474**	1,405
Stock dividends	**192**	178
	4,070	2,776
Retained earnings, end of year	**$ 13,080**	26,437

See accompanying notes to consolidated financial statements.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

P.O. Box 31,
Commerce Court Postal Station,
Toronto, Ontario M5L 1B2

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Reichhold Limited as at December 31, 1981 and the consolidated statements of earnings (loss), retained earnings and changes in financial position for the year then ended. Our examination of the financial statements was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Canada
March 2, 1982

REICHHOLD

Reichhold Limited

Notes to consolidated financial statements

December 31, 1981

1. Summary of significant accounting policies:

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in Canada. The principles followed are also in conformity with the historical cost accounting standards of the International Accounting Standards Committee.

(a) Basis of consolidation:
The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All material intercompany items have been eliminated.

(b) Lien notes receivable:
In accordance with generally recognized practice, lien notes receivable arising from instalment sales, which include amounts due after one year, are included in current assets.

(c) Inventories:
Inventories are stated at the lower of cost and replacement cost for raw materials and at the lower of cost and net realizable value for finished goods except for chemical manufactured goods which are generally at the lowest of cost, reproduction cost and net realizable value. Cost of inventories is determined on the first in, first out basis.

(d) Property, plant and equipment:
Property, plant and equipment are carried at cost. On retirement or disposal of such assets, the cost thereof and related accumulated depreciation are eliminated from the accounts and any resultant gain or loss is included in determining earnings.

Depreciation of buildings and equipment is based on the estimated useful lives of the assets. The principal categories, annual rates and methods are as follows:

Buildings	5%, diminishing balance
Equipment	6⅔% to 20%, straight line
Automobiles	30%, diminishing balance

Leasehold improvements are amortized on the straight line method over the respective terms of the leases.

(e) Goodwill:
Goodwill, being the excess of the cost of subsidiaries and businesses acquired over the fair values of their underlying identifiable net assets at the dates of acquisition, is being amortized on the straight line method over its estimated life. The periods of amortization currently range from 5 to 10 years.

(f) Income taxes:
Investment tax credits are treated as a reduction of the carrying value of the related assets, except for United States subsidiaries, which recognize investment tax credits in the year they are claimed for tax purposes as a reduction in the current income tax provision.

(g) Foreign currency translation:
Assets, liabilities, revenue and expenses of foreign subsidiaries are translated into Canadian dollars at the exchange rates prevailing at the end of the year. Transactions in foreign currencies are recorded at the Canadian dollar equivalent at the time of the transactions and any resulting foreign exchange gains or losses are included in determining earnings. Net unrealized foreign exchange gains or losses on translation, which are not significant, are deferred.

2. Business reorganization:

During the year, the Company undertook a review of its business operations to determine the continuing value of operations where the return on invested capital has been inadequate or where the operations are inconsistent with plans for the future.

Following the completion of that review, a decision was made to discontinue or otherwise divest certain of the Company's operations. The assets of the divisions which are to be sold or discontinued have been written down at December 31, 1981 to estimated net realizable value.

The net assets at December 31, 1981 of those businesses which are to be discontinued are shown separately in the balance sheet at estimated realizable value and consist of the following:

	Total (thousands of dollars)
Book value of tangible assets (liabilities):	
Current assets	$ 13,224
Fixed assets	3,354
Other non current assets	1,093
Liabilities	(4,633)
	13,038
Write down	4,742
Estimated realizable value	$ 8,296

The assets and liabilities of those businesses which are to be discontinued have not been segregated in the balance sheet figures as at December 31, 1980.

In addition to the write down above, the Company has incurred or provided for further costs during the realization period estimated at $1,958,000. The total of $6,700,000 is shown as an extraordinary item in the consolidated statement of earnings (loss).

