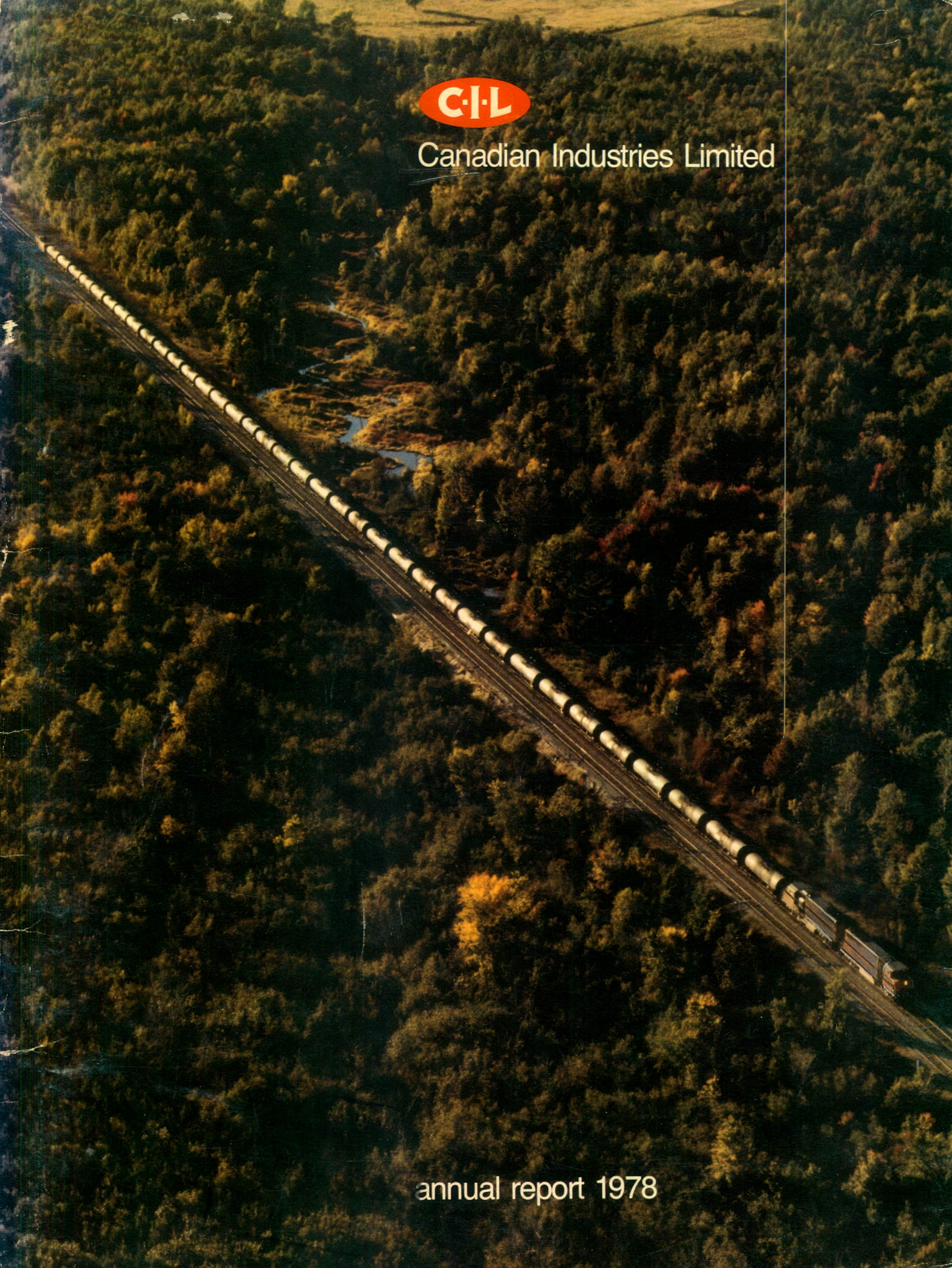


Canadian Industries Limited

annual report 1978

Consolidated Financial Highlights

	1978	1977
Sales	**$746,857,000**	$667,838,000
Income before taxes	**49,264,000**	49,639,000
Net Income before extraordinary items	**26,416,000**	24,853,000
Working capital at December 31	**151,000,000**	128,441,000
Capital expenditures (including expenditures for acquiring new subsidiaries and associated companies)	**102,507,000**	59,257,000
Common shares outstanding at December 31	**9,794,161**	9,794,161
Earnings per common share before extraordinary items	**$2.28**	$2.52
Dividends per common share	**$1.28**	$1.28
Number of shareholders at December 31		
Common	**4 354**	4 544
Preferred	**491**	507

One of CIL's businesses is sulphuric acid. The Company not only makes it but also buys it for resale, and is Canada's leading supplier of merchant sulphuric acid. Large-scale deliveries are made over distances of 800 miles to customers in Canada and the United States, by 36 and 56-car unit trains. This method of long-distance transportation of bulk chemicals was an innovation when inaugurated by CIL in 1967.

