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VULCAN

INDUSTRIAL PACKAGING LIMITED

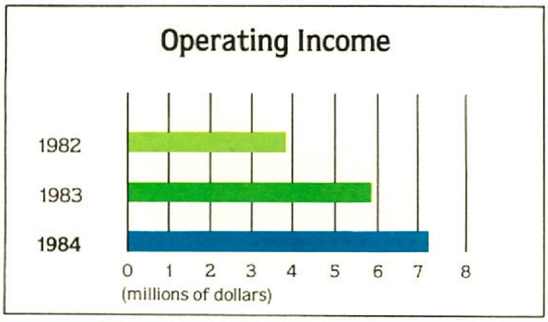
ANNUAL REPORT 1984

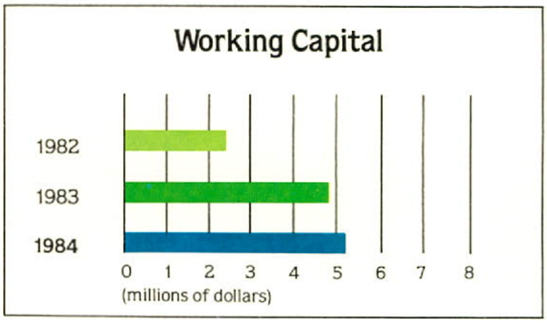
Vulcan Industrial Packaging Limited

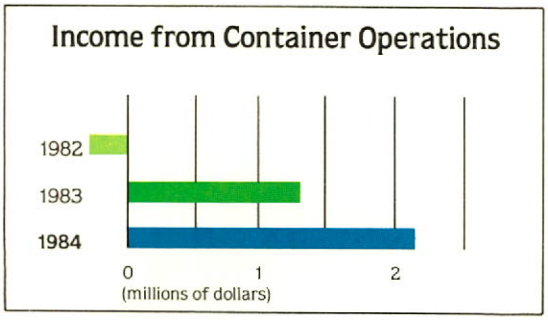
Financial Highlights

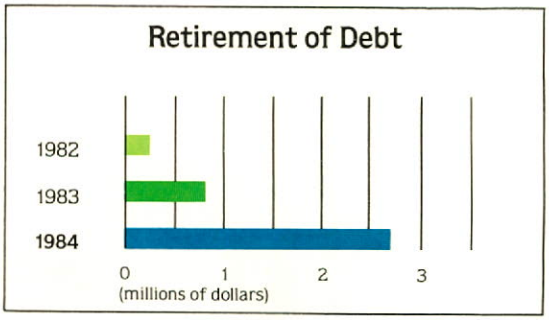
(thousands of dollars)

	1984	1983	% Change
Sales	**65,979**	63,362	+ 4
Operating Income	**7,224**	5,800	+ 25
Income from Container Operations	**2,190**	1,363	+ 61
Net Income	**1,330**	(2,913)	
Earnings Per Share	**$0.17**	$(0.38)	
Working Capital	**5,277**	4,898	+ 8
Cash Flow from Operations	**3,723**	1,491	+ 150
Retirement of Debt	**2,726**	822	+ 232









Message to Shareholders

We are particularly proud of Vulcan's performance in 1984, which to a large extent, was the direct result of the rationalization program embarked upon in 1982 throughout Vulcan's operations. The consolidation of manufacturing and distribution operations to thirteen facilities, along with our cost control program, resulted in substantial improvement in profitability.

We owe the success of these programs to our employees. Through their dedication and resourcefulness, our 1984 sales increased $2.6 million or 4% over the previous year in a very competitive market. Of greater importance, operating income increased by $1.4 million to $7.2 million, an increase of 25% over the previous year. Income from container operations was $2.2 million compared to $1.4 million in the prior year, an increase of 61%.

The Company recorded a loss in the operations of its joint venture, Explosafe America Inc., in the amount of $860,000, down from $1.1 million in 1983. The reduction in the loss to Explosafe of $260,000 reflects the control measures adopted to bring expenditures more in line with revenues in this operation.

Accordingly, income before extraordinary items increased to $1,330,000 from $243,000 in 1983. Net income of $1,330,000 or 17¢ per share compares to a net loss for 1983 of $2,913,000 or 38¢ per share after extraordinary items. Early in 1985, we were pleased to announce the income tax recovery of $1.9 million related to Explosafe's development costs expensed in 1983. This recovery has been reflected as a reduction of the extraordinary write-off in 1983 and together with our 1984 earnings, brought shareholders' equity to $1,518,000 at December 31, 1984.

In 1984, the Company again increased its working capital position while reducing long-term debt by $1.7 million and financing capital expenditures of $1.0 million out of improved cash flow from operations.

The solid base that the rationalization program has built should also substantially improve earnings in the future. However, we recognize that revenue growth for the Company will have to be achieved through expansion of our existing business. It is our intention to build on our established base with care and thoughtful planning for the future. To this end, we have introduced a formalized strategic planning program for Vulcan. In keeping with this planned approach to growth, we will be strengthening the future of your Company through our entry into the plastic blow molding business in 1985. To complement this new development, Vulcan has negotiated a patent and technology agreement with Dupont, and we will be incorporating their Selar™ barrier resin in our plastic bottle production. Vulcan will be the first company supplying this product to the Canadian industrial container market, providing its customers with a bottle superior to that presently available for the packaging of solvent based products.

With respect to Explosafe, in which your Company has a 50% joint venture interest, progress to date has not met expectations. However, we remain convinced that this unique product has the potential of earnings contribution through expanding sales.

In the past, Explosafe America Inc. has primarily pursued military contracts. While we will continue to fill these orders, we have been concentrating more recently on immediate cash flow sales in the consumer market, which we believe will hasten our progress towards profitability.

Explosafe will soon be supplying their system for a well-designed and copyrighted portable gasoline container to be introduced to the North American market. This gas can has been selling extremely well in Europe and will achieve expanded international sales through arrangements with other Explosafe foreign licensees.

Explosafe is also involved in the testing of Liquid Propane Gas (LPG) cylinders for fork lift trucks and barbecues. The results to date indicate that we may play a major role in providing safer tanks for these markets. If the results of continuing tests remain positive, a large market could be opened for Explosafe.

The EXPLOSAFE™ explosion suppression system has been installed in fuel tanks for the United States Army and Marine Corps, light armoured vehicles, Canadian Armed Forces 2 1/2 ton transports, U.S. Coast Guard cutters, and Spanish military Land Rovers, personnel carriers and transportation vehicles. Specifically, with installations in the fuel tanks of approximately 600 U.S. Air Force Peacekeeper vehicles and over 2,800 Canadian Armed Forces 2 1/2 ton transports, there have been no reports of operational problems. This, we believe, is an exemplary record for any product.

We further believe that terrorism will continue to be a major concern for many nations in the world and countries will have to provide more protection for their citizens. EXPLOSAFE™ can play a major role in this regard.

In summary, a redirection for our joint venture has been established through cost controls, concentration on markets for immediate cash flow, and continued testing and marketing for long-term markets. We believe that this disciplined approach to the business will result in the joint venture making a future contribution to the earnings of Vulcan.

