CANADIAN INDUSTRIES C-I-L LIMITED

ANNUAL REPORT 1949

CANADIAN INDUSTRIES LIMITED

CANADIAN INDUSTRIES LIMITED

MONTREAL

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NATIONAL TRUST COMPANY, LIMITED, MONTREAL

CHARTS, ETC.

CONTENTS

THE YEAR 1949 IN BRIEF

Operating Investment Expenditures of $6,047,000 on plants, buildings and equipment, together with increased working capital requirements, brought about an advance of 8 per cent in the average operating investment as compared with 1948.

Sales Demand continued at a high level and the enlarged manufacturing capacity made available a more adequate supply of chemicals and related products. Sales for the year were 14 per cent higher than in the preceding year.

Profits Total net income, including higher investment income, was 14 per cent greater than in 1948 and was equivalent to earnings of $1.24 a share of common stock as compared with $1.06 in the preceding year.

Dividends Dividends on the common stock totalled 80 cents a share and were 5 cents a share higher than in each of the two previous years. Because of the future financial needs of the Company, a total of $3,066,000 or one third of net income for the year was retained in the Company.

ANNUAL REPORT

INTRODUCTION

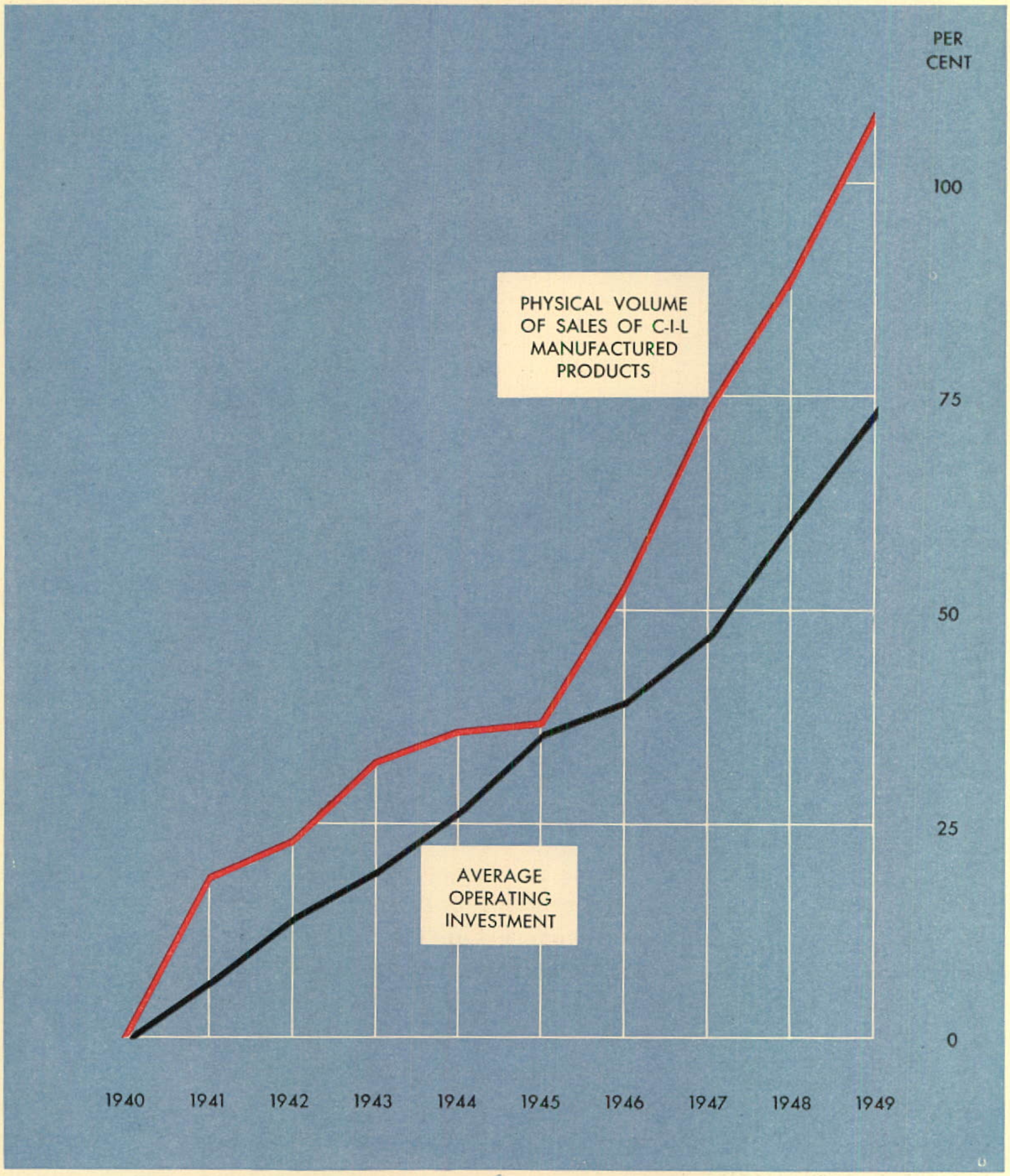
THE IMMENSE growth in Canadian industrialization which has taken place in the past decade has brought about great changes in Canadian Industries Limited, particularly in the volume and diversification of the Company's production. Such changes reflect the cumulative effects of the opportunities presented during that period by growing markets for existing products and the development of new products and processes. Long-term developments are not, however, clearly discernible in the results of any one year's operations, and underlying trends and changes in the direction of growth are of more significance than results of a particular year. In order to provide shareholders with the necessary perspective for evaluating the Company's position and outlook, the financial figures presented in the Annual Report are again supplemented with descriptive information on its operations, structure and policies.

One of the strongest elements sustaining the economy in recent years has been the large amount of capital investment throughout Canada. New plants have been built in many industries to meet the higher level of consumer demand, and large additional outlays have been made for the commercial development of Canada's natural resources. An investment program on this scale had a general stimulating effect and was instrumental in so strengthening Canada's domestic position that the nation was able to withstand the repercussions from adverse developments abroad.

Canada cannot, however, remain entirely unaffected by events in other countries. Pressures exerted by the world-wide shortage of United States funds eventually brought about a change in the official value of the Canadian dollar and, over a period of time, changes in the direction and volume of foreign trade can be expected to follow currency revaluation. Canada will undoubtedly face added difficulties in selling abroad and more intensified competition in domestic markets, but the impact of revaluation by itself will not be sufficiently great to interfere permanently with the growth and development exhibited by the nation in recent years.

PHYSICAL VOLUME OF SALES AND AVERAGE OPERATING INVESTMENT

PERCENTAGE INCREASE SINCE 1940



PHYSICAL VOLUME OF SALES OF C-I-L MANUFACTURED PRODUCTS is based on the total sales value of these products adjusted by the Company's index of selling prices of manufactured products and excludes resale business and sales of subsidiary companies. Production of war materials was undertaken by the subsidiary company, Defence Industries Limited.

AVERAGE OPERATING INVESTMENT comprises total assets as shown in the Company's balance sheets exclusive of goodwill, patents and processes and investments in shares of subsidiary and other companies; the average is based on the investment at the beginning of each calendar month.

SALES

Chemical products are required as raw materials by almost every industry, and the total sales volume of Canadian Industries Limited is therefore dependent upon the general level of business rather than upon conditions in any one consuming industry. A high level of production in 1949, together with further plant expansion and the development of new products, was fostered by the favourable business conditions which existed throughout the year in Canada. Nevertheless, 1949 differed in several important respects from preceding years. The urgency of consumer requirements abated and there was a re-emergence of strongly competitive forces as supply came closer to meeting demand. Customers showed a tendency to postpone new orders until the wants of consumers were clearly known. Some degree of uncertainty and fluctuation in demand necessitated a greater selling effort and more concentration on marketing problems than in the preceding ten years.

