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DU PONT CANADA

DU PONT OF CANADA

Annual Report 1965

Vice-President 1934-1941
President 1941-1954
Board Chairman 1954-1965
Honorary Chairman 1965-1966

George W. Huggett

Du Pont of Canada Limited

On 15th April 1966, George W. Huggett will retire from the Board of Directors by virtue of the age limitation contained in the General By-Laws of the Company.

After serving with associated companies in various countries since 1911, Mr. Huggett came to Canada in 1928 and was appointed Secretary in 1929. Elected Vice-President in 1934, he succeeded the Right Honourable Arthur B. Purvis as President in 1941. After the Company's division in 1954, he was appointed Board Chairman and became Honorary Chairman a year ago.

Few companies are so fortunate as to have the uninterrupted benefit of such wisdom and management skill as those of George W. Huggett over a period of close to 40 years. His leadership of the Company throughout its periods of greatest growth and his guidance, patience and kindly counsel which have been unstintingly available to his associates through the years testify to his unique abilities.

The Board of Directors, on its own behalf as well as on that of the shareholders and employees, pays tribute to this great Canadian industrial statesman.

Board of Directors

Robert G. Beck

Joseph M. Breen

Frank S. Capon

W. Samuel Carpenter, III

Irénée du Pont, Jr.

Robert L. Hershey

George W. Huggett

John K. Jenney

Herbert H. Lank

Hugh H. Lawson

R. Russell Pippin

Lester S. Sinness

Officers

George W. Huggett
Honorary Chairman of the Board

Herbert H. Lank
Chairman of the Board

Robert G. Beck
President

Frank S. Capon
Vice-President

Herman F. Hoerig
Vice-President

Franklin S. McCarthy
Vice-President

Frank G. Raymant
Vice-President

K. M. Place
Treasurer

H. J. Hemens, Q.C.
Secretary

C. A. Harvie
Assistant Treasurer

T. S. Morse
Assistant Treasurer

Transfer Agent, Registrar and Dividend Disbursing Agent
Montreal Trust Company
Montreal, Toronto and Vancouver

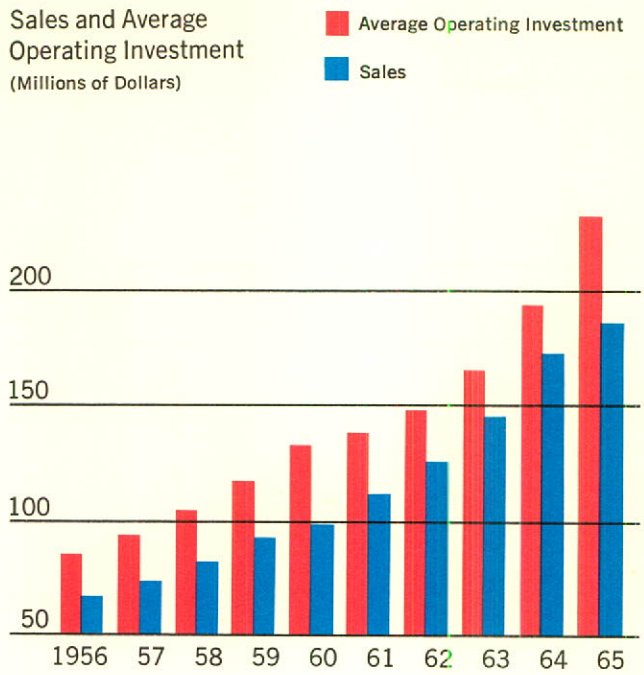
Sur demande, il nous fera plaisir de vous envoyer l'édition française de ce rapport.

Comparative Financial Results

	1965	1964	% Change
Sales	$188,452,000	$171,883,000	+10
Costs and expenses before provisions for depreciation and income taxes	152,323,000	130,975,000	+16
Depreciation	10,922,000	8,339,000	+31
Income taxes	12,837,000	17,085,000	−25
Net income	12,538,000	15,649,000	−20
Earnings a Common Share*	$1.57	$1.96	
Dividends a Common Share	$1.00	$1.00	
Capital expenditures	39,650,000	28,877,000	+37
Return on investment	5.4%	8.1%	−33

*Earnings a share in 1964 have been adjusted to reflect the larger number of shares outstanding at 31st December, 1965.

