CANADIAN INDUSTRIES LIMITED

ANNUAL REPORT

1946

CANADIAN INDUSTRIES LIMITED

MONTREAL

Board of Directors

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E. J. BARNSLEY

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WINTHROP BRAINERD

SIR WILLIAM H. COATES, Ph.D.

CRAWFORD H. GREENEWALT, D.Sc.

GEORGE W. HUGGETT

THE RT. HON. LORD McGOWAN, K.B.E., D.C.L., LL.D.

ROSS H. McMASTER

H. GREVILLE SMITH, C.B.E.

GEORGE W. SPINNEY, C.M.G.

WENDELL R. SWINT

Officers

GEORGE W. HUGGETT, President and Managing Director

H. GREVILLE SMITH, C.B.E., First Vice-President

ROBERT W. SHARWOOD, Vice-President and Treasurer

HERBERT H. LANK, Vice-President

RUSSELL SMITH, Secretary

R. C. DOUGHERTY, Assistant Treasurer

F. S. CAPON, Assistant Treasurer

B. M. OGILVIE, Assistant Secretary

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Transfer Agent, Registrar and Dividend Disbursing Agent

NATIONAL TRUST COMPANY, LIMITED, MONTREAL

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ANNUAL REPORT

CANADIAN INDUSTRIES LIMITED has long recognized that the mere recording of financial and statistical information on any one year's performance does not enable shareholders to make the desired appraisal of long-term possibilities. Progress in any one year is to a large extent dependent on past accomplishments and is influenced by plans for the future. It is the purpose of this report to present shareholders with the salient features necessary for a broad perspective of the Company's policies and activities.

FINANCIAL REVIEW

The expansion in total sales which marked the first full year of postwar operations resulted in an improvement in the Company's earnings, but income after taxes for the year, although higher than in the preceding year, was still slightly below that of 1939. Net income underwent a pronounced decline in the first four years of the war and the recovery prior to 1946 was of moderate proportions. The fact that taxes prevented the Company in 1946 from equalling the 1939 net income takes on added significance when viewed alongside expenditures totalling $17,434,000 for additional buildings and equipment in the past seven years and the increase in sales in 1946 to a level not far from double that of 1939.

Capital Structure

At a special general meeting of shareholders of the Company held on 20th June 1946, approval was given by a virtually unanimous vote to a re-arrangement of the capital stock whereby each class "A" (voting) common share and each class "B" (non-voting) common share was subdivided into ten new common shares of one class, each bearing equal voting rights. At the same time, the number of votes attached to each preferred share was increased from one to ten in order to preserve for the preferred shareholders, on those special occasions when they are entitled to vote, substantially the same proportion of total votes as formerly. The issued capital of the Company now consists of 46,500 cumulative 7% preferred shares of $100 each and 7,001,410 common shares without par value. Throughout this report where earnings per share or similar figures for periods before July 1946 are given for purposes of comparison, they are converted to the basis of the new common shares.

Income from Operations

Income from operations before provision for taxes was 22% higher than in the preceding year. The advance of 11% in sales was a major factor in the improvement, although the substitution of commercial business for war orders which were undertaken at nominal margins over cost, and the output of new products, also contributed to the increase in earnings. Furthermore, certain extraordinary costs incurred during the year, but which resulted from special wartime conditions, were charged against reserves built up during the war years to meet such costs.

Following the decrease in the exchange rates on U.S. dollars and sterling in July, inventory values were reduced and the adjustment was charged against the reserve for inventory losses. The war contingencies reserve was charged with a further amount of $280,000 partly to write off the undepreciated value of wartime buildings and equipment discarded on reconversion to peacetime operations, and partly to make up a deficiency in the pension reserve following the recognition for Pension Plan purposes of past service of employees engaged on or after 1st September 1939.

One of the significant features of the year's operations was the rising trend in the prices of raw materials and the cost of manufacturing and distributing the Company's products. In addition to this upward movement in prices of materials and services, there was a far-reaching advance in labour costs owing to increases in wage rates and reductions in the work week at most locations. Advantage has not been taken of the greater latitude permitted by decontrol except to correct unbalanced cost-price relationships and every effort has been made to keep selling prices at or below previous levels. Some price reductions were made during the year and the increase in the average selling price of the Company's manufactured products was limited to less than one percent during 1946. Selling prices of manufactured products at 31st December were only 4% higher than in 1939, in face of a 44% increase since that year in the Canadian index of general wholesale prices. The threat of an upward movement in selling prices, however, has not yet subsided, and the situation demands the achievement of the highest possible degree of productivity, operating efficiency and economy if the influence of the many items of uncontrollable expense is to be kept at the minimum. In the past few years high demand alone has made it possible to absorb the greater part of the increased production costs, and income from operations remains vulnerable to any drop in sales volume.

Income from Investments

The increase in investment income over 1945 resulted from dividends paid by subsidiary companies out of the earnings of prior years. As stated in the annual report for 1944, dividends from Defence Industries Limited were practically eliminated in that year. Dividends were not resumed until 1946 when the establishment of the standard profit permitted the calculation of tax liabilities of prior years.