The physical volume of the Company's sales of manufactured and resale products in 1949 was higher than in the preceding year. For a number of years all plants have been operating virtually at capacity levels and, although a few units have been affected by changes in demand, expansion in total sales volume in 1949 was possible only with increases in plant capacity, further advances in operating efficiency or the introduction of new products. As the Company has always endeavoured to maintain the highest degree of operating efficiency, improvements in processes do not usually have an important effect on sales volume in any one year, although their cumulative effect is vital to the growth of the Company and the eventual reduction of selling prices through lower costs. In 1949, the improvement in sales over the preceding year was again largely owing to the output coming from new and expanded manufacturing units.

One of the main factors in the expansion of the Company's sales in recent years has been the growing market for nylon yarns and staple fibre. Initially, all commercial yarn produced was used by the manufacturers of hosiery, leaving little opportunity for other industries to develop products made from the new yarn. Limited quantities of nylon were later made available for a wider variety of textile uses. As productive capacity and output increased, larger supplies became possible and in 1949 the knitting and weaving industries made good progress in the use of nylon yarns and staple. Additional nylon plant capacity under construction is designed to provide for the expanding market opportunities in these and other new fields. The large addition to "Cellophane" cellulose film plant capacity will be completed in 1950, but, in the meantime, domestic productive capacity was inadequate and considerable quantities of cellulose film were imported in order to assist customers in the development of new uses of this product.

The year 1949 began with a slackened demand for paint products, and dealers had large stocks on hand; but the situation improved rapidly with the seasonal revival in the construction industry, and sales for the year recorded a gain. Greater plant capacity made it possible to supply increased quantities of finishes to the automotive industry. Sales of anti-freeze, which were begun by the Company in 1947, were also higher than in the preceding year.

There was a further improvement in sales of compound fertilizers in 1949. The agricultural and food processing industries are, however, encountering difficulties in the export field. This development had a slight adverse effect on sales of salt, which experienced also stronger competition because of the new plants built by other companies.

As a result of the higher output of sulphuric acid from the recently built plant of modern design, sales of acid manufactured by the Company increased. Sales of caustic soda and chlorine were at about the same level as in 1948, although competition became intensified late in the year. The demand for other industrial chemicals suffered from the decline in requirements of the textile and pulp and paper industries.

One of the most encouraging aspects of the year was the improvement in sales of high explosives arising out of the heightened activity in the mining and construction industries. The demand for sporting ammunition, however, was lower following the replenishment in 1948 of depleted distribution channels.

Sales of plastic products showed an advance over the preceding year as the use of nylon monofilament for brush bristles increased and improved supplies of resale materials became available. Changes in customers' requirements resulted in a reduction in sales of some types of pyroxylin coated fabrics, but consumption of synthetic resin coated fabrics and film was higher.

As already mentioned, Canada's export trade encountered additional difficulties in 1949 and consumption of some chemical products by export industries was thereby reduced. Direct exports by Canadian Industries Limited showed a small increase over the preceding year, and during 1949 the Company's sales representation abroad was considerably expanded.

FINANCIAL RESULTS

Operating Income

Sales of Canadian Industries Limited, including products manufactured by the various divisions of the Company and used as raw materials by other divisions, totalled $102,900,000 for 1949, an increase of 14 per cent over 1948 and almost three times the 1939 figure. The advance over the 1948 total was attributable mainly to the greater volume of production, although, as in the preceding year, there were some increases in selling prices of the Company's products owing to rising costs.

In accordance with its long-term policy of encouraging a high demand by keeping selling prices low, the Company has made a determined effort in the past ten years to keep its selling prices as near as possible to the 1939 levels. As a result, during this period, the index of selling prices of its manufactured products, computed as explained in footnote (B) on page 27, increased only 23 per cent. Adherence to this policy in the face of very substantial increases in raw material costs, in wage rates, and in the construction costs of new plants, meant that the true value of Company earnings, after allowance for the drop in the purchasing power of the dollar, actually decreased. Equally marked was the fall in the profit margins earned on many products. In the pursuit of this policy the Company was motivated by its desire to assist in keeping inflationary pressure to the minimum in accordance with national objectives announced by the government which, in turn, were based, on the hope that the country's selling price structure would readjust itself to levels nearer to those prevailing in 1939. Production and distribution costs in all industries have, however, risen to a point that renders any considerable recovery in the value of money highly improbable, at least for the foreseeable future. Under these conditions the policy of attempting to keep selling prices as near as possible to 1939 levels, which had resulted in an actual reduction in real income in spite of tripled sales and almost doubled investment, had to be revised. Some long-delayed adjustments intended to bring selling prices more into line with prevailing costs and marketing conditions were made late in the year, but their full effect has not yet been reflected in the index of selling prices of the Company's manufactured products which, at 123 (1939=100), was less than 4 per cent higher than in the preceding year.

Early in 1949, as several important ingredients became readily available for the first time in many years, a tendency for some raw material costs to decrease was discernible; but this trend was short-lived. For many other materials, suppliers' prices continued to climb. In the latter part of the year, the revaluation of the Canadian dollar, together with higher freight rates, caused widespread increases in raw material costs. Average wage and salary rates were again higher than in the preceding twelve months and the rise in other manufacturing costs persisted, although at a slower rate than in previous years.

Depreciation charged to manufacturing costs increased by $1,082,000 over the comparable 1948 figure, partly as a result of the new plant facilities brought into operation during the year. The rates used to provide for depreciation were increased, however, as limited recognition was given by the Company to the need to provide currently for the higher value of capital consumed in operations. The Company's engineers have estimated that the replacement cost of existing plants is, in total, about double their original construction cost; to the extent that this change in values is not recognized in the amounts of depreciation charged into manufacturing costs, these costs are being understated.

The total amount of depreciation charged in the 1949 accounts is within the limits allowed by the new income tax regulations. These regulations allow a larger proportion of the cost of assets to be written off in the initial years of operations, but the total write-off is still limited to the original cost of the assets. No permanent solution will be found until the current value of capital consumed in operations is allowed as a charge against taxable income in each year.

Net income from operations was 13 per cent above the corresponding 1948 total: the ratio of income to operating investment was, however, practically unchanged from 1948 and was still below the level of 1939.

Investment Income

Investment income for 1949 showed a marked advance over the total for the preceding year because of the higher dividends declared by General Motors Corporation. Dividends received from subsidiary and other managed companies were higher than in 1948 chiefly because of the resumption of dividends by one subsidiary company after a lapse of three years during which cash was conserved to meet a plant rehabilitation and expansion program.

Canadian Hanson & Van Winkle Company Limited brought new plant facilities into operation and sales and profits for 1949 showed further improvement. The slightly higher level of sales and profits of Canadian Safety Fuse Company Limited resulted in part from sales of new manufactured products as the volume of safety fuse sales was little changed from 1948. The new plant of Alchem Limited was in operation throughout the year, but there was a minor reduction in demand for this company's products, and sales were slightly lower than in the preceding year. At 31st December 1949 the cost of the investment by Canadian Industries Limited in the three operating subsidiary companies was equal to approximately one per cent of the Company's total assets. Sales and profits of Cornwall Chemicals Limited again improved as a result of greater demand for carbon bisulphide.

As in previous years, the profits of these subsidiary companies have not been consolidated with those of Canadian Industries Limited but have been included in the Company's financial statements only to the extent of the dividends declared. All the subsidiary companies earned profits in 1949, the total of which exceeded by $162,000 the sum of the cash dividends declared. The Company has an equity of $154,000 in these undistributed profits.

Taxes on Income

Corporation income tax rates on incomes above $10,000 were raised 10 per cent by the federal government in 1949. While increasing the tax rate paid by companies, the government recognized to a limited extent the inequity of double taxation of corporate profits by allowing to Canadian shareholders a measure of relief from further taxation of dividends which are paid out of income already taxed. Because of the higher tax rates, and reflecting also increased income from operations and investments, taxes on the Company's 1949 income at $5,727,000 increased by 32 per cent over the corresponding 1948 figure.