Annual Report 1965

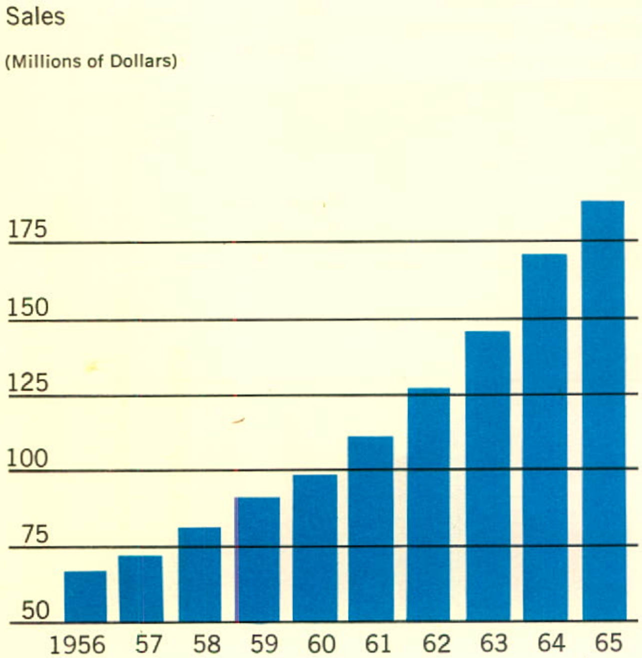


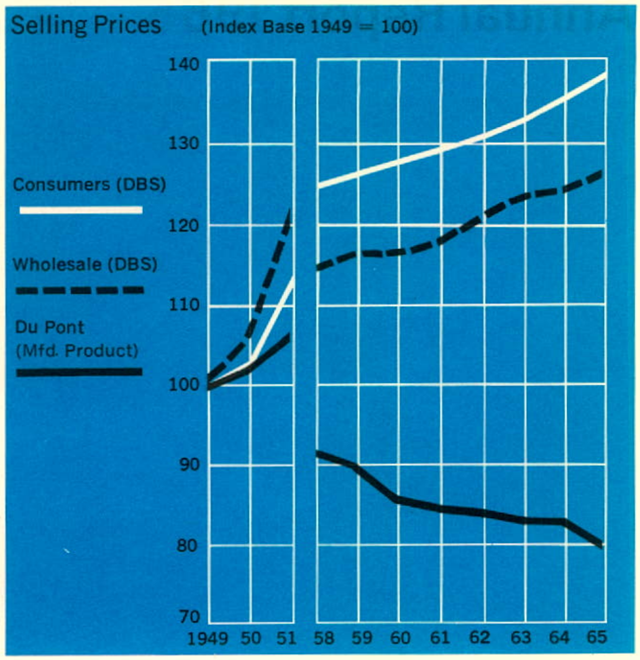
To the Shareholders

The year 1965 was one of continuation of the Company's growth and diversification. Despite new highs in both sales and operating investment, earnings for the year at $1.57 a share were down 20% and return on the larger investment declined from 8.1% in 1964 to 5.4% in 1965.

Several factors contributed to the decline in profits. Both the strike at the Kingston nylon plant and the explosion at the North Bay explosives plant had significant effects on earnings. Further reductions in selling prices were necessary to combat increasing competition from low-priced imports. While this action is consistent with the Company's long-standing policy of lowering prices to broaden markets and achieve long term optimum return, the resulting benefits of greater volume can be expected only in the future. Construction expenditures reached a record high during the year and the expenses which are inevitable in the initial periods of operation of new capacity added substantially to costs.

While the year was one of unprecedented prosperity for Canada with consumer spending at an all time high, a number of disturbing factors of national concern existed. Canada's unfavourable current account balance of international payments deteriorated although the fundamental weakness was masked somewhat by heavy wheat exports to communist countries. It was a year of labour unrest, lost time due to disputes was more than double the previous year and the constant upward trend of labour costs became even more pronounced. Despite the high level of investment, the rate of economic growth is such that new productive capacity has not kept pace with market requirements. A major reason is the competition from low cost imports, particularly from low-wage countries, which has so reduced profit expectations that return to potential Canadian investors is often inadequate to justify the construction of new facilities.





Sales

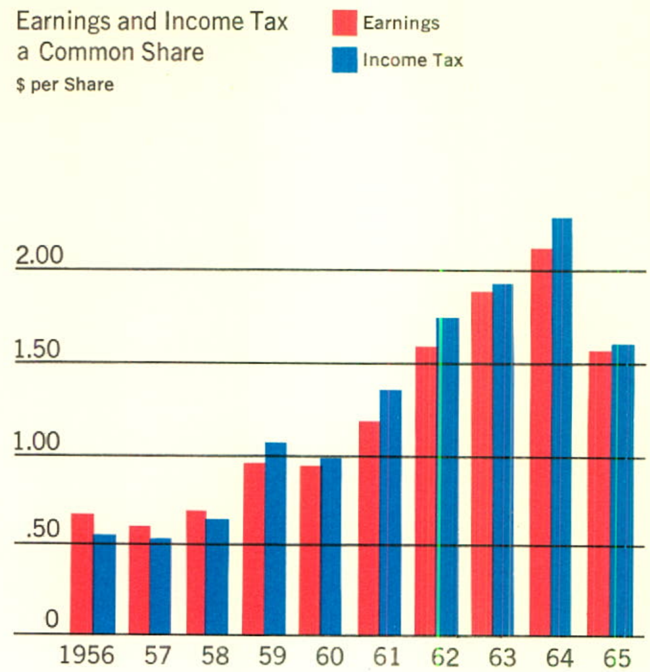
Total sales at $188,452,000 were 10% above the record set in the previous year. The high level of consumer demand exerted a strong expansionist influence on the economy, and sales of all product groups showed further growth.

The new record in sales was achieved despite a number of adverse circumstances. Competition from low-priced imports continued to be severe and substantial price reductions were made to combat this threat to domestic production. The physical volume of shipments of manufactured products was higher than 1964 but the Company's selling prices for these products declined 3% from the 1964 level.

While there has been a continuation of the substantial growth in sales volume, lower selling prices and higher operating costs are having an even greater impact on results for shareholders. These factors are reviewed in the following paragraphs.

Selling Prices

The weighted average index of selling prices of the Company's manufactured products dropped from 82.3 to 79.9 during the year (1949 = 100) while in contrast the Canadian consumer and wholesale price indices rose from 135.4 and 123.8 to 138.7 and 126.2 respectively.



Costs

While the Company was able to achieve cost reductions in some areas, nevertheless average costs per unit of many products increased appreciably in 1965.

Operations were adversely affected by the strike at Kingston and the explosion at North Bay. In order to ensure continuity of supply to customers it was temporarily necessary to purchase nylon yarns and explosives from other suppliers at values in excess of the Company's normal manufacturing costs.