Over the years, Vulcan has enjoyed the benefits of an active Board of Directors and we thank the Board for its guidance and support. As the Canadian economy continues to improve, we should not be faced with abnormally high interest rates in the near term. Therefore, we feel it is time to expand our business and accordingly, we are increasing the Board of Directors from seven to nine. We believe that the additional candidates will contribute to the future growth and success of your Company.

Finally, we continue to maintain excellent relations with our employees and are most appreciative of their contributions during 1984. The annual message also provides us this opportunity of thanking our shareholders, customers and business associates for their continuing support.

Albert J. Cavan, Q.C.
Chairman and Chief Executive Officer

Alex C. Telfer
President and Chief Operating Officer

Sales and Marketing Report

With the close of 1984, Vulcan's sales force finally started to see the results of its marketing efforts over the last few "soft market" years. During 1982, 1983 and early 1984, in addition to soft market demand, the Company was faced with increased competitive pressures, not only from other manufacturers but from alternative packaging designs. However, with the support of our operations personnel, we were able to maintain, and in some regions increase, our national market share through hard work and innovation.

Until recently, our Steel Pail product lines have been in a declining market, but industry conversion programs from steel to plastic containers now seem to have abated. To offset reduced sales of steel pails, Vulcan has moved into new markets through the introduction of specialty cans. Late in 1984, we introduced this line of houseware products for the consumer market and the interest shown is encouraging. This could develop into a substantial market, and in 1985 Vulcan will benefit from our sales effort in this area.

New Steel Drum sales continue to show improvement across the country. In the latter part of 1984, our Eastern Sales Region successfully penetrated the mining industry market for the first time. In the Central Sales Region, volume for 1984 far exceeded expectations both in domestic and export sales, and the re-acquisition in 1985 of a contract with one of our major chemical company accounts will assist this upward trend. The Western Sales Region acquired a sizeable contract from a major oil company which will also be reflected in 1985. All of this bodes well for our New Steel Drum sales in the coming year.

Our Drum Reconditioning plants across Canada continue to do well in spite of severe competition, particularly in the Eastern and Central Sales Regions. To maintain our leadership position in this market, two of our operations installed modular cleaning equipment for the recycling of plastic drums. We anticipate that a major company in the petroleum industry will begin using these drums late in 1985.

The Plastic Divisions continue to enjoy high activity levels in their plants. However, 1984 marked

(continued)

the beginning of more moderate growth rates for our line of plastic pails. The large conversion programs from steel to plastic pails in certain market segments over the past few years has been completed, resulting in a moderation of plastic pail growth.

In the presence of this moderate growth and corresponding competitive pressure, several moves were made which have enabled us to meet these challenges. These include:

- the introduction of the plastic pail for the frozen egg market in Eastern Canada;
- the development of a 17 litre plastic pail for the edible oil market;
- the introduction of an improved cover for grease containers used by the petroleum industry.

It is this type of product development and improvement which will enable the Company to increase its market share.

Another important decision made in 1984 was to enter the blow molded plastic bottle market, which we expect to be servicing in August 1985. This new product line is welcomed with enthusiasm by our sales department due to its significant market potential. The entry into this new market indicates to the industry that the Company intends to continue its program of development towards the goal of becoming Canada's most comprehensive packaging company.

With the soft market demand behind us, we are now asserting ourselves and stressing our national strengths in our drive to improve market share and profitability.

Ralph G. McNiff
Vice-President, Sales

Human Resources

Two corporate goals directed to our most valuable asset, human resources, are to provide meaningful and rewarding career opportunities in a safe environment, and to be instrumental in upgrading the quality of life for all of our employees.

The foundation for a successful business involves a healthy relationship between all sectors and all levels of our operation. We continually strive for a better understanding of each other's problems and welcome constructive ideas through employee involvement programs. We find that suggestions from men and women who are faced with the problems of day-to-day operations are often practical, effective and enlightening.

Considerable emphasis is placed on safety programs at all locations. Directed to employees at all levels, it is our constant endeavour to promote a greater awareness of the need to prevent accidents and to eliminate hazardous situations in the workplace. Joint Safety Committee meetings continue to make a significant improvement to our overall performance.

Periodically, a Newsletter is sent to each employee. We recognize that communications with employees who live and work in different provinces is a vital link to our organization. We ensure that employees are aware that the Company has a definite direction: a direction that positively affects and guides individuals, divisions and the entire organization. We believe that each employee's contribution is part of the overall plan and is an important factor in the long-term goals of the Company.

Precipitated by the soft economy and deteriorating markets over the last few years, emphasis was placed on initiating programs involving productivity increases and cost reductions. These programs went beyond normal budgeting restraints. As a result of these rationalization programs, there were consolidations in the number of manufacturing facilities with a corresponding decrease in the number of employees.

Although the decrease in the number of employees was necessary, the Company believes that a spirit of co-operation and communication prevails with our employees and the several union locals at our manufacturing divisions. The frank exchange of ideas and understanding of each other's problems is an excellent example of our ability to work together for mutual benefit.

During the past year, nine contracts were re-negotiated. With the exception of a contract at one of our Plastic Divisions, which involved a work stoppage of less than two weeks, all other contracts were negotiated successfully without any work disruptions.

As of January 1, 1985, Vulcan employed 667 men and women. Of these, 280 employees or 41% have more than ten years of service with the Company, while 104 employees or 15% have more than twenty years service. It is with pride that we recognize in this year's Annual Report the contribution from all our employees to our success.

George O. D'Cruze
Director, Human Resources

Steel Pails and Metal Decorating

The steel pail manufacturing segment of your Company has undergone many changes in the past few years. These changes were necessary due to fluctuations in the marketplace which placed us in the position of maintaining a consistent level of profitability, while producing less product in a declining market.

Prior to the acquisition of Plant National in 1981, we manufactured pails at one location in Toronto, and had warehouses in Montreal, Winnipeg, Calgary and Vancouver which enabled us to offer our products on a national basis. The Calgary warehouse also served as a sub-assembly operation, which allowed us to supply a tight head pail to our western agricultural chemical customers at a price which saved them substantial costs on freight from the east. The success of the Calgary sub-assembly operation prompted us to make similar arrangements through an affiliation in Winnipeg, resulting in the same benefits to clients in that area.

With the 1981 acquisition of Plant National, Vulcan had pail manufacturing centres in both Montreal and Toronto. In the first half of 1982, a decision was made to consolidate pail manufacturing in Toronto and return to warehousing in Montreal. This move was completed in 1983. Consolidation also took place in Alberta where the sub-assembly operation was moved from rented premises in Calgary to our steel drum plant in Edmonton. These two decisions have proven to be beneficial to your Company and contributed significantly to our success in 1984.

The move of the sub-assembly operation from Calgary to Edmonton brought a third operation to our steel drum plant and resulted in more cost-effective use of this facility. While the volume of business in steel pails declined due to competitive packages, the ability to house new steel drums, reconditioning and pails under one roof helped us to offset increased unit costs usually encountered in a declining market. Better labour utilization, and shared overhead, shipping and administrative expenses have resulted in a more efficient operation. The 1984 gross profit in Edmonton increased over 1983 on sales that were slightly below the previous year.

In Toronto, the assimilation of equipment from Montreal continued during 1984 with positive results. Installation of high speed, automatic cover and bottom blanking equipment have improved efficiency and quality in our Toronto steel pail plant. Further improvements have been made in the cover department, specifically in the gasket area, which have benefitted Vulcan and our customers.

