



**NORTHWEST NITRO-CHEMICALS LTD.**

**EIGHTEENTH  
ANNUAL  
REPORT**

**SIX MONTHS ENDED DECEMBER 31**

**1973**

# Northwest Nitro-Chemicals Ltd.

(A Subsidiary of Commercial Solvents Corporation)

P.O. Box 310

MEDICINE HAT, ALBERTA T1A 7G1, CANADA

## BOARD OF DIRECTORS

THOMAS L. BROOK	WILLIAM S. LEONHARDT
JOHN H. COLEMAN	ROBERT C. WHEELER

## OFFICERS

JOHN H. COLEMAN . . . . .	Chairman of the Board
WILLIAM S. LEONHARDT . . . . .	President
THOMAS PESCOD . . . . .	Vice President & Controller
EDWARD J. HOOGSTRA . . . . .	Treasurer
HOWARD B. DURBIN . . . . .	Secretary

## TRANSFER AGENT AND REGISTRAR

MONTREAL TRUST COMPANY

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

# Northwest Nitro-Chemicals Ltd.

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## DIRECTORS' LETTER TO SHAREHOLDERS

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The issuance of this Annual Report covering the period ending December 31, 1973 reflects the change, following the sale of our fertilizer plant, of our fiscal year from one ending June 30 to a calendar year. Since our business no longer relates to the fertilizer year, it will be more appropriate to report results on a calendar year basis as does Cancarb Limited, our thermal carbon black subsidiary.

Our net sales of \$3,311,000 during the six month period ending December 31, 1973 came from fertilizer operations. Net earnings for the period, including the aggregate net extraordinary gain discussed below, were \$4,900,000.

### *Fertilizer plant sale and related matters*

Following authorization by vote of the holders of Northwest common shares at the Annual and Special General Meeting of Shareholders on October 1, 1973, Northwest's fertilizer plant and related facilities were sold to Western Co-operative Fertilizers Limited for \$13,000,000. Inventories relating to the fertilizer operations were also sold to Western, as was the entire fertilizer output from July 1 to October 4, when the plant sale was completed.

Pursuant to Northwest's cash tender offer to purchase the outstanding \$8,500,000 (U.S.) principal amount of its Subordinate Debentures of 1960, a total of \$7,656,000 (U.S.) principal amount of Debentures has been retired. The net effect of the purchase of the Debentures, the satisfaction of the related Indenture and transactions relating thereto was an extraordinary gain of \$759,000, net of taxes. The aggregate net effect of the plant sale and related transactions described above was an extraordinary gain of \$4,872,000 after applicable income taxes.

Pursuant to an agreement described to Shareholders in the Proxy Statement dated September 7, 1973, Pacific Supply Cooperative on October 4, 1973 sold its holdings of Northwest common shares, amounting to 45 per cent of such shares outstanding, to Commercial Solvents Corporation. CSC now owns about 95 per cent of Northwest's common shares.

Additional information regarding the foregoing transactions appears in the Notes to Consolidated Financial Statements.

At a Northwest Board meeting held October 4, 1973, John H. Coleman, retired Deputy Chairman of The Royal Bank of Canada, was elected Chairman of Northwest's Board, and William S. Leonhardt, President of Commercial Solvents Corporation, was elected President.


### *Current and projected operations—CANCARB*

Production of thermal carbon blacks has been started at the new plant of Cancarb Limited, our wholly-owned subsidiary in Medicine Hat. These facilities, the first in Canada to manufacture thermal black, have an initial annual capacity of 40-million pounds of product. Natural gas used as raw material for this process is supplied on a favourable basis through a long-term contract with the City of Medicine Hat.

Demand for thermal carbon black increased strongly last year in world markets. This product is used principally in the rubber and plastics industries, and new applications are emerging in the metallurgy field. A portion of Cancarb's output will be sold to Canadian industries, with the balance going primarily to markets in the United States, Western Europe and Japan.

Plans are well along for Cancarb's first expansion, which would be located on company-owned property adjacent to the existing plant. Design work has been completed, and application has been made for a supporting grant from the Federal Department of Regional Economic Expansion. Preliminary negotiations have been held with various potential suppliers of the additional natural gas that would be required.