During the year, assessments were received covering the years 1936 to 1944 inclusive, including the early years of excess profits tax during which, as mentioned in the Annual Reports of those years, conservative provisions had been made against possible adverse interpretations of tax legislation on which there were then no clearly defined administrative regulations. These provisions were greater than the taxes ultimately found to be payable, and the net excess was transferred to earned surplus in 1949.

Earnings, Dividends and Surplus

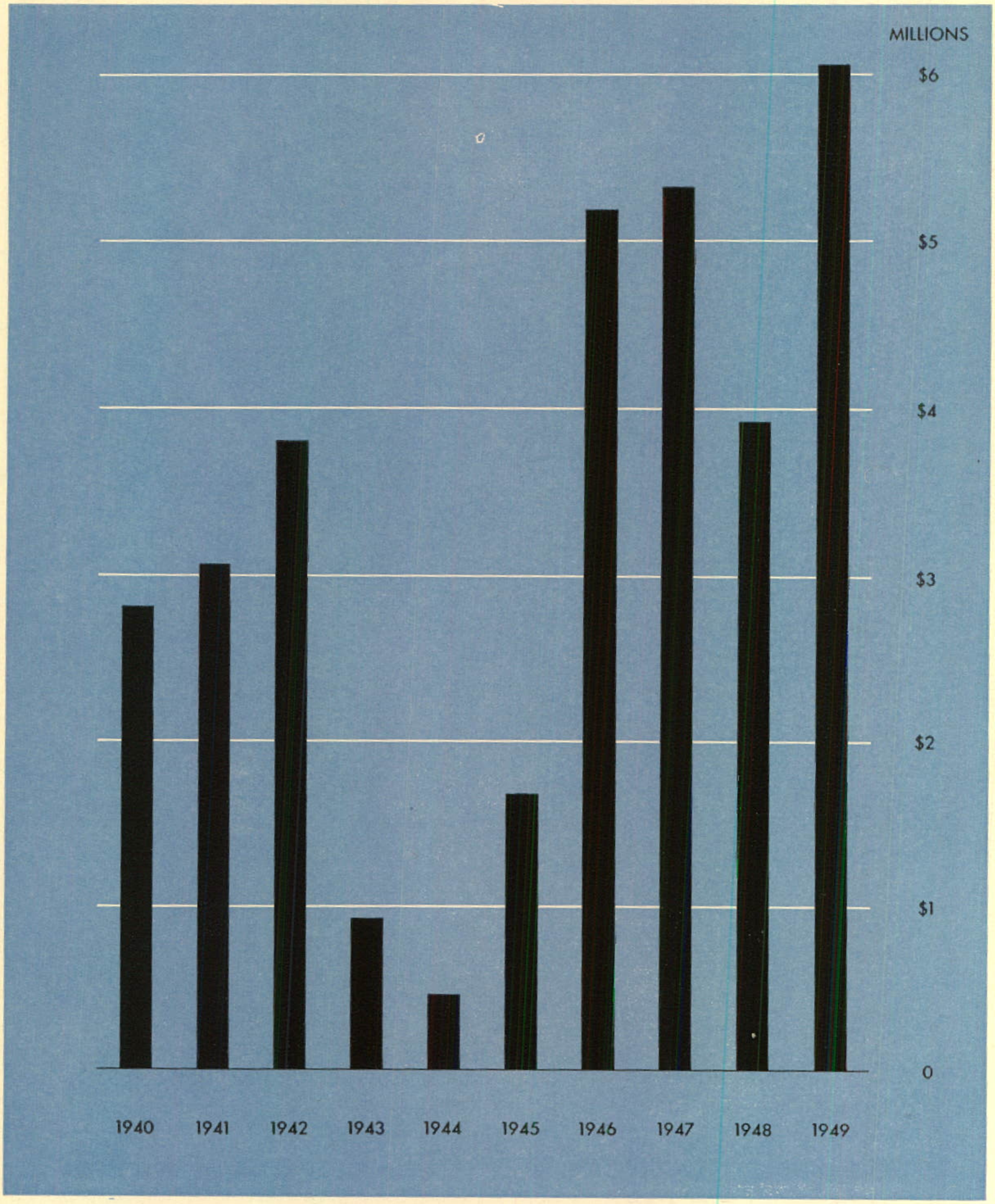
Earnings on the common stock were $1.24 a share as compared with $1.06 a share in 1948. Dividends amounting to 80 cents a share declared on the common stock were 5 cents higher than in each of the two preceding years. Payments of 17½ cents a share in each of the first three quarters were followed by a final distribution of 27½ cents in January 1950 in respect of 1949 profits. Regular dividends were paid on the 7 per cent preferred stock.

The Company's present dividend policy, which contrasts with the previous policy by which a very high percentage of profits was distributed each year, has been dictated by the demands of the long-term plant construction program and the need for more working capital. Undistributed profits of $3,066,000 added to earned surplus in 1949 were $900,000 higher than in 1948.

Capital surplus was increased by $1,169,000 during 1949 as a result of gains realized on the disposal of the following securities and real estate. In order to provide additional funds for plant construction projects under way or under consideration, one-fifth of the Company's holding of General Motors Corporation common stock was sold. A number of years ago land adjacent to the site of the Head Office building was acquired by the Company with a view to holding it for future expansion of office facilities. A large part of the property was subsequently reserved by the City of Montreal for street widening and the entire property was therefore sold because the remainder was inadequate for the Company's purpose.

EXPENDITURES ON NEW PLANTS BUILDINGS AND EQUIPMENT AND LAND

FOR THE YEARS 1940 TO 1949



OPERATING INVESTMENT

The growth in demand for the Company's products has necessarily resulted in a large increase in the amount invested by the Company at risk in operating assets—plants, warehouses, office buildings and working capital. The total operating investment had an average book value of $96,972,000 in 1949, of which about $60,100,000 was in plants, buildings and equipment. As already indicated, the replacement value of the plants, buildings and equipment, which is a more realistic measure of the current investment, was about double this figure.

Total working capital increased by $3,300,000 during 1949. Greater sales resulted in a higher total of amounts owing by customers and also necessitated an increase in inventories of finished goods. As a result of uncertain price trends for some raw materials and the generally easier supply situation, stocks of raw materials were reduced from the total at the end of 1948. Cash and marketable securities at 31st December were higher than a year ago in spite of large construction expenditures, because of the previously mentioned sale of securities and the retention of a larger amount of earned income withheld from distribution as dividends. At the end of the year an unexpended balance of $7,550,000 remained on construction projects already begun and plans are proceeding on several important new projects.

