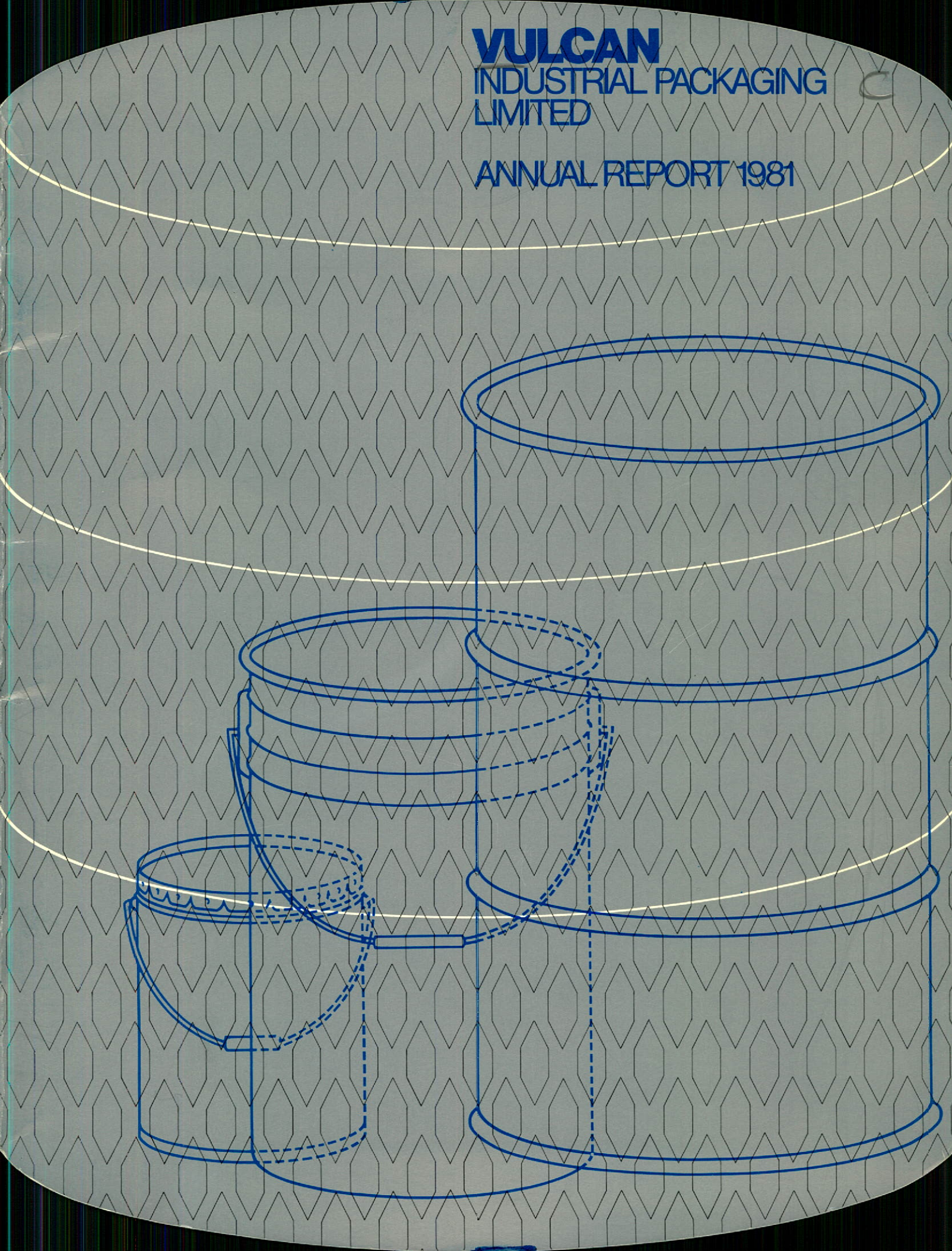
VULCAN
INDUSTRIAL PACKAGING LIMITED

ANNUAL REPORT 1981



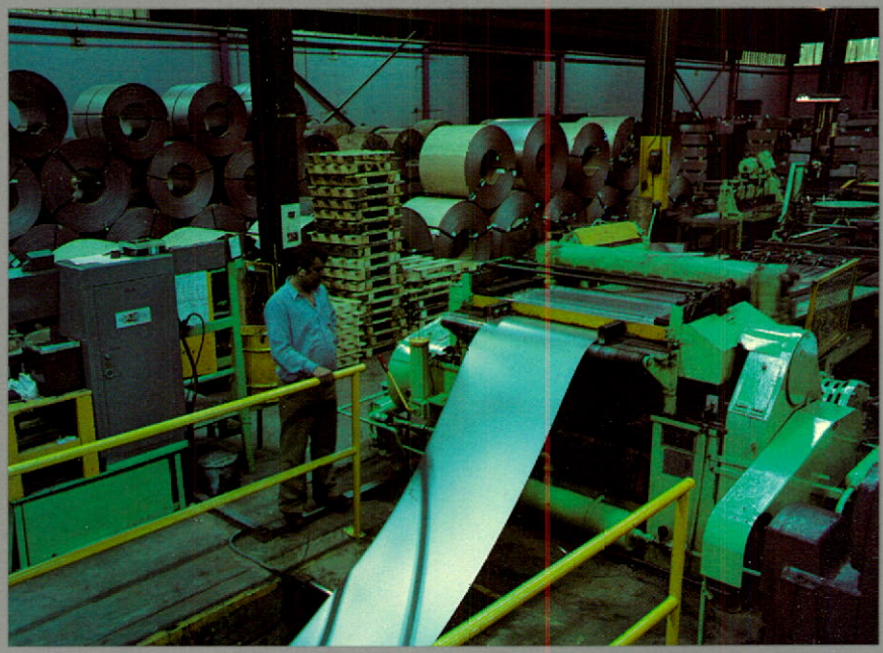

Milan
Hong Kong
Brakpan

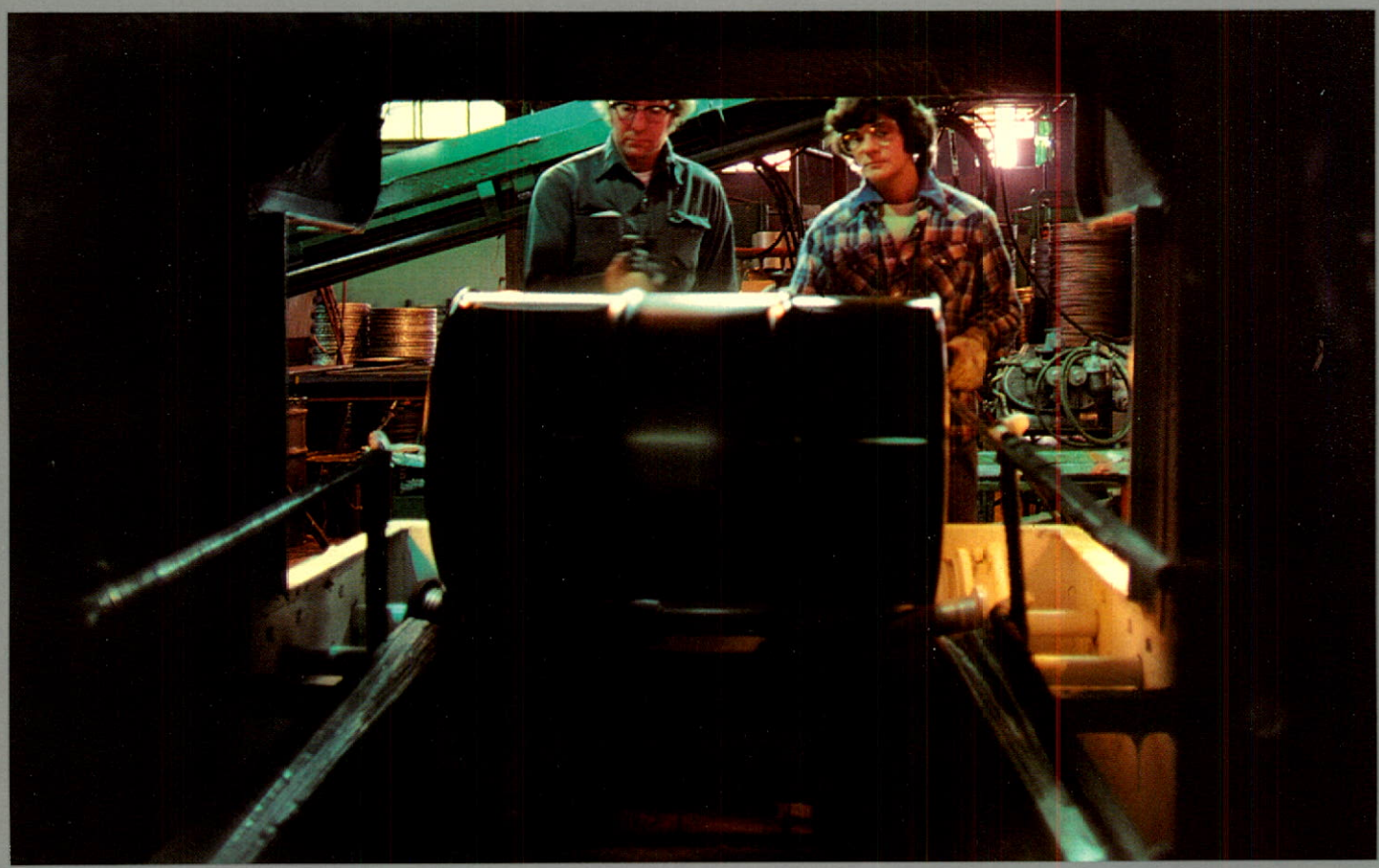

St. Albert
Edmonton
Calgary
Vancouver
Regina
Winnipeg
Irvine
Nora
Boreham Wood
Geneva
Madrid
New Toronto
Rexdale
Ville St. Pierre
Ville St. Laurent
Lachine
Thornhill
Mississauga
Petrolia
Buenos
Aires
Santiago
Operating Facilities
Sales & Warehouses
Licensees
Distributors
Foreign Licensing

Corporate Office

(Bottom): In the reconditioning Division of Petrolia, drums are being conveyed into the external spray painting booth.

(Below): This is the primary function of producing steel pails; steel coils are cut to length in the Rexsteel Division to produce the sheet stock, which is then lithographed with customer's design, before fabrication of the pail on our automatic production lines.





Financial Highlights

	1981	1980
	(thousands of dollars)	
Operations		
Sales	$41,917	$26,667
Operating income	4,381	2,926
Interest expense	2,630	867
Extraordinary items	227	
Net income	732	1,258
Capital expenditures	1,310	1,485
Provision for depreciation	1,197	606
Financial Position		
Working capital	3,318	1,893
Fixed assets — net	22,126	5,295
Long-term and non-current debt	24,239	5,087
Deferred income taxes	4,473	1,681
Shareholders' equity	3,947	3,503
Per Share		
Income before extraordinary items	.13	.17
Net income	.10	.17
Dividends	.04	.03
Shareholders' equity	.52	.46
Statistical		
Number of employees	830	306
Number of shareholders	2,759	1,120

Report to Shareholders

1981 was a significant year for your company. We won a hard-fought battle to obtain the Canadian facilities of Plant National. This allowed us to become the largest industrial packaging firm in Canada. Your company now has 17 facilities across Canada to serve customers on a coast-to-coast basis. Our 18th facility will open this June in Edmonton to produce plastic pails for the rapidly growing market in Western Canada.

Integration of the Vulcan and Plant facilities occupied a great deal of management's time in 1981. We are very pleased that the adjustments have gone ahead in a reasonably smooth manner. The cost of completing the acquisition impacted on the bottom line, but shareholders will reap the benefits obtained because of the opportunities for greater profitability that will flow from the efficiencies that the combined operation will allow us to achieve. Your management has been greatly strengthened by this integration. The Vulcan team now has excellent talent in every area of its endeavours.

It should be noted that in 1981 our operating income increased to $4,381,000 from $2,926,000. This is a reflection of having Plant's income for four months in 1981. As well, our fixed assets increased from $5,295,000 to $22,126,000. Working capital rose to $3,318,000 from $1,893,000. High interest rates on the bridge loan, which we made in order to purchase Plant National, decreased our earnings by about 8.6¢ per share, but considering the benefits already gained, and the long-term benefits to be derived, we know that we made the right decision in proceeding with the acquisition.