With favourable world economic conditions and a healthy situation in certain key industries, we would expect continued growth of thermal carbon black demand. In our forward planning, we are looking at the possibility of additional expansions of Cancarb's facilities.



President

April 3, 1974

# Northwest Nitro-Chemicals Ltd.

## CONSOLIDATED BALANCE SHEET

### ASSETS

	<u>December 31,</u> <u>1973</u>	<u>June 30,</u> <u>1973</u>
CURRENT ASSETS:		
Cash .....	\$ 237,951	\$ 250,708
Time deposits .....	6,481,000	3,800,000
Accounts and accrued items receivable (Note 3) .....	1,103,090	2,399,176
Inventories at lower of average cost or net realizable value:		
Finished products and material in process .....	—	465,787
Raw material and supplies .....	—	1,096,803
Prepaid expenses .....	55,273	115,035
Total current assets .....	<u>7,877,314</u>	<u>8,127,509</u>
 NOTE AND ACCRUED ITEMS RECEIVABLE (Note 3) .....	 <u>278,857</u>	 <u>263,952</u>
 PROPERTY, PLANT AND EQUIPMENT, at cost .....	 3,000	 27,159,929
Less accumulated depreciation .....	 —	 19,516,862
	<u>3,000</u>	<u>7,643,067</u>
 PLANT UNDER CONSTRUCTION (Note 3) .....	 4,052,209	 3,102,051
	<u>4,055,209</u>	<u>10,745,118</u>
 OTHER ASSETS .....	 251,117	 146,341
	<u>\$12,462,497</u>	<u>\$19,282,920</u>

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

See accompanying notes.

**NORTHWEST NITRO-CHEMICALS LTD.**

**P. O. Box 310**

**Medicine Hat, Alberta T1A 7G1, Canada**

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**Notice of Annual and Special General Meeting of Shareholders**

**April 30, 1974**

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*To the Holders of Common Shares:*

An Annual and Special General Meeting of Shareholders of Northwest Nitro-Chemicals Ltd. will be held on Tuesday, April, 30, 1974 at The Royal Bank of Canada, Place Ville Marie, Montreal, Quebec, in the Large Committee Room on the third floor at 10:00 in the forenoon, Eastern Daylight Saving Time, for the purposes of:

(1) electing the members of the Board of Directors to hold office until the next Annual General Meeting, subject to the provisions of the Articles of Association,

(2) appointing independent auditors to serve until the close of the next Annual General Meeting,

(3) approving a Special Resolution amending the Articles of Association to provide that the Directors shall lay before each annual meeting of shareholders a comparative financial statement as required by law, and

(4) transacting such other business as may properly be brought before the meeting or any adjournment(s) thereof.

Common shareholders of record at the close of business March 1, 1974 are entitled to vote at this meeting and any adjournment(s) thereof.

A copy of the Annual Report, including Directors' Letter to Shareholders, Consolidated Financial Statements as of December 31, 1973, and the Auditors' Report, is enclosed.

By Order of the Board of Directors,

HOWARD B. DURBIN,  
*Secretary*

April 8, 1974

**Please sign and date the enclosed proxy and return it promptly in the enclosed envelope, whether or not you expect to attend the meeting. You may nevertheless vote in person if you do attend.**

**NORTHWEST NITRO-CHEMICALS LTD.**

**P. O. Box 310**

**Medicine Hat, Alberta T1A 7G1, Canada**

**Annual and Special General Meeting of Shareholders**

**April 30, 1974**

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**PROXY STATEMENT**

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April 8, 1974

This proxy statement and the accompanying proxy card are furnished to shareholders of Northwest Nitro-Chemicals Ltd. in connection with the solicitation of proxies by management for use at the Annual and Special General Meeting of Shareholders to be held on April 30, 1974.