There was a decrease in the income received from the Company's investment in General Motors Corporation, and the dividends paid by Dunlop Tire and Rubber Goods Company Limited remained unchanged from the preceding year.

In conformity with the practice of previous years, earnings of subsidiary companies have not been consolidated with those of Canadian Industries Limited and have been included in investment income only to the extent of the dividends declared. All subsidiaries realized a profit on the year's operations and the total accumulated earned surplus in the five companies stood at $1,970,000 at 31st December 1946.

Taxes

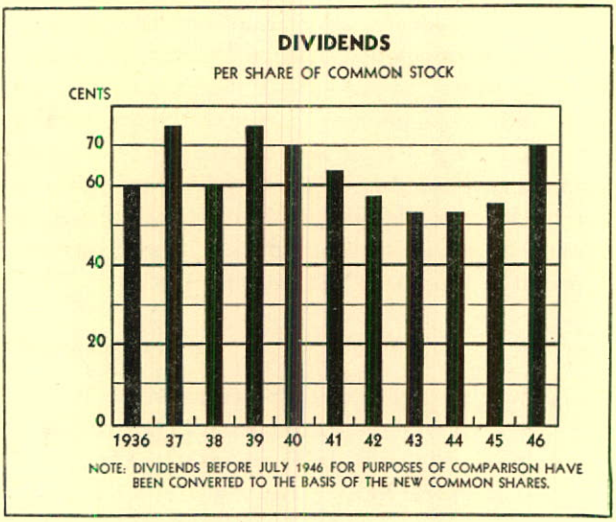
For the second time since the excess profits tax was introduced, taxable income reached the level where the maximum tax rate became applicable, and owing partly to the higher effective tax rate (maximum 60% in 1946) and to the increase in taxable income, the provision for income and excess profits taxes at $4,285,000 was over $1,000,000 more than in 1945.

The second reduction in corporation tax rates from the peak reached in 1942 came into effect on 1st January 1947 as the Dominion Government reduced its minimum combined tax rate from 40% to 30% of total profits, and the excess profits tax rate from 20% to 15% of profits above standard. In addition to the Dominion levies, however, the introduction of provincial taxes on profits of corporations, ranging from 5% to 10%, has been indicated by the respective provincial governments with the result that the total maximum rate for 1947 will be in excess of 50%.

Net Income and Dividends

Total net income for 1946 was 26% higher than in the preceding year. Earnings per common share totalling 84 cents compare with 1945 earnings of 66 cents per share.

The regular quarterly dividends were maintained on the cumulative 7% preferred stock. Dividends on the common stock equal to 70 cents per share were 15 cents per share higher than in the preceding year. The dividend in 1939 on a comparable basis was 75 cents. Payments of $1.50 per share on the old common stock were made in April and July, and a corresponding amount of 15 cents per share on the new stock was paid in October, followed by the declaration of a final dividend of 25 cents per share payable in January 1947 in respect of 1946 profits.



Capital Surplus

The change in capital surplus during 1946 included a gain on the sale of the Company's investment in Canadian Titanium Pigments Limited, a subsidiary company, and also the difference between the book value and the amount realized on the sale of land no longer required for operations.

Current Assets

The resumption of the Company's plant development program which had been interrupted by the war brought about a decrease of $1,524,000 in net current assets. In addition to the effect of heavy construction expenditures, cash and marketable securities were further reduced by the more intensive employment of funds in actual operations. Customers' accounts increased in line with the higher level of sales. The large volume of business also necessitated some expansion in inventories which was facilitated by improvements in the supply of certain raw materials. Part of the increase in inventory values, however, is accounted for by higher prices. As a result of adjustments following the changes in foreign exchange rates, the reserve against future losses in inventory values was almost entirely eliminated.

Fixed Assets

There was an increase of $4,036,000 in plant, buildings and equipment during the year, representing some new construction following the almost complete halt experienced in the later war years. Capital expenditures included major additions to plant capacity, the replacement of worn-out equipment, and the purchase of an additional office building in Montreal to house staff occupying leased space. New projects authorized during 1946 approximated $6,000,000, and since much of the actual expenditures made during the year was applicable to projects commenced in prior periods, a large amount of work remained to be completed at the end of the year.

Some progress has been made in restoring plant equipment to the prewar level of operating efficiency and a total of $2,268,000 was spent on repairs and maintenance. The charge against operating costs of $2,058,000 for depreciation was slightly lower than in 1945; most of the new units did not come into operation until the closing months of the year.

OPERATING REVIEW

The growth in output of Canadian Industries Limited which was retarded by war conditions after 1941 was resumed in 1946 and sales were 11% higher than in the preceding year.

Although the high level of national production and the rapid recovery of sales for normal industrial purposes were sustaining elements, other forces were operative which not only exerted a strong stimulus on demand but made for a greater diversification of output. The greatest impetus to sales has come from products such as nylon yarn, paints and transparent cellulose film, which are closely related to consumer goods. In fact, developments in this direction have been so marked that the growth in the sales of such products was more rapid than that of chemical materials consumed in industrial processes. New markets have been developed and new uses found for existing products; export business was greater than before the war.