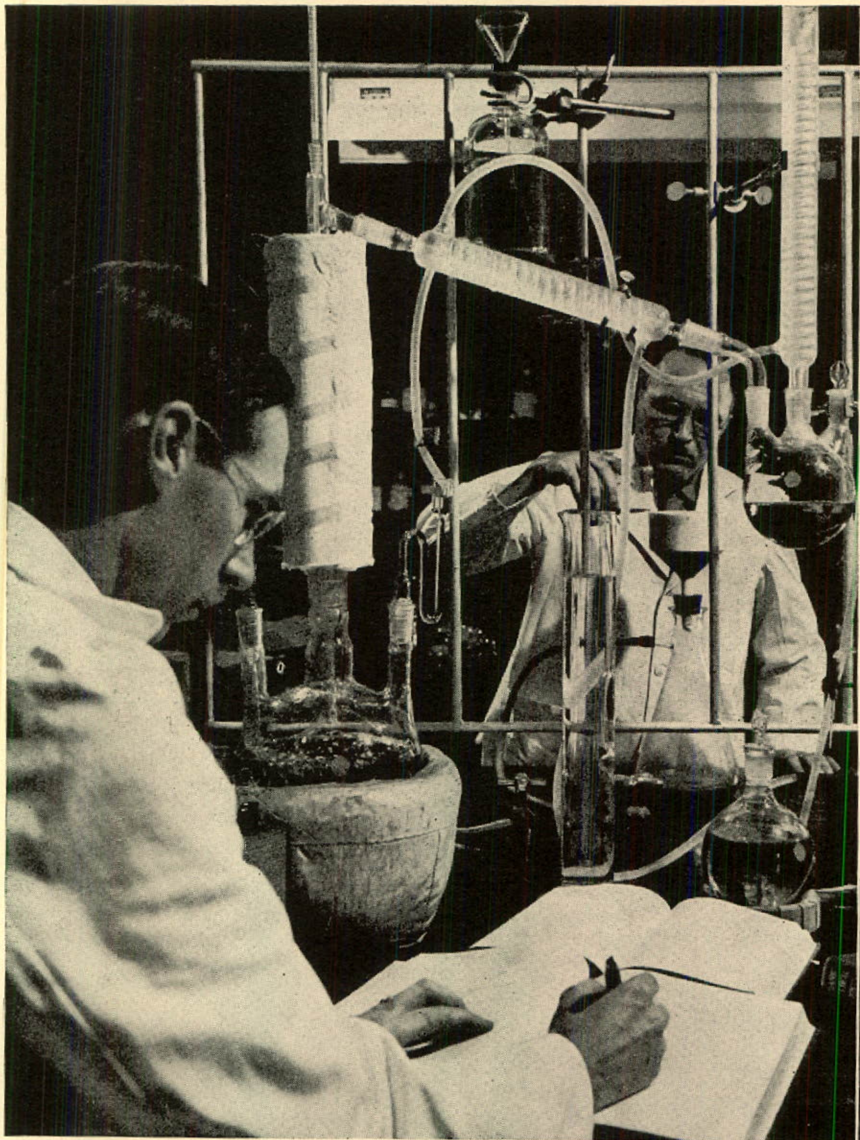
Capital expenditures in 1949 totalled $6,047,000, and the amount unexpended at 31st December on projects already begun was almost $1,000,000 higher than the total twelve months earlier. This construction program is designed to increase capacity for some products, notably nylon yarns and staple and "Cellophane" cellulose film; to diversify output to meet new end uses for nylon; to provide for the manufacture of new products such as cellulose sponges and polythene tubing and film; and to carry certain production processes closer to the raw material stage.

The emphasis of these expenditures is on the relatively new products for which there is scope for considerable market development. This policy of concentrating on the development of new products and processes, as such findings emerge from the research laboratories, involves an important element of risk, but it carries with it the prospect of the rewards which accrue to those who succeed in the establishment of new enterprises.

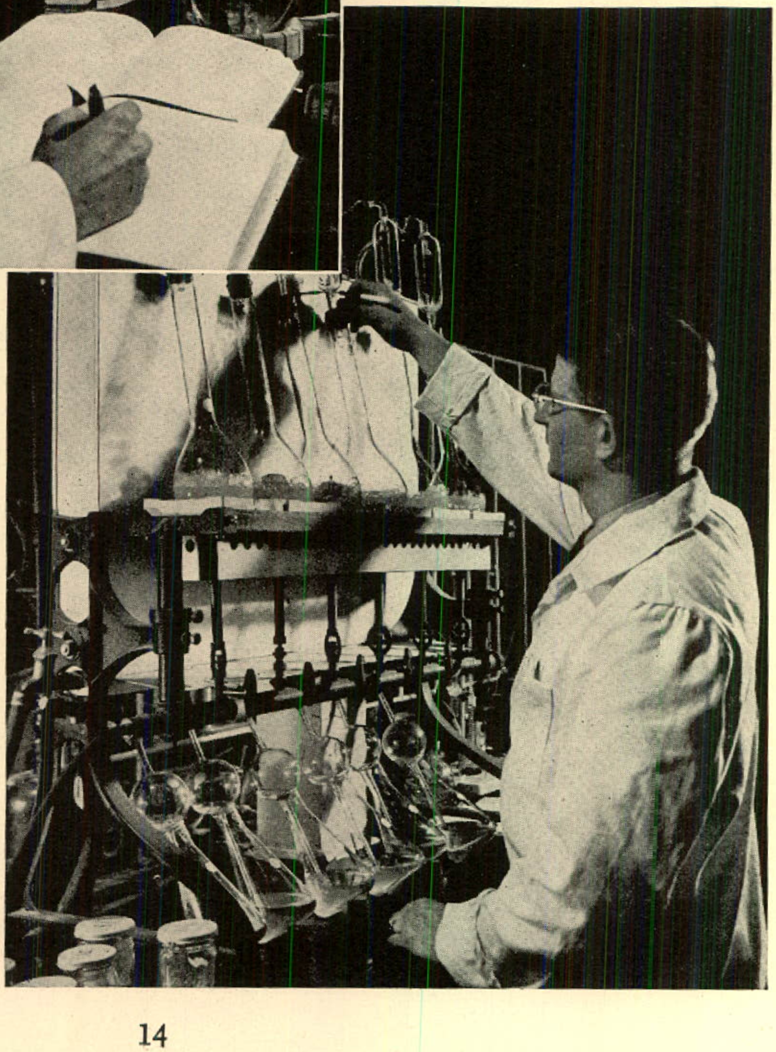
RESEARCH AND DEVELOPMENT

By the end of 1949, sufficient progress had been made towards meeting deferred demand to permit the Company to devote greater effort to the planning of its future growth and development. A number of studies were conducted on market potentialities and on new raw material supply sources. Because of the promising oppor-

"Special emphasis has been placed on research investigations dealing largely with the most effective way of utilizing Canadian natural resources . . .
In addition to a central research laboratory, which undertakes pioneering-applied exploratory work, laboratory facilities are maintained at a number of its plants for process and product quality control and other specialized studies."



Pioneering-applied research in progress at the Central Research Laboratory, Beloeil, Que.



Nitrogen tests at a plant laboratory during the manufacture of fertilizers.

tunities presented in the field of petro-chemicals, investigation was continued into the feasibility of utilizing raw materials made available as a result of the large oil reserves being discovered in western Canada.

Special emphasis has been placed on research investigations dealing largely with the most effective way of utilizing Canadian natural resources. The fact that, on the average, only one out of twenty-five research projects reaches the stage of commercial development, indicates the amount of money that must be spent on exploratory work leading up to the introduction of a new product. Research effort has been expanded with the growth of Canadian Industries Limited and the cost of such work in 1949 was four times greater than in 1939. In addition to a central research laboratory, which undertakes pioneering-applied exploratory work, laboratory facilities are maintained at a number of its plants for process and product quality control and other specialized studies.