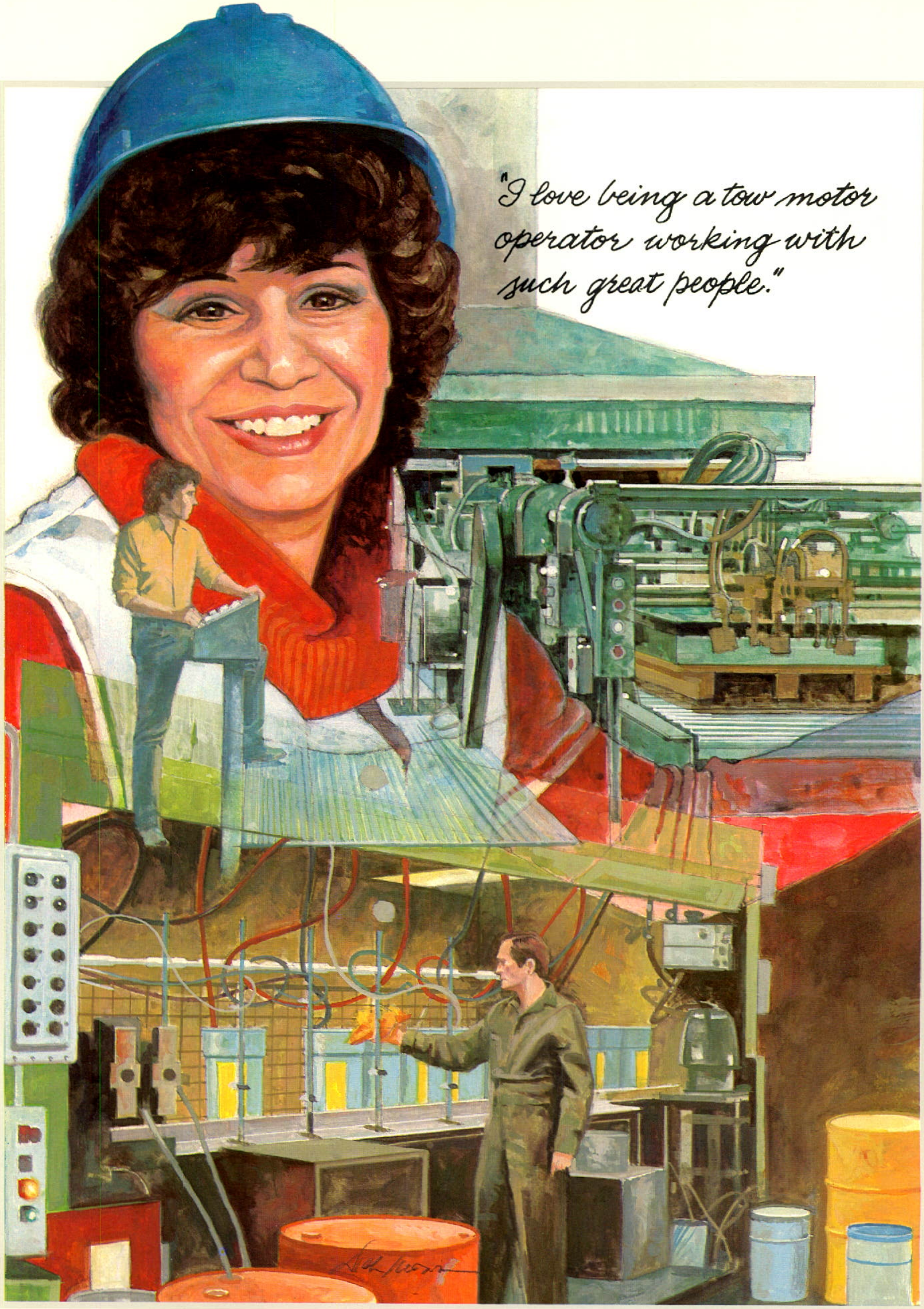
With sales in 1984 being approximately the same as 1983, it was satisfying to see the operating margin contribution from the Steel Pail Division exceed the previous year by approximately 18%.

The Metal Decorating Division experienced a major setback in 1984 when one of our largest customers for coated and printed can sheet stock decided to return to their past practice of procuring a finished can, rather than their recent practice of manufacturing them in-plant. We became aware of the customer's intention late in the first quarter of 1984 and produced the last of their orders by the end of April. While it is never a pleasant experience to lose a customer of any size, we were faced in this case with the major challenge of replacing a client which accounted for a substantial amount of our production time. The result of our sales effort was the replacement of over 50% of the lost volume in less than one year.

In spite of its reduced volume, Metal Decorating continued to be profitable through a cost control program introduced in reaction to the above situation. While potential new sales will continue to be pursued in the 1985 sales program, continuing cost controls will maintain this Division's record of profitability in the future.

The 1984 results in the Steel Pail and Metal Decorating Divisions of your Company were gratifying and were attributable to good planning, resourceful management and excellent employee relations.

K. Ross Quantz
Vice-President,
Steel Container Manufacturing


"I love being a tow motor operator working with such great people."

Plastics

Vulcan's Plastic Divisions, with plants located strategically across Canada, manufacture and distribute a wide variety of polyethylene industrial containers. These products range from 1 gallon through 20 litre vacuum formed poly-insert packages and drum liners, to open head pails ranging in capacity from 4 litres to 25 litres.

The 1984 year was one of conservative growth for plastic product lines overall. Emphasis was placed on projects and programs to improve productivity and reduce operating costs while, at the same time, maintaining or improving product quality.

One such project was the design and construction of a substantial and much needed expansion at our Montreal Division, located in Ville St. Laurent. This building began in the fall of 1984 and was completed in February 1985. The expansion, in addition to providing 13,000 square feet of additional warehousing space, includes new efficient shipping docks, plant offices, and has enabled the operation to move out of rented premises which will reduce operating costs significantly.

The past year also saw the commissioning of $250,000 of investments in new product molds. These molds resulted in our ability to improve productivity of the items involved by 15% or more. These productivity improvements not only reduced unit labour costs but increased the effectiveness of major capital equipment. Our mold replacement program calls for a greatly accelerated program of replacement and new mold acquisitions in 1985 and 1986.