The Company has changed its fiscal year from one ending June 30, to one ending December 31. The Company's fiscal year is now the same as that of Cancarb Limited, the Company's operating subsidiary. The Board considered a calendar year basis now to be appropriate for the Company since, as a result of the sale of its fertilizer plant, related facilities and inventories to Western Co-operative Fertilizers Limited on October 4, 1973, as approved by the shareholders of the Company on October 1, 1973, it is no longer in the fertilizer business. The financial statements of the Company enclosed herewith reflect the change in fiscal years and will be formally presented to the meeting.

The proxy enclosed with this statement is in ballot form so that the shareholder may instruct if his shares are to be voted for the election of directors or if his vote on directors is to be withheld; and to specify separate approval or disapproval of the other items on the proxy.

When proxies are properly signed and returned in time, the shares represented will be voted as indicated. A shareholder giving a proxy may revoke it at any time before it is voted at the meeting. Sending in a signed proxy will not affect a shareholder's right to attend the meeting and vote in person.

The management knows of no matters that may come before the meeting other than those specified in the notice of the meeting, but if other matters are properly presented, it is the intention of the persons designated as proxies to vote on them in accordance with their judgment.

On March 1, 1974 there were 6,835,000 common shares (par value \$.01 per share) outstanding. Each share is entitled to one vote.

**ELECTION OF DIRECTORS**

It is intended that the shares represented by the enclosed proxy card will be voted for Messrs. Thomas L. Brook, John H. Coleman, William S. Leonhardt and Robert C. Wheeler as directors of the Company (except where the authority to vote is withheld), each for a term of one year subject to the provisions of the Articles of Association.

## AMENDMENT OF THE ARTICLES OF ASSOCIATION

The Board of Directors recommends that shareholders approve amending Article 111 of the Articles of Association to conform to the provisions of Section 120(1)(b)(i) of The Companies Act of the Province of Alberta. As proposed to be amended, Article 111 would incorporate the applicable provisions of The Companies Act of the Province of Alberta which set forth detailed requirements as to the financial statement which must be laid before each annual meeting with respect among other things to the last completed financial year of the Company ended not more than six months before such annual meeting. Article 111 presently provides that at least once every year the Directors shall lay before the Company in general meeting a statement of the income and expenditures for the past year made up to date not more than four months before such meeting. Since the financial statement presented to each annual meeting of shareholders has always been prepared in compliance with the requirements of The Companies Act, the only practical effect of the proposed amendment will be to increase flexibility by permitting each year's annual meeting to be held not later than six months after the close of the preceding fiscal year of the Company. A Special Resolution will be submitted to the meeting to amend Article 111 to read as follows:

“111. The Directors shall lay before each annual meeting of shareholders a comparative financial statement as required by applicable law.”

To become effective, the Special Resolution must be approved by the holders of at least 75% of the common shares present in person or by proxy at the meeting.

### PROXY SOLICITATION

The expenses in connection with the solicitation of proxies will be borne by the Company. In addition to the use of mails, proxies may be solicited personally by the officers and employees of the Company who will receive no additional remuneration therefor. Arrangements may also be made with brokerage firms and other custodians, nominees and fiduciaries to send proxy material to their principals, and the Company may reimburse such persons for their expenses in so doing.

By Order of the Board of Directors,

HOWARD B. DURBIN,  
*Secretary*

No director or officer of the Company or its subsidiaries holds any option to purchase shares of the Company or its subsidiaries.

### **RELATIONSHIPS BETWEEN THE COMPANY AND PRINCIPAL SHAREHOLDERS**

On February 28, 1974 CSC owned beneficially and of record 6,491,443 common shares of the Company, constituting approximately 95% of the common shares outstanding. As outlined in the proxy statement sent the shareholders of the Company in connection with the annual meeting held on October 1, 1973, CSC on October 4, 1973 increased such holdings by the purchase of 3,075,750 common shares from Pacific Supply Cooperative for \$698,467 (U.S.) evidenced by CSC's promissory note payable, without interest, on specified conditions not later than December 31, 1974. At the same time, the Stock Agreement dated as of December 31, 1970 between CSC and Pacific relating to their respective holdings of Northwest common shares was cancelled.

On February 28, 1974 CSC owned beneficially and of record 100% of the preferred shares of the Company.