The results of the operations to be discontinued were as follows:

	Total	
	1981	1980
	(thousands of dollars)	
Sales	**$ 42,031**	37,281
Cost of sales	**32,724**	28,266
Gross profit	**9,307**	9,015
Selling, general and administrative expenses	**14,815**	9,479
Interest	**2,108**	1,285
Loss before income taxes	**(7,616)**	(1,749)
Income taxes (recoverable):		
Current	**(941)**	(340)
Deferred	–	(242)
	(941)	(582)
Loss from operations to be discontinued	**$ (6,675)**	(1,167)
Depreciation and amortization	**$ 780**	632

The 1980 comparative figures in the consolidated statement of earnings (loss) have been reclassified to reflect the results of the operations to be discontinued.

REICHHOLD

Notes to consolidated financial statements (continued)

3. Segmented information:

The Company is engaged in the following businesses:

(a) Resins and industrial chemicals:
Manufacture and distribution of surface coatings resins, polyester and plastic resins, products for the reinforced plastics industry, forest product resins, other resins and chemicals.

(b) Agricultural chemical products:
Formulation and distribution of agricultural chemicals, garden supplies and fertilizers.

(c) Printing inks, graphic arts equipment and supplies:
Manufacture and distribution of printing inks and printing and graphic arts supplies and marketing of printing machinery and graphic arts equipment.

(d) Oil and gas chemicals and other:
Manufacture and distribution of chemicals for the oil and gas industry and vegetation control services.

Segmented information on sales, operating profits and net assets by segment and a geographic analysis is contained in Appendices 1 and 2.

4. Interest:

Interest expense (net) is comprised as follows:

	1981	1980
	(thousands of dollars)	
Interest on long term debt	**$ 4,257**	3,153
Bank and other interest	**8,747**	8,456
	13,004	11,609
Deduct interest income	**3,367**	3,444
	9,637	8,165
Interest expense allocated to operations to be discontinued (net)	**2,108**	1,285
Interest expense allocated to operations to be continued (net)	**$ 7,529**	6,880

5. Income taxes:

Income taxes provided in 1981 and 1980 represent approximately 42% and 36% of consolidated pre tax earnings.
These relatively low rates are attributable to various factors, including lower tax rates in other countries, investment and other special allowances and to non taxable earnings.

Subsidiary companies to be continued have incurred losses of approximately $3,250,000 which may be carried forward and applied against future taxable income in the United States. Availability of these losses for carry forward will expire in 1996 and the potential tax savings resulting from their application against future earnings have not been reflected in these consolidated financial statements.

In addition, the potential tax benefit arising from substantial losses incurred by wholly owned subsidiaries to be discontinued have not been reflected in these consolidated financial statements. The amount of such losses available for carry forward against future earnings cannot be determined at this time because it is dependent on the eventual method used in disposing of their operations.

6. Lien notes receivable:

Lien notes receivable consist of the following:

	1981	1980
	(thousands of dollars)	
Gross amounts receivable	**$ 5,267**	3,822
Less unearned interest	**988**	1,044
	$ 4,279	2,778
Amounts due after one year including interest	**$ 2,071**	2,733

7. Bank advances and acceptances:

Bank advances and acceptances, except for one advance which is secured by the shares of a U.S. subsidiary, are secured by assignments of receivables and by charges on inventories.

8. Long term debt:

Long term debt consists of the following:

	1981	1980
	(thousands of dollars)	
Bank term loan, due January 2, 1982 with interest at prime plus 1/4% (U.S. $5,000)	**$ –**	5,967
10 5/8% secured sinking fund bond, Series A, due April 1, 1992	**2,900**	3,000
11 1/4% sinking fund debentures, Series B, due February 15, 1996 (retractable February 15, 1986)	**6,538**	6,685
Floating rate debentures, Series C, due November 1, 1982 to May 1, 1987 (U.S. $12,600)	**–**	15,036
14 7/8% registered notes payable, due June 1, 1991 (U.S. $20,000)	**23,706**	–
Mortgages and secured notes payable, maturing at various dates to 1991 with interest varying from 5% to 10% (U.S. $339, 1980 – $1,969)	**402**	2,349
	33,546	33,037
Less current portion	**281**	1,124
	$ 33,265	31,913

