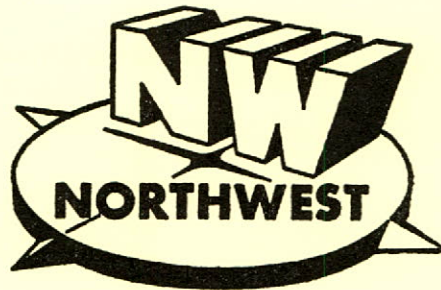


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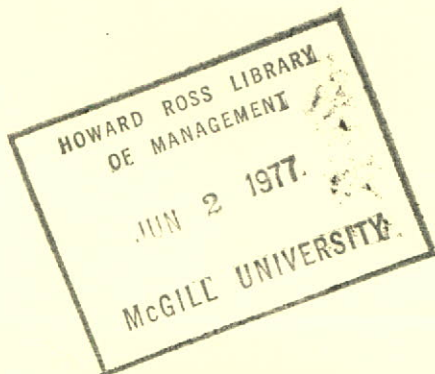


NORTHWEST NITRO-CHEMICALS LTD.

**ANNUAL
REPORT**

YEAR ENDED JUNE 30

1976



Northwest Nitro-Chemicals Ltd.

(A Subsidiary of IMC Chemical Group, Inc., which is a wholly-owned
Subsidiary of International Minerals & Chemical Corporation)

P. O. Box 310

MEDICINE HAT, ALBERTA T1A 7G1, CANADA

DIRECTORS AND OFFICERS

THOMAS L. BROOK, *Director*
Chairman, Asamera Oil Corporation Ltd.

JOHN H. COLEMAN, *Director and Chairman of the Board*
President of J.H.C. Associates Ltd.;
Retired Deputy Chairman, The Royal Bank of Canada

WILLIAM S. LEONHARDT, *Director and President*
Executive Vice President, International Minerals & Chemical Corporation;
Chairman, IMC Chemical Group, Inc.

ROBERT C. WHEELER, *Director*
Senior Vice President, International Minerals & Chemical Corporation

THOMAS PESCOD, *Vice President*
Assistant Controller, International Minerals & Chemical Corporation

HAROLD F. POWERS, *Controller*
Manager, Chemical Group Accounting, IMC Chemical Group, Inc.

HOWARD B. DURBIN, SECRETARY & TREASURER
Secretary, IMC Chemical Group, Inc.

TRANSFER AGENT AND REGISTRAR

MONTREAL TRUST COMPANY
411 Eighth Avenue, S.W., Calgary, Alberta T2P 1E7, Canada

Northwest Nitro-Chemicals Ltd.

DIRECTORS' LETTER TO SHAREHOLDERS

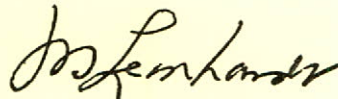
Northwest Nitro-Chemical's net earnings for the fiscal year ended June 30, 1976 were \$1,260,000 and net sales for the year were \$4,381,000, both being substantially ahead of the preceding twelve month period, principally due to increased volume and prices.

Northwest's operating income is derived entirely from Cancarb Limited, which produces and sells thermal carbon black to rubber companies for mechanical rubber goods and to other industries for use in various other applications. Demand for thermal carbon black is affected by world economic conditions and the level of activity in the principal industries, including the automotive industry, which are the end users of Cancarb's product.

Cancarb plant operations improved during the year. Alterations and modifications also were made to meet Canadian environmental requirements. Natural gas, Cancarb's only raw material, is purchased under a long-term contract with escalation provisions. No curtailment of natural gas was experienced during the past year.

Northwest Nitro-Chemicals and five other companies, in January, 1976, received an Information under the Canadian Combines Investigation Act alleging that these companies unlawfully conspired to prevent or unduly lessen competition in fertilizers in Western Canada during the period January 1, 1965 to January 16, 1976. Northwest sold its fertilizer facilities in 1973. Northwest has cooperated fully with the government agencies in their conduct of the investigation.

