VULCAN

INDUSTRIAL • PACKAGING • LIMITED

Annual Report 85

Vulcan Industrial Packaging Limited is a manufacturer and distributor of plastic and steel shipping containers and a supplier of reconditioning and metal decorating services to packagers in a broad range of markets throughout Canada. Through joint ventures, Vulcan also has interests in plastic consumer packaging and in EXPLOSAFE™, an explosion-suppression system. Vulcan is a leader in its industry by providing a high level of quality and service to its markets for a wide variety of products.

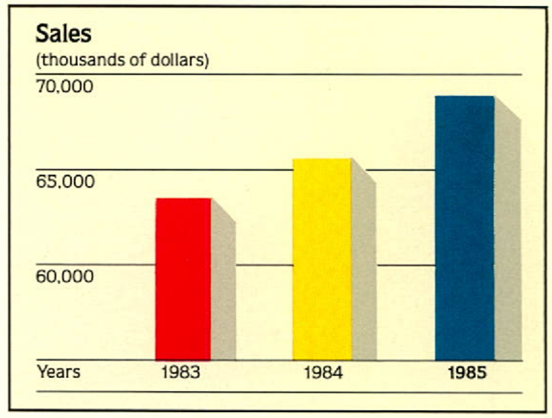
As a public Company, we seek to provide an acceptable rate of return on assets to our shareholders. To that end, we are interested in constantly improving the financial position of the Company to foster growth within the sphere of our expertise in packaging.

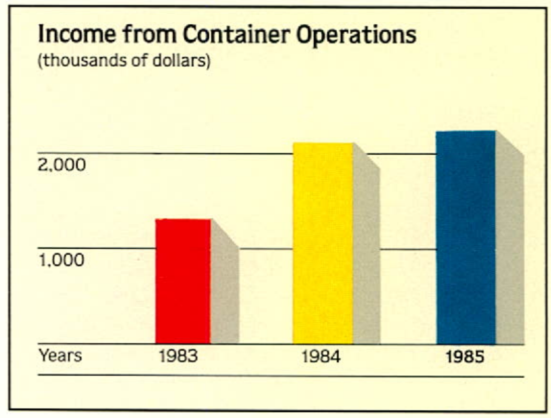
Vulcan recognizes its obligation to all its employees by striving to provide a working environment that assures security, job satisfaction, participation and creativity.