Additional particulars respecting long term debt are as follows:

(a) 10 5/8% secured sinking fund bond, Series A, due April 1, 1992:

Notes to consolidated financial statements (continued)

The bond is secured by a first fixed charge on certain real and immovable property of the Company in Thunder Bay, Ontario. In addition, the bond is secured by a floating charge on all other assets of the Company, subject to certain other rights and exceptions and the floating charge created to secure the Company's sinking fund and floating rate debentures. In accordance with the agreement the Company established a sinking fund with a principal payment of $100,000 in the current year. These payments rise to $400,000 annually in 1990, with the balance of $400,000 payable in 1992.

(b) Sinking fund debentures:
The debentures are secured by a first floating charge on all the assets of the Company, except for receivables assigned and inventories charged to secure bank advances and acceptances (note 7).

The Company is required to establish a sinking fund with respect to the Series B debentures by the payment annually of 8.5% of the principal amount outstanding on February 16, 1986, commencing in 1987 and continuing through 1995. In addition, the Company is obliged, in each twelve month period ending February 15, in the years to 1986, to apply $175,000 to the purchase in the market of Series B debentures to the extent that such debentures are available for purchase at prices (including costs of purchase) not exceeding the principal amount thereof plus accrued and unpaid interest. During 1981, Series B debentures in the principal amount of $147,000 were purchased pursuant to this requirement.

The Company may, if certain conditions are met, including payment of premiums, redeem the Series B debentures.

The holder of any Series B debenture has the right to require the Company to prepay the principal amount on February 15, 1986.

(c) 14 7/8% notes payable, due June 1, 1991:
The trust indenture securing the notes provides certain restrictions governing the payment of dividends and issuance of additional long term debt and requiring the maintenance of a specified current ratio.

The Company has the option to prepay the notes at a premium, in whole or part, at any time after May 31, 1988 in multiples of U.S. $50,000 principal amount with accrued interest.

The Company is required to repay U.S. $2,857,000 on June 1 each year from 1985 to 1990, with the balance of U.S. $2,858,000 payable on June 1, 1991.

(d) Summary of repayment requirements:
Payments required to meet sinking fund requirements and other debt retirement provisions during the five years ending December 31, 1986 are as follows:

1982	$ 281,000
1983	$ 381,000
1984	$ 204,000
1985	$ 3,590,000
1986	$ 3,591,000

9. Capital stock:

(a) Holders of the First Preference Shares, Series A (the "Series A shares") are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the board of directors, at the rate of $.725 per share per annum.

The Series A shares are convertible at any time up to December 8, 1982 at the option of the holder into common shares at a conversion price of $7.60 per common share and are redeemable at the option of the Company after that date at prices ranging from $10.50 per share if redeemed on or before December 8, 1983, to $10.00 per share if redeemed after December 8, 1987. Commencing in 1983, the Company shall make all reasonable efforts to purchase for cancellation in each calendar year 3% of the number of Series A shares outstanding on December 31, 1982 at prices not exceeding $10.00 per share plus costs of purchase.

The Company has reserved 555,409 common shares for the potential conversion of the Series A shares.

(b) Holders of the First Preference Shares, Series B (the "Series B shares") are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the board of directors, at the rate of $1.05 per share per annum. The Series B shares rank on a parity with the Series A shares and are redeemable at the option of the Company after December 31, 1985 at a price of $10.40 per share if redeemed on or before December 31, 1986, decreasing to $10.00 per share if redeemed after December 31, 1990. A holder of Series B shares has the privilege of requiring the Company to purchase all or any of such shares on December 31, 1985 and December 31, 1990 at a price equal to $10.00 per share plus accrued and unpaid dividends. The Company shall make all reasonable efforts to purchase for cancellation in each calendar year at a price not exceeding $10.00 per share plus costs of purchase a number of Series B shares, ranging from 40,000 shares per annum during the period ending December 31, 1985 to 5% per annum of the number of Series B shares outstanding at the close of business on December 31, 1990, commencing January 1, 1991 and thereafter. During 1981 40,000 shares were purchased pursuant to this requirement at a cost of $345,000. The difference of $55,000 between the par value and the cost of the shares purchased was added to contributed surplus.