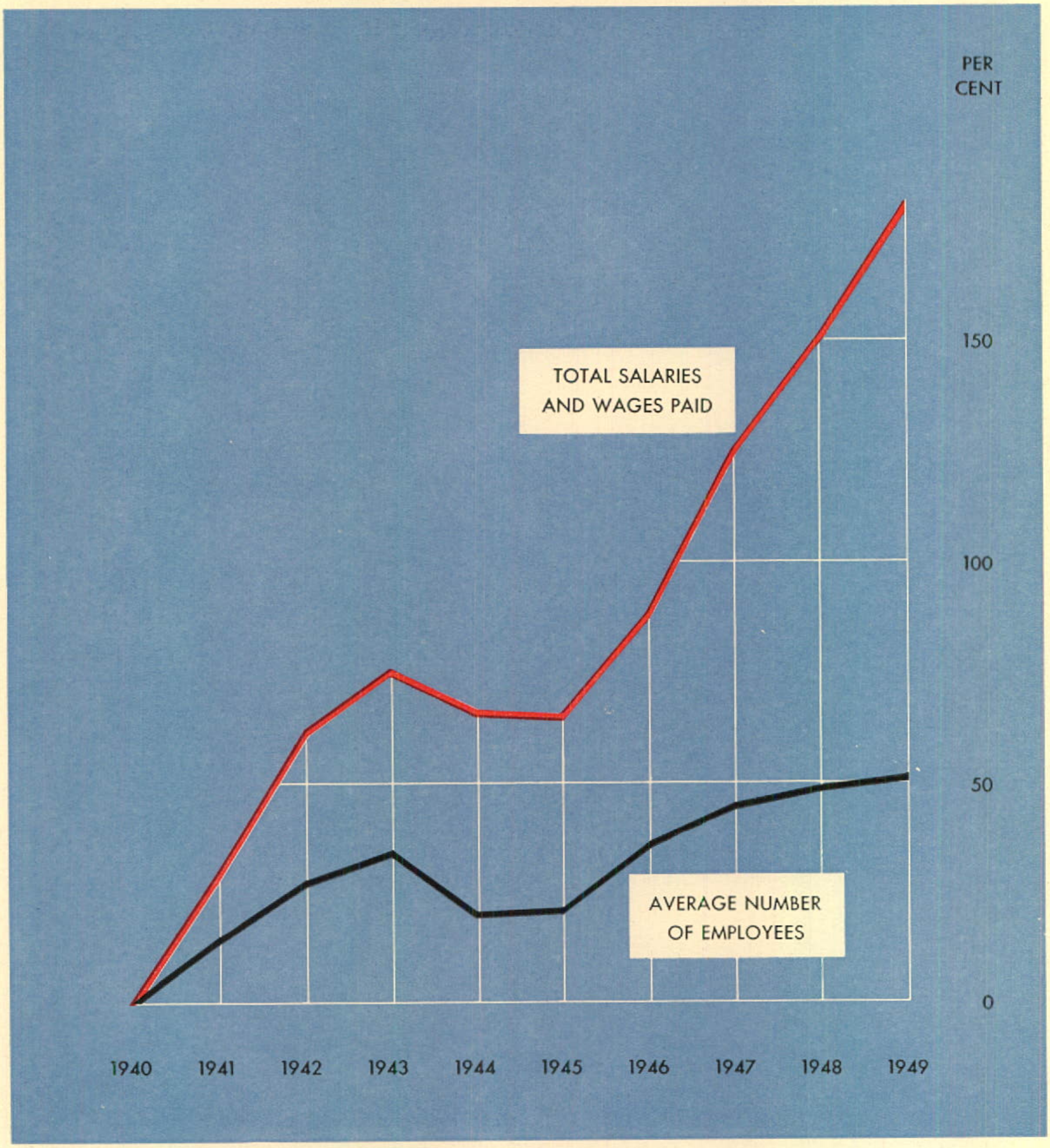
Under agreements, Canadian Industries Limited has access to the scientific findings of E. I. du Pont de Nemours & Company and of Imperial Chemical Industries Limited. By reason of these agreements, some of the outstanding scientific advances of the past two decades have been made available in Canada at an earlier date than might otherwise have been possible. The amount of research work required to bring about most important fundamental chemical discoveries is so extensive that it can be undertaken only by organizations with resources much greater than those of this Company, but separate agreements with each of these two large chemical manufacturers permit Canadian Industries Limited to obtain for Canada the benefit of their vast research organizations without bearing the pioneering costs which must precede any tangible commercial results. The Company has not entered the field of fundamental research which is more appropriate to the universities and other public bodies, but has contributed generously to university funds for the purpose of enlarging and equipping their facilities for instruction and research in chemistry and chemical engineering. In addition, since 1940, postgraduate research in chemistry and allied fields has been encouraged by unrestricted fellowships at various universities, and in 1949 thirteen such fellowships were in effect.

EMPLOYEES

At 31st December 1949, the Company had in its employ 7,600 men and women, a higher total than at the end of any previous year. The increase of 100 employees over the end of 1948 was small, however, in relation to the greater volume of sales. The ability to expand operations with a relatively minor change in the working

NUMBER OF EMPLOYEES AND SALARIES AND WAGES

PERCENTAGE INCREASE SINCE 1940



TOTAL SALARIES AND WAGES PAID comprises all salaries, wages and vacation allowances of regular and temporary employees in each year.

The AVERAGE NUMBER OF EMPLOYEES is based on the total number of regular and temporary employees at the end of each calendar month.

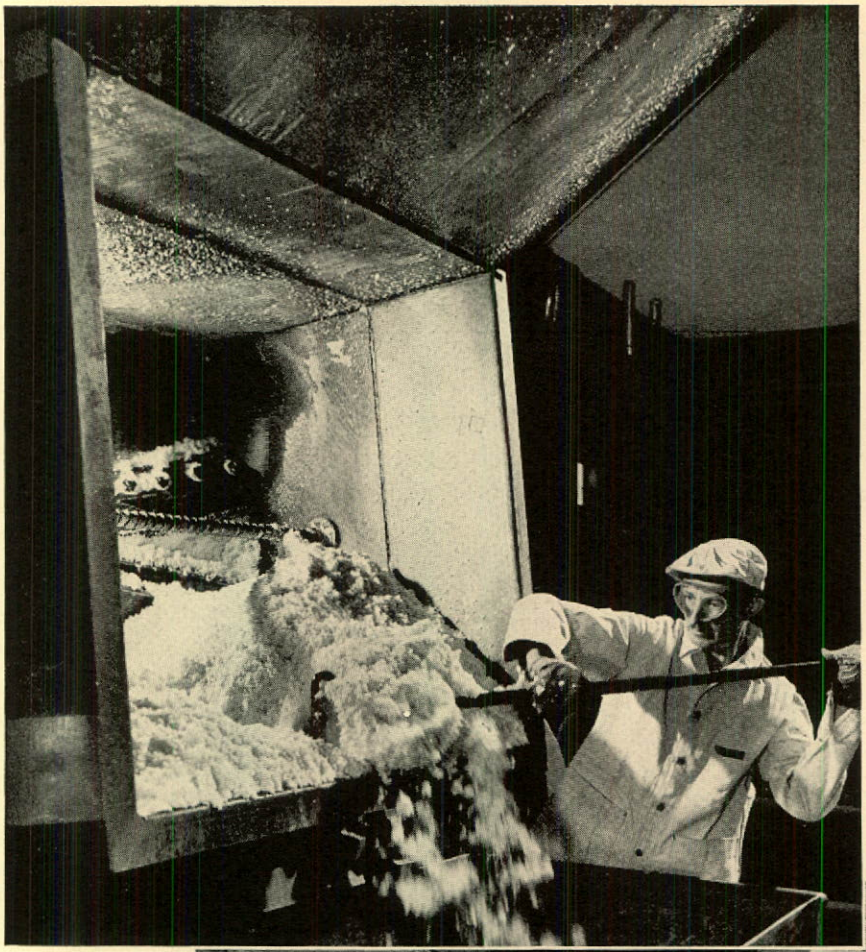
force resulted partly from improved equipment and processes and is indicative also of the extent to which employees who joined the Company in the recent years of rapid growth have gained experience.

Because the Company has a broad range of industrial activities, and its organization is widespread, the maintenance of a high degree of efficiency and good employee relations requires constant study of a variety of problems. Management devotes much time and attention to this responsibility, recognizing that the men and women who make up the Company's organization are the force which puts all of its assets to work and upon which its growth and success largely depend.

The complexity of the operations of the chemical industry calls for an unusually high number of technically trained employees and preparations for the personnel requirements of a decade hence must be made today. Each year the Company makes an investment in new employees who are considered to have high potential value, but who will require extensive training before they can assume responsibilities. Upon entering industrial life, new employees receive induction courses and thereafter their progress is frequently reviewed in order that their capabilities may be considered when opportunities for additional training and experience occur. Care is taken to ensure that the supervisory staff have a clear understanding of their responsibilities and of the proper methods of assisting a promising employee to develop the qualities necessary for advancement. Staff training courses are designed to help the individual to co-ordinate his duties with Company policies and objectives.