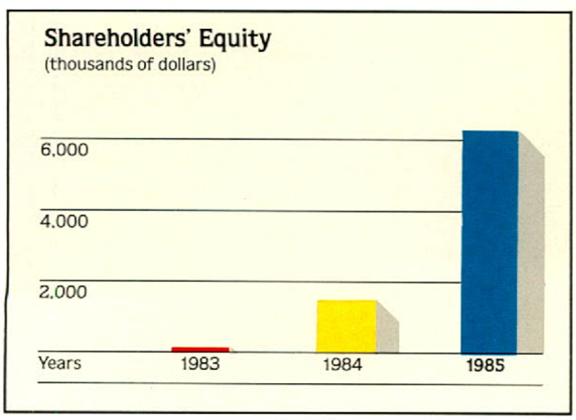
Contents

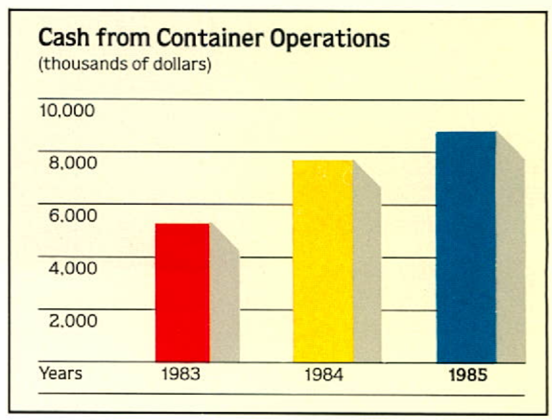
Financial Highlights

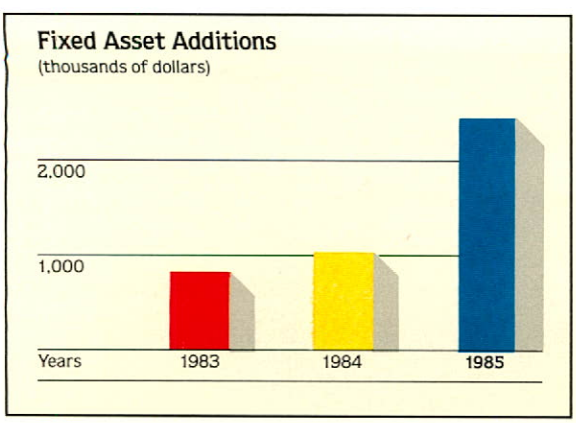
	1985	1984	% Change
Sales	**68,562**	65,979	+ 4
Net Income	**1,966**	1,330	+ 48
Cash from Container Operations	**8,956**	7,804	+ 15
Shareholders' Equity	**6,236**	1,518	+ 311
Reduction of Long-Term Debt	**3,669**	1,514	+ 142
Fixed Asset Additions	**2,428**	1,019	+ 138
Per Share Information:			
Earnings	**$ 0.26**	$ 0.17	
Cash from Container Operations	**$ 1.17**	$ 1.02	

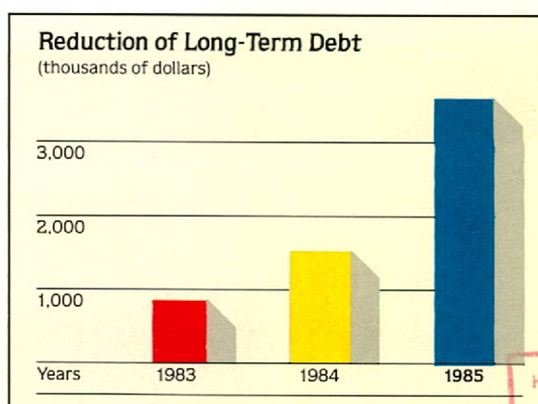












MAR 27 1986
McGILL UNIVERSITY

Message to Shareholders

Vulcan's net income of 26 cents per share in 1985 is the highest in your Company's history and has been achieved despite the continuing evolution of the industrial container market. This product evolution has produced an environment of price and market share competition which has exacted a toll on your Company's operating income. However, a decrease in long-term debt, decreases in interest rates, and your Company's vigorous attention to costs in the Explosafe America Inc. joint venture, have resulted in the 48% increase in net income during 1985.

Today's Vulcan is a significantly different company from what it was at the beginning of the 1981-82 recession. Your Company's asset size and product lines have dramatically increased and its emphasis has moved from steel to plastic operations. In concert with this new strategic direction, we have strengthened our sales organization and formed a Marketing Development Department to ensure the continued introduction of new packages addressed to future market needs.

Financial Results

For the year ended December 31, 1985, net income was $1,966,000 or 26 cents per share compared to $1,330,000 or 17 cents per share in 1984. Revenue totalled $68,562,000, up from $65,979,000 the year before and cash generated from operating activities increased to $8,956,000 ($1.17 per share) from $7,804,000 ($1.02 per share) in 1984. Shareholders' equity at December 31, 1985 increased to $6,236,000 from $1,518,000 in 1984.

Your Company continued its policy of improving its financial structure through the allocation of cash from operations to repay long-term debt and investing in modern operating assets, particularly in its plastics operations. Long-term debt in 1985 was significantly decreased by $3,669,000 or 15%, while financing capital expenditures of $2,428,000. Vulcan's balance sheet has been strengthened because of this lower debt and reduced operating and overhead expenses realized through the consolidation of operating facilities, a program of rationalization first embarked upon in 1982.

Significant Developments

In keeping with your Company's long-term growth objectives in 1985, we made significant strides in a program of expanding our plastics business.

Through the introduction of state-of-the-art blow molding equipment in the Edmonton plastics plant, Vulcan entered the Canadian industrial plastic bottle market in 1985. This will not only enable us to recapture volume lost to plastic bottles in past years by our steel pail plant, but also result in participation in new markets.

To complement the product line of standard polyethelene bottles produced in this new operation, your Company also acquired patented technology through a licensing agreement with E. I. Du Pont de Nemours of Wilmington, Delaware, for their Selar® barrier resin system. The market for industrial plastic bottles includes the packaging of a large volume of hydrocarbon-based solvent products. Standard plastic bottles do not provide an adequate barrier against hydrocarbon permeation since hydrocarbons will increasingly migrate through a poor barrier over time resulting in product weight loss. The Vulcan treated bottles employing the Selar® barrier system most successfully address this problem.

Another development of major importance in 1985 was the formation of a new Canadian joint venture, Vulsay Industries Inc. ("Vulsay"), owned equally by your Company and S.A.Y. Industries, Inc. ("S.A.Y."), of Leominster, Massachusetts. Vulsay will operate with an irrevocable fully paid-up licence to exclusively use within Canada the patents, trade marks, designs and copyrights covering S.A.Y. products. Their most recent package, the S.A.Y. "Elephant Trunk"™ bottle has revolutionized the consumer packaging industry in the United States and gained wide acceptance from consumers because of its unique features.