Sales activity for Explosafe is also continuing to grow and we expect that during 1982 it will make its contribution to the growth of the company. In obtaining the official military specification from the United States government in December 1981, Explosafe is in a position now to reach a very wide and growing international market for explosion suppression systems.

We had planned to complete an additional offering of shares to the public subsequent to the three-for-one split that was made in April 1981. However, as the acquisition was delayed, it became necessary to delay the treasury issue. Subsequently, high interest rates and persistent inflation, together with political uncertainty that we have seen in Canada, resulted in the market being less receptive to an issue. Because we are confident of future improvement in our earnings, we preferred to delay this offering and to continue with the bridge financing, which the bank agreed to carry through until at least January of 1983. Certainly, it is the intent of management to improve our debt-to-equity ratio during the current year.

The company was very fortunate during the past year to have Mr. James Holmes join the Board of Directors. Mr. Holmes brings with him a tremendous background in management and his assistance has already been of great benefit to us, particularly with respect to the integration of the Plant acquisition. We were also pleased to have Mr. Richard Turner take over the Explosafe Division. Mr. Turner, coming from the Northrop Corporation, brought exactly the skills needed for this division, particularly as we are now moving into a very positive commercial programme. Most recently, Mr. Herbert Hickey joined the company as Corporate Secretary and Director of Public Relations. Mr. Hickey brings a wealth of experience in these areas and we are happy to have him on board.

We have expanded this annual report to provide a more detailed discussion of our broader operations and in the pages that follow, you will see management's review of all of these matters.

Vulcan employees, now 830 strong, responded to the challenging market conditions over the past year with enthusiasm and determination. With this commitment and our new management strength, we look forward to this year as being one to test our mettle.

All of us at Vulcan appreciate and acknowledge the continued interest and support of our shareholders.

On behalf of the Board of Directors,

James B. Prendergast
Chairman of the Board

Albert J. Cavan, Q.C.
President & Chief Executive Officer

Outlook - 1982 and Beyond

It is difficult to forecast when the current recession will end. Hopefully, we will soon see signs of economic recovery and your company stands ready to take advantage of the turnaround.

For the longer term, we remain confident about achieving our goals of greater profitability and growth in our industry.

We intend to consolidate some of our facilities before year end and with solid productivity and good marketing skills, we expect to increase our share of the business. Vulcan does not see the steel container business as a growth business per se. It does see it becoming more profitable and a major contributor of cash flow to Vulcan's growth in the plastics business.

We intend to introduce a new plastic pail in late 1982 or early 1983 for a market not previously served by your company. As well, we hope to have a new portable "Explosafe" gas can in production by the 4th quarter. We know this product will be well accepted in the marketplace.