The demand generated by the favourable circumstances that prevailed during the year could not be entirely satisfied. Almost all manufacturing operations have been affected by the shortages of raw materials, and erection of the additional plant capacity required to meet the needs of postwar markets was impeded by building difficulties.

Sales

An outstanding factor in the growing importance of the consumer goods industries as primary markets for the Company's products has been the development of nylon yarn which in the space of a few years has become one of the Company's major products. It was possible during 1946 to supply sufficient nylon yarn to meet the demand from hosiery manufacturers and to extend its uses to other branches of the textile industry. Economies resulted from the large volume of production made possible by expanded plant facilities and selling prices were reduced. Nylon in monofilament form is made into bristles for brush manufacture and to a lesser extent into materials for the sporting goods industry.

In response to the business which resulted from the large volume of new building and renovation in progress during the year, sales of paints experienced a marked advance. The increase was concentrated in retail sales because the requirements of the automotive and other industrial consumers were deferred by interruptions in production schedules.

As a result of restocking of distribution channels combined with the large consumer demand, sales of commercial ammunition in the first six months of 1946 were at unusually high levels, but output was curtailed later in the year by material shortages.

The first peace year brought a reversal of the downward trend in the demand for commercial explosives which had characterized the war years, but the improvement was only moderate because gold mining activity was still at a low level and the output of base metals declined.

Sales of coated fabrics and synthetic resin film were higher than in the preceding year because the termination of war orders was outweighed by the demand created by the high level of consumer purchasing power and the requirements of the automotive industry and railways.

The completion of the first stage of the program for enlarging plant facilities made possible an increase in sales of "Cellophane" cellulose film, but only a portion of the market could be supplied as many chemical ingredients continued in short supply. Because of the extensive use of this product for food packaging, allocation controls remained in effect.

Greater consumption of fertilizer has followed more intensive farm cultivation, and the upward trend in sales continued although there were shortages of important raw materials. New and improved pesticides have placed the Company in a position to offer a wide variety of agricultural chemicals. The demand for salt was also affected by expanded food production, but in 1946 sales of salt declined owing entirely to a prolonged strike in the Company's works at Windsor, Ontario, where salt, caustic soda and chlorine are produced.

There was a marked easing in the supply position of chlorine in the early months of the year as civilian industry could not absorb all of the quantities released by the cessation of war production. When operations were resumed at Windsor, Ontario, in the final quarter, a demand existed for all of the chlorine and caustic soda that could be made available.

Sales of sulphuric acid were at approximately the same level as in the preceding year. The Company's production capacity will be expanded as soon as the present units at Hamilton, Ontario, have been replaced by a new plant which will incorporate technological advances that have occurred in recent years.

Despite supply difficulties every effort was made to maintain shipments of dyestuffs to the textile and other industries. Further progress was made in the marketing of rubber chemicals and larger quantities of cyanide were taken by the mining industry.

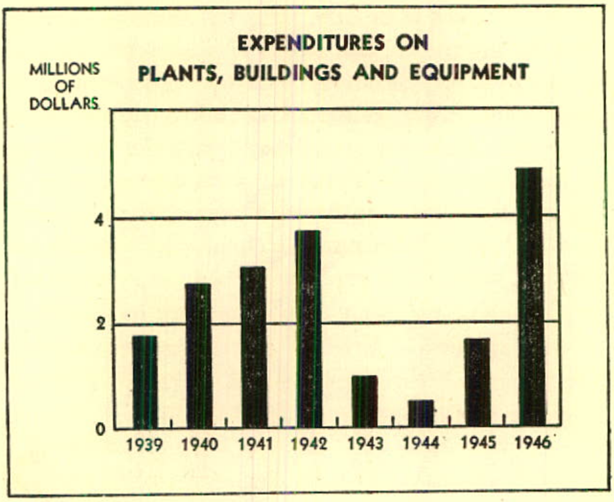
Production

The achievement of the year's high level of output presented production difficulties as great as any encountered during the war. Contrary to earlier expectations, supplies of many raw materials became more difficult to obtain and, although the situation was met in part by a revision of formulae, production curtailments and disruptions in certain plants were unavoidable. The high level of demand, moreover, necessitated several postponements of essential repairs and improvements and as a result some equipment breakdowns of the kind which follow long periods of continuous operation were experienced during the year.

There was also the task of adjusting production facilities to the volume and character of postwar requirements. Many plants were operated well above their normal level as market requirements exceeded available capacity and construction of new production facilities was delayed. Despite the problems encountered, worthwhile progress was made in increasing operating efficiency and economies were achieved by improved processes.

Plant Expansion

The Company's program of expanding capital assets is on a scale that exceeds anything undertaken in past years despite the construction difficulties which are being encountered. Substantial savings in capital costs



would in all probability be possible if major projects could be postponed, and experience has shown the difficulties which arise when new construction is concentrated in years of heightened business activity. Nevertheless, although the effect of present building costs and long delays would be considered prohibitive in other circumstances, it was necessary to undertake this expansion program in order to meet consumer requirements in the most expeditious and effective manner and substantial additions were therefore made to plant capacity for new and existing products. Other capital outlays for plant extensions, for renovations and modernization, and for changes in processes to promote greater efficiency or to permit the use of substitute products amounted to a very considerable sum in the aggregate.