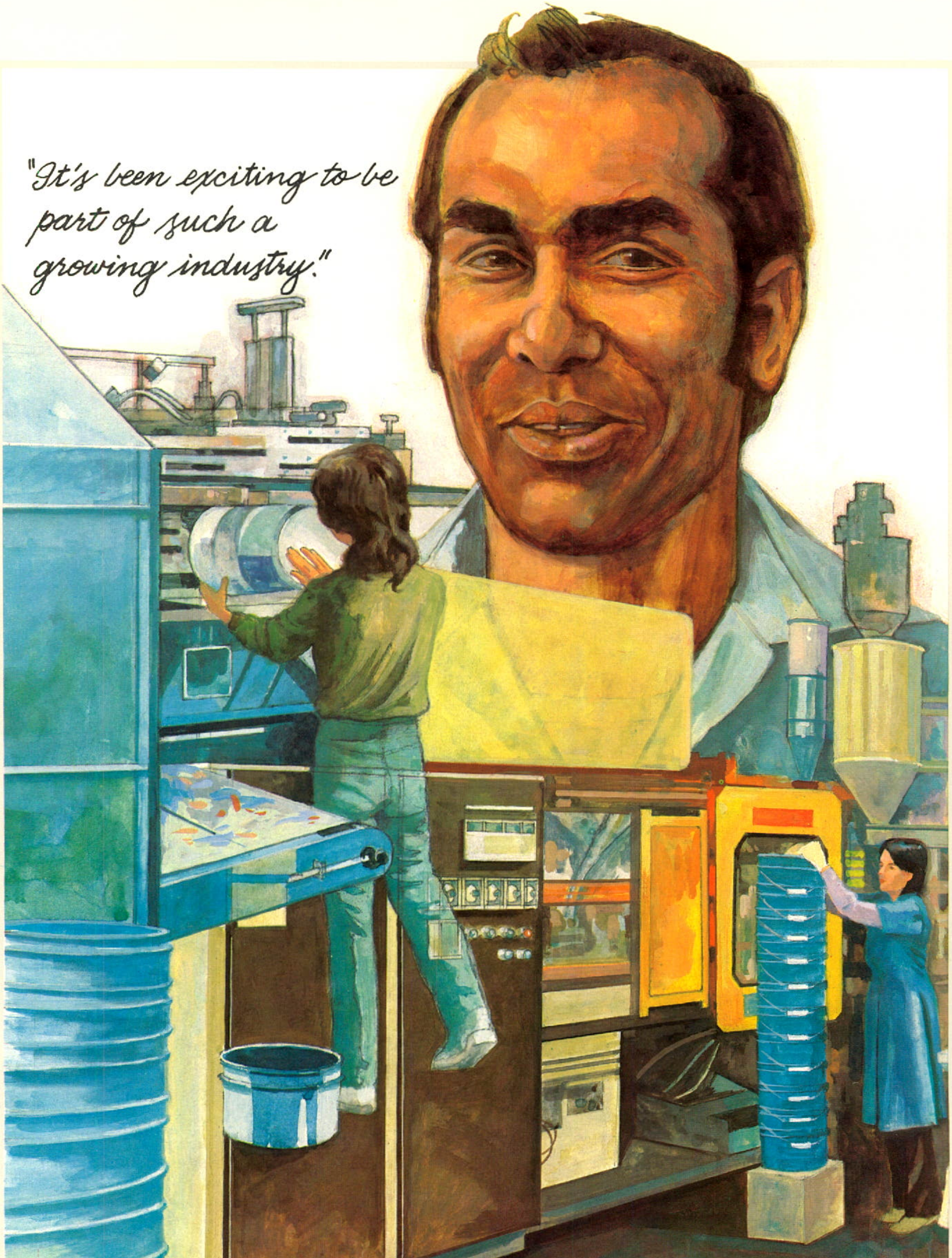
Other highlights of 1984 included:

- the introduction of several improvements in the design of existing products and the introduction of two new cover products;
- substantial investments in state-of-the-art process control improvements and equipment technology.

During the year, considerable time was also devoted to planning, market research, and product and facility design for longer-range plastic projects planned for 1985 and 1986. This includes your Company's entry into the blow molding business as outlined in the Sales and Marketing Report.

Our productivity and product improvement goals are long range. The effects are cumulative, as improvements in 1985 and beyond reinforce and enhance achievements already realized in our facilities during 1984. Concurrent with these improvements are the various ongoing personnel training programs to ensure the availability of the skills which we anticipate will be increasingly in demand as the technology of our manufacturing processes becomes more sophisticated and our equipment more advanced.

Peter G. Kirkis
Vice-President,
Plastics


"It's been exciting to be part of such a growing industry."

Drum Manufacturing and Reconditioning

The 1984 results for the Drum Manufacturing and Reconditioning operations of your Company show great improvement over the previous year. Sales efforts resulted in an increase nationally which combined with effective, resourceful operational management, increased gross profits substantially.

In 1983, our continuing facility rationalization program demonstrated the need to further rationalize our manufacturing facilities in Quebec. Plans were made in 1984 to consolidate the drum manufacturing line with the reconditioning operation in Lachine. The economic benefits expected from this move are reduced overhead through the sharing of utility expenses, property taxes and maintenance, building depreciation and insurance. Shipping expense, receiving, labour utilization and administrative costs will also be affected, resulting in significant savings for both divisions.

The building in Ville St. Pierre that formerly housed both the steel pail and new drum production lines, is now functioning as a warehouse for our steel pail customers in the eastern region, along with a limited stamping operation for steel drums.

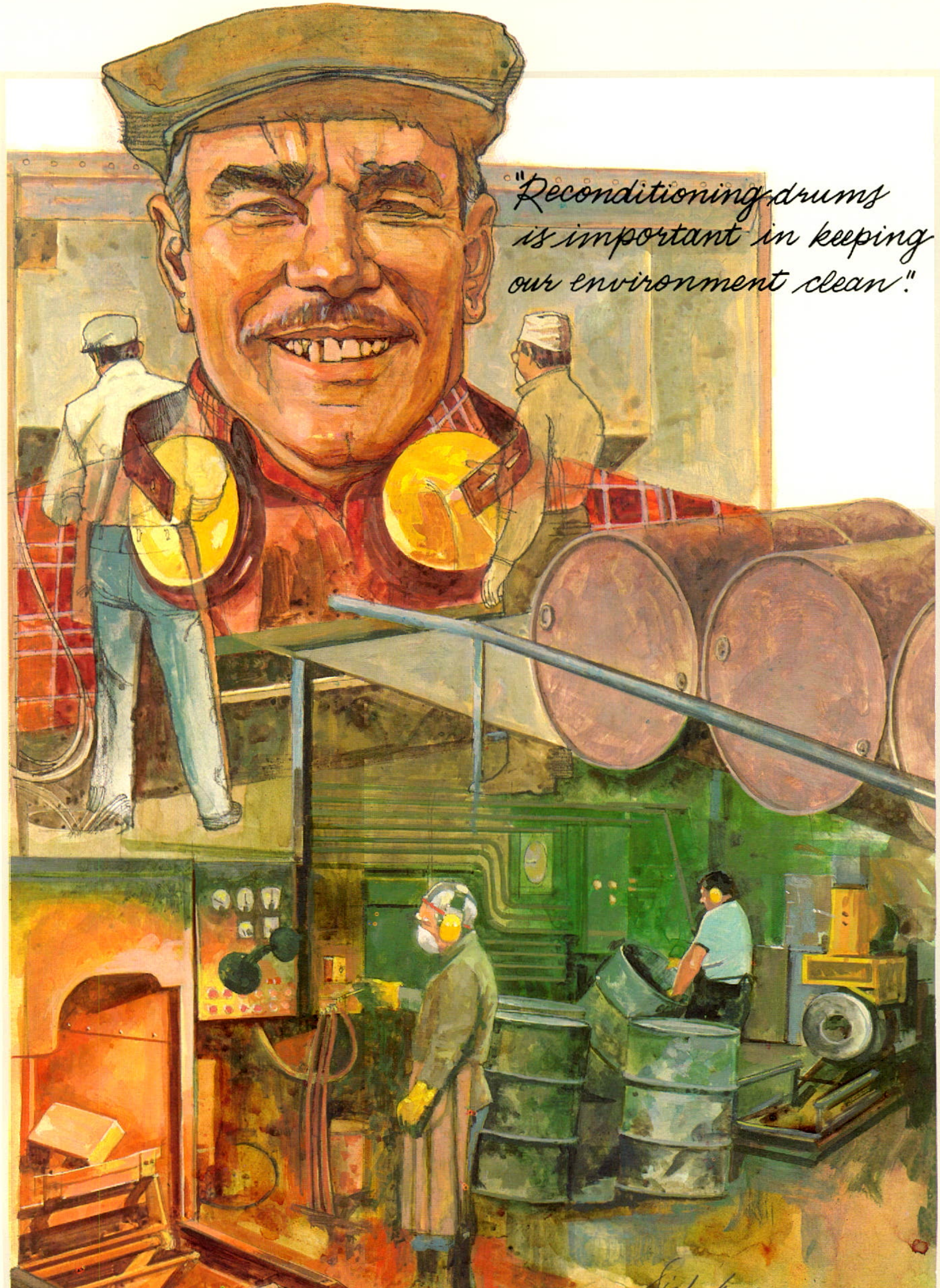
The central region (Ontario) enjoyed a 16% increase in sales which contributed to significantly improved gross profits over 1983. This increase in sales offset unavoidable overhead and labour cost increases.