Vulsay will offer the Canadian market a total packaging service that not only entails the manufacturing of bottles but also filling them with product, and capping, labelling and cartoning them in contemporary packaging. To this end, in early 1986 Vulsay purchased all the outstanding shares of Forsythe-Liquiflo Limited of Concord, Ontario for cash consideration of $1,000,000 and common shares worth $1,500,000 shared equally by the partners.

The attraction of Forsythe-Liquiflo as an acquisition by Vulsay was based on their products and services which include petroleum products and chemicals, and their custom filling service. The Forsythe-Liquiflo acquisition benefits the joint venture through an established customer base, similar product lines and expertise in the bottle filling business.

The formation of Vulsay and subsequent acquisition of Forsythe-Liquiflo are the first steps in meeting several of your Company's strategic goals:

- expansion of sales in the plastics market;
- increased profit margins through packaging differentials and proprietary products;
- increased profit margins through value-added service.

The above developments herald an exciting new direction for your Company as we expand our plastics business in both the industrial and consumer markets.

Explosafe America Inc.

With respect to Explosafe America Inc., in which your Company has a 50% joint venture interest, considerable progress has been made in introducing the new portable gas can into the United States market.

A network of sales agents is being established and we anticipate product availability for the spring market. Through the supply of EXPLOSAFE™ foil for this new line of portable gas cans, we believe that cash flow will further improve in the joint venture in 1986. This European style gas can, manufactured and marketed by our British licensee, continues to increase its sales in other international markets.

We also expect to supply a complete line of machinery to our Korean licensee in the second quarter of this year. When this has been completed, it should materially expand our presence in the Asian market.

Operating Philosophy

In 1981, your Company formed a Committee of the Board of Directors to establish the structure under which Vulcan would operate. The organizational structure adopted encourages initiative and flexibility in our individual operations and enables Vulcan to utilize the wealth of experience and knowledge of its management team.

The Corporate office executives are responsible for major investment decisions, including operating policy and financial criteria. At the operating facility level, plant management sets its priorities within the total corporate perspective and justifies capital additions and operating tactics in relation to individual markets.

This philosophy and organizational structure will continue to be a very important factor in the growth of your Company.

Outlook

The Company is encouraged by the Canadian economic outlook, predicated on continuing low inflation, growth and stabilizing interest rates. This national forecast should create the environment necessary for a continuation into 1986 of Vulcan's banner 1985 year.

Albert J. Cavan (left) and Alex C. Telfer

Vulcan will continue to dedicate its capital expenditures and marketing efforts towards its plastics operations, the growth area in Canadian packaging. At no time has your Company's future appeared more promising and our move into consumer packaging will offer greater protection from future recessions.

Acknowledgements

The Company is fortunate to have attracted and retained an exceptional labour force and management team, along with an experienced and active Board of Directors. Our reputation in providing quality and innovative packaging is due to their knowledge, dedication and creativity. We would like to express our deep appreciation for their commitment and accomplishments during the past year. We also wish to thank our shareholders, customers and business associates for their continued support in 1985.

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

Alex C. Telfer
President and Chief Operating Officer

Plastics Division

Growth and meeting the challenge of a changing marketplace are not new to Vulcan's Plastics Division. In each year since your Company entered the plastic packaging business in 1981, sales volume and productivity have increased, with 1985 being the best year yet.

The competitive climate in which we operate has intensified during the past year, however, a favourable economy and a concerted sales effort resulted in increased output and sales. Your Company initiated several new productivity programs in 1985 and anticipates further improvements through the coming year.

In Montreal, our enlarged facility and the addition of new decorating equipment, molds and process controls, together with improved materials flow, resulted in substantial cost reductions. Sales dollar volume at this operation increased 13% over 1984 and with the addition of more equipment, we anticipate additional growth in 1986.

Our Toronto location operated at near capacity in 1985 with the expectation of further growth in 1986 from increased export sales to the United States for new and existing product lines. Our 1986 plan calls for major heavy equipment additions in both our Toronto and Montreal facilities, in addition to investments in new product design and tooling.

The Edmonton plant was involved in the acquisition and installation of new blow molding equipment early in 1985. This equipment includes the most technologically advanced machinery installed in Canada to date and is capable of producing two

million ten-litre bottles annually. These new installations will produce industrial size blow molded plastic bottles utilizing Selar®, a unique barrier resin system, as well as standard untreated bottles. Vulcan signed an agreement, the first such in Canada, with E.I. Du Pont de Nemours & Company for this patented Selar® barrier resin and related process technology in April 1985.