International Minerals & Chemical Corporation has reported that, pursuant to a tender offer it made on March 7 which expired on March 22, 1974, it acquired approximately 1,150,000 shares, or about 38%, of CSC's outstanding common stock.

Messrs. R. C. Wheeler, W. S. Leonhardt, J. H. Coleman, T. Pescod, O. W. Chandler, H. B. Durbin and E. J. Hoogstra, directors or officers of the Company or its subsidiaries, are also directors, officers or employees of CSC. Since July 29, 1960, the Company and CSC have been parties to a service agreement under which CSC has agreed, subject to certain conditions, to furnish the Company such management and operating services as the Company may request from time to time, and the Company has agreed to compensate CSC therefor on the basis of the actual time spent by such personnel in performing such services. During the six months ended December 31, 1973 the Company paid or accrued \$74,191 (U.S.) to CSC under the service agreement and also reimbursed CSC for travel expenses of \$23,204 (U.S.) incurred by CSC's employees, principally relating to the construction and start-up of the new thermal carbon black plant of the Company's wholly owned subsidiary, Cancarb Limited (such construction and start-up travel expenses being in turn charged by the Company to Cancarb Limited) and for miscellaneous out-of-pocket costs of \$1,444 (U.S.) incurred in performing management and operating services under such service agreement. During the preceding fiscal year ended June 30, 1973, the Company paid or accrued \$162,000 (U.S.) to CSC under the service agreement and also reimbursed CSC for out-of-pocket costs of \$19,500 (U.S.) incurred in performing such services.

### **APPOINTMENT OF AUDITORS**

Unless otherwise directed by the shareholders, proxies will be voted for the appointment of Arthur Young, Clarkson, Gordon & Co., as independent auditors of the Company until the close of the next Annual General Meeting. Neither Arthur Young, Clarkson, Gordon & Co. nor any of its partners has any direct or material indirect financial interest in the Company, its subsidiaries or CSC, nor has Arthur Young, Clarkson, Gordon & Co. or any of its partners had any connection (other than providing auditing and related services) with the Company, its subsidiaries or CSC during the past three years.



In the event, which is not anticipated, that any nominees for directors should be unable to serve, the shares voted by proxy will be voted for the other nominees and for such substitute nominee or nominees as may be designated by management, unless the number of directors shall be correspondingly reduced.

Each of the four nominees is at present a director and has previously been elected by the shareholders. Information regarding the nominees is presented in the following table:

<u>Name</u>	<u>Company Office, if any, and Principal Occupation or Employment</u>	<u>Year First Became a Director</u>	<u>Shares of Equity Securities of the Company and of Com- mercial Solvents Corporation Beneficially Owned on February 28, 1974</u>	
			<u>Company's Common Shares</u>	<u>CSC's Common Shares (a)</u>
Thomas L. Brook	President of Asamera Oil Corporation Ltd., Oil exploration and production	1955	None	None
John H. Coleman	Chairman of the Board; President of J.H.C. & Associates Ltd., Financial Consulting; Retired Deputy Chairman, The Royal Bank of Canada	1970	None	100
William S. Leonhardt	President of the Company; President of Commercial Solvents Corporation ("CSC"), Manufacturer of chemicals and allied products	1959	None	4,341(b)
Robert C. Wheeler	Vice Chairman and Chief Executive Officer of CSC, Manufacturer of chemicals and allied products	1966	None	905

(a)—Includes all whole common shares held by the Trustee of CSC's Investment and Savings Plan as of February 28, 1973, the end of the last Plan year available, for the respective accounts of Messrs. Leonhardt and Wheeler. There are 935 such shares.

(b)—Mr. Leonhardt, as of February 28, 1974, owned 9 shares of CSC's Series A Preferred stock.

#### **REMUNERATION OF AND TRANSACTIONS WITH DIRECTORS AND OFFICERS**

All directors and officers of the Company and its subsidiaries as a group received as direct remuneration \$17,931 for the six months ended December 31, 1973, and \$54,264 for the preceding fiscal year ended June 30, 1973. There are eight individuals in this group, each of whom served as a director or officer during all or part of those periods and no one of whom received more than \$20,000 therefor for the six months period ended December 31, 1973, or \$40,000 therefor for the one year period ended June 30, 1973. See "Relationships Between the Company and Principal Shareholders", below.