The additions to the nylon plant will not be completed before midsummer. Work on the new paint plant at Toronto has been seriously delayed, but the extension to the Montreal paint unit is in full operation. Additional capacity to be provided by the new sulphuric acid plant is not scheduled to come into operation until 1948. Less urgent projects have been postponed until construction can be carried out under more favourable conditions.

Technological Developments and Research

The widespread adjustments that had to be carried out during the year once more demonstrated that one of the most important elements in the continued progress of the Company is access to the services of effective research organizations. The inventions and knowledge which flow to the Company as a result of its association with Imperial Chemical Industries Limited and E. I. du Pont de Nemours and Company are of the greatest value and exceed those obtained from its own research efforts. A further stage has been reached in the Company's expanded research program and although much of the work is exploratory and can be expected to yield a return only after an extensive period has elapsed, the effort spent on research and development in 1946 produced encouraging results. Several new chemical products were introduced and others were brought closer to commercial production. Studies were undertaken to determine the feasibility of the manufacture of products that are being obtained from other sources. As the postwar trend in costs has concentrated attention on ways of increasing efficiency and economy, some of the research efforts were expended in this direction. Processes have been improved and other advances are promised. Ways have been found to increase machine efficiency and versatility. Formulae have been modified to permit the use of substitute materials and the quality of a number of products has been further improved.

SUBSIDIARY AND MANAGED COMPANIES

Subsidiary Companies

The restricted supply of raw materials made it impossible for subsidiary companies to develop to the fullest extent the new market opportunities presented during the year. Sales, however, remained at a high level and profits tended to show an improvement over the preceding year. Total income of subsidiary companies, excluding Defence Industries Limited, was higher than in 1945, but no dividends were received from Canadian Hanson and Van Winkle Company Limited as distributions were suspended in order to conserve funds for plant expansion. The table on page 15 describes the business and summarizes the activities of individual subsidiary companies.

The task entrusted to Defence Industries Limited, the subsidiary organized in 1939 to undertake munitions production, is almost finished. The atomic energy project at Chalk River, Ontario, construction of which was largely completed by the end of 1946, was turned over to the National Research Council early in 1947, and management responsibilities on this project are expected to terminate soon. All other projects were transferred to the Government after the removal of explosives hazards.

At the close of the year the Company disposed of its interest in Canadian Titanium Pigments Limited. The charter of Gardinol of Canada Limited is in process of being surrendered, but the sale of its detergent products is being continued by Canadian Industries Limited.

Other Managed Companies

Reduced demands of customers, by reason of raw material shortages, caused sales of carbon bisulphide produced by Cornwall Chemicals Limited to decline. As a result of lower rates of taxation, net income was slightly above that of the previous year.

The stimulus of a large deferred commercial demand for the products of Dunlop Tire and Rubber Goods Company Limited counteracted the curtailment of war business. Sales reached a high level and there was improvement in net income. Dividends on the common stock at $1.25 remained unchanged from the past two years.

SUBSIDIARY COMPANIES

COMPANY	PRODUCTS AND OUTLETS	THE YEAR IN BRIEF
Aluminate Chemicals Limited	Sodium aluminate and chemical compounds for boiler water treatment, slime control and general industrial purposes.	Scarcity of materials retarded the development of new market opportunities. Sales increased moderately.
Canadian Hanson and Van Winkle Company Limited	Metal-plating supplies and equipment, degreasing solvents and machines, industrial brushes and buffs.	Production to the limit of capacity and available materials resulted in sales reaching a new high level.
Canadian Safety Fuse Company Limited	Fuse and blasting accessories for mining and other industries.	Sales declined slightly as the gradual increase in demand from the mining industry failed to offset the effect of termination of military orders.
McArthur Chemical Company Limited	Wholesalers of chemical specialties, waxes, laundry and dry cleaning supplies, tanning extracts, and other products.	Material shortages prevented any increase in the total volume of sales.
Defence Industries Limited	None.	All public-owned plants have been turned over to the Government, but some management responsibilities remain to be completed in connection with the atomic energy project.

EMPLOYEE RELATIONS

Employment

The total of 6,900 employees at 31st December 1946, represented an increase in the personnel of Canadian Industries Limited of 400 employees or 6% since the end of 1945. In comparison with August 1939, employment by the Company has been increased 84% by the addition of 3,150 employees.

At the close of the year 1,800 employees had ten or more years of service and 152 of these employees had been with the Company at least thirty years.

Employee Representation

In matters concerning conditions of employment, unions or works councils represent hourly-rated employees at all but a few small works. Where employees are represented by unions, matters not covered by a labour agreement, such as the industrial relations plans of the Company, are customarily handled by plant advisory committees. At some works, joint production committees, including union-appointed members, are consulted by local management on improvements in operating methods.