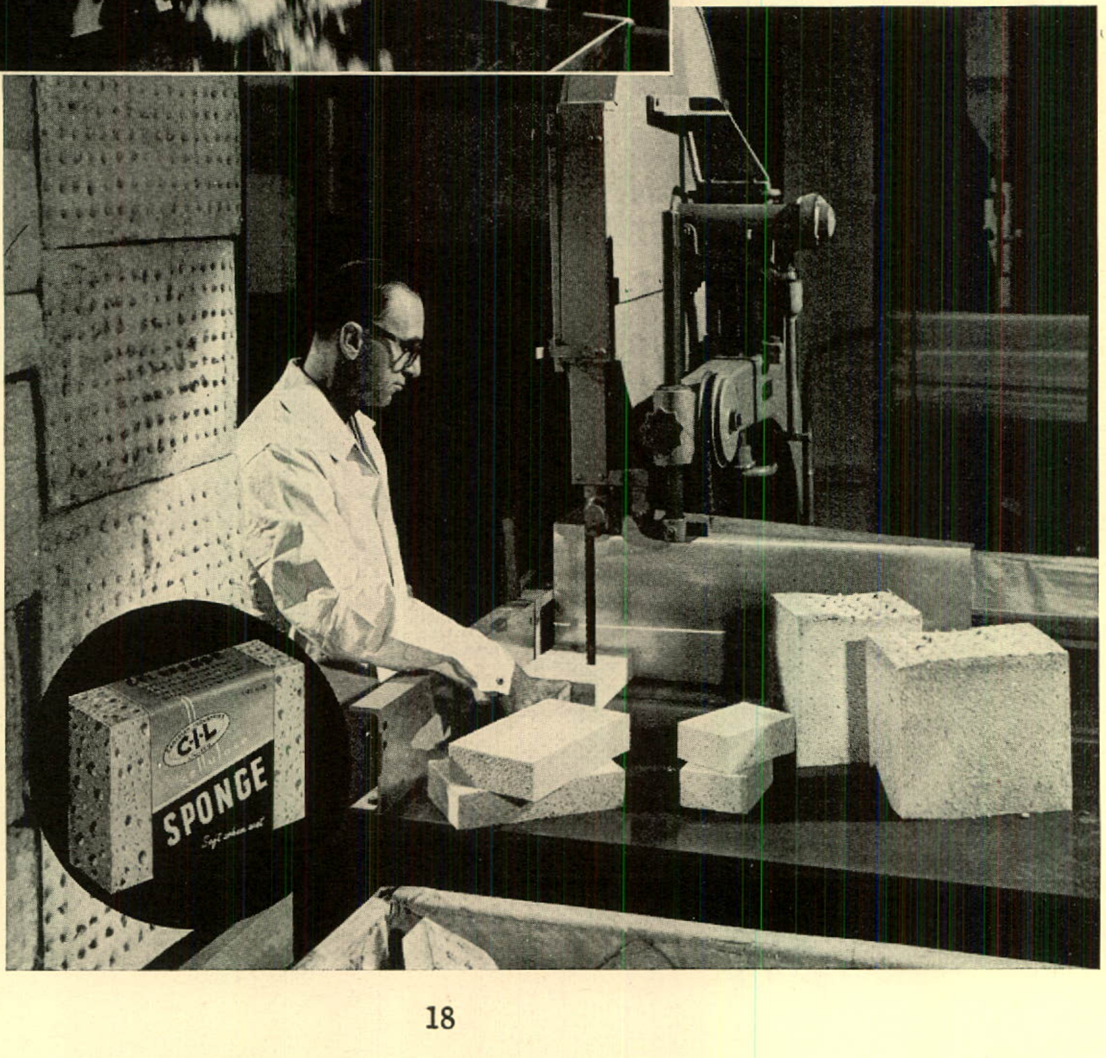
It is the constant aim of the Company to provide safe working conditions at all plants and to develop safety consciousness on the part of employees. As a result, the accident frequency rate of Canadian Industries Limited is about half the average of all firms in the chemical industry reporting to the National Safety Council. Although the number of accidents was slightly higher than the exceptionally small total for 1948, the 1949 experience compares favourably with the accident frequency rate of former years.

The men and women of Canadian Industries Limited have long enjoyed a broad employee security coverage as the Company was a leader in this field of industrial relations. In 1919 the Company inaugurated a pension plan and the opportunities for greater personal security were gradually enlarged in succeeding years. At the present time the Company provides non-contributory pensions, paid vacations, allowances for periods up to thirteen weeks for cases of temporary disability, and disability pensions for employees with more than fifteen years of service who have been substantially incapacitated before retirement age. A health insurance plan has been available to employees since 1935 and employees receive annual physical examinations and other specific medical services at the Company's expense. In 1949 the Employees' Benefit Plan, under which the beneficiaries of deceased employees with service prior to 1939 received a total of $1,500, was renamed the Life Insurance



"Capital expenditures in 1949 totalled $6,047,000 . . . This construction program is designed to increase capacity for some products; to diversify output; to provide for the manufacture of new products such as cellulose sponges . . . and to carry certain production processes closer to the raw material stage."

In the manufacture of cellulose sponges, high-grade wood pulp soaked in caustic and squeezed damp is shredded preparatory to being formed into large blocks.



The outside skin and any imperfections are removed and the solid block is then cut by band-saw into sponges of various sizes.

Benefit Plan and was revised to cover all employees upon completion of five years' service. The benefits under the new scheme, the cost of which is borne entirely by the Company, are $1,500 if the employee is survived by a beneficiary in the preferred class specified in the Plan, or otherwise $300.

The Company's industrial relations plans are aimed at providing a degree of employee security which should form the foundation on which each employee can build an integrated personal security program. Excluding paid vacations, the cost of such plans in 1949 amounted to over $1,100,000; and the pension reserve at the end of 1949 totalled $8,715,000, of which sum an amount of $5,189,000 is held in an irrevocable pension trust fund. The value of such plans cannot, however, be measured in terms of money; but they are believed to assist in maintaining employee effectiveness and thereby to improve productivity. To the extent that this end is accomplished, management is enabled to discharge its responsibilities to consumers, employees and shareholders without overtaxing costs and selling prices.

DIRECTORS

In February 1949, Hugh H. Lawson was appointed a director of the Company to fill a vacancy on the Board.

In April the Board accepted with much regret the resignation of Sir William Coates and extended to him the sincere appreciation of the Company for his distinguished services as a director.

The Annual General Meeting held in April was also convened as a Special General Meeting and a by-law increasing the number of directors from eleven to sixteen was sanctioned and confirmed. The Board of Directors subsequently elected by the shareholders included the following new directors: Sir Frederick Bain, M.C., Robert G. Beck, L. duP. Copeland, Herbert H. Lank, A. J. Quig and Robert W. Sharwood.

At the meeting of the directors held immediately after the Annual General Meeting, George W. Huggett was elected Chairman of the Board and President of the Company and an Executive Committee was formed. In the subsequent announcement it was explained that as a result of the substantial growth of the Company over the past twenty years, the problems of management, many of which called for decisions to be made between meetings of the Board, had become more numerous and it was considered desirable that the responsibilities which attached to the office of Managing Director should no longer be carried by one person. The Board of

Directors, therefore, delegated certain powers to an Executive Committee of its own members which was elected as follows: George W. Huggett, Chairman; H. Greville Smith, C.B.E., Vice-Chairman; Robert W. Sharwood; Herbert H. Lank; and Robert G. Beck.

BONUS PLAN

THE BONUS PLAN, which has been in effect for twenty-five years, makes possible special recognition of the outstanding contribution made to the Company's progress by employees showing unusual ability, efficiency and initiative. The Plan provides that the Board of Directors may establish each year, when earnings are adequate, a fund of not more than 15 per cent of the amount by which the net income of the Company, after all charges except the amount provided for the bonus fund, exceeds 6 per cent of the issued capital stock and earned and capital surplus; the investment in and income from shares in General Motors Corporation are excluded in calculating the amount of the fund. A committee of directors, chosen from among those members of the Board of Directors who are not salaried officers and who do not participate in the fund, is appointed annually by the Board to decide on the individual awards.