No director or officer of the Company or either of its subsidiaries is entitled to receive annuity, pension or retirement benefits from an existing Plan provided or contributed to by the Company or either of its subsidiaries.



## LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>December 31,</u> <u>1973</u>	<u>June 30,</u> <u>1973</u>
<b>CURRENT LIABILITIES:</b>		
Bank loan—secured by inventories . . . . .	\$ —	\$ 1,500,000
Accounts payable . . . . .	834,470	1,528,839
Accrued interest payable (Note 6) . . . . .	—	712,396
Other accrued liabilities . . . . .	302,290	166,981
Current portion of long-term debt (Note 6) . . . . .	—	750,000
Accrued income taxes . . . . .	1,413,732	308,568
Total current liabilities . . . . .	2,550,492	4,966,784
 DEFERRED INCOME TAXES . . . . .	 —	 504,976
 LONG-TERM DEBT (Note 6) . . . . .	 —	 8,799,172
 <b>SHAREHOLDERS' EQUITY (Note 7):</b>		
Capital shares:		
5% redeemable preferred shares of \$100 par value each:		
Authorized and issued—10,000 shares . . . . .	1,000,000	1,000,000
Common shares of 1¢ par value each:		
Authorized—8,000,000 shares		
Issued —6,835,000 shares . . . . .	68,350	68,350
Paid-in capital . . . . .	1,628,670	1,628,670
Retained earnings . . . . .	7,214,985	2,314,968
	9,912,005	5,011,988
	\$12,462,497	\$19,282,920

# Northwest Nitro-Chemicals Ltd.

## CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Six Months Ended December 31, 1973	Year Ended June 30,	
		1973	1972
Revenues:			
Net sales (Note 8) . . . . .	\$3,310,828	\$16,757,934	\$13,635,135
Other income (net) . . . . .	181,764	138,922	57,234
	<u>3,492,592</u>	<u>16,896,856</u>	<u>13,692,369</u>
Costs and expenses:			
Cost of sales . . . . .	2,801,427	12,313,937	10,952,512
Selling and administrative expenses . . . . .	173,185	520,440	620,519
Depreciation . . . . .	260,541	1,118,614	1,241,760
Interest on borrowings . . . . .	167,751	658,526	777,998
	<u>3,402,904</u>	<u>14,611,517</u>	<u>13,592,789</u>
Income before income taxes and extraordinary items . . . .	89,688	2,285,339	99,580
Income taxes . . . . .	61,500	1,036,633	51,300
Income before extraordinary items . . . . .	28,188	1,248,706	48,280
Extraordinary items, net of income taxes (Note 5) . . . .	4,871,829	223,090	51,300
Net income . . . . .	<u>4,900,017</u>	<u>1,471,796</u>	<u>99,580</u>
Retained earnings at beginning of period . . . . .	2,314,968	843,172	743,592
Retained earnings at end of period . . . . .	<u><u>\$7,214,985</u></u>	<u><u>\$ 2,314,968</u></u>	<u><u>\$ 843,172</u></u>
Per share of common stock:			
Income before extraordinary items . . . . .	\$ —	\$ .18	\$ —
Extraordinary items . . . . .	.71	.03	.01
Net income . . . . .	<u><u>\$ .71</u></u>	<u><u>\$ .21</u></u>	<u><u>\$ .01</u></u>

See accompanying notes.