(c) The particular preferences, rights, conditions, restrictions, limitations and prohibitions of any series of the authorized Second Preference Shares will be determined by the board of directors of the Company prior to its issue.

(d) During the year, common shares were issued as follows:

	Number of common shares issued	Price	Total (thousands of dollars)
Conversion of 72,705 Series A preference shares	95,644	$ 7.60	$ 727
Stock dividends	16,595	$ 11.56	192
Employee share purchase plan	32,554	$ 11.14	362
Exercise of options	3,000	$ 6.92	21
	147,793		$ 1,302

Notes to consolidated financial statements (continued)

(e) The Company has reserved 14,878 common shares for the purposes of the Company's stock dividend program. Under the program a holder of common shares resident in Canada has the right to elect to receive fully paid common shares in lieu of cash dividends. Any dividend paid in common shares shall have a value, as determined by the board of directors, that is the fair equivalent, as of a date determined by the board of directors, to the cash amount of such dividend. In determining whether the stock dividend payable in common shares of the Company is the fair equivalent to the cash amount of such dividend, the board of directors may make such determination based on the weighted average price at which the common shares traded on The Toronto Stock Exchange (or such other stock exchange as the directors may designate from time to time) during the 30 trading days immediately preceding the dividend declaration date.

(f) The Company has reserved 99,935 common shares for the purposes of employee benefit plans, including the employee share purchase plans covering Canadian and United States employees. Under these plans, subject to certain age and length of service limitations, employees may contribute up to 10% of their gross wages, based on the member's basic wage rate. Certain designated senior officers may be allowed to contribute as much as 15% of their basic compensation. The Company contributes an amount equal to a stated percentage of the member's contributions to the plans as determined by the board of directors from time to time.

Under the employee share purchase plan covering the Canadian employees, share purchases are to be made by the Trustee for the plan on any stock exchange in Canada where the shares are listed. The Company may in lieu of such purchases, issue common shares from treasury at the market price; however it is not the Company's present intention to issue shares from treasury with respect to this plan. The plan covering the United States employees requires common shares purchased by the Agent for the plan to be issued from treasury at the market price.

The Company has reserved a further 200,000 common shares for the purposes of a proposed senior executive share purchase plan.

Potential issuances from treasury with respect to the employee share purchase plan covering the United States employees are not determinable, and the particulars of the proposed senior executive share purchase plan have not been approved by the board of directors, and accordingly the share reservations relating to these plans have not been taken into account in the calculation of fully diluted earnings per share.

(g) The Company has a stock option plan under which 21,000 common shares are reserved for purchase by key employees of the Company and its subsidiaries at prices to be not less than the market value as determined by trading on The Toronto Stock Exchange on the day each option is granted. At December 31, 1981, options were outstanding covering 3,000 shares at $6.92 per share exercisable to April 25, 1982 and 6,000 shares at $11.0625 per share exercisable to January 25, 1984.

(h) The terms of the Series A shares, the Series B shares and the debt referred to in note 8 provide certain restrictions on the payment of dividends on common shares.

Under the most restrictive of the provisions of the Series A shares, the Series B shares and the debt instruments referred to in note 8, all of the $13,080,000 of consolidated retained earnings at December 31, 1981 was available for the payment of dividends to the holders of common shares. The debt instruments do not prevent the Company from paying fixed cumulative cash dividends on its preference shares.

10. Commitments:

Estimated minimum future rental expenses under property and equipment operating leases that have initial or remaining non-cancellable terms in excess of one year are as follows:

1982	$ 2,774,000
1983	$ 2,291,000
1984	$ 1,620,000
1985	$ 973,000
1986	$ 498,000
thereafter	$ 1,328,000

Approved expenditures for plant and equipment additions at December 31, 1981 amounted to $1,136,000.