The bulk of our 1984 capital expenditures were of a replacement nature with respect to machinery and, to a lesser degree, product and profit improvement. In 1985, however, we have budgeted for several items in Ontario that will result in both product and profit improvement. Among these items are a new boiler, open head expander and gas conversion (second stage) at our Toronto Reconditioning plant, and an automatic paint booth in Petrolia. The boiler and natural gas conversion are energy efficiency programs and will reduce costs. The open head drum expander provides better quality for our customers, as well as improving the line speed at this operation. In Petrolia, the paint booth will provide us with more uniform exterior paint application, reduce paint consumption, and increase the line speed.

The successful efforts of the sales force in the western region resulted in a sales increase of 11% over 1983. Due to the effective management program implemented in the "soft years" of 1982 and 1983, our 1984 gross profit for this region also increased significantly over the previous year. The only area of no growth in gross profit was our Regina plant which was unable to offset material and labour increases in its pricing. For 1985, however, we have budgeted cost-effective capital projects at this location, aimed at reducing energy costs and paint consumption. The effect of these programs will contribute to increased earnings in the coming year.

As with Vulcan's other operations, our major resource is people. The improved results at the Drum Manufacturing and Reconditioning Divisions are due to our innovative, conscientious and dedicated employees who contributed to our success in 1984 and who will diligently pursue an even better year in 1985.

K. Ross Quantz
Vice-President,
Steel Container Manufacturing


"Reconditioning drums is important in keeping our environment clean".

Explosafe

Explosafe America Inc. is a joint venture in which Vulcan shares a 50% interest. As noted in this year's Message to Shareholders, Explosafe has been progressing, although not as rapidly as many of our shareholders and your Company initially expected. We are, however, confident that Explosafe is making solid gains, particularly with its redirected marketing efforts.

The EXPLOSAFE™ product is an explosion suppression system which is a practical method of suppressing explosions in containers of volatile liquids and vapours initiated by electrostatic discharge, fire bombing, gunfire, or post-crash ignition. EXPLOSAFE™ is manufactured from passive metallic aluminum foil which is slit, expanded, then layered or rolled to form a mesh of hexagonal openings. The layered batts or rolls can be cut or shaped to fit any fuel tank and displace approximately one percent of the liquid contents. In the event of ignition, the EXPLOSAFE™ system acts as a heat dissipator, modifies flame propagation, and suppresses catastrophic explosions.

EXPLOSAFE™ is unique in many ways. Because the system is passive, installation is permanent, thereby providing for low life-cycle cost. The metallic aluminum foil actually dissipates static electricity and will neither sustain fire nor emit toxic fumes. In either batt or roll form, EXPLOSAFE™ provides significant reduction of fuel slosh in containers, and in some applications, eliminates the need for fuel baffles.

Over the past few years, EXPLOSAFE™ has undergone extensive testing and has been covered by a U.S. Air Force Military Specification with identification in a Qualified Products Listing. Testing continues in other areas including Liquid Propane Gas (LPG) products. We are currently working with a prestigious U.S. university to verify the test results that have been obtained by our licensee, National Gas Tek, with respect to the North American market. Results to date indicate that we may play a major role in providing for the safer storage and use of LPG products.

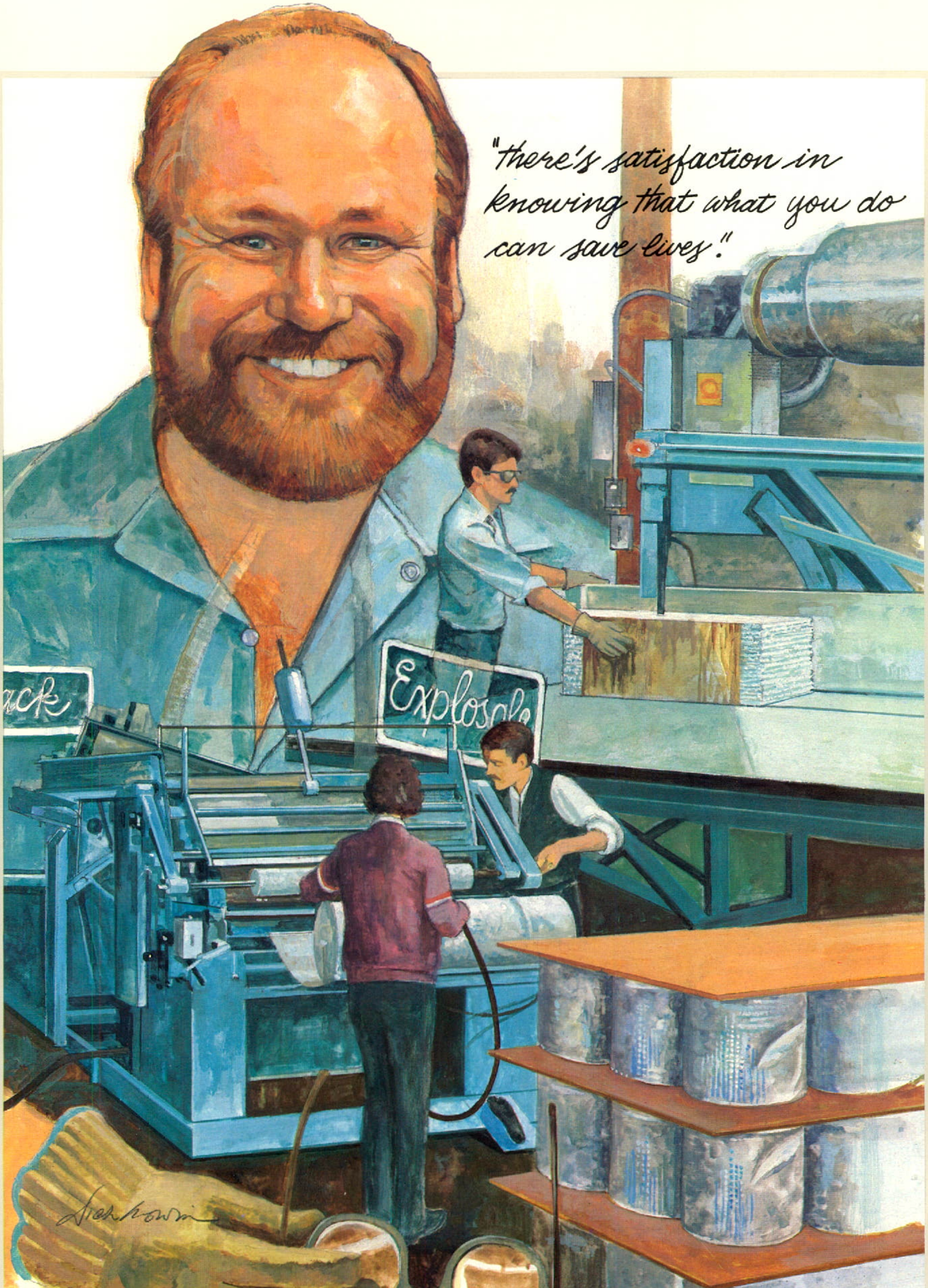
While we will continue to pursue orders from the military market sector, the introduction of a new style EXPLOSAFE™-protected portable gasoline container to the North American market is a major step in our effort to capture more of the consumer market. Future sales efforts will be directed to this area and to enlarging our international role.