Awards for the year were made to 351 employees, including the Chairman and President and the four Vice-Presidents, all of whom are directors of the Company. Under the provisions of the Plan awards are delivered to employees in four equal annual instalments, and the Bonus Committee is empowered to decide the extent to which each annual instalment, as it becomes due, will be delivered in the form of shares or cash or both. As in the preceding year, the first quarter of the 1949 awards was delivered partly in shares of common stock of the Company and partly in cash, as were also the instalments of the 1948 and 1947 awards delivered in 1949. High personal tax rates had forced suspension of deliveries in the form of shares during the war years, but experience has shown that interest in the progress of the Company is encouraged by stock ownership. The delivery of stock under the Bonus Plan was therefore resumed two years ago.

GROWTH AND OUTLOOK

SOME OF THE resources which have played a decisive part in the growth and progress of Canadian Industries Limited cannot be measured precisely. The Company's experienced organization, its available capital and its access to research findings, have been essential elements in its success. Modern technology depends upon all of these resources for large scale production, and a constant flow of new products and process improvements is necessary if maximum economies are to be obtained.

In the industrial system which has evolved in Canada, large, medium and small organizations performing a multitude of complementary functions are manifestly interdependent. Often the distribution of goods, and sometimes their production, can be more economically undertaken by organizations which do not require numerous highly skilled technical personnel and extensive manufacturing plants. Nevertheless, many of the products which have revolutionized living standards within the past few decades could not have been developed and produced without huge sums being spent on research and capital investment.

By reason of such resources—organization, capital and research—Canadian Industries Limited is well equipped not only to aid the advance of the nation's material welfare by the introduction of new chemical products of importance to industry and consumers, but also to assist in the development of the country's vast natural resources by providing necessary technical and scientific services.

On behalf of the Board of Directors,

G. W. HUGGETT,

Chairman and President.

23rd March 1950,
MONTREAL, CANADA.

INCOME STATEMENT

For the Year Ended 31st December 1949

(Comparative figures for 1948 are shown for information only)

		1949	*1948*
OPERATING INCOME			
Income from operations after charging all costs and expenses	$13,468,775		*$11,296,308*
Provision for federal and provincial taxes on operating income	5,392,419		*4,146,873*
NET OPERATING INCOME		$8,076,356	*7,149,435*
INVESTMENT INCOME			
Income from investments	1,258,614		*780,621*
Profit on sale of government securities	—		*2,500*
	1,258,614		*783,121*
Provision for federal and provincial taxes on investment income	334,081		*204,627*
NET INVESTMENT INCOME		924,533	*578,494*
TOTAL NET INCOME FOR THE YEAR		9,000,889	*7,727,929*
DIVIDENDS DECLARED			
Preferred 7% cumulative stock	325,500		*325,500*
Common stock (80 cents a share in 1949: 75 cents in 1948)	5,609,499		*5,252,766*
		5,934,999	*5,578,266*
UNDISTRIBUTED INCOME FOR 1949 TRANSFERRED TO EARNED SURPLUS		$3,065,890	*$ 2,149,663*

Note: Included in the costs and expenses charged against operations in 1949 are the following items: depreciation $3,889,437, remuneration of executive officers including bonus awards $484,047, directors' fees $20,474 and legal expenses, $3,103.

STATEMENT OF EARNED SURPLUS

FOR THE YEAR ENDED 31ST DECEMBER 1949

(Comparative figures for 1948 are shown for information only)

		1949	*1948*
EARNED SURPLUS AT 1ST JANUARY		$11,865,768	*$ 9,716,105*
Undistributed income for the year as per Income Statement	$3,065,890		*2,149,663*
Adjustment of federal income taxes in respect of prior years	382,624		—
		3,448,514	
EARNED SURPLUS AT 31ST DECEMBER		$15,314,282	*$11,865,768*

STATEMENT OF CAPITAL SURPLUS

FOR THE YEAR ENDED 31ST DECEMBER 1949

(Comparative figures for 1948 are shown for information only)

	1949	*1948*
CAPITAL SURPLUS AT 1ST JANUARY	$17,590,022	*$15,670,238*
Net gain on realization of assets	1,168,808	*719,784*
Reserve for depreciation of securities	—	*1,200,000*
CAPITAL SURPLUS AT 31ST DECEMBER	$18,758,830	*$17,590,022*

CANADIAN IND

BALANCE SHEET

(Comparative figures for 194

ASSETS

		1949	*1948*
CURRENT ASSETS			
Cash		$ 5,460,278	*$ 4,873,267*
Canadian and U.S. Government securities (Market value $8,716,000)		8,719,340	*5,248,063*
Accounts receivable, less reserve for doubtful accounts		10,281,677	*8,246,731*
Customers	$ 9,559,553		
Subsidiary companies	79,996		
Other accounts	642,128		
Inventories, valued at the lower of cost or market price, less reserve of $500,000 against future loss in inventory values		14,978,698	*15,182,945*
		39,439,993	*33,551,006*
DEFERRED CHARGES		468,742	*330,484*
FIXED ASSETS			
Plants, buildings and equipment, based on the appraisals of the National Appraisal Company (1927 to 1929), adjusted by the Company's own engineers, with subsequent additions at cost	$60,788,783		
Land, at cost	2,073,734		
Goodwill, patents and processes	3,377,151	66,239,668	*61,939,598*
Investments in subsidiary companies	1,369,133		
Shares in other companies (Including marketable shares, book value $2,000,000, market value $7,879,000)	2,200,300	3,569,433	*4,069,433*
		$109,717,836	*$99,890,521*

Approved on behalf of the Board,

G. W. HUGGETT
C. C. BALLANTYNE } Directors.

STRIES LIMITED

31ST DECEMBER 1949

hown for information only)

LIABILITIES

			1949	*1948*
CURRENT LIABILITIES				
Accounts payable		$ 6,173,282		
Subsidiary companies		1,577		
			$ 6,174,859	*$ 4,331,723*
Federal, provincial and municipal taxes			3,821,947	*3,431,700*
Dividends declared			2,009,640	*1,657,205*
			12,006,446	*9,420,628*
DEFERRED LIABILITIES			274,533	*213,995*
RESERVES				
Depreciation of plants, buildings and equipment . . .			37,499,359	*34,952,426*
Property self-insurance			1,591,244	*1,622,309*
Retirement and disability pensions . . . . (In addition, $5,188,865 is held in an irrevocable pension trust fund)			3,526,255	*3,632,484*
CAPITAL STOCK				
Authorized	Shares			
Preferred 7% cumulative stock (par value $100) .	75,000			
Common stock (no par value) . . .	13,500,000			
Issued and fully paid				
Preferred	46,500	$ 4,650,000		
Common . . . . (Issued during the year to employees under the Company's Bonus Plan, 8,186 shares of common stock — $153,998)	7,011,874	16,096,887		
CAPITAL SURPLUS		18,758,830		
EARNED SURPLUS		15,314,282	54,819,999	*50,048,679*
			$109,717,836	*$99,890,521*

This is the Balance Sheet referred to in our attached report of even date.
P. S. ROSS & SONS, Chartered Accountants.

Montreal, 23rd February 1950.

AUDITORS' REPORT TO THE SHAREHOLDERS

Canadian Industries Limited,
Montreal.

We have audited the books of account and financial records of Canadian Industries Limited for the year ended 31st December 1949, and have obtained all the information and explanations we have required.

The inventories shown on the attached Balance Sheet have been determined and certified by the management of the Company.

In accordance with Section 114 of The Companies Act, 1934, we report that profits earned by subsidiary companies for the year 1949 have been included in the attached accounts only to the extent of the dividends declared and received or receivable by the Company.