11. Related party transactions:

The Company is an associate of Reichhold Chemicals, Inc. ("RCI"), which is engaged directly and through subsidiaries, associated companies and licensed associates in the manufacture and sale of synthetic resins, industrial chemicals, glass fibre, inorganic colour pigments, compounded plastics, glass fibre panels and chemical derivatives of forest products, in the United States and 26 other countries. Under an agreement dated April 13, 1959, as amended, RCI granted to the Company for a period of 25 years from January 1, 1959, an exclusive license to use its patents, formulae, processes, technical know-how and trade marks in the manufacture and sale in Canada of all chemicals and synthetic resins developed and produced by RCI during the lifetime of the agreement, on payment of a royalty. The Company's sales of these products in 1981 amounted to approximately 18% of its consolidated sales. The license agreement is automatically renewable for successive ten year periods unless written notice of termination is given by either party six months prior to the end of any period. Any new products developed by the Company which are patentable are available to RCI under a similar royalty arrangement.

Transactions with RCI during the year were not material.

12. Pension plans:

The Company maintains pension plans in Canada which cover substantially all of its Canadian employees. Consulting actuaries have reported that based on an update of their December 31, 1980 valuation there was no unfunded liability on a consolidated basis as at December 31, 1981.

The Company also maintains a master pension plan covering substantially all of the United States employees. The most recent actuarial valuation conducted at January 1, 1981 indicated that there was no unfunded liability with respect to this plan.

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Reichhold Limited

Geographic segmentation

December 31, 1981 with comparative figures for 1980 (thousands of dollars)

Appendix 1

	Canada		United States	
	1981	1980	**1981**	1980
Operations to be continued:				
Sales to customers outside the enterprise	**$ 307,317**	268,833	**69,677**	61,787
Transfers between geographic segments	**–**	934	**354**	385
Total revenue	**$ 307,317**	269,767	**70,031**	62,172
Segment operating profit	**$ 21,558**	20,470	**(1,981)**	1,953
General corporate expense				
Interest expense (net)				
Income taxes				
Earnings from operations to be continued				
Loss from operations to be discontinued				
Earnings (loss) before extraordinary item				
Extraordinary item				
Net earnings (loss)				
Identifiable assets	**$ 129,905**	130,551	**29,222**	57,697
Corporate assets:				
Assets of operations to be discontinued (net)				
Total assets				

Transfers between geographic segments are accounted for at prices comparable to open market prices for similar products and services.

Interest income relating to specific geographic segments has been included in the respective segment operating profit.

Eliminations		Consolidated	
1981	1980	**1981**	1980
–	–	**376,994**	330,620
(354)	(1,319)	–	–
(354)	(1,319)	**376,994**	330,620
(24)	(87)	**19,553**	22,336
		5,031	3,689
		7,529	6,880
		2,905	4,203
		4,088	7,564
		(6,675)	(1,167)
		(2,587)	6,397
		(6,700)	–
		$ (9,287)	6,397
(24)	(87)	**159,103**	188,161
		3,338	4,157
		8,296	–
		$ 170,737	192,318

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Industry segmentation

December 31, 1981 with comparative information for 1980 (thousands of dollars)

Appendix 2

	Resins and Industrial Chemicals		Agricultural Chemicals	
	1981	1980	**1981**	1980
Operations to be continued:				
Sales to customers outside the enterprise	**$ 145,186**	126,656	**91,030**	85,824
Segment operating profit	**$ 9,389**	9,339	**(1,279)**	3,403
General corporate expense				
Interest expense (net)				
Income taxes				
Earnings from operations to be continued				
Loss from operations to be discontinued				
Earnings before extraordinary item				
Extraordinary item				
Net earnings (loss)				
Identifiable assets	**$ 55,570**	60,126	**32,894**	60,650
Corporate assets				
Assets of operations to be discontinued (net)				
Total assets				
Capital expenditures (1)	**$ 2,991**	7,029	**966**	1,854
Depreciation and amortization (2)	**$ 2,230**	1,916	**526**	476

(1) 1981 figures exclude amounts relating to operations to be discontinued.