With the help of an improving economy in 1982, the company's solid base and growth potential in plastics and explosion suppression systems should become increasingly evident.

The following pages will give shareholders further information on all of the company's products.

Sales/Marketing Report

The acquisition of Plant National in 1981 presented the sales group with a unique opportunity—combining the best features of the two marketing systems into one. This enabled us to restructure the sales team to field the strongest representation in the industrial packaging industry. The sales force management was the first area to be considered and appointments were made to accommodate the strengths of the two companies. The end result was a management team consisting of a V.-P.—Sales, a National Sales Manager—Containers and a National Sales Manager—Metal Decorating Lithographers, all working from the Toronto area.

We then reviewed the Canadian marketplace and designated three market regions: an Eastern region, a Central region and a Western region. The Eastern region covers the territory from Kingston, Ontario to the Atlantic, including Newfoundland, and is staffed by an Eastern Region Sales Manager, three sales representatives and a central order desk. We are also represented by an agent in Newfoundland and an agent for the Maritime provinces.

The Central region extends from Kingston in the east to the Ontario/Manitoba border and is managed by the National Sales Manager. We have four sales representatives and a central order desk in this region, with one of our representatives providing Manitoba with sales coverage as well.

The Western region is that territory west of the Ontario/Manitoba border to the Pacific Ocean. The sales coverage is provided by a Sales Manager—Alberta and Saskatchewan, and a Sales Manager—British Columbia, who is also responsible for the warehouse operation in Vancouver.

Metal Decorating sales requirements are currently being handled by the National Sales Manager—Metal Decorating Lithographers, with support from an inside sales team. This department will be expanded in the future as business opportunities create the need.

The variety of products we now offer to the marketplace provides us an opportunity to expand the growth of the company at an accelerated pace. Through the addition of drum manufacturing and reconditioning plants to our pail plants we can supply from one source, the greatest range of container services available in Canada and the sales team that is now in place will be an integral part of our future success.

Steel Pails

The acquisition of Plant National (Quebec) in 1981 resulted in an increase in our steel pail manufacturing facilities from two plants to three. One is located in Rexdale, Ontario, one in Ville St. Pierre, Quebec and the third is our sub-assembly operation in Calgary, Alberta.

The strategic location of these plants within the major market areas enables Vulcan to offer a national service to customers unmatched by competition.

Our steel pail facilities produce pails ranging in size from 2 to 6 Imperial gallons (9 to 28 litres).

The Rexdale plant has three pail manufacturing lines capable of producing 45,000 pails a day on a two-shift basis, and two can lines which are capable of producing 12,000 cans per day on a two-shift basis.

The Ville St. Pierre plant is capable of producing 12,000 pails a day on a single-shift basis. This plant also has two new drum production lines, capable of producing drums in size from 10-46 Imperial gallons.

The Calgary operation is capable of running 8,000 pail units a day on a single-shift basis, through its sub-assembly line.

Cold rolled steel and tin plate are the two principal materials used in the manufacturing of pails. These materials are purchased from several domestic sources either in sheets or in coils. The coils are cut into sheets at our steel processing plant, Rexsteel, and are then sent on to the Metal Decorating Division for coating and lithography.

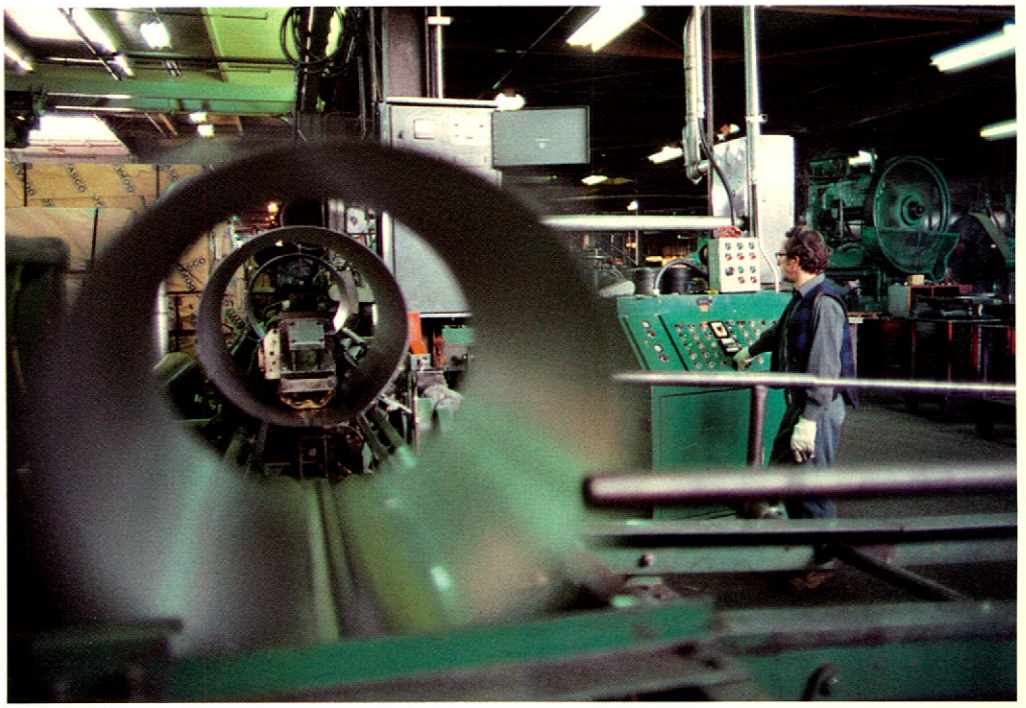
Our pail customers include companies in the agricultural and specialty chemical, petroleum, paint, printing ink, food, mining and construction material industries.

Although we service some U.S. customers, substantially all of the pails produced are sold in Canada.

Pail body shells proceeding down the conveyor line after leaving the automatic seam welder in the Toronto Division

Drum Manufacturing & Reconditioning

New drum line production in the Petrolia Division; drums are leaving the automatic welder and being conveyed into the flanging and expander machines.



Strategically located in each province from Quebec to Alberta, our drum plants supply a complete service which is unique in Canada.

We manufacture new drums from 10 to 49 Imperial gallons as well as specialty drums to the petro-chemical, paint, adhesive, food and other industries. Special linings can be applied internally to withstand chemicals and the exteriors are multi-coloured. Designs and decorations, as well as instructions and markings can be silk screened onto the exterior to assist our customer in marketing his product.

In our reconditioning plants we offer storage, sorting and cleaning customers' drums, reconditioned drum sales, conversion to open head and rebuilding used drums, and the purchase of used drums. Our facilities, located close to the filler and user, cover the complete cycle from new drums to recycling and ultimate scrapping of containers.

We have a Parts plant in Mississauga, Ontario which produces drum and pail ring closures for our use as well as for other manufacturers and reconditioners.

Our various plants have a daily production capacity of 1,000 to 2,000 reconditioned drums and up to 3,000 new drums per shift.

We recently introduced the Gallay triple seam in Canada and are the only manufacturers who have a special permit from Transport Canada to use 20 gauge on 46 gallon 17E specification drums. This seam increases the strength of the vulnerable chime areas and permits our customers to realize savings through the use of lighter gauge steel in their drums.

Our plants are located in the following cities:

Montreal	Ville St. Pierre, Quebec	New Drums & Pails
Montreal	Lachine, Quebec	Reconditioning
Toronto	Thornhill, Ontario	Reconditioning
Toronto	Mississauga, Ontario	Parts
Petrolia	Ontario	New Drums & Reconditioning
Winnipeg	Manitoba	Reconditioning
Regina	Saskatchewan	Reconditioning
Edmonton	Alberta	New Drums & Reconditioning

Metal Decorating Lithography

This division was established in 1963 and produces coated and lithographed sheet metal for the steel container divisions. It also provides the only metal decorating service in Canada for a variety of other users.