Terrorism, for example, is on the increase around the world. Peaceful countries, including our own, realize that the threat is real and are concerned for the safety of their citizens. A fuel tank explosion initiated by terrorist activity could be potentially disastrous, damaging property and destroying countless lives. This concern is particularly evident in countries like South Korea where international events such as the 1986 Asian Games and the 1988 Olympic Games will be held. To this end, we have a South Korean licensing agreement in place and are confident that EXPLOSAFE™ can help protect people and property against such forms of terrorism.

EXPLOSAFE™ has demonstrated its effectiveness through rigorous testing and actual application. We are confident that our new marketing directions will result in the joint venture's future contributions to Vulcan's success.

DH Martin

Douglas H. Martin
General Manager,
Explosafe America Inc.


"there's satisfaction in knowing that what you do can save lives."
ack
Explosafe

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

Consolidated Balance Sheet

December 31, 1984
(amounts in thousands of dollars)

Assets	**1984**	1983
Current assets:		
Accounts receivable	$ 8,063	$ 8,163
Inventories (note 2)	7,256	7,459
Prepaid expenses and deposits	113	127
	15,432	15,749
Fixed assets (note 3)	19,727	21,046
Investment in Explosafe America Inc. (note 4)	20	20
Notes receivable (note 4)	338	
Deferred development costs		28
Goodwill	2,500	2,572
	$38,017	$39,415

PEAT MARWICK

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, 1984 and the consolidated statements of income and retained earnings (deficit) 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, 1984 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 comparative figures for 1983 are based on financial statements which were reported upon by another firm of chartered accountants.

Toronto, Canada
February 28, 1985

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Liabilities and Shareholders' Equity

	1984	1983*
Current liabilities:		
Bank indebtedness (note 5)	$ 2,976	$ 4,188
Accounts payable and accrued expenses	5,251	5,726
Income and other taxes payable (recoverable)	259	(524)
Current portion of long-term debt	1,669	1,461
	10,155	10,851
Long-term debt (note 5)	22,867	24,589
Deferred income taxes	3,477	3,872
Shareholders' equity:		
Capital stock:		
Authorized:		
Unlimited 6% non-cumulative preference shares, redeemable at issued value		
Unlimited common shares		
Issued and outstanding:		
Common shares (note 6)	1,418	1,256
Retained earnings (deficit) (note 11)	100	(1,153)
	1,518	103
	$38,017	$39,415

(See accompanying notes)

*restated – note 11

On behalf of the Board:

Director

Director

Vulcan Industrial Packaging Limited

Consolidated Statement Of Income and Retained Earnings (Deficit)

Year ended December 31, 1984
(amounts in thousands of dollars)

	1984	1983*
Sales	$65,979	$63,362
Operating expenses:		
Cost of sales exclusive of depreciation	47,044	45,620
Depreciation	2,063	2,081
Selling	4,941	5,101
Administrative	4,707	4,760
Total operating expenses	58,755	57,562
Operating income	7,224	5,800
Interest on long-term debt	3,437	3,226
Other interest	361	609
Total interest	3,798	3,835
Income before income taxes, loss in joint venture and extraordinary items	3,426	1,965
Income taxes:		
Current	1,631	182
Deferred	(395)	420
Total income taxes (note 7)	1,236	602
Income before loss in joint venture and extraordinary items	2,190	1,363
Loss in joint venture	860	1,120
Income before extraordinary items	1,330	243
Extraordinary items, as restated (note 11)		3,156
Net income (loss)	1,330	(2,913)
Retained earnings (deficit), beginning of year as restated (note 11)	(1,153)	1,912
	177	(1,001)
Dividends	77	152
Retained earnings (deficit), end of year	$ 100	$ (1,153)
Earnings per share:		
Income before extraordinary items	$ 0.17	$ 0.03
Net income (loss)	$ 0.17	$ (0.38)

(See accompanying notes)

*restated – note 11

Vulcan Industrial Packaging Limited

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1984
(amounts in thousands of dollars)

	1984	1983*
Working capital derived from:		
Operations:		
Income before extraordinary items	$1,330	$ 243
Items not involving working capital:		
Depreciation	2,063	2,081
Amortization of deferred development costs and goodwill	100	239
Loss on disposal of fixed assets		10
Deferred income taxes	(395)	420
Funds from operations	3,098	2,993
Proceeds from issue of share capital	162	
Proceeds from disposal of investments		275
Proceeds from disposal of fixed assets	275	58
Reduction of income taxes – effect on working capital (note 11)		1,900
	3,535	5,226
Working capital applied to:		
Additions to fixed assets	1,019	850
Reduction in non-current portion of long-term debt	1,722	1,462
Notes receivable from joint venture	338	
Dividends	77	152
Extraordinary item – effect on working capital		300
	3,156	2,764
Increase in working capital position	379	2,462
Working capital, beginning of year	4,898	2,436
Working capital, end of year	$5,277	$4,898
Changes in components of working capital:		
Increase (decrease) in accounts receivable	$ (100)	$ 157
Decrease in inventories	(203)	(11)
Increase (decrease) in prepaid expenses and deposits	(14)	27
Decrease in bank indebtedness	1,212	32
Decrease in accounts payable and accrued expenses	475	546
(Increase) decrease in income taxes payable	(783)	2,383
Increase in current portion of long-term debt	(208)	(672)
	$ 379	$2,462

(See accompanying notes)

*restated – note 11

Vulcan Industrial Packaging Limited

Notes to Consolidated Financial Statements

December 31, 1984
(tabular dollar amounts in thousands)

1. Summary of significant accounting policies

(a) Principles of consolidation:

The accounts of the Company are consolidated with a wholly-owned inactive subsidiary.

(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 valued at cost less accumulated depreciation. Interest expense incurred prior to completion of major capital projects is capitalized in fixed assets. Depreciation is calculated using the straight-line method, based on the following estimated economic lives:

Buildings	20 years
Machinery, equipment and automotive equipment	3 to 17 years

(d) Financial assistance from government and others:

During the course of certain development programs 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) Pensions:

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

(f) 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 businesses acquired at the date of acquisition. Amortization is calculated using the straight-line method over forty years.