(2) Excludes amounts relating to operations to be discontinued

(3) Includes corporate capital expenditures of $433 (1980 – $1,234).

(4) Includes corporate depreciation and amortization of $375 (1980 – $304).

Printing Inks, Graphic Arts, Equipment and Supplies		Oil and Gas Chemicals and Other		Consolidated	
1981	1980	**1981**	1980	**1981**	1980
101,760	85,812	**39,018**	32,328	**376,994**	330,620
9,666	8,010	**1,777**	1,584	**19,553**	22,336
				5,031	3,689
				7,529	6,880
				2,905	4,203
				4,088	7,564
				(6,675)	(1,167)
				(2,587)	6,397
				(6,700)	–
				$ (9,287)	6,397
55,437	52,999	**15,193**	14,386	**159,103**	188,161
				3,338	4,157
				8,296	–
				$ 170,737	192,318
2,381	2,153	**890**	2,062	**7,661**[3]	14,332[3]
967	710	**697**	563	**4,795**[4]	3,969[4]

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10 year financial review

(thousands of dollars except for per share items)

	1981	1980	1979
Sales	**$ 376,994**	$ 330,620	$ 280,863
Earnings (loss) before income taxes	**6,993**	11,767	11,363
Earnings from operations to be continued	**4,088**	7,564	6,916
Earnings (loss) before extraordinary item	**(2,587)**	6,397	6,916
Net earnings (loss)	**(9,287)**	6,397	6,916
Expenditures on fixed assets	**8,091**	14,332	12,506
Investment in acquisitions	–	3,411	9,382
Provision for depreciation and amortization	**5,575**	4,601	3,264
Fixed assets at net book value	**48,120**	49,277	39,045
Earnings (loss) per common share:			
Basic:			
From operations to be continued	**$ 0.48**	$ 2.08	$ 2.62
Before extraordinary item	**$ (1.43)**	$ 1.72	$ 2.62
Net	**$ (3.35)**	$ 1.72	$ 2.62
Fully diluted: [2]			
From operations to be continued	**$ 0.48**	$ 1.80	$ 1.99
Before extraordinary item	**$ (1.43)**	$ 1.51	$ 1.99
Net	**$ (3.35)**	$ 1.51	$ 1.99
Fully diluted cash flow per common share [2 AND 3]	**$ 1.11**	$ 3.25	$ 3.15
Dividends paid per common share [1]	**$ .48**	$ .48	$ .46
Book value per common share [1 AND 4]	**$ 9.85**	$ 13.80	$ 13.15

[1] Calculation of basic earnings per common share is based on the weighted monthly average number of shares outstanding during the respective periods. Book value per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the stock split in August 1977 (3 for 1) and the stock split in December 1968 (3 for 1).

[2] Calculation of full dilution is after giving effect to the factors described in the notes to the consolidated financial statements.

[3] Cash flow is represented by additions to working capital from operations.

[4] After deduction for redemption value of preference shares.

	1978	1977	1976	1975	1974	1973	1972
	$ 212,322	$ 138,176	$ 100,337	$ 82,733	$ 76,860	$ 36,972	$ 27,252
	9,038	3,967	4,716	4,623	8,210	2,930	1,826
	5,101	2,222	2,381	2,375	4,218	1,632	981
	5,101	2,222	2,381	2,375	4,218	1,632	981
	5,101	2,222	2,381	2,375	4,218	1,632	981
	7,583	3,654	4,210	4,671	2,795	2,316	1,074
	–	6,435	4,738	–	–	8,056	–
	2,439	2,063	1,660	1,214	1,148	762	635
	25,669	20,479	18,109	12,970	9,346	7,469	5,014
	$ 2.53	$ 1.39	$ 1.49	$ 1.49	$ 2.65	$ 1.13	$ .68
	$ 2.53	$ 1.39	$ 1.49	$ 1.49	$ 2.65	$ 1.13	$ .68
	$ 2.53	$ 1.39	$ 1.49	$ 1.49	$ 2.65	$ 1.13	$ .68
	$ 1.60	$ 1.12	$ 1.29	$ 1.29	$ 2.26	$ .97	$ .59
	$ 1.60	$ 1.12	$ 1.29	$ 1.29	$ 2.26	$ .97	$ .59
	$ 1.60	$ 1.12	$ 1.29	$ 1.29	$ 2.26	$ .97	$ .59
	$ 3.11	$ 2.66	$ 2.58	$ 2.39	$ 3.13	$ 1.49	$ 1.00
	$ .38	$ .34	$ .33	$ .32	$ .24	$ .14	$ .10
	$ 11.81	$ 10.27	$ 9.81	$ 8.65	$ 7.48	$ 5.07	$ 3.98