Our plans for expanding Cancarb's thermal carbon black facilities are continuing to receive careful consideration.


President

September 20, 1976

Northwest Nitro-Chemicals Ltd.

CONSOLIDATED BALANCE SHEET

ASSETS

	June 30,	
	1976	1975
CURRENT ASSETS:		
Cash	\$ 138,000	\$ 522,000
Time deposits	2,700,000	5,778,000
Accounts receivable	837,000	275,000
Note receivable (Note 2)	5,474,000	—
Inventories:		
Finished products	14,000	361,000
Raw materials and supplies	138,000	143,000
	<u>152,000</u>	<u>504,000</u>
Prepaid expenses and deferred charges	196,000	102,000
Total current assets	<u>9,497,000</u>	<u>7,181,000</u>
LONG-TERM RECEIVABLE (Note 8)	<u>140,000</u>	<u>140,000</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	46,000	46,000
Buildings	736,000	704,000
Machinery and equipment	3,607,000	3,514,000
	<u>4,389,000</u>	<u>4,264,000</u>
Less accumulated depreciation	855,000	497,000
	<u>3,534,000</u>	<u>3,767,000</u>
OTHER ASSETS	<u>97,000</u>	<u>166,000</u>
	<u>\$13,268,000</u>	<u>\$11,254,000</u>

On behalf of the Board:
W. S. LEONHARDT, *Director*
R. C. WHEELER, *Director*

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30,	
	1976	1975
CURRENT LIABILITIES:		
Accounts payable	\$ 158,000	\$ 186,000
Accrued liabilities	87,000	282,000
Income taxes	1,281,000	1,061,000
Total current liabilities	1,526,000	1,529,000
DEFERRED INCOME TAXES	993,000	236,000
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
SHAREHOLDERS' EQUITY:		
Common shares, 1¢ par value:		
Authorized—8,000,000 shares		
Issued —6,835,000 shares	68,000	68,000
Capital in excess of par value	1,629,000	1,629,000
Retained earnings	9,052,000	7,792,000
	10,749,000	9,489,000
	\$13,268,000	\$11,254,000

See accompanying notes.

Northwest Nitro-Chemicals Ltd.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	Year Ended June 30, 1976	Six Months Ended June 30, 1975	Year Ended December 31, 1974
Revenues:			
Net sales	\$4,381,000	\$1,070,000	\$1,700,000
Other income—net (Note 2)	480,000	383,000	692,000
	4,861,000	1,453,000	2,392,000
Costs and expenses:			
Cost of goods sold, exclusive of depreciation	2,268,000	683,000	1,053,000
Selling, general and administrative expenses	24,000	17,000	64,000
Depreciation	361,000	186,000	311,000
Interest charges	53,000	27,000	54,000
	2,706,000	913,000	1,482,000
Earnings before income taxes	2,155,000	540,000	910,000
Provision for income taxes:			
Current	250,000	156,000	280,000
Deferred	645,000	92,000	145,000
	895,000	248,000	425,000
Net earnings	1,260,000	292,000	485,000
Retained earnings at beginning of period	7,792,000	7,500,000	7,215,000
	9,052,000	7,792,000	7,700,000
Dividends paid on preferred stock (Note 5)	—	—	200,000
Retained earnings at end of period	\$9,052,000	\$7,792,000	\$7,500,000
Net earnings per share of common stock (based on 6,835,000 shares outstanding in all periods and after preferred dividend requirement of \$25,000 in 1974)	\$.18	\$.04	\$.07

See accompanying notes.