The highest possible rate of production is clearly essential if the nation is to surmount the difficulties of the period of economic re-adjustment through which it is passing. Nevertheless, throughout industry the year was notable for extensive curtailment of production schedules as a result of strikes. Within its own plants the Company and employee representatives were able to reach agreement amicably, except at Windsor works where a strike of employees lasted 109 days. Stability and responsibility in employee relations are recognized by the Company to be of first importance if developments which expand production and employment opportunities are to meet with success.

Industrial Relations Plans

Early in 1946, on conclusion of activities connected with the war, the Company decided to include in the Pension Plan and the Service Pin and Watch Plan, with full credit for past service, those employees who joined the Company on or after 1st September 1939. Minor amendments were made to other industrial relations plans in conformity with changing conditions, and a synopsis of those plans which contain personal security features is given in table form. (See page 17.)

The Board records with deep regret the death of three employees resulting from an explosion of unknown origin which occurred at James Island,

CANADIAN INDUSTRIES LIMITED

INDUSTRIAL RELATIONS PLANS WITH PERSONAL SECURITY FEATURES

	SAVINGS	VACATIONS	ILLNESS OR INJURY	HOSPITALIZATION	RETIREMENT	DEATH
Name of Plan	***Co-operative Savings Plan.*** A yearly plan first introduced in 1935.	***Vacation Plan.*** Original plan introduced in 1935.	***Disability Wage Plan.*** Original plan introduced in 1937.	***Co-operative Health Insurance Plan.**** Original plan introduced in 1935.	***Pension Plan.*** Original plan introduced in 1919.	***Employees' Benefit Plan.*** Original plan introduced in 1920.
Purpose of Plan	To encourage regular saving. Participants may deposit with the Trustee up to $20 a month but not at a rate exceeding 10% of monthly earnings.	To provide an annual vacation with pay of two weeks, the second week being subject to annual authorization.	To provide against total loss of earnings during periods of disability resulting from illness or accident. Maximum payment equivalent to thirteen weeks' full wages following first week of absence.	To provide against extraordinary hospital, surgical and certain other medical expenses arising from non-occupational disabilities.	To provide monthly payments to employees substantially incapable of continuing to perform normal duties (non-contractual).	To provide on the death of an employee or pensioner a benefit ranging from $1,000 after six months' service to $1,500 after five years.
Employees Eligible to Participate	Employees having one year's service on 1st January of the current year and earning not more than $250 a month.	Payroll employees on completion of one year's service and annually thereafter.	Payroll employees having one year's service, excluding a limited number of employees because of specific disabilities.	Employees having six months' service, excluding a limited number of employees because of specific disabilities.	Employees having 15 years' service.	Pre-war employees and pensioners.
Company's Direct Contribution	Company contributes 25 cents on each dollar of employees' savings under the terms of the Plan.	Total cost borne by Company.		Premiums paid jointly by Company and participating employees.	Total cost borne by Company.	

*Family Hospitalization Insurance added in 1944 as supplement to Co-operative Health Insurance Plan. Premiums paid by insured employees.

31st December, 1946

British Columbia. The accident was the first to cause loss of life in commercial high explosives production at this works since the start of operations in 1919. The long-established policy of continuously examining operating conditions and practices with a view to minimizing industrial injuries, accompanied by excellent collaboration on the part of employees, again achieved a remarkably low frequency of accidents. In 1946 nine awards were won under the No-Accident Record Plan, a number which has been exceeded only once since the introduction of the Plan in 1930.

Re-instatement of War Veterans

By the end of the year nearly all employees who left the Company to enter the armed forces and who had re-instatement rights had returned to work. The Company has every reason to believe that its plans for re-instatement of ex-servicemen found ready acceptance and much of their success can be attributed to the evident desire and ability of the returning ex-servicemen to adjust themselves quickly to civilian employment. About 32% of the men employed by the Company are veterans of either World War I or World War II, including 600 employees who had not worked for the Company before enlistment.

At 31st December 1946 the Company terminated the scheme under which for more than seven years grants to supplement pay and allowances from the armed forces were paid, where applicable, to men who were with the Company before the war.

General

Training of employees continued to receive close attention and further progress was made with the staff training program and the courses aimed at developing supervisory talent.

In successive annual reports the Board has expressed its recognition of those fine qualities displayed by employees which assisted the Company during the war years to fulfil the heavy demands made upon it. No less commendable is the exercise of those qualities in time of peace. The goodwill reflected in employees' efforts to discharge their duties in full measure is of vital importance to the progress of the Company and the Board takes this opportunity of recording its recognition of the extent to which the diligence of employees contributed to the results reviewed in this report.

Bonus Plan

The Bonus Plan which has been in effect since 1923 provides a means of rewarding outstanding performance by those employees who show unusual ability, initiative and interest in the Company's welfare and long-term progress. In accordance with the provisions of the Plan, the Board of Directors establishes each year, when earnings are adequate, a fund of not more than 15% of the amount by which the net income of the Company, after all other charges, exceeds 6% on the issued capital stock and earned and capital surplus; the investment in shares of General Motors Corporation and the income therefrom are excluded in calculating the amount of the fund. Awards are decided by a Bonus Committee which is appointed annually by the Board of Directors and is composed of directors who are not salaried officers or employees of the Company and who do not participate in the awards. For the year 1946, awards were made to 232 employees including the President and First Vice-President who are also directors of the Company.