The extensive plant expansion program necessitated the hiring and training of additional employees to operate the new facilities. In addition the Company continued its policy of charging high rates of depreciation during the early periods of operation when risk is greatest and the amount set aside for depreciation was $2,583,000 greater than in 1964.

Costs were also affected by periods of disruption to normal operations during construction and by higher initial operating charges during start-up. To take advantage of the newest technology, it was necessary to introduce equipment of vastly greater productivity and complexity, but which requires extensive periods of operation and adjustment before achieving satisfactory results.

Wage and salary costs continued to rise reflecting higher rates and the larger number of employees.

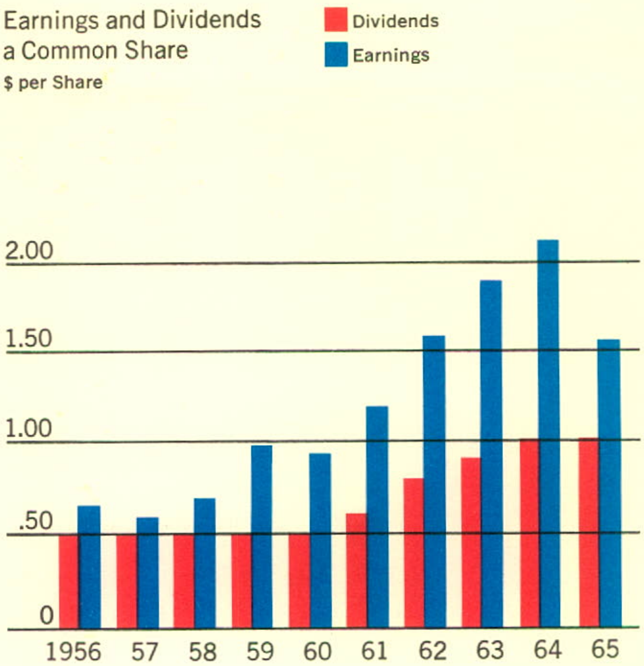
Despite a general upward trend in wholesale prices during the year, raw material costs per unit of output remained proportionately the same as in the previous year.

Financial Charges

Interest on borrowed money increased by $227,000 over the corresponding charge for 1964. The Company continued the policy of claiming for tax purposes the maximum provision for depreciation permitted, the amount claimed being substantially in excess of that charged to operating costs. The resulting amount of $2,770,000 by which current tax payments were reduced was set aside from profits to provide for the future tax liability when the capital cost allowance for tax purposes may be less than charges to costs. The balance in the accumulated provision for future income taxes now amounts to $14,108,000. Reflecting the lower level of income earned during the year, total taxes on income at $12,837,000 were 25% lower than in the previous year.

Despite a reduction in personal income tax rates in 1965, corporate taxes remained unchanged while construction costs were increased by the full effect of the 11% Federal Sales Tax on construction materials. In a period when Canada's largest trading partner has reduced income and excise taxes, the competitive position of Canadian industry in world markets is being seriously weakened not only by high income tax levels but also by taxing the capital investment needed to provide the production and employment to ensure Canada's growth. Since 1958, taxes have taken a greater share of operating profits than is left for investors.

Earnings and Dividends a Common Share
$ per Share



Financing

During the past four years of the Company's current expansion program, the cash requirements for additions to plants and properties and for increased working capital have aggregated $118,514,000,exceeding by $49,923,000 cash generated from operations through retained earnings and provisions for depreciation and future taxes.

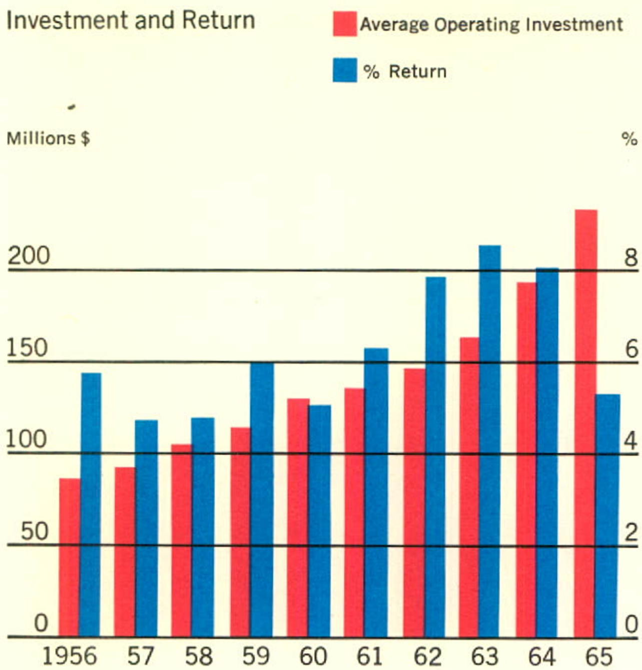
Annual cash deficiencies were met by short term borrowings through 1964, but it became apparent that the amounts needed to continue the program of expansion and diversification could best be obtained through a combination of new permanent capital, medium term loans and short term borrowings. Accordingly, early in 1965, the Company realized $25,750,000 from the sale of 500,000 common shares in Canada. At 31st December, medium term loans amounted to $10,000,000 and short term borrowings to $8,100,000.

During 1963, legislation was introduced which offered certain taxation incentives to companies having the required "degree" of Canadian ownership and control. Although the Company has always had Canadian shareholders and has had strong Canadian representation on its Board of Directors, it did not qualify under the legislation for such taxation incentives. Following the sale of 500,000 common shares referred to above, E. I. du Pont de Nemours & Company's interest in the outstanding common shares of Du Pont of Canada Limited was reduced to 74.8% and the Company now qualifies as having the required "degree" of Canadian ownership and control.