Northwest Nitro-Chemicals Ltd.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended June 30, 1976	Six Months Ended June 30, 1975	Year Ended December 31, 1974
Source of Funds:			
Operations:			
Net earnings	\$ 1,260,000	\$ 292,000	\$ 485,000
Depreciation	361,000	186,000	311,000
Deferred income taxes	757,000	92,000	145,000
Total from operations	2,378,000	570,000	941,000
Decrease in long-term receivable	—	—	139,000
Other	74,000	63,000	20,000
	2,452,000	633,000	1,100,000
Use of Funds:			
Dividends paid	—	—	200,000
Redemption of preferred shares	—	—	1,000,000
Additions to property, plant and equipment	133,000	6,000	203,000
Increase (decrease) in working capital	\$ 2,319,000	\$ 627,000	\$ (303,000)
Increase (decrease) in working capital by component:			
Increase (decrease) in current assets:			
Cash and time deposits	\$(3,462,000)	\$(394,000)	\$ (25,000)
Accounts receivable	562,000	(75,000)	(753,000)
Note receivable	5,474,000	—	—
Inventories	(352,000)	183,000	321,000
Prepaid expenses and deferred charges	94,000	26,000	20,000
	2,316,000	(260,000)	(437,000)
Increase (decrease) in current liabilities:			
Accounts payable	(28,000)	(238,000)	(410,000)
Accrued liabilities	(195,000)	(19,000)	(1,000)
Income taxes	220,000	(630,000)	277,000
	(3,000)	(887,000)	(134,000)
Increase (decrease) in working capital	\$ 2,319,000	\$ 627,000	\$ (303,000)

See accompanying notes.

Northwest Nitro-Chemicals Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cancarb Limited ("Cancarb") and Northwest Nitro-Chemicals Sales Ltd., which is presently inactive.

Effective January 1, 1975, the Company changed its fiscal year-end from December 31 to June 30 to conform with that of its parent.

Translation of Foreign Currency

Accounts carried in United States currency have been translated into Canadian dollars on the following basis: current receivables and payables at the year-end rate of exchange, prepaid expenses and other assets at historical rates of exchange, and expenses and revenues at the average rate of exchange for the year. Exchange gains (losses) of (\$336,000), \$105,000 and (\$69,000) have been included in earnings for the year ended June 30, 1976, the six months ended June 30, 1975 and the year ended December 31, 1974, respectively.

Inventories

Finished products are stated at the lower of average cost or market (net realizable value). Raw materials and supplies are stated at the lower of average cost or replacement value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Repairs and maintenance are charged to expense as incurred; major renewals and improvements are capitalized. Upon sale or other retirement of property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in earnings. Depreciation is provided on the straight-line method over estimated useful lives of 5 to 40 years for buildings and 4 to 15 years for machinery and equipment. The development incentive grant described in Note 8 has been applied to reduce the cost of fixed assets acquired.

Income Taxes

Deferred income tax provisions result from timing differences, principally related to depreciation and unrealized exchange gains and losses, between financial and tax reporting.

2. TRANSACTIONS WITH AFFILIATES

The Company is 96% owned by IMC Chemical Group, Inc., which is a wholly-owned subsidiary of International Minerals & Chemical Corporation.

Other income-net in 1976 includes interest income of \$357,000 on funds loaned by the Company to IMC Chemical Group, Inc., at an interest rate of 10¾% per annum. The largest aggregate amount of such loans outstanding at any time was \$5,300,000 (U.S.). On June 28, 1976 the Company loaned International Minerals & Chemical Corporation (Canada) Limited, an affiliate, \$5,474,000. The related note is due on demand and bears interest (11¼% at June 30, 1976) at 1% above the prime rate at the Toronto Dominion Bank.

3. REMUNERATION OF DIRECTORS, OFFICERS AND SENIOR EMPLOYEES

Direct remuneration paid to directors, officers and senior employees of the Company amounted to \$117,000, \$48,000 and \$92,600 for the year ended June 30, 1976, the six months ended June 30, 1975 and the year ended December 31, 1974, respectively.

4. INSURANCE RECOVERY

During fiscal 1976, Cancarb submitted a business interruption claim to its insurers for the recovery of approximately \$65,000. A similar claim for \$84,000 made in 1974 is also outstanding. As the outcome of the claims is still uncertain, no portion of the claims has been reflected in the accompanying consolidated financial statements.

5. CAPITAL SHARES

The 5% redeemable preferred shares were redeemed by the Company during 1974. Dividends aggregating \$200,000, including \$175,000 which were in arrears, were paid on redemption.