The largest percentage of domestic custom decorating sales is made to food accounts such as Heinz, Libby's, Kraft, Connors Bros., Bernardin and Pano-Cap, which fabricate their own food cans, caps and home canning products.

This segment of the market has shown the largest growth rate over the years, with 1981 no exception, and the same pattern is emerging for 1982.

Entry into the export market was made two years ago and the results were very encouraging. Export tenders in Europe and the Middle East have been actively pursued and future growth in this area is anticipated.

The four production lines at this facility are operated at essentially full capacity on a three-shift basis throughout the year. Capacity can be increased as required by employing advanced technology in equipment and materials.

Metal Decorating Lithographers enjoy an excellent reputation as a quality decorator both locally and internationally, and because of this, its leadership in the custom decorating field will be assured for the future.

An operator inspects the quality of lithographed sheets entering the automatic stacker on the high speed, two colour lithography line in the Metal Decorating Division.

Operator inspecting and palletizing plastic pails produced on one of the most modern injection molding machines in the Toronto Division.

Plastics

Acquisition of the Roper Plastics Group in 1981 resulted in an increase in manufacturing facilities from one plant to three—the Roper facilities are located in Toronto and in Montreal. These additions to Vulcan's plastics plant in Rexdale resulted in the company achieving a prominent position in the plastics industrial container field, serving the market with a complete range of injection molded containers, and a line of flexible "bag in a box" packaging.

Prior to the end of 1981, as a result of rationalizing the company's manufacturing facilities and in order to meet a market opportunity in Western Canada, it had been decided to combine both Toronto facilities into one plant and use surplus capacity as a basis for a new plant in Edmonton. This facility, in spite of the worst winter in many years, in the West, is expected to be completed and in production by mid-year 1982.

Total capacity of these three manufacturing units is in excess of four million pails annually with size ranges from 4 litres to 25 litres.

Within the last 12 months, new products introduced have included a range of small pails from 4 to 6 litres, a 25-litre container and a second generation of containers specifically designed for the petroleum industry. These products have, in several cases, enabled the company to assume a unique position of leadership in the industry.

Projects currently under way and in the wings should ensure that the Plastics Group retains this leading edge position.

Explosafe

View showing first stage of "Explosafe" manufacturing operations. Aluminum foil being automatically fed through the high-speed "slitting" process.

One year ago at the 1981 shareholders' meeting, we presented an overview of our business plan for sale of the "Explosafe" product to the North American military marketplace. We believe you the shareholders will be vitally interested in the progress made, in spite of the present business recession, into this and other product application areas where the demand for personal safety has gained public awareness. While Explosafe is not yet in full commercial production the following will give some indication of our expectations of the market potential.

Product Profile:

"Explosafe" is a practical method of preventing containers of volatile liquids and gases (i.e. gasoline, naphtha, diesel, liquid petroleum gas (LPG), benzene) from explosion resulting from electrostatic discharge, fire bombing, gunfire, external crash fires, etc.

The "Explosafe" system is based on a matrix of aluminum foil, slit and expanded to form a mesh of hexagonal openings. When layered, the mesh results in an open-celled batt, cut and shaped into modules for fitment into any sized container.

By installing "Explosafe," the container's interior is transformed into a honeycomb of small cells or compartments. In the event of ignition, the "Explosafe" system acts as a heat dissipator, limits flame propagation, and *prevents* explosion.

Product Application:

"Explosafe" is a modular system, tailored to fit various applications. This concept affords the convenience of installation by Original Equipment Manufacturers (O.E.M.), or, via "retrofit" into existing equipment by trained personnel, supported by Explosafe Division's technical field service personnel.

"Explosafe" is now being widely applied throughout the industry as illustrated in the following examples:

- *Escort Vehicles:* Fuel tanks of vehicles accompanying transportation of hazardous materials are "Explosafe" protected.
- *Military Personnel Carriers:* "Explosafe" is specified for vehicles used by military security police.
- *Forest Fire Rangers:* "Explosafe" equipped containers hold fuel being carried by helicopters to vehicles in forward fire areas.
- *Armoured Vehicles:* Limousines transporting diplomats, executives and other important officials have "Explosafe" protected fuel tanks.
- *On the Water:* Coastal patrol boats in Canada and the United States have been outfitted with "Explosafe" equipped fuel tanks.
- *Industrial:* Static storage tanks and portable gas cans are being protected through addition of "Explosafe."

Company Background:

The year 1980 brought successful conclusion of the rigorous qualification and validation testing and acceptance of the "Explosafe" system by the United States Air Force at Wright-Patterson Air Force Base, Dayton, Ohio. Jointly sponsored by the Canadian government (DITC), U.S.A.F. and Vulcan, the programme's success was approved in January 1981, through a U.S.A.F. press release and Air Force Report #AFWAL-TR-80-2043.

In February 1982, credibility of the "Explosafe" system acceptance by the military was further indicated and documented by the issuance of Military Specification MIL-B-87162 (USAF). This specification release now enables the identification of, and callout for "Explosafe" Engineered Systems, for fuel systems or other volatile liquid container applications, by various governments (including foreign governments) or military agencies, and military industry prime contractors.

Manufacturing Engineering trial installation of "Explosafe" engineered "batt" modules being fitted into fuel tank of C.A.F. 2½ ton truck. Operation being performed under watchful eye of Quality Assurance Manager.

Management:

Vulcan, through its Explosafe Division, holds the Canadian patent rights to "Explosafe" and also manages Explosafe America Inc., of which the company owns 50 per cent. Vulcan is responsible for all management, marketing, sales, research and development and funding required to develop, manufacture and promote "Explosafe" world-wide. Under the joint venture agreement with Explosafe Corporation, fifty per cent of after-tax profits from Explosafe America is allocated first to repayment of Vulcan's advances (which include development expense for patents, trade marks and improvements) with all remaining profits being distributed equally.

Operations Overview:

Since gaining approval from the U.S.A.F. testing agency, we have progressed steadily into the identification and customer acceptance phase. This has been achieved through marketing efforts primarily directed to the U.S. military environment. As a result, we have been successful in prototype/preproduction installations on many United States Army, Navy, Marine and Coast Guard vehicle applications.

With completion of customer test evaluations, several prototypes are now nearing volume production contracts:

• Canadian Armed Forces

2½ Ton Truck: Now in production—150-plus sets delivered; total order 2,768. This prestigious order will influence future related applications, in Canada and NATO countries.

M113 Armoured Personnel Carrier: External tanks have been successfully gunfire tested and production use is now being evaluated by CAF.

• United States Air Force

Peacekeeper Security Vehicle: Now in production—675 sets delivered; potential of 2,000 vehicles, some for NATO use.

• United States Army

M113 Armoured Personnel Carrier: Internal tank application was successfully gunfire tested in February, 1982, and production use in upwards of 2,000 vehicles is currently being evaluated by U.S. Army.

High Mobility Multi-Purpose Vehicle: This is a large procurement programme for a unit to replace the popular Jeep. Three manufacturers are still in the competition, and Explosafe is working with all competing fuel tank suppliers. "Explosafe" system will be included in production vehicle.

Heavy Expanded Mobility Tactical Truck: Now under procurement. Projected volume is 2,000 units; additional procurement is under study. Explosafe is working with the manufacturer to obtain acceptance of "Explosafe" protection in some versions of this vehicle.