Valuation Day
For Canadian capital gains tax purposes, the Valuation Day value of Reichhold Limited securities on December 22, 1971 as established by the Department of National Revenue were the following:

*Common shares: $3.00

*The Valuation Day value of a common share has been adjusted to reflect the stock split in August 1977, whereby two additional shares were issued for each share held prior to the split.

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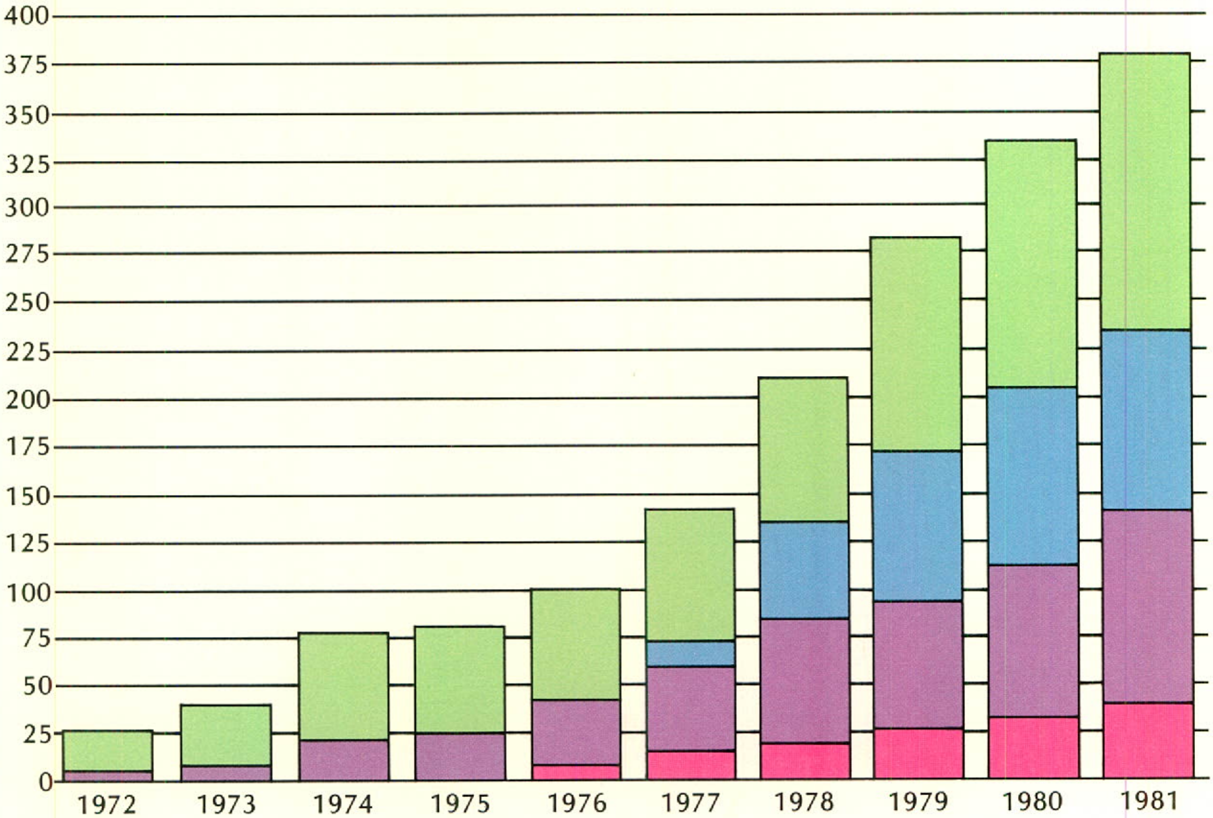
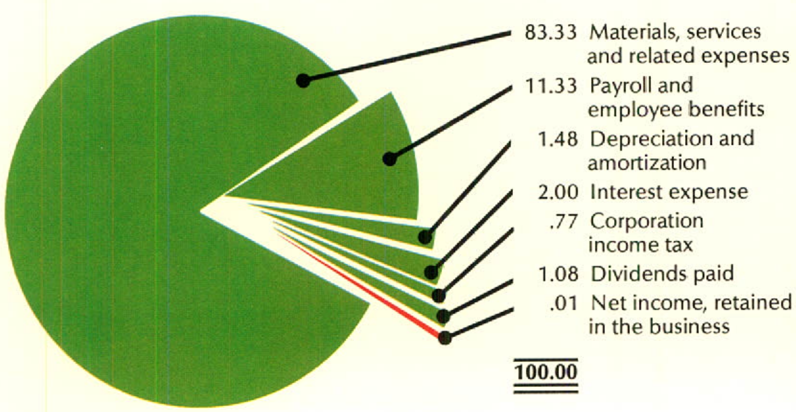
10 years of sales growth