# Northwest Nitro-Chemicals Ltd.

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Six Months Ended December 31, 1973	Year Ended June 30,	
		1973	1972
Source of funds:			
Operations:			
Income before extraordinary items . . . . .	\$ 28,188	\$ 1,248,706	\$ 48,280
Depreciation . . . . .	260,541	1,118,614	1,241,760
Deferred income taxes . . . . .	(14,300)	504,976	—
Funds from operations before extraordinary items . .	274,429	2,872,296	1,290,040
Extraordinary items, net of income taxes . . . . .	4,871,829	223,090	51,300
Exchange gain on retirement of debentures . . . . .	(299,172)	—	—
Deferred income taxes . . . . .	(490,676)	—	—
	<u>4,356,410</u>	<u>3,095,386</u>	<u>1,341,340</u>
Net book value of property, plant and equipment sold and retired . . . . .	7,592,248	13,732	386
Other—net . . . . .	(104,776)	96,139	49,159
Total . . . . .	<u>\$11,843,882</u>	<u>\$ 3,205,257</u>	<u>\$ 1,390,885</u>
Use of funds:			
Additions to property, plant and equipment . . . . .	\$ 212,722	\$ 307,490	\$ 380,224
Plant under construction . . . . .	950,158	3,102,051	—
Retirement of debentures . . . . .	8,500,000	—	—
Reduction of long-term debt . . . . .	—	750,000	1,000,000
Increase (decrease) in notes and accrued items receivable . . . . .	14,905	263,952	(541,116)
Increase (decrease) in working capital . . . . .	2,166,097	(1,218,236)	551,777
Total . . . . .	<u>\$11,843,882</u>	<u>\$ 3,205,257</u>	<u>\$ 1,390,885</u>
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash (including time deposits) . . . . .	\$ 2,668,243	\$ 970,021	\$ 2,990,762
Receivables, net . . . . .	(1,296,086)	594,159	(2,503,370)
Inventories . . . . .	(1,562,590)	(362,556)	(262,657)
Prepaid expenses . . . . .	(59,762)	3,329	96,496
	<u>(250,195)</u>	<u>1,204,953</u>	<u>321,231</u>
Increase (decrease) in current liabilities:			
Bank loan . . . . .	(1,500,000)	1,500,000	(2,100,000)
Accounts payable . . . . .	(694,369)	778,921	280,598
Accrued interest payable . . . . .	(712,396)	148,821	563,575
Other accrued liabilities . . . . .	135,309	(63,121)	25,281
Current portion of long-term debt . . . . .	(750,000)	(250,000)	1,000,000
Accrued income taxes . . . . .	1,105,164	308,568	—
	<u>(2,416,292)</u>	<u>2,423,189</u>	<u>(230,546)</u>
Increase (decrease) in working capital . . . . .	<u>\$ 2,166,097</u>	<u>\$ (1,218,236)</u>	<u>\$ 551,777</u>

See accompanying notes.

# Northwest Nitro-Chemicals Ltd.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. *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.

On October 4, 1973, Commercial Solvents Corporation reacquired forty-five percent of the Company's outstanding common shares it had sold to Pacific Supply Cooperative ("Pacific") in December 1970, thereby increasing its investment in the Company to approximately ninety-five percent of the common shares outstanding.

The Company has changed its fiscal year-end from June 30 to December 31.

### 2. *Sale of fertilizer operations*

On October 4, 1973, the Company sold its fertilizer plant and related facilities, not including shares or assets of subsidiaries, to Western Co-operative Fertilizer Limited ("Western") for \$13,000,000 (see Note 5). Inventories relating to fertilizer operations were also sold to Western. Since the Company's revenues prior to the sale were derived totally from operations of the fertilizer plant, the Company's future results will largely depend upon the operations of Cancarb, described below, which commenced commercial operations February 1, 1974.

### 3. *Acquisition*

On January 24, 1973, the Company purchased all the outstanding shares of Cancarb, a company then in the process of constructing a thermal carbon black manufacturing facility at Medicine Hat, Alberta, Canada.

Cancarb has completed construction of its 40,000,000 pounds per year thermal carbon black manufacturing plant and has entered into sales contracts to sell 20,000,000 pounds of thermal carbon black annually and is currently negotiating an additional sales contract for a further 20,000,000 pounds. Cancarb has also entered into an agreement to purchase natural gas during the period August 1, 1973 to 1983 at a minimum annual cost of \$135,000. Since Cancarb's operations had not begun at December 31, 1973, all costs incurred have been capitalized as "Plant under construction".