6. ANTI-INFLATION PROGRAM

Under the Canadian Government's Anti-Inflation Program (presently scheduled to be in force until December 31, 1978) the Company and its subsidiaries are subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends. Since the Company's sales are made

entirely to export customers, these controls on prices and profit margins have not had nor are they expected to have a material effect on sales and earnings.

7. LITIGATION

In January 1976, the Canadian Government charged the Company, together with five other fertilizer manufacturers, with conspiring to restrict competition in the fertilizer industry in Canada during the period January 1, 1965 to January 16, 1976. The charges are alleged to constitute an indictable offense contrary to the Combines Investigation Act and the imposition of fines in an unspecified amount is requested. The Company withdrew from the fertilizer business late in calendar 1973. Preliminary hearings of the charge in the Provincial Court for the Province of Alberta originally scheduled to be held early in August 1976 have been postponed until September 1976. Based upon the advice of legal counsel, man-

agement does not believe that the eventual outcome of this matter will have any material effect on the accompanying consolidated financial statements.

8. COMMITMENTS

In connection with the construction of a thermal carbon black manufacturing plant completed in 1974, Cancarb is entitled to a grant from the Canadian Government of approximately \$702,000 of which \$562,000 has been received to date. Under terms of the grant, the balance of \$140,000 is not expected to be received until September 1977.

The rated capacity of the plant is 40 million pounds of thermal carbon black annually. Cancarb has commitments covering the sale of all of the plant's output. Cancarb has a contract, which expires in 1983, with the City of Medicine Hat, Alberta, to purchase required quantities of natural gas (its only raw material) at a minimum annual cost of \$200,000.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

*To the Shareholders and Directors of
Northwest Nitro-Chemicals Ltd.*

We have examined the accompanying consolidated balance sheet of Northwest Nitro-Chemicals Ltd. at June 30, 1976 and 1975, and the consolidated statements of earnings and retained earnings and changes in financial position for the two years and six months ended June 30, 1976. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 2, ninety-six percent of the Company's common stock is owned by IMC Chemical Group, Inc., and the accompanying consolidated financial statements reflect intercompany loans to and interest from affiliates.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Northwest Nitro-Chemicals Ltd. at June 30, 1976 and 1975 and the consolidated results of operations and changes in financial position for the two years and six months ended June 30, 1976, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG, CLARKSON, GORDON & Co.

Chicago, Illinois
August 3, 1976

Northwest Nitro-Chemicals Ltd.

CONSOLIDATED SUMMARY OF OPERATIONS

(In thousands, except per share amounts)

	Year ended June 30, 1976	Year ended June 30, 1975 (unaudited)	Six months ended June 30, 1975	Year ended December 31, 1974	Six months ended December 31, 1973	Year ended June 30,		
						1973	1972	1971
Revenues:								
Net sales (a)	\$4,381	\$2,063	\$1,070	\$1,700	\$3,311	\$16,758	\$13,635	\$10,319
Other income—net (princi- pally interest in 1974, 1975 and 1976)	480	851	383	692	182	139	57	266
	<u>4,861</u>	<u>2,914</u>	<u>1,453</u>	<u>2,392</u>	<u>3,493</u>	<u>16,897</u>	<u>13,692</u>	<u>10,585</u>
Costs and expenses:								
Cost of goods sold, exclusive of depreciation	2,268	1,285	683	1,053	2,801	12,314	10,952	9,641
Selling, general and adminis- trative expenses	24	65	17	64	173	520	620	591
Depreciation	361	325	186	311	261	1,119	1,242	1,406
Interest charges	53	55	27	54	168	659	778	852
	<u>2,706</u>	<u>1,730</u>	<u>913</u>	<u>1,482</u>	<u>3,403</u>	<u>14,612</u>	<u>13,592</u>	<u>12,490</u>
Earnings (loss) before income taxes and extraordinary items	2,155	1,184	540	910	90	2,285	100	(1,905)
Provision (credit) for income taxes	895	549	248	425	62	1,036	51	(622)
Earnings (loss) before extraordi- nary items	1,260	635	292	485	28	1,249	49	(1,283)
Extraordinary items, net of in- come taxes	—	—	—	—	4,872(b)	223(c)	51(c)	—
Net earnings (loss)	1,260	635	292	485	4,900	1,472	100	(1,283)
Preferred stock dividend require- ments	—	25	—	25	25	50	50	50
Net earnings (loss) for common shares	<u>\$1,260</u>	<u>\$ 610</u>	<u>\$ 292</u>	<u>\$ 460</u>	<u>\$4,875</u>	<u>\$ 1,422</u>	<u>\$ 50</u>	<u>\$ (1,333)</u>
Per share of common stock (based upon 6,835,000 out- standing shares):								
Earnings (loss) before extra- ordinary items	\$.18	\$.09	\$.04	\$.07	\$ —	\$.18	\$ —	\$ (.20)
Extraordinary items	—	—	—	—	.71	.03	.01	—
Net earnings (loss)	<u>\$.18</u>	<u>\$.09</u>	<u>\$.04</u>	<u>\$.07</u>	<u>\$.71</u>	<u>\$.21</u>	<u>\$.01</u>	<u>\$ (.20)</u>