Du Pont's Selar® barrier resin is a modified nylon material which is processed with polyethelene resin to produce an effective barrier for the packaging of hydrocarbon solvent-based products. The Selar® system protects against the permeation which occurs when these chemicals are stored in standard plastic bottles and, although other barrier bottles are available in the market, your Company's tests indicate that the Selar® system is superior. Vulcan was also the first company to offer the protection of a barrier system through the Selar® process to industrial containers up to twelve litres in size. The agreement with Du Pont covers a complete family of Selar® barrier resins providing an opportunity to address other markets in the future.

Vulcan has quickly moved to the forefront of the plastic container industry by responding to consumer needs and by producing quality products at competitive prices. Our progress over the past five years has not been accidental but rather the result of hard work and planning. This is the foundation on which Vulcan will expand our Plastics Division into new product lines and activities.

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

Steel Division

The Steel Division of your Company, comprising Steel Pail Manufacturing, Metal Decorating, and Steel Drum Manufacturing and Reconditioning, continued its quest to reduce costs and improve quality in 1985. Our year end results indicate success in both areas.

When the Montreal and Toronto steel pail plants were consolidated into one Ontario location in 1983, the result was a more efficient operation with reduced overhead and administrative costs. Part two of our rationalization program for the Montreal facility was completed in 1985 when the steel drum manufacturing line was relocated to the Lachine reconditioning plant which was enlarged by a modest 2,500 square feet. This move enabled us to share the overhead, shipping and administrative costs for one facility over two product lines and will result in additional savings in the future.

The relocation of the steel drum manufacturing line also enabled us to utilize the Montreal premises as a warehouse to service the Quebec market. This will assist our sales force in their efforts to achieve greater market share by enabling them to more speedily meet customer demands. The facility is also more cost-efficient since your Company previously occupied leased warehouse space in Montreal.

Capital expenditures in 1985 were largely of a replacement nature. The Toronto reconditioning plant purchased additional equipment to improve quality, increase line speeds and conserve energy. In Petrolia, automatic paint equipment and plastic drum reconditioning equipment were installed. The automatic paint system will reduce coating consumptions by as much as 20% per drum, and provide better manpower utilization. The plastic drum recondi-

tioning line is the first of its kind in the industry and will enable us to participate in the expanding plastic drum market by reconditioning drums for both new and existing customers.

In addition to these cost-effective moves, in 1985 your Company introduced the Christina Collection and co-ordinates to the Canadian consumer market. Consisting of four-piece nested canister sets and candy, cake, pasta and utility containers, the Christina Collection is complemented by a line of decorator cake containers in winter and Christmas scenes. We are also producing custom-designed items such as waste paper baskets, charcoal saver cans and metal trays, all of which are manufactured on existing lines previously used only for industrial containers. These new consumer products will broaden your Company's sales base while utilizing existing assets at both our Steel Pail and Metal Decorating plants, the latter providing the printing services for these decorated containers.

With the latest cost-saving consolidations and new product introductions, 1985 was rewarding for Vulcan's Steel Division. In the coming year, we shall continue to emphasize our quality control programs to maintain our competitive edge. In this regard, a Statistical Process Control Program will be implemented at our Petrolia reconditioning plant and we plan to subsequently introduce this program to all of our plants. These innovations provide further proof of Vulcan's commitment to maintaining its position of market leadership.

K. Ross Quantz
Vice-President, Steel Division

VULSAY

In December 1985, Vulcan embarked on a new path when it formed the joint venture Vulsay Industries Inc. with S.A.Y. Industries, Inc. of Leominster, Massachusetts.

S.A.Y. Industries pioneered the "Elephant Trunk"™ bottle which features a unique flexible nozzle for ease of pouring, and the "Funnel Top" bottle, both of which have gained wide consumer acceptance in the United States for petroleum products and chemicals. The Vulsay joint venture will not only manufacture both packages, but will also provide customers with a "total packaging service" including the manufacturing, filling, capping, labelling and cartoning of products in contemporary-designed blow molded consumer plastic bottles.

To assist in the immediate penetration of the Canadian market, Vulsay entered into an agreement in early 1986 to acquire Forsythe-Liquiflo Limited of Concord, Ontario. Forsythe-Liquiflo already has an established customer base including mass merchandisers and chemical and oil companies. The sale of "Elephant Trunk"™ bottles will initially be directed to these customers.