Earnings and Dividends

Net income in 1965 amounted to $12,538,000, down $3,111,000 from the previous year. Earnings a common share were $1.57 as against an equivalent amount of $1.96 in 1964 on the number of shares now issued.

Regular dividends were paid on the 7½% preferred stock and four quarterly distributions of 25 cents a share were made on the common stock in respect of 1965 earnings, the dividend for the fourth quarter being paid in January 1966. The total dividend of $1.00 a common share remained unchanged from a year ago.



Investment and Return

Primarily as a result of the large plant expansion program, the Company's operating investment rose to $258,394,000 at the year end as compared with $213,904,000 at the end of 1964. The increase also reflected larger inventories and, in line with increased volume, greater amounts owing from customers.

During periods of new construction, some time must elapse until new units are in profitable operation. This factor, together with generally lower profit margins obtained during the year, accounts for the reduction to 5.4% in return on average operating investment.

Financial Statements 1965

Du Pont of Canada Limited

and its wholly owned subsidiaries

Consolidated Balance Sheet

Assets

	31st December 1965	1964
CURRENT ASSETS		
Cash	$ 466,346	$ 868,642
Accounts receivable	21,607,954	20,964,196
Inventories, valued at the lower of cost or market	21,516,041	17,285,827
Prepaid expenses	1,893,135	1,283,848
	$ 45,483,476	$ 40,402,513
INVESTMENT SECURITIES AT COST	$ 544,773	$ 685,562
PLANTS AND PROPERTIES AT COST	209,820,015	172,218,292
LESS: ACCUMULATED DEPRECIATION	87,491,912	77,778,516
	$122,328,103	$ 94,439,776
GOODWILL, PATENTS AND PROCESSES AT COST	$ 2,265,835	$ 2,265,835
	$170,622,187	$137,793,686

Signed on behalf of the Board:

G. W. Huggett } Directors
Hugh H. Lawson

Statement of Consolidated Income

	1965	1964
NET SALES	$188,452,253	$171,883,004
Other income	167,649	165,262
	$188,619,902	$172,048,266
Less:		
Cost of goods sold and other charges except depreciation, interest and income taxes (Note 1)	$151,812,326	$130,691,639
Provision for depreciation	10,922,170	8,338,632
Interest on borrowed money:		
Current obligations	360,009	283,343
Notes payable beyond one year	150,786	—
Federal and provincial taxes on current income:		
Payable currently	10,066,893	14,530,344
Estimated to be payable in future years (Note 2)	2,770,000	2,555,000
	$176,082,184	$156,398,958
NET INCOME FOR THE YEAR	$ 12,537,718	$ 15,649,308

Statement of Consolidated Earned Surplus

	1965	1964
BALANCE AT 1st JANUARY	$ 71,764,985	$ 63,625,052
Add: Net income for the year	12,537,718	15,649,308
	$ 84,302,703	$ 79,274,360
Deduct: Dividends declared on–		
Preferred 7½% cumulative stock	$ 174,375	$ 174,375
Common stock ($1.00 a share)	7,886,298	7,335,000
	$ 8,060,673	$ 7,509,375
BALANCE AT 31st DECEMBER	$ 76,242,030	$ 71,764,985

Auditors' Report to the Shareholders

Du Pont of Canada Limited,
Montreal, Quebec.

We have examined the consolidated balance sheet of Du Pont of Canada Limited and its wholly owned subsidiaries as at 31st December 1965 and the statements of consolidated income, earned surplus and source and use of funds for the year ended on that date. 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.

In our opinion the accompanying consolidated balance sheet and the statements of consolidated income, earned surplus and source and use of funds present fairly the financial position of the company and its wholly owned subsidiaries as at 31st December 1965, the results of their operations and the source and use of funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey & Smart

Montreal, Quebec.
18th February 1966.

Chartered Accountants.

Statement of Consolidated Source and Use of Funds

(Expressed in thousands of dollars)

For the five years ended 31st December 1965	Total for Period	1965	1964	1963	1962	1961
CASH AND MARKETABLE SECURITIES AT 1st JANUARY	$ 618	$ 869	$ 541	$ 5,887	$ 2,776	$ 618
SOURCE OF FUNDS:						
Net income	$ 62,891	$12,538	$15,649	$14,028	$11,809	$8,867
Depreciation	40,266	10,922	8,339	7,373	6,704	6,928
Deferred income taxes	8,588	2,770	2,555	2,433	800	30
Issue of common shares to employees and trustee	4,074	2,153	658	539	413	311
Issue of common shares to the public	25,750	25,750	—	—	—	—
Short and long term borrowings	10,100	5,400	12,700	—	—	(8,000)
Disposal of fixed assets	1,110	838	28	49	89	106
	$152,779	$60,371	$39,929	$24,422	$19,815	$8,242
USE OF FUNDS:						
Appropriated for dividends	$ 32,871	$ 8,060	$ 7,509	$ 6,756	$ 6,008	$4,538
Expended on plants and properties	104,506	39,650	28,877	21,095	11,299	3,585
Other	(352)	1,352	(300)	(372)	(550)	(482)
Increase in working capital other than cash and marketable securities	15,906	11,712	3,515	2,289	(53)	(1,557)
	$152,931	$60,774	$39,601	$29,768	$16,704	$6,084
Increase or (decrease) in cash and marketable securities	($152)	($403)	$ 328	($5,346)	$ 3,111	$2,158
CASH AND MARKETABLE SECURITIES AT 31st DECEMBER	$ 466	$ 466	$ 869	$ 541	$ 5,887	$2,776

Notes to Consolidated Financial Statements

1. Included in the charges against income is the total remuneration of directors, including those who are officers, of $491,232 in 1965 and $667,700 in 1964.