(g) Investment tax credits:

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

2. Inventories

At December 31, inventories consisted of:

	1984	1983
Raw materials and work in process	**$ 4,898**	$ 5,268
Finished goods	**2,358**	2,191
	$ 7,256	$ 7,459

3. Fixed assets

At December 31, fixed assets consisted of:

	1984			1983
	Cost	Accumulated depreciation	Net	Net
Land	**$ 4,752**	**$**	**$ 4,752**	$ 4,805
Buildings	**10,411**	**3,465**	**6,946**	6,918
Machinery, equipment and automotive equipment	**25,445**	**17,416**	**8,029**	9,323
	$40,608	**$20,881**	**$19,727**	$21,046

4. Investment in and notes receivable from corporate joint venture

The Company has a 50% interest in a corporate joint venture, Explosafe America Inc., which is engaged in the development, manufacture and licensing of Explosafe products. This investment is recorded at cost.

In March 1984, the Company and its joint venture partner entered into an agreement which clarified and replaced former agreements governing the joint venture operations. The Company was released from significant obligations which existed under the former agreements and agreed to a liability to its joint venture partner approximating $300,000 which was accrued at December 31, 1983. In May 1984, this liability was satisfied in full by the payment of $100,000 cash and the issuance from treasury of 60,000 common shares.

In accordance with the March 1984 agreement, the Company sold certain assets to the joint venture for $451,000. The Company accepted promissory notes from the joint venture, secured by a first charge on those assets, payable in annual instalments of $113,000 through to March 1988. The current portion of these notes is included in accounts receivable.

During the year, the Company loaned $170,000 to the joint venture for the purchase of production equipment to be sold to a foreign licensee. The joint venture issued a promissory note to the Company, secured by a first charge on the equipment, payable on sale of the equipment. The promissory note is included in accounts receivable.

Because the joint venture sustained losses in 1984, unsecured advances of $860,000 in 1984 have been reflected as "Loss in joint venture" in the consolidated income statement.

The Company is contingently liable for its guarantee of a $250,000 bank loan of the corporate joint venture.

5. Long-term debt and bank indebtedness

At December 31, long-term debt consisted of:

	1984	1983
Mortgage at an interest rate of 8 3/4% maturing in April 1992	$ 338	$ 370
Term loan with interest rate of 14 1/4% maturing in December 1989	4,048	4,241
Term bank loans at an interest rate of prime plus 1 1/4% maturing in April 1985 and October 1992	1,130	1,365
Term bank loan at an interest rate of prime plus 1 3/8% maturing in November 1987	18,145	18,500
Promissory note with an interest rate of 12% maturing in October 1986	875	1,025
Equipment obligations which matured in July 1984		83
Sinking fund bonds and mortgage with interest rates ranging between 6 1/2% and 11 5/8% which matured between June and August 1984		466
	24,536	26,050
Less portion due within one year included in current liabilities	1,669	1,461
	$22,867	$24,589

Additional information on long-term debt and bank indebtedness:

(a) Accounts receivable, inventories, fixed assets and a floating charge on all other assets and undertakings of the Company have been pledged as collateral security for the mortgage, loans, and bank indebtedness. Bank letters of credit have been pledged as collateral security in the amount of $975,000 for the promissory note. The assets pledged as collateral are subject to priority agreements between the Company and its lenders.

(b) Under the terms and conditions of its arrangements with its lenders, the Company has agreed to certain restrictive covenants including the use of working capital and funds from operations, minimum working capital and equity requirements, the payment of dividends and the use of funds derived through the issue of capital stock.

(c) The Company's bank indebtedness of $2,976,000 is drawn under an operating line of credit with a maximum of $10,000,000 and bears an interest rate of prime plus 1/4%.

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

1985	$ 1,669
1986	2,797
1987	16,178
1988	437
1989	2,919
1990 and subsequent	536
	$24,536

6. Capital stock

The number of common shares outstanding during 1983 was 7,599,726 with an issue value of $1,256,000. In 1984, the Company issued to its joint venture partner, 60,000 shares with an issue value of $162,000 (see note 4). Therefore, on December 31, 1984 there were 7,659,726 common shares outstanding with an issue value of $1,418,000.

7. Income taxes

The total income tax expense in 1984 amounted to $1,236,000 (an effective rate of 36%), a total less than the "expected" amount of $1,679,000 computed by applying the combined federal and provincial income tax rate of 49% to income of $3,426,000 before income taxes, loss in joint venture and extraordinary items. The reasons for this difference are as follows:

	Amount	%
Computed "expected" income tax expense	$1,679	49
Inventory allowance	(109)	(3)
Manufacturing and processing profits deduction	(209)	(6)
Investment tax credits	(200)	(6)
Other	75	2
Actual income tax expense	$1,236	36

8. Pension plan

Based on the most recent independent actuarial valuation of the pension plan, the net present value of unamortized past service costs was approximately $225,000 as at December 31, 1984 (1983 – $138,600). Past service costs will be liquidated by annual employer contributions up to December 31, 1998.

9. Lease commitments

Future minimum rental commitments for all non-cancellable operating leases as at December 31, 1984 are as follows:

1985	$326
1986	201
1987	34
1988 and subsequent	4

10. Segmented information

The dominant segment of the Company's business involves the manufacture, reconditioning and sale of industrial containers.

11. Prior period adjustment

In 1983, the Company wrote off the following amounts as extraordinary items:

– deferred development and other costs related to the Explosafe product	$4,824
– loss on disposal of investments	232
Total extraordinary loss in 1983	$5,056

In February 1985, the Company concluded discussions with taxation authorities as to the deductibility of Explosafe development costs resulting in a reduction of income taxes of $1,900,000. The 1983 financial statements have been restated to give retroactive effect to the tax reduction as follows:

	As restated	As originally stated
Extraordinary loss	$3,156	$5,056
Deficit at December 31, 1983	$1,153	$3,053
Income and other taxes payable (recoverable)	$ (524)	$1,376
Reduction in income taxes – effect on working capital	$1,900	—

The net loss per share for 1983 has been restated as $0.38 from $0.63.

Consolidated Financial Summary

(amounts in thousands of dollars)