Forsythe-Liquiflo's annual sales approximate $15,000,000 through its two divisions: Flo-Pak and Liquid Packaging. The Flo-Pak division packages products under the company's own trade names, Flo-Perm, Mosport, Warm'n'Cosy, and various private labels, while Liquid Packaging provides a custom filling service. Forsythe-Liquiflo also markets other consumer products including the "Cord Wheel" for the convenient storage of electrical extension cords, ropes and garden hoses.

We are confident that Vulsay will make a significant contribution to Vulcan's operations in the years to come.

EXPLOSAFE®

The past year marked a major change in marketing direction for Explosafe America Inc., a joint venture in which Vulcan has a 50% interest.

The EXPLOSAFE™ product is a metallic foil which acts as an explosion suppression system in containers of volatile fuels. Despite considerable testing and proven applications, our continued efforts to penetrate the military market segment have not been as successful as desired so in 1985, Explosafe turned its attention towards the marketing of a new style EXPLOSAFE™ – protected portable gas can. This unique container, marketed by Vulcan and filled with EXPLOSAFE™ foil, is pictured on page 6 of this Report. Considerable interest for the product has been shown in the United States and a major distribution/sales network is being established to effectively capitalize on projected demand.

Our licensees in the United Kingdom, Australia and Korea have increased their sales substantially over the previous year which is most encouraging. Further tests regarding the use of EXPLOSAFE™ in LPG applications are now being conducted in the United States by a major university. If these tests are successful, another very large market will open. We anticipate test results in the near future.

EXPLOSAFE™ continues to demonstrate its effectiveness through vigorous testing and in actual applications.

VULCAN

Management Report

The financial statements of Vulcan Industrial Packaging Limited have been prepared by the management of the Company in accordance with generally accepted accounting principles.

Management maintains financial and operating systems which include appropriate and cost effective controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information. Where necessary, management uses its judgement to make estimates required to ensure fair and consistent presentation of the financial statements. All other financial and operating data included in the annual report are consistent with information contained in the financial statements.

The external auditors, Peat, Marwick, Mitchell & Co., have been appointed by the shareholders to conduct an independent examination in accordance with generally accepted auditing standards and express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and appropriate tests and procedures are undertaken to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board of Directors, the majority of which is composed of directors who are not employees of the Company. The Audit Committee and the full Board of Directors have approved these financial statements.

PEAT MARWICK

Auditors' Report

To the Shareholders of Vulcan Industrial Packaging Limited:

We have examined the balance sheet of Vulcan Industrial Packaging Limited as at December 31, 1985 and the 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 financial statements present fairly the financial position of the company as at December 31, 1985 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, except for the changes in the methods of accounting for land and buildings and investment tax credits as explained in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada
February 25, 1986

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Significant Accounting Policies

The following is a summary of the Company's significant accounting policies:

1. **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.

2. **Fixed assets:**

   The Company's land and buildings are recorded at their market value on December 31, 1985 on the basis of appraisals performed by General Appraisal of Canada Limited as at that date. Other fixed assets are valued at cost less accumulated depreciation.

   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

3. **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.

4. **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.

5. **Investment tax credits:**

   Investment tax credits are recorded as a reduction of the fixed assets to which they apply.

6. **Appraisal increments:**

   Appraisal increments relating to buildings will be transferred to retained earnings on a straight-line basis at the rate used to depreciate such buildings.

(Incorporated under the laws of Canada)

Balance Sheet

December 31, 1985
(amounts in thousands of dollars)

Assets	1985	1984
Current assets:		
Accounts receivable	$ 7,669	$ 8,063
Inventories (note 2)	8,094	7,256
Prepaid expenses and deposits	129	113
Total current assets	15,892	15,432
Fixed assets (notes 1 and 3)	22,739	19,727
Investment in Explosafe America Inc. (note 4)	20	20
Mortgage and notes receivable (note 4)	226	338
Goodwill	2,435	2,500
	$41,312	$38,017

Liabilities and Shareholders' Equity

Current liabilities:		
Bank indebtedness (note 5)	$ 3,242	$ 2,976
Accounts payable and accrued expenses	6,257	5,251
Income taxes payable	1,548	259
Current portion of long-term debt	2,797	1,669
Total current liabilities	13,844	10,155
Long-term debt (note 5)	18,070	22,867
Deferred income taxes	3,162	3,477
Shareholders' equity:		
Capital stock (note 6)	1,418	1,418
Appraisal increments (note 1)	2,829	–
Retained earnings	1,989	100
Total shareholders' equity	6,236	1,518
	$41,312	$38,017

(See accompanying notes)

On behalf of the Board:

Director

Director

Statement of Income and Retained Earnings

Year ended December 31, 1985
(amounts in thousands of dollars)

	1985	1984
Sales	$ 68,562	$ 65,979
Operating expenses:		
Cost of sales exclusive of depreciation	49,532	47,044
Depreciation	2,204	2,063
Selling	5,309	4,941
Administrative	4,778	4,707
Total operating expenses	61,823	58,755
Operating income	6,739	7,224
Interest on long-term debt	2,822	3,437
Other interest	290	361
Total interest	3,112	3,798
Income before income taxes and loss in joint venture	3,627	3,426
Income taxes:		
Current	1,650	1,631
Deferred	(315)	(395)
Total income taxes (notes 1 and 7)	1,335	1,236
Income before loss in joint venture	2,292	2,190
Loss in joint venture	326	860
Net income	1,966	1,330
Retained earnings (deficit), beginning of year	100	(1,153)
	2,066	177
Dividends	77	77
Retained earnings, end of year	$ 1,989	$ 100
Earnings per share	$ 0.26	$ 0.17

(See accompanying notes)

Statement of Changes in Financial Position

Year ended December 31, 1985
(amounts in thousands of dollars)

Operating Activities	1985	1984
Net income	$ 1,966	$ 1,330
Interest expense	3,112	3,798
Items not requiring cash:		
Depreciation	2,204	2,063
Amortization of deferred development costs and goodwill	65	100
Gain on disposal of fixed assets	(249)	–
Deferred income taxes	(315)	(395)
Provision for notes receivable	338	113
	7,121	7,009
Cash generated from (used for):		
Decrease in accounts receivable	394	270
(Increase) decrease in inventory	(838)	203
(Increase) decrease in prepaid expenses	(16)	14
Increase (decrease) in accounts payable and accrued expenses	1,006	(475)
Increase in income taxes payable	1,289	783
Cash generated from operating activities	8,956	7,804
Financing Activities		
Proceeds from issue of share capital	–	(162)
Reduction of long-term debt	3,669	1,514
Interest expense	3,112	3,798
Dividends	77	77
Cash used in financing activities	6,858	5,227
Investing Activities		
Mortgage receivable	226	–
Notes receivable from joint venture	–	621
Fixed asset additions	2,428	1,019
Proceeds from disposal of fixed assets	(290)	(275)
Cash used in investing activities	2,364	1,365
Cash generated (used) during the year	(266)	1,212
Bank indebtedness, beginning of year	2,976	4,188
Bank indebtedness, end of year	$ 3,242	$ 2,976

(See accompanying notes)

Notes to Financial Statements

December 31, 1985
(tabular dollar amounts in thousands)

1. Accounting policy changes

Following a recommendation by the Canadian Institute of Chartered Accountants, the Company changed its method of accounting for investment tax credits during the year. Prior to 1985, such credits were recognized using the flow-through method. In 1985, the Company recorded the credits as reductions from the cost of the fixed assets to which they relate. The resulting reduction of fixed assets in 1985 was $130,000.

Prior to 1985, the Company's land and buildings were recorded at cost less accumulated depreciation. On the basis of appraisals performed as at December 31, 1985 by General Appraisal of Canada Limited, the Company has recorded land and buildings at market value by eliminating accumulated depreciation and adjusting the asset accounts to appraised values (see note 3). The amount of the appraisal increments at December 31, 1985 was $2,829,000.

2. Inventories

At December 31, inventories consisted of:

	1985	1984
Raw materials and work in process	$ 5,405	$ 4,898
Finished goods	2,689	2,358
	$ 8,094	$ 7,256

3. Fixed assets

At December 31, fixed assets consisted of:

	1985	1984
Land	$ 5,014	$ 4,752
Buildings	9,625	10,411
Machinery, equipment and automotive equipment	27,175	25,445
	41,814	40,608
Less accumulated depreciation	19,075	20,881
	$22,739	$19,727

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.

The Company has been funding the joint venture's operations through unsecured advances. Because the joint venture sustained losses, these unsecured advances of $326,000 in 1985 ($860,000 in 1984) have been reflected as "Loss in joint venture" in the income statement and the investment is recorded at its cost.

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

In 1984, 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. Due to concern about collectibility, these notes were fully provided for in 1985.

In 1984, the Company loaned $170,000 to the joint venture for the purchase of production equipment. 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.