2. Capital cost allowances in excess of the provision for depreciation charged against income in the accounts have been claimed for tax purposes. The amount by which tax payments have thereby been reduced has been set aside as a provision for taxes which may be payable in future years.

3. In accordance with the Company policy to acquire common shares for sale to employees under terms of the Bonus Plan, the Company has entered into an agreement with a Trustee under which funds are provided for this purpose.

4. As at 31st December 1965, there were outstanding scrip-units issued under the Bonus Plan to employees entitling them to purchase common shares of Du Pont of Canada Limited as follows:

Date	Total scrip-units outstanding	Scrip-units issued to officers including those who are directors	Purchase price per share
3rd January 1966	5187	1526	$36.25
3rd January 1966	5462	1498	40.80
3rd January 1966	4685	1246	51.00
3rd January 1967	5462	1498	40.80
3rd January 1967	4685	1246	51.00
2nd January 1968	4685	1246	51.00

5. Common Shares

	Shares	Value
Outstanding at beginning of year	7,335,000	$12,128,416
Issued to the public	500,000	25,750,000
Issued to employees under the Bonus Plan	21,132	802,395
Issued to a Trustee in respect of the Bonus Plan	30,166	1,350,533
Outstanding at end of year	7,886,298	$40,031,344

6. Accounts receivable and accounts payable in foreign currency have been converted at the rates of exchange prevailing at 31st December 1965.

7. At 31st December 1965, there remained $15,249,000 to be expended on authorized appropriations for plant construction.

Liabilities

	Shares		31st December 1965	31st December 1964
CURRENT LIABILITIES				
Bank indebtedness			$ 3,350,000	$ 4,200,000
Notes payable			4,750,000	8,500,000
Accounts payable and accrued liabilities			10,303,559	11,292,675
Amounts payable to E. I. du Pont de Nemours & Company			2,498,214	2,862,230
Federal, provincial and municipal taxes			3,405,268	7,318,509
Dividends declared			2,015,169	2,977,594
			$ 26,322,210	$ 37,151,008
NOTES PAYABLE BEYOND ONE YEAR			$ 10,000,000	—
PROVISION FOR BONUS AWARDS TO EMPLOYEES PAYABLE OVER FOUR YEARS			$ 3,605,418	$ 3,086,277
LESS: ADVANCES TO TRUSTEE (Note 3)			2,011,815	—
			$ 1,593,603	$ 3,086,277
ACCUMULATED PROVISION FOR FUTURE INCOME TAXES			$ 14,108,000	$ 11,338,000
CAPITAL STOCK:				
Authorized				
Preferred 7½% cumulative stock (par value $50)	46,500			
Common stock (no par value)	13,500,000			
Issued and fully paid				
Preferred	46,500	$ 2,325,000		
Common (Note 5)	7,886,298	40,031,344		
EARNED SURPLUS		76,242,030	118,598,374	86,218,401
			$170,622,187	$137,793,686

Operating and Financial Record

A Ten-Year Comparison

OPERATING RESULTS	1965	1964	1963
Sales and other income	188,620	172,048	146,162
Costs and expenses			
(excluding depreciation, interest and taxes)	151,812	130,692	110,366
Depreciation	10,922	8,339	7,373
Interest on borrowed money	511	283	—
Taxes on income	12,837	17,085	14,395
Net income	12,538	15,649	14,028
Earnings a common share*	$1.57	$2.11	$1.89
Dividends a common share	$1.00	$1.00	$0.90
OPERATING INVESTMENT			
Average operating investment**	233,500	194,000	165,000
Return on average operating investment	5.4%	8.1%	8.5%
FINANCIAL POSITION			
Total current assets	45,483	40,403	31,624
Total current liabilities	26,322	37,151	19,515
Net working capital	19,161	3,252	12,109
Plants and properties	209,820	172,218	145,030
Other assets less other liabilities	(8,783)	(135)	(412)
	220,198	175,335	156,727
Deduct: Accumulated provisions for future income taxes and depreciation	101,600	89,117	79,307
Shareholders' equity	118,598	86,218	77,420

*Based on number of shares outstanding at the end of each year.

**Operating investment comprises total assets before deducting depreciation as shown in the Company's annual statements exclusive of goodwill, patents and processes; the average is based on the investment at the beginning of each calendar month.

(Approximate amounts in thousands of dollars except where otherwise noted)

1962	1961	1960	1959	1958	1957	1956
126,784	112,279	99,906	90,992	81,753	72,740	67,060
95,246	86,048	78,930	69,562	65,916	59,876	53,577
6,704	6,928	6,325	5,917	5,358	4,324	4,298
—	204	449	416	394	55	—
13,025	10,232	7,367	7,928	4,850	3,994	4,216
11,809	8,867	6,835	7,169	5,235	4,491	4,969
$1.60	$1.20	$0.92	$0.97	$0.70	$0.60	$0.67
$0.80	$0.60	$0.50	$0.50	$0.50	$0.50	$0.50
149,900	138,900	131,400	118,900	106,700	93,200	86,200
7.9%	6.4%	5.2%	6.0%	4.9%	4.8%	5.8%
34,330	27,269	22,046	19,223	17,402	16,334	18,354
19,165	15,161	18,539	19,151	18,108	13,904	7,920
15,165	12,108	3,507	72	(706)	2,430	10,434
124,988	114,561	111,723	105,777	96,000	85,536	71,375
(38)	511	992	648	1,014	965	811
140,115	127,180	116,222	106,497	96,308	88,931	82,620
70,505	63,783	57,465	51,058	44,533	38,890	33,587
69,610	63,397	58,757	55,439	51,775	50,041	49,033

Du Pont products serving home and industry

1 "Teflon" TFE non-stick finish is being increasingly used on cookware and bakeware to eliminate the tedious and time-consuming task of scouring.