Under the terms of the Plan, the awards are delivered in four equal annual instalments and the Bonus Committee is empowered to decide the extent to which the awards shall be delivered in the form of cash or shares of the Company. Experience has shown that interest in the progress of the Company is encouraged by stock ownership on the part of outstanding employees, but owing to the continued high level of personal income tax rates all deliveries in 1946 were made in cash. Before each remaining annual instalment becomes due, however, consideration will be given to the resumption of the practice of making deliveries in shares of the common stock of the Company.

ORGANIZATION

In the course of the studies undertaken in preparation for postwar developments, special attention was paid to the subject of organization.

A re-arrangement of certain industrial divisions in May resulted in the discontinuance of the Cellulose Products Group and the formation of the "Cellophane" and Nylon Group and the Fabrics, Paints and Plastics Group, thus increasing the number of industrial groups to five in place of four.

In view of the increasing variety of products such as pesticides and feed supplements being offered for agricultural purposes, the name of the Fertilizer Division was changed in July to Agricultural Chemicals Division and a corresponding change was made in the name of the group of which it is part.

Re-organization of the Chemical Group, which took effect after the close of the year, resulted in the replacement of the three product divisions (Alkali, General Chemicals and Organic Chemicals) by four functional divisions (Control, Development, Production and Sales). This integration of functions made necessary by the growth of the Chemical Group and the multiplicity of its products, will facilitate service to customers.

The Development Department and the Research Department were set up in May in place of the Research and Development Department, in line with the greater emphasis on research activities and to provide for a more specialized approach to problems concerning the growth and diversification of the operations of the Company.

A chart of the Company's administrative organization has been inserted at the end of this report.

DIRECTORS

After being associated with the Company as a director for sixteen years, Jasper E. Crane retired from the Board in June 1946. In accepting his resignation with much regret, the Board paid tribute to the important contribution he had made in the direction of the Company's affairs. The vacancy was filled by the appointment of Crawford H. Greenewalt, D.Sc.

OUTLOOK

The considerable volume of consumer purchasing power, the extensive deferred demand, and the large markets which existed for Canada's primary products made possible for Canadian Industries Limited in 1946 a record volume of sales. There was a corresponding recovery in earnings from the diminished returns of the war years. Selling prices of the great majority of the Company's manufactured products were held at the 1941 level and progress was made on the enlargement and improvement of production facilities. It would be most unwise, however, if the favourable results of a single year were permitted to obscure the very difficult problems that lie beneath the surface of current prosperity. The situation calls for the concentration of every effort to promote efficiency and an expanding volume of production as the fulfilment of all other expectations is dependent upon the realization of this objective.

On behalf of the Board of Directors,

G. W. HUGGETT,

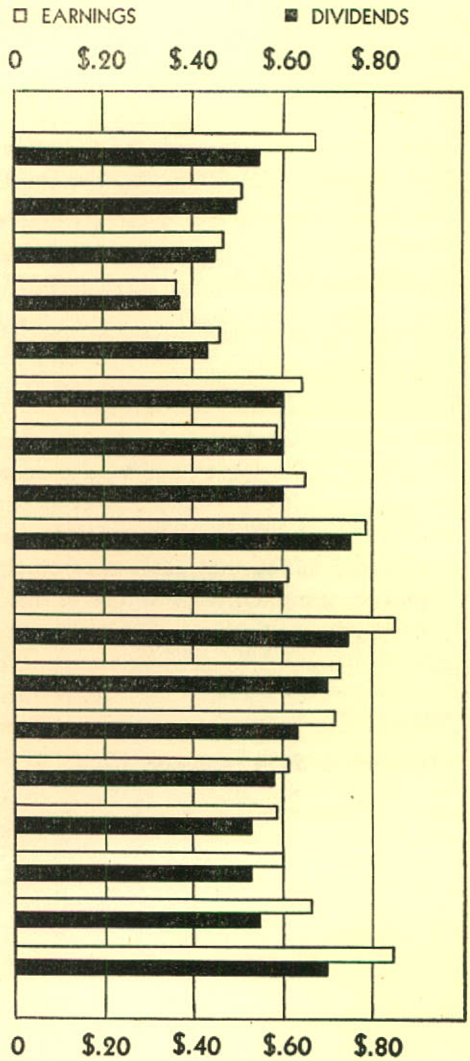
President and Managing Director.

28th March, 1947,
Montreal, Canada.