Operation to be continued



Disposition of sales dollar: 1981



Dollar sales product mix: 1981

- 39% Resins and industrial chemicals
- 24% Agricultural chemicals
- 27% Printing inks, graphic arts equipment and supplies
- 10% Oil and gas chemicals and other

The products

The results of Reichhold's manfacturing and distribution capability affect the marketplace in so many different ways.

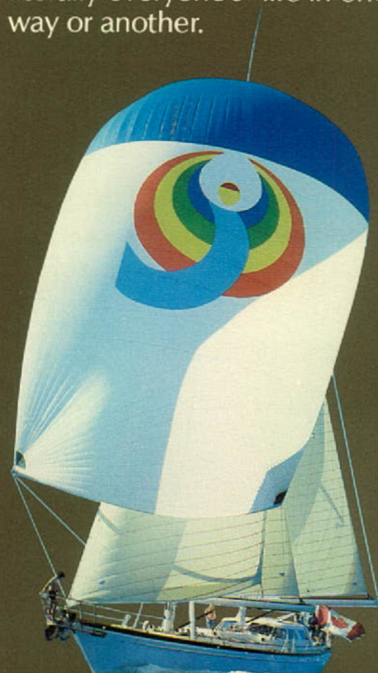
Reichhold resins bind basic construction materials such as plywood and waferboard. Other resins are used to insulate, produce laminate surfaces, moulded products, surface coatings and ships that sail.

There are branded consumer products in packages and agricultural commodities for growers and home gardeners.

We distribute equipment, supplies and manufacture inks to serve the complete graphic arts trades.

There is machinery for vegetation control, systems and chemicals to serve the natural gas industry and utilities.

In essence, products and services that touch literally everyone's life in one way or another.



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Resin Group

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Chief Financial Officer
and Treasurer

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Reichhold Chemicals, Inc.

ALEXANDER B. DAVIE
Vice President
and Manager,
Resin Division-Western

PETER J. FASS
President,
Reichhold Chemicals, Inc.

JEAN-RENÉ HALDE
President and
Chief Executive Officer,
Metro-Richelieu Inc.

**MAJ. GEN.
BRUCE F. MACDONALD**
Retired. Past President of
The Canadian Chemical
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Partner, Law Firm of
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WALTER E. STRACEY
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and Chief Executive Officer

DONALD J. McLEOD
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Honorary Chairman
of the Board

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