2 Transparent films, of which "Cellophane" cellulose film was the first, have inspired a packaging revolution and today are used more than ever to protect a wide range of foods and meats.

3 Carpeting is one of the latest end uses developed for "Orlon" acrylic fibre, long noted for its softness, warmth and pleasant touch. As a carpeting material, it also is rich in appearance, and resistant to sunlight, soot and smoke.

4 First of the truly man-made fibres, nylon has long since expanded on its original role as a hosiery yarn. Today, while still dominant in the apparel field, it also has a myriad of other uses such as in this upholstery fabric.

5 Style has become as essential in sportswear as the wear qualities, warmth and wind-resistance of the fabric. Today's top designers and manufacturers turn to Du Pont nylon and to "Orlon" acrylic fibre for their creations in both ski and après-ski apparel.

6 Canada's construction and mining industries in particular have found explosives one of their most useful tools but the product contributes as well to other vital areas of progress. Here, for example, a trench is blasted for an overseas communications cable.

7 The aesthetic value of a new coat of paint is undeniable — but application can be a messy job. With "Lucite" acrylic wall paint, however, messiness is non-existent because it will not drip or run off brush or roller.

8 "Freon" fluorocarbons could be called the "unseen workman". In Montreal's Place Victoria, home of the Montreal and Canadian Stock Exchanges,

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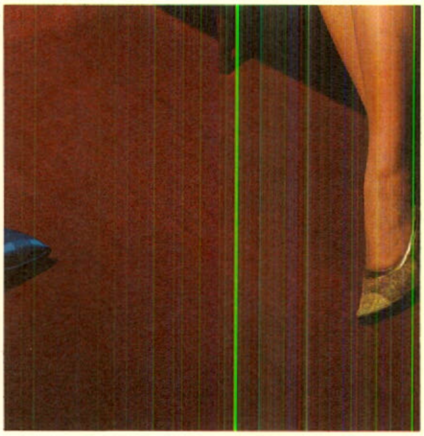
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"Freon" is the invisible refrigerant used in the skyscraper's air-conditioning system.

9 Latest of the Company's manufactured products, the tetraethyl lead compound in this tank car at Maitland Works is destined for an oil refinery where it will be introduced into gasoline as an anti-knock ingredient.

10 Connection of this six-inch pipe, made from "Sclair" resins, to a sewage pumping station at Chateauguay, Que., marked one of the first uses in Canada of polyethylene pipe in a pressure sewer system.

11 Elastomers such as neoprene and "Hypalon" synthetic rubber have won wide acceptance in the building trades. The neoprene roof base shown on this new church will be covered with green "Hypalon".

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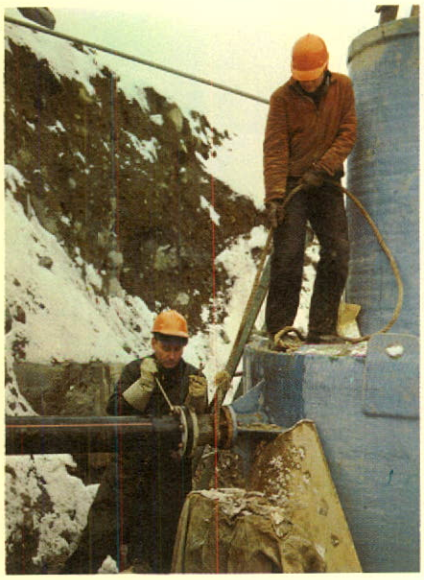

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Operations Review

Textile Fibres Department

Sales were at a higher level despite aggressive competition from foreign manufacturers. Markets for nylon as a textile fibre showed further growth with particular strength in sports, leisure and children's wear applications. Further significant gains were made in the use of nylon in automotive replacement tires and in bus and truck tires. In addition, sales of nylon yarn continued to grow in such markets as automotive and household upholstery, paper machine felts, mechanical rubber goods and automobile seat belts.

Reflecting widening consumer acceptance of "501" certified carpets, sales of bulked continuous filament nylon carpet yarn increased substantially.

Demand for "Orlon" acrylic fibre, particularly for sweaters and pile fabrics, showed major growth during the year. A large expansion of production facilities is in progress.

"Lycra" spandex fibre has become a dominant factor in the foundation garment industry and it is now established in high styled garments in combination with Du Pont nylon. The increasing use of "Lycra" in stretch apparel indicates a significant long-term potential market for this product.

Yarn manufacturing facilities were enlarged for all major nylon products. New equipment, incorporating the latest technology, in addition to providing increased capacity to serve expanding markets, will enable the Company to maintain its leadership position through improvement in quality, diversification of products and reduction in manufacturing costs.

Chemicals Department

In the fourth quarter of the year, the Company commenced the manufacture of tetraethyl lead and tetramethyl lead (the anti-knock ingredients in modern gasolines).