(a) Prior to October 1973, the Company's operating revenues were derived from the fertilizer business. On December 31, 1970 Pacific Supply Cooperative became a forty-five percent owner of the Company and sales to it from that date until June 30, 1973 approximated 26½% of the Company's consolidated net sales.

(b) In October 1973, the Company had an extraordinary gain of \$4,872,000 (net of \$842,000 of income taxes) made up of \$4,113,000 from the sale of the fertilizer plant and \$759,000 from purchase by the Company of its Subordinated Debentures. Subsequent to the sale of the fertilizer plant, operations reflect the results of Cancarb Limited, a thermal carbon black producing subsidiary which commenced commercial operations on February 1, 1974.

(c) Represents reduction of income taxes resulting from the utilization of net operating loss carry-forwards.

Northwest Nitro-Chemicals Ltd.

MANAGEMENT DISCUSSION OF OPERATIONS

Twelve months ended June 30, 1976 compared to twelve months ended June 30, 1975:

Net sales increased \$2,318,000, of which \$1,627,000 was due to higher sales volume and \$691,000 was due to higher selling prices, which took effect principally in the last six months of fiscal 1976. Cost of goods sold (including depreciation) increased \$1,019,000, of which \$1,271,000 was due to higher sales volume, offset in part by lower costs amounting to \$252,000. Other income-net decreased \$371,000 principally due to exchange losses in fiscal 1976.

In January 1973, the Company purchased all of the outstanding shares of Cancarb Limited, a company then in the process of constructing a thermal carbon black manufacturing facility. Cancarb commenced commercial operations in February 1974. Since the Company's operating revenues prior to February 1974 were derived totally from the operations of a fertilizer plant and related facilities that were sold in October 1973, a discussion of those years would not be meaningful to current operations.

Unit selling prices of thermal carbon black were higher during the twelve month period ended June 30, 1975 versus the five month period ended June 30, 1974. Unit manufacturing costs were substantially unchanged between February 1, 1974 and June 30, 1975.

SECURITIES ENTITLED TO VOTE AT ANNUAL MEETING

Only common shares of the Company are entitled to vote at the Annual Meeting. No dividends have been paid on these shares during the last two fiscal years. The Company's stock is not listed on any stock exchange. There has been no significant volume of public trading in the Company's common shares in recent years. Such trading as has taken place has been in the over-the-counter market, principally in Canada, and has not been publicly reported. The following table sets forth the quarterly range of bid (and when available, the asked) quotations as reported to the Company by security dealers:

	<u>Bid</u>	<u>Asked</u>
1974—July-September	\$.75-\$1.00	\$1.15
October-December75- 1.00	
1975—January-March75- 1.00	
April-June75- 1.00	
July-September75- 1.00	
October-December75- 1.00	
1976—January-March75- 1.00	1.15
April-June75- 1.00	