CANADIAN INDUSTRIES LIMITED

EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK 1929 TO 1946

EARNINGS	DIVIDENDS	
CENTS PER SHARE OF COMMON STOCK		
67	55	1929
51	50	1930
47	45	1931
37	38	1932
46	44	1933
64	60	1934
59	60	1935
65	60	1936
79	75	1937
61	60	1938
85	75	1939
73	70	1940
72	63	1941
61	58	1942
59	53	1943
60	53	1944
66	55	1945
84	70	1946



NOTE: EARNINGS AND DIVIDENDS BEFORE JULY 1946 FOR PURPOSES OF COMPARISON HAVE BEEN CONVERTED TO THE BASIS OF THE NEW COMMON SHARES.

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, 1946, 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 Dominion Companies Act, we report that dividends received from subsidiary companies during the year 1946 and included in the attached accounts exceed by $721,901 the Company's share of the aggregate profits of the subsidiary companies for the year and to that extent have been paid from earnings of prior years.

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, 1946, 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, 27th February, 1947.

CANADIAN INDUSTRIES LIMITED

STATEMENT OF INCOME AND EARNED SURPLUS

For the Year Ended 31st December, 1946

Income from Operations after charging all expenses including depreciation		$ 9,020,495
Income from Investments	$1,470,077	
Profit on sale of Marketable Securities	19,500	1,489,577
		$10,510,072
Reserve for income and excess profits taxes		4,284,900
NET INCOME FOR THE YEAR		$ 6,225,172
Dividends:		
Preferred 7% Cumulative Stock	$ 325,500	
Common Stock	4,900,987	5,226,487
		$ 998,685
Earned Surplus at 1st January, 1946		7,131,210
EARNED SURPLUS AT 31ST DECEMBER, 1946		$ 8,129,895

Note: Included in the expenses charged against Income from Operations are the following items: depreciation $2,058,131, remuneration of executive officers including bonus awards $344,459, directors' fees $20,000 and legal expenses $7,520.

STATEMENT OF CAPITAL SURPLUS

For the Year Ended 31st December, 1946

Capital Surplus at 1st January, 1946	$14,938,384
Net Gain on Realization of Assets in 1946	637,756
Capital Surplus at 31st December, 1946	$15,576,140

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BALANCE SHEET AT

ASSETS

CURRENT ASSETS			
Cash		$ 3,436,238	
Dominion and U.S. Government Securities (Market value $9,513,000)		9,469,140	
Accounts Receivable, less reserve for doubtful accounts		6,055,204	
Customers	$5,356,174		
Subsidiary Companies	152,862		
Other Accounts	546,168		
Inventories, valued at the lower of cost or market price, less reserve against future loss in inventory values		10,559,612	$29,520,194
DEFERRED CHARGES TO OPERATIONS			369,423
PORTION OF 1942 TAXES REFUNDABLE NOT LATER THAN 31ST MARCH, 1948			60,700
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		$48,188,151	
Land, at cost		2,271,670	
Goodwill, Patents and Processes		3,377,151	53,836,972
Investments in Subsidiary Companies		$ 2,934,583	
Shares in Other Companies (including marketable shares, book value $2,500,000, market value $6,562,500)		3,787,500	6,722,083
			$90,509,372

Approved on behalf of the Board,

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

STRIES LIMITED

31st DECEMBER, 1946

LIABILITIES

CURRENT LIABILITIES			
Accounts Payable		$ 4,221,993	
Subsidiary Companies		30,046	
Dominion and Municipal Taxes		2,413,617	
Dividends Declared		1,831,728	$ 8,497,384
DEFERRED LIABILITIES			256,106
RESERVES			
Depreciation of Plants, Buildings and Equipment		$30,693,690	
Depreciation of Securities		1,200,000	
Pension and Benefit Plans and Self Insurance (In addition $2,260,210 is held in an irrevocable Pension Trust Fund)		4,874,525	
War Contingencies		732,025	37,500,240
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 Stock	46,500	$ 4,650,000	
Common Stock	7,001,410	15,899,607	
CAPITAL SURPLUS		15,576,140	36,125,747
EARNED SURPLUS (Including $60,700 for the portion of 1942 taxes refundable not later than 31st March, 1948)			8,129,895
			$90,509,372