5. Long-term debt and bank indebtedness:

At December 31, long-term debt consisted of:

	1985	1984
8³/₄% mortgage maturing in April 1992	$ 304	$ 338
14¹/₄% term loan maturing in December 1992	3,548	4,048
Term bank loans at an interest rate of prime plus 1¹/₄% maturing in April 1985 and October 1992	945	1,130
Term bank loan at an interest rate of prime plus 1³/₈% maturing in November 1987	15,345	18,145
12% promissory note maturing in October 1986	725	875
	20,867	24,536
Less portion due within one year included in current liabilities	2,797	1,669
	$ 18,070	$ 22,867

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 $725,000 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 $3,242,000 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:

1986	$ 2,797
1987	14,278
1988	437
1989	2,819
1990	188
1991 and subsequent	348
	$20,867

6. Capital Stock

The authorized capital stock of the Company consists of an unlimited number of preference and common shares.

In 1984, the Company issued 60,000 shares with an issue value of $162,000. On December 31, 1984 and 1985 there were 7,659,726 common shares issued and outstanding with an issue value of $1,418,000 (see note 11).

7. Income Taxes

The federal and provincial income tax provision comprised the following:

	1985		1984	
	Amount	**%**	Amount	%
Expected income tax expense	**$ 1,850**	**51**	$ 1,679	49
Inventory allowance	**(111)**	**(3)**	(109)	(3)
Manufacturing and processing profits deduction	**(365)**	**(10)**	(209)	(6)
Investment tax credits	**–**	**–**	(200)	(6)
Other	**(39)**	**(1)**	75	2
Actual income tax expense	**$ 1,335**	**37**	$ 1,236	36

8. Pension Plans

Based on the most recent independent actuarial valuation of the pension plans as at January 1, 1984, the estimated net present value of unamortized past service costs was approximately $212,000 as at December 31, 1985 (1984 – $225,000). 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, 1985 are as follows:

1986	$ 330
1987	170
1988	127
1989	68
1989 and subsequent	93

10. Segmented information

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

11. Subsequent event – Vulsay Industries Inc. ("Vulsay")

In December 1985, the Company formed Vulsay, a new Canadian joint venture, owned equally by the Company and S.A.Y. Industries, Inc. of Leominster, Massachusetts. As at December 31, 1985 no funds had been advanced to Vulsay nor had any income been earned or expenses incurred. The joint venture will be accounted for by the equity method.

In January 1986, Vulsay entered into an agreement to purchase all the outstanding shares of Forsythe-Liquiflo Limited of Concord, Ontario for consideration of cash in the amount of $1,000,000 and common shares worth $1,500,000 on January 24, 1986. The consideration will be advanced to Vulsay equally by the Company and its joint venture partner. The Company's portion of the consideration will be $500,000 in cash and 263,158 of its common shares worth $750,000.