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Operations										
Sales	$65,979	$63,362	$64,344	$41,917	$26,667	$23,737	$18,574	$16,292	$14,192	$12,801
Income (loss) before loss from joint venture operations and extraordinary items	$ 2,190	$ 1,363	$ (475)	$ 959	$ 1,258	$ 1,250	$ 1,125	$ 849	$ 819	$ 861
Loss from joint venture operations	860	1,120								
Extraordinary items and other*		3,156		227			4,800	337		
Net income (loss)	$ 1,330	$ (2,913)	$ (475)	$ 732	$ 1,258	$ 1,250	$ (3,675)	$ 512	$ 819	$ 861
Financial Positions										
Working capital	$ 5,277	$ 4,898	$ 2,436	$ 3,318	$ 1,893	$ 1,576	$ (514)	$ 2,140	$ 2,730	$ 2,130
Fixed assets	19,727	21,046	22,353	22,126	5,295	4,442	3,430	3,548	3,719	3,665
Other assets	2,858	2,620	7,882	7,215	3,083	2,290	1,370	2,833	366	491
	27,862	28,564	32,671	32,659	10,271	8,308	4,286	8,521	6,815	6,286
Long-term debt	22,867	24,589	26,051	24,239	5,087	4,569	1,801	2,194	1,150	1,328
Deferred income taxes	3,477	3,872	3,452	4,473	1,681	1,257	1,017	948	1,060	953
	26,344	28,461	29,503	28,712	6,768	5,826	2,818	3,142	2,210	2,281
Shareholders' equity	$ 1,518	$ 103	$ 3,168	$ 3,947	$ 3,503	$ 2,482	$ 1,468	$ 5,379	$ 4,605	$ 4,005
Changes in Financial Positions										
Income (loss) from continuing operations	$ 1,330	$ 243	$ (475)	$ 959	$ 1,258	$ 1,250	$ 1,125	$ 849	$ 819	$ 861
Depreciation	2,063	2,081	2,060	1,197	606	510	480	464	429	394
Deferred income taxes (reduction)	(395)	420	(1,021)	(11)	424	240	69	(112)	108	144
Other	100	249	117	52	58	48	37	32	12	7
Funds from operations	3,098	2,993	681	2,197	2,346	2,048	1,711	1,233	1,368	1,406
Increase in long-term debt			3,063	16,500	650	2,875	82	1,154	50	
Government assistance			152	13	95	18	113	153	376	
Other	437	2,233	269	92	22	15	19	116	11	20
	3,535	5,226	4,165	18,802	3,113	4,956	1,925	2,656	1,805	1,426
Investment in subsidiary				13,073						
Capital expenditures	1,019	850	2,556	1,310	1,485	1,533	378	468	492	457
Long-term debt reduction	1,722	1,462	1,251	989	132	107	475	110	228	309
Dividends	77	152	304	288	236	236	236	234	220	203
Other	338	300	936	1,717	943	990	3,490	2,434	265	467
	3,156	2,764	5,047	17,377	2,796	2,866	4,579	3,246	1,205	1,436
Increase (decrease) in working capital	$ 379	$ 2,462	$ (882)	$ 1,425	$ 317	$ 2,090	$ (2,654)	$ (590)	$ 600	$ (10)
Per Share										
Income (loss) before loss from joint venture operations and extraordinary items	$ 0.29	$ 0.18	$ (0.06)	$ 0.13	$ 0.17	$ 0.16	$ 0.15	$ 0.11	$ 0.11	$ 0.12
Income (loss) before extraordinary items and other*	0.17	0.03	(0.06)	0.13	0.17	0.16	0.15	0.11	0.11	0.12
Net income (loss)	0.17	(0.38)	(0.06)	0.10	0.17	0.16	(0.48)	0.07	0.11	0.12
Dividends	0.01	0.02	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03
Shareholders' equity	0.20	0.01	0.42	0.52	0.46	0.33	0.19	0.71	0.63	0.55

*Including loss from discontinued operations 1978 – $1,950 ($0.26 per share); 1977 – $275 ($0.03 per share)

Operating Facilities

Container Group

Drum Reconditioning

Toronto Drum
Reconditioning Division
337 John Street,
Thornhill, Ontario
L3T 5W5

Winnipeg Drum
Reconditioning Division
328 Dawson Road North,
Winnipeg, Manitoba
R2J 0S7

Regina Drum
Reconditioning Division
125 Dewdney Avenue East,
Regina, Saskatchewan
S4N 4G3

Steel Drum Manufacturing and Reconditioning

Montreal Steel
Container Division
1800-46th Avenue,
Lachine, Quebec
H8T 2P2

Petrolia Steel
Container Division
260 Centre Street,
Petrolia, Ontario
N0N 1R0

Edmonton Steel
Container Division
1912 - 66th Avenue,
Edmonton, Alberta
T6C 4G5

Steel Pail Manufacturing

Toronto Steel
Container Division
15 Bethridge Road,
Rexdale, Ontario
M9W 1M6

Injection Molding of Plastic Pails

Montreal Plastics Division
145 Graveline Street,
Ville St. Laurent, Quebec
H4T 1R3

Toronto Plastics Division
230 New Toronto Street,
Toronto, Ontario
M8V 2E8

Edmonton Plastics Division
35 Calder Place,
St. Albert, Alberta
T8N 3W2

Metal Lithography Division

Metal Decorating
Lithographers
44 Bethridge Road,
Rexdale, Ontario
M9W 1N1

Steel Pail Warehouse and Stamping Operation

23 Du Moulin Street,
Ville St. Pierre, Quebec
H8R 1N5

Sales and Warehouse

Unit 206
7400 McPherson Avenue,
Burnaby, B.C.
V6J 5B6

Explosafe

Explosafe America Inc.

230 New Toronto Street,
Toronto, Ontario
M8V 2E8

Licensees

Explosafe Italia
c/o Castelmac Spa,
31033 Castel-Franco,
Veneto, Italy

Moxham Industrial Pty. Ltd.
122 - 126 Gladstone Street,
South Melbourne,
Victoria 3205, Australia

Jeonghan & Explosafe Inc.
Bowon Building, 8th Floor,
649-14, Yeok, Sam-Dong,
Kang Nam-Ku,
Seoul, Korea

National Gas Tek
1007 North Ellsworth,
Villa Park, Illinois
U.S.A. 60181

Agents

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Inc.
15 Wellington Street West,
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Toronto, Ontario M5J 1G7
Territories: People's Republic
of China, Hong Kong and
Macao

Crinco Limited
265 Markland Drive,
Suite 707
Etobicoke, Ontario M9C 1R5
Territories: Peru and
Venezuela

HRH Prince Mohamad Bin
Naif Bin Abdul Aziz and
Adeeb Hassan Qutub
P.O. Box 2167, Sitteen Street,
Makkah, Kingdom of Saudi
Arabia
Territories: Kingdom of Saudi
Arabia, Iraq, Kuwait, Jordan,
North and South Yemen,
Bahrain, United Arab
Emirates, Egypt and Oman

Corporate Information

Board of Directors

Albert J. Cavan, Q.C.*†
Chairman & Chief Executive Officer
Vulcan Industrial Packaging Limited,
Toronto, Ontario

Philip C. Garratt
President
Zovaron Ltd.,
Toronto, Ontario

Norman G. Bernecker
Director and a Past President of Vulcan Industrial Packaging Limited,
Toronto, Ontario

Arthur G. Simpson*†
President
A.G. Simpson Company Ltd.,
Toronto, Ontario

Wayne A. LeBlang†
Senior Regional Vice-President
Integrated Marketing Inc.,
Lincolnshire, Illinois

Alex C. Telfer*
President & Chief Operating Officer
Vulcan Industrial Packaging Limited,
Toronto, Ontario

William J. Moffat, B.A.Sc., C.A.*
Senior Vice-President, Finance & Secretary Treasurer
Vulcan Industrial Packaging Limited,
Toronto, Ontario

* Executive Committee
†Audit Committee

Officers

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

Alex C. Telfer
President & Chief Operating Officer

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

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

K. Ross Quantz
Vice-President, Steel Container Manufacturing

Ralph G. McNiff
Vice-President, Sales

George O. D'Cruze
Director, Human Resources

Robert Scott-Reid, C.G.A.
Assistant Secretary Treasurer

G. Ross Clark, B.A., C.A.
Corporate Controller

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 Thursday, May 30, 1985. 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

Peat, Marwick, Mitchell & Co.
Toronto, Ontario

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