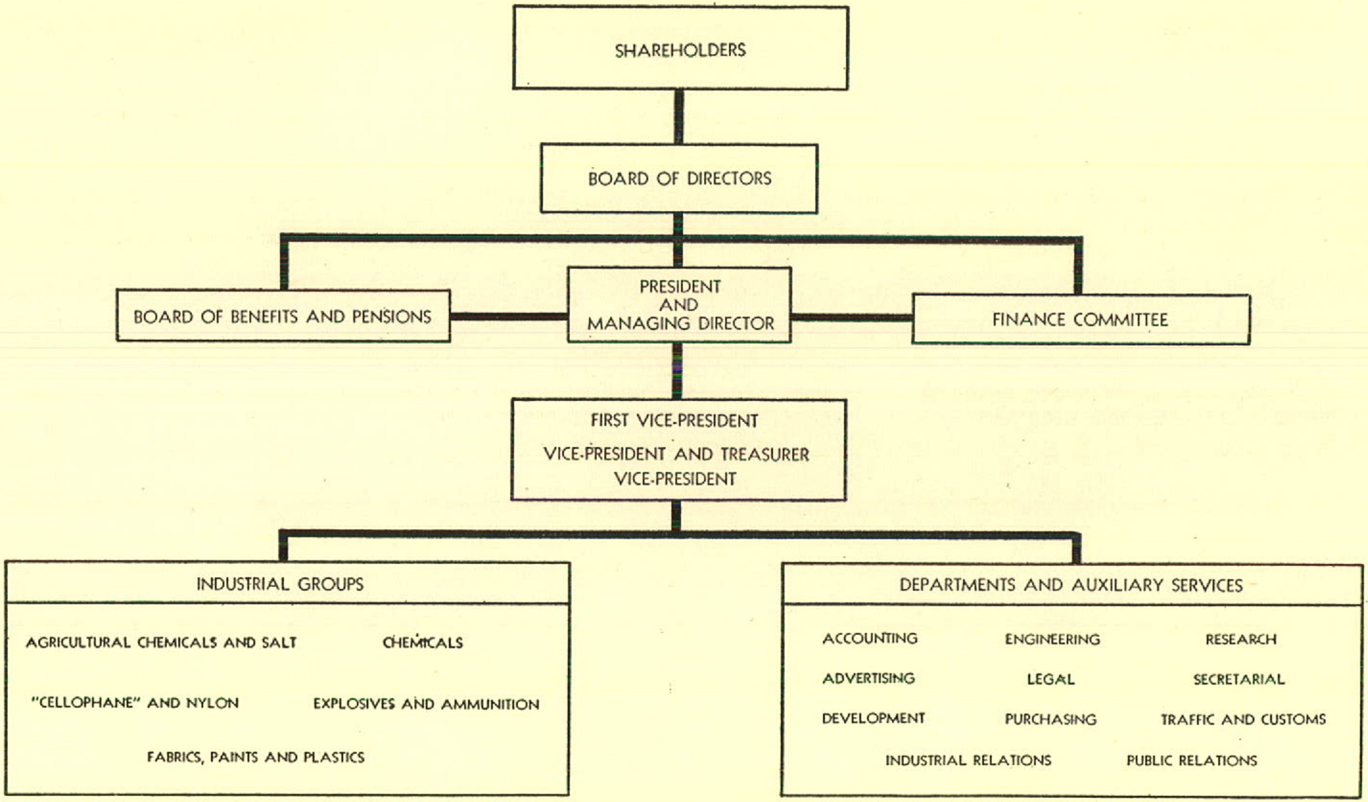
This is the Balance Sheet referred to in our attached report of even date.

P. S. ROSS & SONS, Chartered Accountants.

Montreal, 27th February, 1947.

CANADIAN INDUSTRIES LIMITED

ORGANIZATION CHART



CANADIAN INDUSTRIES LIMITED

PRODUCTS	WORKS
AGRICULTURAL CHEMICALS AND SALT GROUP	
Agricultural chemicals including compound fertilizer, superphosphate, insecticides, fungicides, seed disinfectants, weed killers, mineral and vitamin feeding supplements for livestock.	Halifax, N.S.; Beloeil and Montreal, Que.; Chatham and Hamilton, Ont.; New Westminster, B.C.
Salt in all grades for household, agricultural and industrial uses.	Windsor, Ont.; Neepawa, Man.
"CELLOPHANE" AND NYLON GROUP	
Plain transparent and moistureproof transparent "Cellophane" cellulose film.	Shawinigan Falls, Que.
Nylon yarn for the textile industries.	Kingston, Ont.
CHEMICAL GROUP	
Organic and inorganic chemicals including: acids, commercial and C.P.; ammonia and other refrigerant gases; bleaching powder; caustic soda; chlorinated solvents; chlorine; chloroform; colours and pigments; dyestuffs and intermediates; fluxes; hydrogen peroxide; mining, petroleum and rubber chemicals; neoprene; silicates; sulphites and hyposulphite; zinc and ammonium chlorides; etc.	Shawinigan Falls, Que.; Copper Cliff, Cornwall, Hamilton, Toronto and Windsor, Ont.
EXPLOSIVES AND AMMUNITION GROUP	
Small arms ammunition; loaded and empty shot shells and metallic cartridges; railway fusees and track signals; motorists' flares; cartridge and shot shell components; primers and detonators. Resale products—explosive rivets.	Brownsburg, Que.
Commercial explosives and blasting accessories.	Beloeil, Que.; Nobel, Ont.; Brainerd, Man.; James Island, B.C.
FABRICS, PAINTS AND PLASTICS GROUP	
Pyroxylin, natural and synthetic rubber and synthetic resin coated fabrics, and synthetic resin films for all purposes.	New Toronto, Ont.
Paints, enamels, varnishes and lacquers for the aircraft, automotive, industrial, maintenance, marine, railway and retail trades; household cement and other specialties.	Montreal, Que.; Toronto, Ont.; Regina, Sask.
Nylon monofilament for brushes and fishing lines; tooth brushes, combs and specialties. Resale products—thermoplastic and thermosetting plastics for moulders, fabricators and laminators; X-ray film and other photo products.	Brownsburg, Que.