MPG Mobile Protected Gun: In the proposal stage by the manufacturer, with "Explosafe" protection specified for the fuel tanks. Procurement is targeted for late 1982 or 1983.

U.S.A.F. (Cadillac Gage) "Peacekeeper" vehicle incorporates "Explosafe" explosion protection system. This was Division's first high-volume production application to the U.S. Military marketplace.

• United States Marine Corps

The USMC has responded very positively to the use of "Explosafe" in reducing the vulnerability of a number of their military vehicles.

M110 Mobile Howitzer: Internal tank installation completed field trials at Aberdeen Proving Grounds in March 1982, and test vehicles are back at the manufacturer for examination and evaluation. Production would approach 1,000 units.

M578 Recovery Vehicle: Field trials of the prototype vehicle utilizing "Explosafe" protection in its hydraulic fluid reservoir have been completed. The application is now being evaluated for its effectiveness in reducing hydraulic fluid temperatures. The M578 has a common chassis fuel system with the M110.

LAV Light Armoured Vehicle: Currently undergoing competition field trials with three manufacturers participating. "Explosafe" protection is specified for the fuel tanks. Initial production quantities in the order of 2,700 vehicles are expected for release in July 1982.

Oshkosh Dragon Wagon: Now under procurement. This is an articulated heavy-duty multi-purpose vehicle and will be protected by "Explosafe" in the fuel tanks. Approximately 2,000 units are projected.

Divisional Supply Weapon Systems: Vehicle is currently in the proposal stage with "Explosafe" protection included by the manufacturer. Procurement should start in 1983.

• U.S. Naval Sea Systems Command

Special Warfare Boat: An unsolicited proposal resulted in acceptance of "Explosafe" protection for the fuel tanks of this new concept vessel. Production quantities are classified, but the application is prestigious and will have a very positive impact on future marine programmes.

Armoured Amphibious Assault Vehicle: Engineering evaluation and prototype fit checking of the "Explosafe" protected fuel tanks in this application have been completed, and field trials are pending at Camp Pendleton Marine Base. Identified as the LVTP-7A1, modernization and new production versions will be "Explosafe" equipped. Quantities are classified.

• Other Marine Applications

The Orange County Sheriff's Department has now equipped its total fleet of harbour patrol boats with "Explosafe" protected fuel tanks, and is specifying such protection for all future procurements.

In proposal, evaluation or negotiation stages are several other marine programmes incorporating "Explosafe" protected fuel tanks for the United States Navy, the U.S. Coast Guard, the government of Kuwait and others. The status of these will be disclosed when security restraints permit.

• U.S. Department of Energy

Forty-six additional "Explosafe" protected fuel tanks for a classified security escort vehicle have been delivered, making a total of 90 units so equipped to date.

• Miscellaneous Military Applications

Prototype "Explosafe" protected fuel tanks are being supplied to a manufacturer of military mobile power generating systems. This same firm is also designing "Explosafe" protection into a variety of military field equipment units such as mobile kitchens, mobile laundries and forward area refuellers, all of which operate on self-contained fuel systems.

The benefits to the military of explosion suppression in fuel tanks are recognized from the viewpoint of saving lives, reducing damage to, or loss of expensive military equipment. Direct sales programmes are being conducted concurrently in the United States and Canada, by personnel experienced in explosion suppression systems, ballistics and military hardware. The company is further developing the industrial market, and is filling orders for applications from that market segment.

It must be appreciated that it can take two to three years from inception of new military equipment need through design, prototype, test, preproduction to production contract release. That makes it vitally important to us that our product be specified at the onset. Then, by working with all identified prime contractors, we can be "locked in" to the final chosen design.

• Liquefied Petroleum Gas (LPG) Programme

The Canadian government, Transport Canada, is proceeding with the further evaluation of "Explosafe" for the protection of railroad tank cars and over-the-road tankers, to prevent Boiling Liquid Evaporating Vapour Explosions (BLEVE). Explosafe Division has now been advised of the decision to proceed with full-scale testing. This will involve installation of the "Explosafe" design in (30,000-gallon) tank cars for testing. The goal is to prove concepts such as integrity of mechanical attachment, cleaning and BLEVE prevention under actual railway tank car environments. Although this full-scale phase will require two years to completion, installation in thousands of LPG tank cars can eventually provide assurance against Mississauga-type, or the recent Oakland, California tunnel disasters.

Success in the completed fifth-scale tank car testing programme has prompted consideration of "Explosafe" protection in smaller storage and handling vessels for LPG, and the company is working directly with the manufacturers of these containers toward what promises to be a market of significant size.

• International Marketplace

This past year has seen the completion of licensing agreements executed with Van Leer in South Africa. Included with both Van Leer and Explosafe Italia (KRYO) a 1980 licensee, was the procurement of a full line of manufacturing equipment to facilitate their being self-sustaining with Explosafe receiving the royalty benefits from their sales.
We have also executed agent agreements in Australia and Hong Kong, where positive strides are being made to have the "Explosafe" system accepted.

Additionally, earlier this year, we worked expansion to the territorial rights possessed by our licensee in England, Expamet U.K. As a result we expect positive results in these new territories.

• General

Economic slow-down world-wide has resulted in an impact on gas can sales, but existing inventory is steadily being depleted and with the new gas can design, shortly to be introduced, we are confident that commercial sales will improve markedly in the 1982, fourth quarter.

Summary

While the complexity of the effort necessary to achieve the foregoing accomplishments has exceeded our initial projections, we are generally on target with our planned technical marketing strategy. We look with gratification at the increasing number of applications being captured and we predict that the Explosafe operations will contribute significantly to the continuing growth of the Vulcan Group of Companies.

Directors/Officers

Board of Directors
from left to right:

Philip C. Garratt
James Holmes
Arthur G. Simpson
James B. Prendergast
Albert J. Cavan
John E. Sands
Alex C. Telfer
Norman E. Kaye

Officers
from left to right:

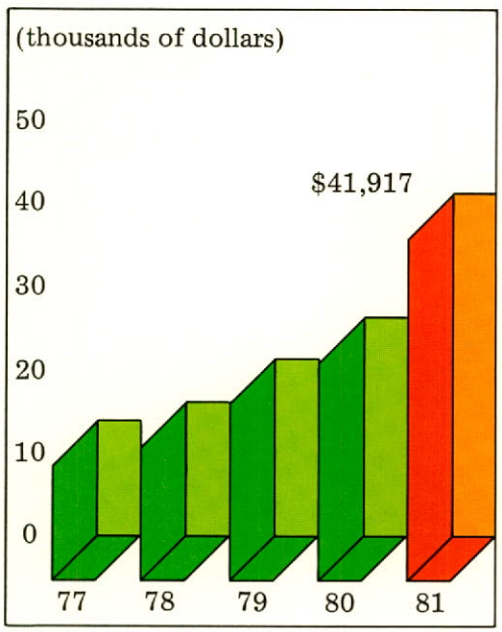
1st row: *W.J. Moffat, Albert J. Cavan*
2nd row: *Richard C. Turner, George O. D'Cruze, James B. Prendergast*
3rd row: *William B. McGregor, Ralph G. McNiff*
4th row: *K. Ross Quantz, Herbert L. Hickey, Alex C. Telfer, Peter G. Kirkis*