Sales of "Freon" fluorinated hydrocarbons showed further improvement. Since the Company commenced manufacture of these products in 1955, the demand for refrigerants and the growth in aerosol propellents in spray can packaging have been dramatic. Throughout the past ten years when it was the sole Canadian producer, the Company stimulated demand by broadening the types of product at competitive prices, by maintaining technical leadership and by expanding capacity.

Films Department

Demand for "Cellophane" cellulose film continued strong in 1965, with continued growth in the use of the newer polymer coated films. Additional facilities are being installed to meet the increased demand for these premium films.

The growth of the polyolefin film business continues in all major market areas, and a further expansion of the Whitby Works was authorized for completion in early 1966. This is the third expansion since the plant went into operation in 1959.

Plastics Department

Shipments of "Sclair" polyethylene resins increased significantly during 1965 although selling prices were lower than in the previous year. Manufacturing facilities operated at higher levels due to the growth of existing markets and new markets developed during the year. Consumer acceptance of polyethylene products continues to grow and market development is encouraging.

Finishes Department

Sales of household paints and refinish and industrial products showed further growth during the year.

A feature of 1965 was the introduction of "Lucite" acrylic exterior and interior wall paints to the national consumer market. In addition, the "Dulux" line of paints became an increasingly familiar household name. Wide colour selection continues to be provided through the nationally distributed "Flo-Glaze" "Colorizer" line.

An important factor in sales of automotive finishes is the growing use of "Lucite" lacquers.

Explosives Department

The market for explosives continued its growth during the year, stimulated by a high level of activity in the construction industry and the development of several major ore bodies into mining complexes.

The unfortunate explosion at the Nipissing Works during the third quarter temporarily curtailed production of some products and it was necessary to purchase material in order to keep customers supplied.

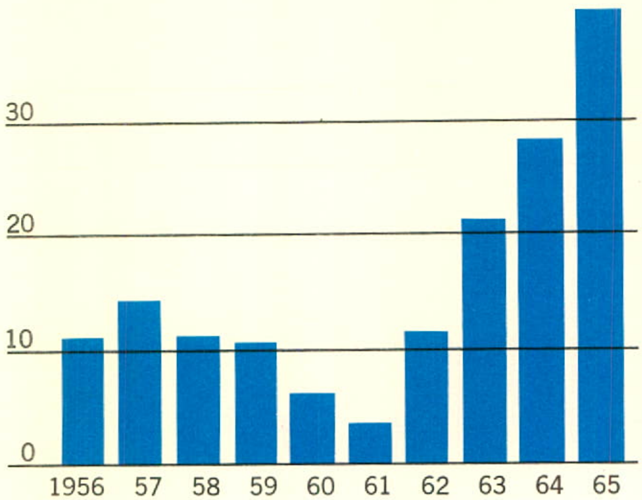
Exports

Export sales slightly exceeded the record level achieved in 1964. Foreign business in 1965 embraced wider diversification of markets for manufactured products which reached over fifty foreign countries during the year. Increased penetration was achieved in the principal markets for cellulose film, and nylon polymer was shipped abroad to the extent of current available capacity. Significant increases in exports were achieved in plastics and miscellaneous chemicals.

Export sales comprise an important segment of the Company's business and contribute significantly to earnings. Canadian chemical products are frequently at a disadvantage in foreign markets because of high Canadian wage rates and investment costs and in some cases because of the effect of foreign tariffs. Exports are of great importance, however, in view of the relatively small size of the Canadian domestic market and the need to achieve the benefits of large scale operations.

Expenditures on Construction

(Millions of Dollars)

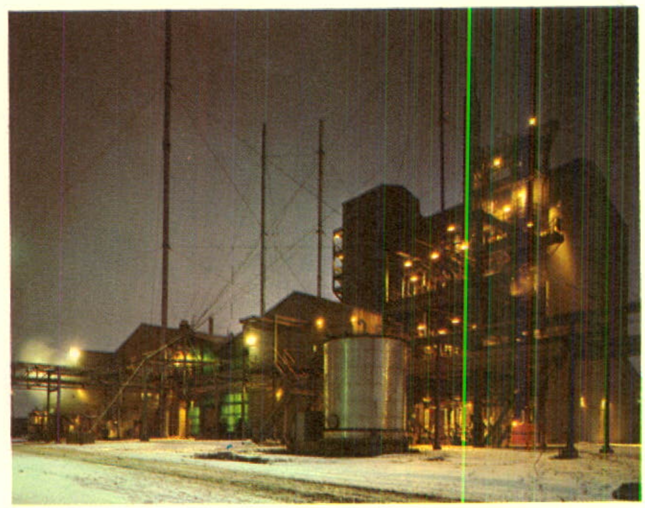


Expansion and Diversification

Capital expenditures of $39,650,000 were by far the largest for any single year. Expansion and modernization of the nylon fibre plant at Kingston and the nylon intermediates plant at Maitland again required substantial expenditures. Construction of the tetraethyl lead plant at Maitland and the expansion of the finishes plant at Ajax were completed and both began operations during the fourth quarter. The capacity of the "Orlon" acrylic fibre plant at Maitland is being substantially increased.

The Economic Council of Canada has depicted a bright future for the long-term economic growth of Canada. To enable the Company to participate to the fullest extent, further substantial capital expenditures will undoubtedly be required over the next several years. An amount of $15,249,000 remained unexpended on approved projects at the end of the year.

A plant for the production of tetraethyl lead and other anti-knock compounds used as gasoline additives began operation late in 1965. It is the sixth plant at the Maitland, Ontario site.