Financial Summary

(amounts in thousands of dollars)	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
Operations										
Sales	**$68,562**	$65,979	$63,362	$64,344	$41,917	$26,667	$23,737	$18,574	$16,292	$14,192
Income (loss) before loss in joint venture and extraordinary items	**$ 2,292**	$ 2,190	$ 1,363	$ (475)	$ 959	$ 1,258	$ 1,250	$ 1,125	$ 849	$ 819
Loss in joint venture	**326**	860	1,120	–	–	–	–	–	–	–
Extraordinary items and other*	–	–	3,156	–	227	–	–	4,800	337	–
Net income (loss)	**$ 1,966**	$ 1,330	$ (2,913)	$ (475)	$ 732	$ 1,258	$ 1,250	$ (3,675)	$ 512	$ 819
Financial Positions										
Working capital	**$ 2,048**	$ 5,277	$ 4,898	$ 2,436	$ 3,318	$ 1,893	$ 1,576	$ (514)	$ 2,140	$ 2,730
Fixed assets	**22,739**	19,727	21,046	22,353	22,126	5,295	4,442	3,430	3,548	3,719
Other assets	**2,681**	2,858	2,620	7,882	7,215	3,083	2,290	1,370	2,833	366
	27,468	27,862	28,564	32,671	32,659	10,271	8,308	4,286	8,521	6,815
Long-term debt	**18,070**	22,867	24,589	26,051	24,239	5,087	4,569	1,801	2,194	1,150
Deferred income taxes	**3,162**	3,477	3,872	3,452	4,473	1,681	1,257	1,017	948	1,060
	21,232	26,344	28,461	29,503	28,712	6,768	5,826	2,818	3,142	2,210
Shareholders' equity	**$ 6,236**	$ 1,518	$ 103	$ 3,168	$ 3,947	$ 3,503	$ 2,482	$ 1,468	$ 5,379	$ 4,605
Changes in Financial Positions										
Operating Activities										
Income (loss) from continuing operations	**$ 1,966**	$ 1,330	$ 243	$ (475)	$ 959	$ 1,258	$ 1,250	$ 1,125	$ 849	$ 819
Interest expense	**3,112**	3,798	3,835	4,853	2,372	867	642	229	191	251
Depreciation and amortization	**2,269**	2,163	2,320	2,177	1,254	661	562	521	499	442
Deferred income taxes	**(315)**	(395)	420	(1,021)	(11)	424	240	69	(112)	108
Change in non-cash working capital items	**1835**	795	(1,502)	6,170	(8,707)	(582)	(2,398)	1,098	710	(798)
Other	**89**	113	10	–	–	3	(5)	(5)	(3)	(2)
Cash generated from operating activities	**8,956**	7,804	5,326	11,704	(4,133)	2,631	291	3,037	2,134	820
Financing Activities										
Reduction (increase) of long-term debt	**3,669**	1,514	790	162	(21,791)	(556)	(2,269)	118	(1,126)	258
Interest expense	**3,112**	3,798	3,835	4,853	2,372	867	642	229	191	251
Dividends	**77**	77	152	304	288	236	236	236	234	220
Other	–	(162)	–	(152)	97	(95)	(10)	(113)	(649)	(376)
Cash used in financing activities	**6,858**	5,227	4,777	5,167	(19,034)	452	(1,401)	470	(1,350)	353
Investing Activities										
Investment in operating companies	–	621	–	897	18,321	577	706	3,295	2,738	6
Fixed asset additions	**2,428**	1,019	850	2,556	1,310	1,485	1,533	378	468	492
Other	**(64)**	(275)	(333)	(230)	(87)	344	260	175	74	249
Cash used in investing activities	**2,364**	1,365	517	3,223	19,544	2,406	2,499	3,848	3,280	747
Cash generated (used) during the year	**(266)**	1,212	32	3,314	(4,643)	(227)	(807)	(1,281)	204	(280)
Bank indebtedness, end of year	**$ 3,242**	$ 2,976	$ 4,188	$ 4,220	$ 7,534	$ 2,891	$ 2,664	$ 1,857	$ 576	$ 780
Per Share										
Income (loss) before loss in joint venture and extraordinary items	**$ 0.30**	$ 0.29	$ 0.18	$ (0.06)	$ 0.13	$ 0.17	$ 0.16	$ 0.15	$ 0.11	$ 0.11
Income (loss) before extraordinary items and other*	**0.26**	0.17	0.03	(0.06)	0.13	0.17	0.16	0.15	0.11	0.11
Net income (loss)	**0.26**	0.17	(0.38)	(0.06)	0.10	0.17	0.16	(0.48)	0.07	0.11
Dividends	**0.01**	0.01	0.02	0.04	0.04	0.03	0.03	0.03	0.03	0.03
Shareholders' equity	**0.81**	0.20	0.01	0.42	0.52	0.46	0.33	0.19	0.71	0.63

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

Operating Facilities

Plastic Containers

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

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

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

Steel Container Manufacturing

Toronto Steel
Containers
15 Bethridge Road,
Rexdale, Ontario
M9W 1M6

Drum Reconditioning

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

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

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

Steel Drum Manufacturing and Reconditioning

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

Petrolia Steel
Containers
260 Centre Street,
Petrolia, Ontario
N0N 1R0

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

Metal Lithography

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

Warehouse and Stamping Operation

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

Sales Warehouse

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

Joint Ventures

EXPLOSAFE®

Explosafe America Inc.
230 New Toronto Street,
Toronto, Ontario
M8V 2E8

VULSAY

Vulsay Industries Inc.
161 Snidercroft Road,
Concord, Ontario
L4K 2J8

Corporate Information

Board of Directors

Norman G. Bernecker*
Past President
of Vulcan Industrial
Packaging Limited,
Toronto, Ontario

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

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

Lyndon G. Jamison
Retired past President
of the Packaging
Association
of Canada,
Toronto, Ontario

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

Kenneth K. O'Hara
President
Hara Enterprises Limited,
Toronto, Ontario

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

Alex C. Telfer*
President & Chief
Operating Officer
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

G. Ross Clark, B.A., C.A.
Vice-President, Finance
& Secretary Treasurer

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

K. Ross Quantz
Vice-President,
Steel Division

Ralph G. McNiff
Vice-President, Sales
and Marketing

George O. D'Cruze
Vice-President,
Human Resources

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

David E. Imrie, B. Comm., C.A.
Corporate Controller

Registrar and Transfer Agent

Canada 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, April 17, 1986. 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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