Vulcan Industrial Packaging Limited

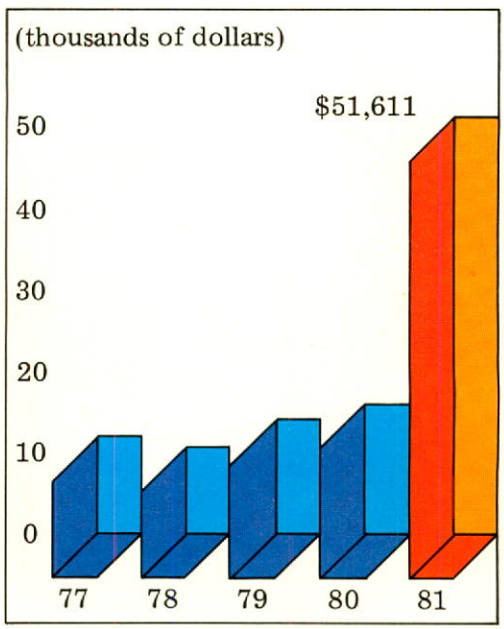
Consolidated Financial Summary

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
									(thousands of dollars)	
Operations										
Sales	$41,917	$26,667	$23,737	$18,574	$16,292	$14,192	$12,801	$11,588	$10,034	$8,458
Income from continuing operations before income taxes and extraordinary items	$ 1,751	$ 2,059	$ 2,080	$ 1,873	$ 1,351	$ 1,395	$ 1,489	$ 1,232	$ 989	$ 897
Income taxes	792	801	830	748	502	576	628	502	412	450
Loss from discontinued operations				1,950	275					
Extraordinary items	227			2,850	62					
Net income (loss)	$ 732	$ 1,258	$ 1,250	$ (3,675)	$ 512	$ 819	$ 861	$ 730	$ 577	$ 447
Financial Positions										
Working capital (deficiency)	$ 3,318	$ 1,893	$ 1,576	$ (514)	$ 2,140	$ 2,730	$ 2,130	$ 2,140	$ 1,685	$ 1,474
Fixed assets—net	22,126	5,295	4,442	3,430	3,548	3,719	3,665	3,620	3,643	2,784
Other assets	7,215	3,083	2,290	1,370	2,833	366	491	33	38	27
	32,659	10,271	8,308	4,286	8,521	6,815	6,286	5,793	5,366	4,285
Long-term and non-current debt	24,239	5,087	4,569	1,801	2,194	1,150	1,328	1,636	1,894	1,406
Deferred income taxes	4,473	1,681	1,257	1,017	948	1,060	953	809	651	472
	28,712	6,768	5,826	2,818	3,142	2,210	2,281	2,445	2,545	1,878
Shareholders' equity	$ 3,947	$ 3,503	$ 2,482	$ 1,468	$ 5,379	$ 4,605	$ 4,005	$ 3,348	$ 2,821	$ 2,407

Sales



Total Assets



	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
									(thousands of dollars)	
Changes in Financial Position										
Income from continuing operations	$ 959	$ 1,258	$ 1,250	$ 1,125	$ 849	$ 819	$ 861	$ 730	$ 577	$ 447
Depreciation	1,197	606	510	480	464	429	394	345	283	240
Deferred income taxes (reduction)	(11)	424	240	69	(112)	108	144	158	179	54
Other	52	58	48	37	32	12	7	11	20	36
Operations	2,197	2,346	2,048	1,711	1,233	1,368	1,406	1,244	1,059	777
Increase in long-term and non-current debt	16,500	650	2,875	82	1,154	50			1,200	
Government assistance	13	95	18	113	153	376				
Proceeds from sale of fixed assets	92	22	15	19	116	11	20	11	29	13
	18,802	3,113	4,956	1,925	2,656	1,805	1,426	1,255	2,288	790
Investment in subsidiary	13,073									
Capital expenditures	1,310	1,485	1,533	378	468	492	457	333	1,182	383
Long-term debt reduction	989	132	107	475	110	228	309	258	711	167
Dividends	288	236	236	236	234	220	203	203	163	122
Other	1,717	943	990	3,490	2,434	265	467	6	20	
	17,377	2,796	2,866	4,579	3,246	1,205	1,436	800	2,076	672
Increase (decrease) in working capital	$ 1,425	$ 317	$ 2,090	$ (2,654)	$ (590)	$ 600	$ (10)	$ 455	$ 212	$ 118
Per Share										
Income from continuing operations	$ .13	$ .17	$ .16	$ .15	$ .11	$ .11	$ .12	$ .10	$ .08	$ .06
Loss from discontinued operations				(.26)	(.03)					
Income (loss) before extraordinary items	.13	.17	.16	(.11)	.08	.11	.12	.10	.08	.06
Net income (loss)	.10	.17	.16	(.48)	.07	.11	.12	.10	.08	.06
Dividends	.04	.03	.03	.03	.03	.03	.03	.03	.02	.02
Shareholders' equity	.52	.46	.33	.19	.71	.63	.55	.46	.39	.33

Vulcan Industrial Packaging Limited
(Incorporated under the laws of Canada)

Consolidated Balance Sheet

December 31, 1981

Assets	1981	1980
	(thousands of dollars)	
Current assets:		
Cash	$ 1,107	
Term deposits	593	
Funds in trust [note 7(a)]	1,515	
Accounts receivable	8,400	$ 2,914
Inventories [note 2]	10,547	5,118
Prepaid expenses and deposits	108	114
	22,270	8,146
Fixed assets [note 3]	22,126	5,295
Investment in shares, at cost [market value $474,000] [note 4(b)]	499	
Investment in and advances to joint venture [note 5]	3,967	2,922
Deferred development costs, less amortization [note 5]	42	161
Goodwill [note 4(a)]	2,707	
	$51,611	$16,524

(See accompanying notes)

Contingencies [notes 5 and 13]

On behalf of the Board:

Director

Director

Liabilities & Shareholders' Equity

	1981	1980
	(thousands of dollars)	
Current liabilities:		
Bank indebtedness [note 7(b)]	$ 7,534	$ 2,891
Accounts payable and accrued expenses	6,925	2,764
Income and other taxes payable	1,730	474
Current portion of long-term debt	2,763	124
	18,952	6,253
Non-current debt [note 6]	17,562	
Long-term debt [note 7]	6,677	5,087
Deferred income taxes	4,473	1,681
Shareholders' equity:		
Capital stock [note 8]	1,256	1,256
Retained earnings	2,691	2,247
	3,947	3,503
	$51,611	$16,524

Auditors' Report

To the Shareholders of Vulcan Industrial Packaging Limited:

We have examined the consolidated balance sheet of Vulcan Industrial Packaging Limited as at December 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination 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.

The consolidated financial statements for the preceding year were examined by other Chartered Accountants.

Clarkson Gordon

Toronto, Canada
March 15, 1982

Chartered Accountants

Vulcan Industrial Packaging Limited

Consolidated Statement of Income and Retained Earnings

Year ended December 31, 1981

	1981	1980
	(thousands of dollars)	
Sales	$41,917	$26,667
Operating expenses:		
Cost of sales exclusive of depreciation	31,168	20,499
Depreciation	1,197	606
Selling	2,561	1,262
Administrative	2,610	1,374
	37,536	23,741
Operating income	4,381	2,926
Interest on long-term and non-current debt	1,872	564
Other interest	758	303
Interest expense	2,630	867
Income before income taxes and extraordinary items	1,751	2,059
Income taxes:		
Current	803	377
Deferred	(11)	424
	792	801
Income before extraordinary items	959	1,258
Extraordinary items [note 11]	227	
Net income	732	1,258
Retained earnings, at beginning of year	2,247	1,225
	2,979	2,483
Dividends	288	236
Retained earnings, at end of year	$ 2,691	$ 2,247
Earnings per share [note 8]		
Income before extraordinary items	$0.13	$0.17
Net income	$0.10	$0.17

(See accompanying notes)