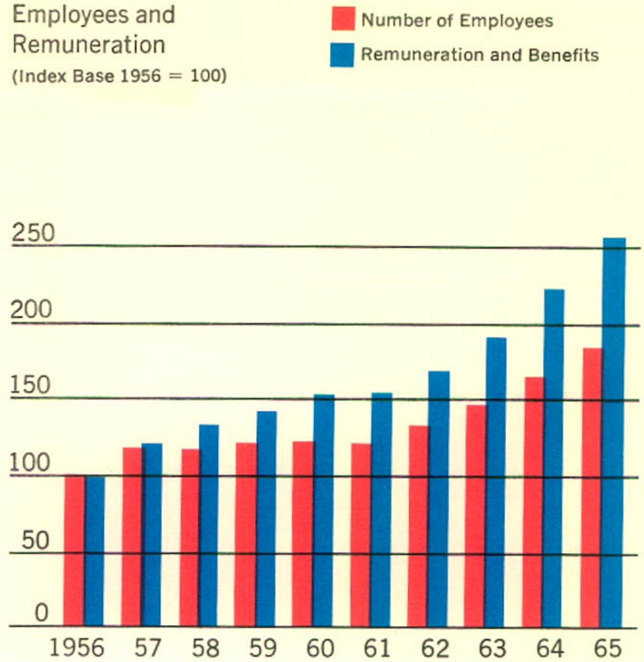
Research and Development

The Company continues to be among the leaders in Canadian industry in the field of research and development. At the Research Centre in Kingston and at plant locations, improved processes and products particularly adapted to Canadian conditions are being invented and developed. In addition to its significant effort in the search for novel processes and products, the Company also has ready access to the research and technical knowledge of E. I. du Pont de Nemours & Company.

As the Economic Council of Canada has stated repeatedly, the nation's long-term growth depends to a large extent upon the development of high productivity secondary industry. The Company's research activities are directed primarily to the improvement of profits through more efficient manufacture in Canada of present products and to the introduction of new products which can in turn lead to the establishment of new industries.

Employees

Employees and Remuneration
(Index Base 1956 = 100)



The greatest single factor in the Company's success is its people and the Board wishes to express its appreciation of their contribution during the past year. The number of employees increased by 10% in 1965 to 6,592 reflecting both the capital expansion program and the increased volume of business.

It is with deep regret that the Company records the death of two employees in the explosion at Nipissing Works in September.

Partly as a result of this occurrence, the number of major work injuries per million man hours of exposure increased from the record low of 0.68 in 1964 to 1.18 in 1965. Nevertheless, the Company's accident frequency rate continues to be well below the industrial frequency rate of 6.4 and the latest chemical industry rate of 3.13. Prime emphasis continues to be placed on effective accident prevention and safety both on and off the job.

As part of the continuing adjustment of employee benefit plans, the vacation plan was amended during the year to provide for longer vacations depending upon length of service. In addition, it is now possible for employees with long service who are unable to take the full vacation in a year to carry forward portions of their vacations from one year to the next. The Company contribution for health insurance was increased and extended to pensioners.

The Pension Plan was amended in order to coordinate it with the Canada Pension Plan and the Quebec Pension Plan. At the end of the year $21,754,000 was held by an outside trustee for payment of pensions under the Company's non-contributory plan. In addition, a contributory supplementary plan is available in which employees may also participate.

Bonus Plan

The Bonus Plan enables the Company to reward those employees who, through their outstanding efficiency and initiative, have made important contributions toward the Company's success. Each year, the Board of Directors may credit to the Bonus Fund a portion of net income above 6% earned on the average amount of the issued capital stock, surplus and interest-bearing indebtedness. A committee of Directors, chosen from among those members of the Board who are not eligible to participate under the Plan, determines the individual awards which are delivered in four equal annual installments.

For the year 1965, bonus awards were made to 218 employees including those officers who are also Directors. As experience has shown that stock ownership encourages maximum interest in the Company's progress, the amounts delivered were again in the form of common shares of the Company, after withholding sufficient cash to meet income tax deductions. In 1965, the Board established a policy of purchasing shares in the market to meet future bonus plan requirements rather than issuing new shares as in previous years.

Management

At the meeting of the Board of Directors following the Annual Meeting in April, 1965, Herbert H. Lank resigned as President of the Company and was appointed Chairman of the Board. Robert G. Beck was elected President.

In accepting Mr. Lank's resignation, the Board of Directors paid tribute to the outstanding contribution which he had made to the success of the Company, and the unprecedented expansion and diversification which the Company has undergone during his tenure as president bear witness not only to the value of his efforts but also to his outstanding qualities of foresight and leadership.

Outlook

The growth in Canada's population, together with its changing age structure and rising living standards will be a tremendous stimulus to domestic demand during the remainder of the decade. This means that an inadequate demand will no longer, as in the past, be as major an impediment to the rapid growth of business activity. The challenge of the future will be rather in keeping Canadian costs at a competitive level and in providing the facilities required to meet the demands of a rapidly growing market.

It is anticipated that Canada's Gross National Product will double during the next twelve to fifteen years. This implies a growth rate of 6% per year, and compares with 4% achieved since World War II.

This acceleration in the growth of the economy will severely strain Canada's capital and trained manpower resources. The upward pressure on prices will be stronger than in the recent past and the external value of the Canadian dollar will in all probability be under periodic pressure.

The only positive long-term means of combating inflation at home while at the same time reducing demand for imports is to increase capacity and productivity. The Company's very heavy capital expenditures to modernize, increase capacity and manufacture new products is indicative of its faith in Canada's future.

Herbert H. Lank

Chairman of the Board

Robert G. Beck

President

28th March 1966, Montreal, Canada

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