We certify that, in our opinion, the attached Balance Sheet and relative statements of Income and Surplus are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December 1949, and the result from operations for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

P. S. Ross & Sons,
Chartered Accountants.

Montreal, 23rd February 1950.

CANADIAN INDUSTRIES LIMITED

FINANCIAL AND OPERATING RECORD—YEARS 1939 TO 1949 INCLUSIVE

No attempt has been made to adjust the figures in this tabulation to reflect variations in the purchasing power of the dollar; changes in the general price level should therefore be taken into consideration in comparing the figures for the eleven-year period.

Year	Physical Volume of Business: C-I-L Manufactured Products (Note A)	Physical Volume of Business: Industrial Production in Canada (Note C)	Selling Prices: C-I-L Manufactured Products (Note B)	Selling Prices: General Wholesale Prices in Canada (Note C)	Average Operating Investment (Note D): Amount, In Thousands of Dollars	Average Operating Investment (Note D): Index, Base 1939 = 100	Expenditures on New Plants, Buildings and Equipment, and Land, In Thousands of Dollars	Net Operating Income as Percent Return on Average Operating Investment (Note E)	Average Number of Employees	Total Wages and Salaries	Total Net Income, In Thousands of Dollars	Taxes on Income: Total, In Thousands of Dollars	Taxes on Income: Percent of Total Net Income	Dividends: Total Cash Paid to Preferred and Common Shareholders, In Thousands of Dollars	Dividends: Percent of Total Net Income Paid Out in Dividends
	Indexes — Base 1939 = 100								Indexes Base 1939 = 100						
1939	100	100	100	100	$52,697	100	$1,768	10.5 %	100	100	$6,232	$1,421	23 %	$5,523	89 %
1940	117	119	101	110	55,732	106	2,803	8.5	129	118	5,396	3,563	66	5,204	96
1941	138	144	104	119	59,561	113	3,056	7.6	148	153	5,383	3,986	74	4,701	87
1942	144	170	104	127	63,739	121	3,804	5.9	165	192	4,611	3,520	76	4,351	94
1943	155	182	104	133	67,024	127	926	5.6	174	208	4,445	3,151	71	4,001	90
1944	159	182	104	136	70,744	134	460	5.7	156	197	4,556	3,133	69	4,001	88
1945	160	161	104	137	75,919	144	1,688	5.7	157	196	4,929	3,236	66	4,176	85
1946	178	146	104	144	78,202	148	5,192	6.3	177	223	6,225	4,285	69	5,226	84
1947	202	161	111	171	82,723	157	5,343	6.4	188	266	7,163	4,591	64	5,577	78
1948	220	166	119	203	89,656	170	3,932	8.0	193	297	7,728	4,351	56	5,578	72
1949	242	168	123	208	96,972	184	6,047	8.3	196	332	9,001	5,727	64	5,935	66

(A) This column reflects the approximate changes in the quantity of manufactured products sold and excludes resale business and sales of subsidiary companies. Production of war materials was undertaken by the subsidiary company, Defence Industries Limited.

(B) This index is calculated annually on the basis of selling prices of every major manufactured product weighted according to the relative importance of the sales of each product. The fixed weighting is altered periodically to give effect to cumulative changes in the relative importance of products. When new products achieve a significant volume of sales they are introduced into the index at the prevailing level and the index therefore reflects any subsequent price changes of these products. The change in the index during the period represents any changes in weighting due to the introduction of new products, and the average of price increases and decreases.

(C) The indexes of industrial production in Canada and general wholesale prices in Canada are based on the annual average of the monthly indexes of industrial production and wholesale prices compiled by the Dominion Bureau of Statistics.

(D) Operating investment comprises total assets as shown in the Company's balance sheets exclusive of goodwill, patents and processes and investments in shares of subsidiary and other companies; the average is based on the investment at the beginning of each calendar month.

(E) Net operating income is expressed as a percent return on the average operating investment, as defined in Note D. If the average operating investment were to be increased to include plants, buildings and equipment at current replacement values instead of at book values, the percent return would be lower, particularly in more recent years.

CANADIAN INDUSTRIES LIMITED

DIRECTORY OF WORKS, PRODUCTS AND MAJOR MARKETS

INDUSTRIAL DIVISIONS	PLANT LOCATIONS	PRODUCTS	MAJOR MARKETS SERVED
AGRICULTURAL CHEMICALS	Halifax, N.S. Beloeil, Que. Montreal, Que. Chatham, Ont. Hamilton, Ont. New Westminster, B.C.	Manufactured: Compound fertilizers; superphosphate 20%; insecticides; fungicides; mineral feed supplements for livestock; industrial sulphurs. Resale: Fertilizer materials; insecticides; fungicides; herbicides; feeding urea.	The farmer; the home gardener; fertilizer and pesticide manufacturers.
SALT	Windsor, Ont. Neepawa, Man.	Manufactured: Household, agricultural and industrial salt. Resale: Mined rock salt.	Householders; farming; livestock nutrition; food processing; leather tanning; beverages and chemicals manufacturing; public works and utilities.
"CELLOPHANE"	Shawinigan Falls, Que.	Manufactured: Plain and moisture-proof transparent cellulose film.	Packaging of foods, tobacco, textiles and drugs.
NYLON	Kingston, Ont.	Manufactured: Nylon yarns and staple fibre.	Hosiery, clothing and industrial textile manufacturing.
CHEMICALS	Shawinigan Falls, Que. Cornwall, Ont. Toronto, Ont. Hamilton, Ont. Windsor, Ont. Copper Cliff, Ont.	Manufactured: Acids, commercial, chemically pure; ammonia - anhydrous, aqua; ammonium chloride; bleaching powder; caustic soda; chlorine; chlorhydrocarbons; fluxes; hydrogen peroxide; sodium silicate solutions; sodium sulphites; zinc chloride. Resale: Inorganic and organic chemicals including: aluminum sulphate, carbon black, dyes and intermediates, neoprene, pigments and ceramics, rubber chemicals, sodium cyanide, sodium phosphates, sodium silicate, sodium sulphate.	Pulp and paper manufacturing; mining and metal refining; metal processing and fabricating; textile manufacturing; petroleum refining; rubber processing; soaps and cleansers; chemical manufacturing; food processing; refrigeration.
EXPLOSIVES	Beloeil, Que. Nobel, Ont. Brainerd, Man. James Island, B.C.	Manufactured: Commercial explosives; trinitrotoluene; sodium azide; sodium carboxymethyl cellulose and nitric acid. Resale: Blasting accessories including: safety fuse, detonating fuse and blasting machines; smokeless and sporting rifle powders; perforating charges.	Mining; quarrying; logging; oil prospecting; road building; and general construction work.
AMMUNITION	Brownsburg, Que.	Manufactured: Small arms ammunition; loaded and empty shot shells and metallic cartridges; cartridge and shot shell components; power cartridges; railway fusees and track signals; motorists' flares; detonators; metal sundries. Resale: Explosive rivets.	Sports; hunting; railroad and highway transportation services; power tools; automotive accessory manufacturing.
"FABRIKOID"	New Toronto, Ont.	Manufactured: Pyroxylin; rubber and synthetic resin coated fabrics and unsupported synthetic resin film; washable window shade material.	Automotive industry; book binding; furniture; footwear; handbags; luggage and raincoat manufacturing.
PAINT AND VARNISH	Montreal, Que. Toronto, Ont. York, Ont. Regina, Sask.	Manufactured: Paints; enamels; varnishes; lacquers; automotive and household specialties; ethylene glycol anti-freeze; polishes; waxes; adhesives; cellulose sponges.	Automotive, industrial, marine, railway and retail trades. Public, industrial and residential construction and maintenance.
PLASTICS	Brownsburg, Que.	Manufactured: Nylon monofilament; toothbrushes; specialties. Resale: X-ray film and photo products; moulding powders; adhesives; sheetings.	Automotive industry; furniture and apparel accessories manufacturing; brush making; commercial, industrial and hospital photography.

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