Vulcan Industrial Packaging Limited

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981

	1981	1980
	(thousands of dollars)	
Working capital derived from:		
Operations—		
Net income before extraordinary items	$ 959	$1,258
Items not involving working capital:		
Depreciation	1,197	606
Amortization of deferred development costs and goodwill	57	55
Deferred income taxes	(11)	424
Loss (gain) on disposal of fixed assets	(5)	3
Funds from operations	2,197	2,346
Non-current debt re acquisition of subsidiary	16,500	
Increase in long-term debt		650
Proceeds from disposal of fixed assets	92	22
Government assistance received	13	95
	18,802	3,113
Working capital applied to:		
Investment in subsidiary, net of working capital acquired ($4,175,000)	13,073	
Additions to fixed assets	1,310	1,485
Advances to joint venture	1,058	779
Reduction in non-current portion of long-term debt	989	132
Investment in shares	499	
Dividends	288	236
Deferred development costs		164
Extraordinary items—effect on working capital	160	
	17,377	2,796
Increase in working capital position	1,425	317
Working capital, beginning of year	1,893	1,576
Working capital, end of year	$ 3,318	$1,893

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1981

1. Summary of significant accounting policies

(a) Principles of consolidation:

The accounts of the company are consolidated with those of its subsidiaries, all of which are wholly-owned. The company's principal subsidiary, Plant National (Quebec) Ltd., was acquired effective August 25, 1981. This acquisition has been accounted for as a purchase and accordingly the results of operations since August 25, 1981 have been included in these consolidated financial statements.

(b) Inventories:

Raw materials and work in process are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost. Finished goods are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Fixed assets:

Fixed assets are carried at cost less accumulated depreciation. Interest expense relating to major capital expenditures is capitalized by a charge to fixed asset additions.

Depreciation is calculated using the straight-line method, based on the following estimated economic lives:

Buildings	20 years
Plant machinery and equipment	5 to 17 years
Automotive equipment	3 years

(d) Financial assistance from government and others:

During the course of certain development programmes financial assistance is received from government and others. It is the company's policy to account for such assistance as a recovery of costs incurred.

(e) Deferred development costs:

It is the company's policy to defer costs related to development of new products until commercial production has been attained or the project has been deemed commercially unfeasible. Upon the commencement of commercial production of a particular product, the related costs are amortized on a straight-line basis over a five-year period.

(f) Pensions:

Pension benefit costs are determined periodically by independent actuaries. The costs related to the current service of employees are charged to earnings. Costs resulting from amendments or upgrading of the plans, and which relate to service of employees in prior years, are amortized over the estimated remaining years of service of the employees involved.

(g) Goodwill:

Goodwill comprises the unamortized balance of the excess of the cost to the company over the fair value of the identifiable net assets of its subsidiaries at the date of acquisition. Amortization is on a straight-line basis over a period of 40 years.

(h) Investment tax credits:

Investment tax credits have been recognized using the flow-through method.

2. Inventories

	1981	1980
	(thousands of dollars)	
Raw materials and work in process	$ 8,059	$3,669
Finished goods	2,488	1,449
	$10,547	$5,118

3. Fixed assets

	1981			1980
				(thousands of dollars)
	Cost	Accumulated depreciation	Net	Net
Land	$ 4,465		$ 4,465	$ 92
Buildings	8,465	$ 2,119	6,346	974
Plant machinery, equipment and automotive equipment	24,665	13,350	11,315	4,229
	$37,595	$15,469	$22,126	$5,295

4. Acquisition

Effective August 25, 1981, the company acquired all of the outstanding shares of Plant National (Quebec) Ltd., a manufacturing company. The acquisition has been accounted for as a purchase and accordingly the results of operations since August 25, 1981 have been included in these consolidated financial statements.

(a) The acquisition equation is as follows:

	(thousands of dollars)	
Net identifiable assets acquired, at fair values—		
Current assets	$16,421	
Land	4,373	
Buildings and equipment	12,467	$33,261
Current liabilities	12,246	
Deferred income taxes	2,857	
Long-term debt	3,641	18,744
		14,517
Goodwill		2,731
		$17,248
Consideration given at fair value—		
Cash		$16,500
Acquisition costs		748
		$17,248

(b) Included in acquisition costs of $748,000 is a writedown of $360,000 in the cost of shares of Plant Industries Inc. These shares were purchased during June and July of 1981 in order to facilitate the acquisition of Plant National (Quebec) Ltd. from Plant Industries Inc. Accordingly, the decline in the market value of these shares during the period in which control of Plant National (Quebec) Ltd. was acquired has been included as a cost of the acquisition.

5. Investment in and advances to joint venture

The company has a 50% interest in a corporate joint venture which is engaged in the development, manufacture and licensing of Explosafe products in countries other than Canada.

At December 31, 1981 the joint venture has accumulated $3,874,000 of deferred costs (net of $558,000 of revenues received to date) which include development and other related costs. These costs will continue to be deferred in the joint venture accounts until such time as commercial operations commence, at which time they will be amortized over a period not to exceed five years. No income or loss has been recorded to date. Management is reasonably assured that these deferred costs will be recovered by the joint venture through joint venture operations once commercial operations commence.

Under the terms of the joint venture agreement, which expires in 1990, the company is required to arrange for and provide the joint venture all the funds; financing, managerial, sales and technical personnel; and technical and marketing knowledge and expertise required to manufacture, develop and promote Explosafe products on a world-wide basis. The costs of providing all of the foregoing have been treated by the company as advances to the joint venture to be recovered from joint venture earnings.

The company has made an investment of $20,000 in, and advances of $3,947,000 to, the joint venture at December 31, 1981 ($20,000 and $2,902,000 respectively at December 31, 1980). The advances to the joint venture have been restated as at December 31, 1980 to include $537,000 of costs which were initially incurred and deferred by the company as deferred development costs.

The other party to the agreement has not approved the definition or the amount of the advances and has recently disputed the company's treatment of revenues received and to be received by the joint venture prior to the commencement of commercial operations. The timing and extent of the recoverability of these advances to the joint venture is contingent on the resolution of the foregoing matters. The company believes that these advances are properly chargeable to the joint venture under the joint venture agreement.

6. Non-current debt

	(thousands of dollars)
Term bank loan bearing interest at prime plus 1%, maturing March 1982 [see paragraph 6(a) on page 21]	$16,500
Demand bank loan bearing interest at prime plus 1½%, and amortized at $7,177 per month [see paragraph 6(b) on page 21]	1,062
	$17,562

Additional information on non-current debt—

(a) The term bank loan is classified as non-current as subsequent to the year end the amount was refinanced by a term bank loan at prime plus 1¼% maturing January 1983. The terms of this borrowing include certain restrictions with respect to dividends, maintaining working capital and capital expenditures.

(b) The demand bank loan is classified as non-current as the bank has indicated that it will not demand repayment during the forthcoming year if the monthly repayment requirements and other conditions of the loan agreement are satisfied. The next year's principal payments of $86,124 have been included in current liabilities.

(c) Security for the bank loans is as described in note 7 (b).