A grant has been authorized by the Government of Canada in connection with the plant in the amount of approximately \$790,000. Eighty percent (80%) of the grant is to be received following the date of commencement of commercial production and twenty percent (20%) within 42 months after such date; accordingly, \$632,000 has been included in current assets in "Accounts and accrued items receivable" and \$158,000 has been included in non-current assets in "Note and accrued items receivable".

### 4. *Translation of foreign currency*

The accounts of the subsidiary that operated in the United States and other U.S. currency accounts have been translated to Canadian dollars on the following basis: current assets and current liabilities at the rates of exchange at the year-end, fixed and other assets at the rates in effect at dates of acquisition, and expenses and revenues at the average rate of exchange for the year. The resulting gain or loss on translation has been reflected in operations.

### 5. *Extraordinary items*

The extraordinary gain on the sale of the Company's fertilizer facilities (described in Note 2) amounted to approximately \$4,113,000 net of estimated income taxes.

In addition, the Company, in connection with the sale of the plant, made a cash tender offer on August 31, 1973 to purchase any or all of its outstanding Debentures at the rate of \$1,000 per \$1,000 Debenture (holders tendering Debentures thereby waiving all rights to interest accrued thereon). Debentures in the principal amount of \$7,656,000 (U.S.) were tendered to and purchased by the Company and were subsequently cancelled. The Company also deposited funds with the Trustee to pay the principal and interest to maturity on all Debentures which were not tendered, and the related Indenture was satisfied and discharged. The net effect of the purchase of the Debentures, the satisfaction of the Indenture and transactions relating thereto was an extraordinary gain of approximately \$759,000 net of estimated taxes.

The aggregate net effect of the plant sale and related transactions described above was an extraordinary gain for the six months ended December 31, 1973 of approximately \$4,872,000 after a tax provision of \$842,000.

The \$223,000 and \$51,000 extraordinary gains for the years ended June 30, 1973 and 1972, respectively, relate to a reduction of income taxes resulting from the utilization of net operating loss carry-forwards.

6. *Long-term debt*

Long-term debt outstanding at June 30, 1973 was as follows:

First Mortgage Serial Bonds of 1960 maturing October 1, 1973, bearing interest at 8% through June 30, 1973 and 9% thereafter . . . . .	\$ 750,000
Subordinate Debentures of 1960 due June 30, 1979, bearing interest at 6½%, redeemable at the option of the Company at 102½% to June 30, 1974 and at reducing amounts thereafter (\$8,500,000 U.S.) . . .	8,799,172
	<u>9,549,172</u>
Less current portion of First Mortgage Serial Bonds . .	750,000
	<u>\$8,799,172</u>

See Note 5 for information concerning the satisfaction and discharge of the Indenture relating to the Subordinate Debentures of 1960.

7. *Capital shares*

The 5% Preferred Shares, redeemable at par, are entitled to cumulative preferential cash dividends from July 1, 1965

and are subject to a sinking fund to be established after the Subordinate Debentures of 1960 are fully tendered. Cumulative unpaid dividends at December 31, 1973 were \$175,000.

8. *Sales agreements*

Pacific, a forty-five percent owner of the Company from December 31, 1970 to October 4, 1973, entered into a contract on December 31, 1970 with the Company's subsidiary, Northwest Nitro-Chemicals Sales Ltd. ("Northwest Sales") to purchase its entire requirements of certain fertilizer products from Northwest Sales at competitive prices. Sales to Pacific during the year ended June 30, 1973 approximated twenty-seven percent of the Company's total consolidated net sales. Beginning on July 1, 1973, sales to Pacific under this agreement were suspended and the Company agreed to sell its entire output to Western.

9. *Remuneration of directors, officers and senior employees*

Direct remuneration paid during the six month period ended December 31, 1973, to directors, officers and senior employees of the Company amounted to \$37,500.

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AUDITORS' REPORT

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

We have examined the consolidated balance sheet of Northwest Nitro-Chemicals Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of operations and retained earnings and changes in financial position for the six months then ended. 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 these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the six months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG, CLARKSON, GORDON & Co.  
*Chartered Accountants*

Calgary, Canada.  
February 21, 1974.

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