7. Long-term debt

	1981	1980
	(thousands of dollars)	
Mortgage bonds at interest rates ranging from 6½% to 12½% with an average rate of 11%, maturing at various dates from February 1982 to April 1992	$6,155	$3,942
Term loans at interest rates ranging from prime plus 1% to prime plus 1½%, maturing at various dates from June 1983 to April 1990	1,604	1,269
12% mortgage bond maturing October 1986 [see paragraph (a) below]	1,325	
Equipment obligations at interest rates ranging from 6½% to prime plus 3%, maturing in periods through to 1984	356	
	9,440	5,211
Less portion due within one year included in current liabilities	2,763	124
	$6,677	$5,087

Additional information on long-term debt—

(a) As security for the 12% mortgage bond maturing October 1986, there was a first mortgage on certain plant, property and equipment of a subsidiary of Plant National (Quebec) Ltd. Prior to acquisition this subsidiary sold the property, plant and some of the equipment. With the agreement of the lender this security was replaced with certificates of deposit of $1,400,000. These deposits, together with accumulated interest of $115,248, are recorded as funds in trust at December 31, 1981 and the related 12% mortgage bond is recorded in the current portion of long-term debt.

(b) Accounts receivable, a specific charge on real property and equipment and a floating charge on all other assets and undertakings of the company have been pledged as collateral for the mortgage bonds, term loans, equipment obligations, bank loans and bank indebtedness.

(c) The aggregate amounts of payments estimated to be required in each of the next five years to meet sinking fund and other long-term debt retirement provisions are as follows:

	(thousands of dollars)
1982	$2,763
1983	119
1984, including $3,557,000 which may be renewable for an additional five-year period	4,822
1985	110
1986	138
1987 and subsequent	1,488
	$9,440

8. Capital stock

On April 29, 1981 the company sub-divided its then issued and outstanding common shares on a three-for-one basis. The issued capital information and the per share figures reported in these financial statements are after taking into account this sub-division. Accordingly, capital stock (new share basis) is comprised of the following:

	1981	1980
	(thousands of dollars)	
Authorized—		
Unlimited 6%, non-cumulative preference shares, redeemable at issued value		
Unlimited common shares		
Issued—		
7,599,726 common shares	$1,256	$1,256

9. Pension plan liability

Based on the most recent independent actuarial valuation of the pension plans, unamortized past service costs were approximately $167,000 as at December 31, 1981.

10. Lease commitments

Future minimum rental commitments for all non-cancellable operating leases as of December 31, 1981 are as follows:

	(thousands of dollars)
1982	$224
1983	180
1984	163
1985	126
1986	68

11. Extraordinary items

(a) As at December 31, 1981 the company decided to close one of its smaller divisions. The unamortized deferred development costs together with certain inventories and equipment have been written off, resulting in an extraordinary loss of $117,000 (net of income taxes of $95,000).

(b) During fiscal 1980 and 1981 the company incurred costs in connection with a proposed issue of common shares scheduled for the fall of 1981. As a result of a general decline in market values for publicly traded shares, the company has decided to postpone this share issue and accordingly the costs incurred have been written off, resulting in an extraordinary loss of $110,000 (net of income taxes of $90,000).

12. Segmented information

The dominant segment of the company's business during 1981 involved the manufacture, reconditioning and sale of industrial containers.

13. Contingencies

(a) Taxation authorities in Canada are reviewing for the years 1978 to 1980, losses claimed with respect to the discontinuance of the operations of certain U.S. subsidiaries. This review has not been completed and no assessment has been received. However, the taxation authorities have indicated that they will propose a disallowance of a material portion of these losses. The maximum amount of tax, including interest, that could be assessed beyond that provided for in the accounts, is approximately $800,000. Management intends to contest vigorously any disallowance that could be forthcoming in connection therewith.

(b) The company is contingently liable for its guarantee of a bank loan of the corporate joint venture in the amount of $250,000.

14. Comparative figures

The comparative financial statements have been reclassified to conform with the presentation of the 1981 financial statements.

Registrar and Transfer Agent

Canada Permanent Trust Company
Toronto, Ontario

Annual Meeting

The Annual Meeting of Shareholders will be held at the Old Mill in Room Brulé A, 21 Old Mill Road, Toronto, at 5:00 p.m. on Wednesday, June 16, 1982. Shareholders and guests are cordially invited to attend.

Listed

Vulcan Industrial Packaging Limited shares are listed on the Toronto Stock Exchange (VIP) and are traded throughout the United States on NASDAQ (VIPLF).

Auditors

Clarkson Gordon
Toronto, Ontario

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Vulcan Industrial Packaging Limited, Toronto

Philip C. Garratt
Senior Vice-President
Reed Stenhouse Limited, Toronto

Norman E. Kaye
Consultant
George Weston Limited, Toronto

James B. Prendergast*
President & Chief Executive Officer
Westroc Industries Limited, Toronto

John E. Sands*
Vice-President
Maplebrook Investments Limited, Toronto

Arthur G. Simpson+
President
A.G. Simpson Company Ltd., Toronto

James Holmes*+
Chairman & Chief Executive Officer
Homeware Industries Ltd., Toronto

Alex C. Telfer*
Executive Vice-President
Vulcan Industrial Packaging Limited, Toronto

* Executive Committee
\+ Audit Committee

Officers

James B. Prendergast
Chairman

Albert J. Cavan, Q.C.
President

Alex C. Telfer
Executive Vice-President

William J. Moffat, B.A.Sc., C.A.
Senior Vice-President, Finance

Richard C. Turner, P. Eng.
Manager, Explosafe Division and President, Explosafe America Inc.

Peter G. Kirkis, P. Eng.
Vice-President, Plastics

K. Ross Quantz
Vice-President, Steel Pail Manufacturing

William B. McGregor
Vice-President, Drum Manufacturing and Reconditioning

Ralph G. McNiff
Vice-President, Sales

Herbert L. Hickey, B.A.
Corporate Secretary and Director, Public Relations

George O. D'Cruze
Director, Human Resources

James M. Ritchie, C.A.
Corporate Controller

Operating Facilities

Drum Reconditioning
Plant National (Quebec) Limited
1800—46th Avenue
Lachine, Quebec H8T 2P2
(514) 636-6320

Manufacturing of Steel Drums and Pails
Plant National (Montreal) Limited
23 Du Moulin Street
Ville St. Pierre, Quebec H8R 1N5
(514) 364-5500

Drum Reconditioning
Plant National (Thornhill) Ltd.
337 John Street
Thornhill, Ontario L3T 5W5
(416) 889-7341

Drum Manufacturing & Reconditioning
Plant National (Petrolia) Ltd.
260 Centre Street
Petrolia, Ontario N0N 1R0

Drum Reconditioning
Plant National (Winnipeg) Limited
328 Dawson Road North
Winnipeg, Manitoba R2J 0S7
(204) 233-3333

Drum Reconditioning
Plant National (Regina) Limited
125 Dewdney Avenue East
Regina, Saskatchewan S4N 4G3
(306) 352-3644

Drum Reconditioning and New Drums
Plant National (Edmonton) Limited
1912—66th Avenue
Edmonton, Alberta T6C 4G5
(413) 464-4500

Manufacture of Steel Rings for Drum Facilities
Plant National Parts Limited
5255 Creekbank Road
Mississauga, Ontario L4W 1N3
(416) 624-0368

Manufacture of Plastic Pails
Roper Plastics Inc., Montreal
145 Graveline Street
Ville St. Laurent, Quebec H4T 1R3
(514) 731-3896

Manufacture of Plastic Pails
Roper Plastics Inc., Toronto
230 New Toronto Street
Toronto, Ontario M8V 2E8
(416) 255-7315

Manufacture of Plastic Pails
Roper Plastics Inc.
35 Calder Place
St. Albert, Alberta

Steel Pail Manufacturing
Vulcan Industrial Pkg. Ltd.
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(416) 743-8682

Steel Pail Sub-Assembly
Vulcan Industrial Pkg. Ltd.
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Calgary, Alberta
(403) 253-5510

Metal Lithography Division
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(416) 743-4570

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Explosafe

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