On peut se procurer le présent rapport en français en s'adressant au Secrétaire, Canadian Industries Limited, C.P. 10, Montréal (Québec) H3C 2R3

The Company

We are a major Canadian manufacturer and distributor of chemicals and allied products, tracing our roots back to the early days of the nation. We supplied explosives for the construction of Canada's first railroads and the unlocking of the nation's natural resources.

Today our Company is in the forefront of the expansion in the Canadian chemical industry, accounting for about 1/10 of the industry's total sales dollars. More and more we are contributing to international trade with export sales in 1978 reaching $102 million, representing 14% of total sales.

The Company and its subsidiaries operate more than 30 plants and numerous smaller facilities across Canada, employing more than 8000 people. We also have operations in other countries.

Our main business divisions are agricultural chemicals, general chemicals, industrial chemicals, explosives, paints and plastics. As well as products of our own manufacture, we distribute a wide range of chemicals and allied products supplied by other producers. In addition to these products and services,we sell technology developed through our long experience in manufacturing chemicals and related products.

We are a federally incorporated company with approximately 26% of our common stock held by about 4400 shareholders, most of whom are residents of Canada. Our majority shareholder is Imperial Chemical Industries Limited of the United Kingdom, one of the world's largest chemical companies.

Of our twelve directors nine are Canadian citizens, of whom four are officers of the Company and five are leaders in other areas of Canadian business.

Principal operating subsidiaries

ALCHEM INC.
Water treatment and specialty chemicals

CANADIAN HANSON LIMITED
Electroplating supplies

CHEMETICS INTERNATIONAL LTD.
Chemical plant, equipment processes, and design; sodium chlorate

CHIPMAN INC.
Insecticides, herbicides, fungicides

C-I-L CHEMICALS, INC.
Chemicals distribution

CONTINENTAL EXPLOSIVES LIMITED
Explosives distribution

CXA LTD.
Detonators, detonating cord and fuses

ECO-RESEARCH LTD.
Environmental survey, measurement and engineering services, and waste treatment processes

EXPLOSIVES SALES (1970) LIMITED
Explosives distribution

INLAND CHEMICALS LTD.
Sulphuric acid, alum

JARVIS CLARK COMPANY LIMITED
Underground mining and construction equipment

WEST AFRICAN EXPLOSIVES AND CHEMICALS LTD., LIBERIA
Explosives

Principal associated companies

CANADIAN FREEHOLD PROPERTIES LTD.
Property development

CANSO CHEMICALS LIMITED
Caustic soda, chlorine and sodium chlorate

CORNWALL CHEMICALS LIMITED
Carbon tetrachloride and bisulphide, fine sulphur

J.D. LEE ENGINEERING LIMITED
Engineering services

TRICIL LIMITED
Waste management and disposal

Canadian Industries Limited
CIL House
630 Dorchester Boulevard West
Montreal, Quebec
H3C 2R3

Designed by
BODSON, GAUTHIER & Associates Ltd.
Lithographed in Canada
by RBT Printing Limited

Legal deposit — second quarter 1979
Quebec National Library

To the Shareholders:

Much has already been said about the business conditions under which we operate today — the slow economic growth and uncertain economy, the continually rising cost of raw materials and the growing expense of financing expansion, the persistent cost/price squeeze, fiercer competition, and so on.

It is enough to say here that we are experiencing major and fundamental changes in the business arena, some of which, being related to energy resources, will have a lasting effect on the way we do business. We are operating in a more cost-sensitive environment, one in which it is imperative to make more efficient use of resources, to find new and more effective ways to reduce costs, and to improve productivity in every way we can, in order to survive and be successful.

For CIL in 1978 the challenges of this environment were compounded by strikes at important customer locations which had a major negative effect on some of our principal businesses. A shortage of sulphuric acid for purchase and resale by CIL and the lengthy shutdown of Inco Limited's operations which supply the feedstock for CIL's sulphuric acid and sulphur dioxide complex at Copper Cliff, Ontario, forced us to purchase acid from around the world to satisfy our customers' needs. This situation resulted in substantially reduced income from this business area. In addition, strikes in the iron ore mines in 1978 and the slack situation throughout most of the mining and construction industries greatly affected our sales of explosives, underground mining equipment, and ore processing chemicals.

Despite these conditions, we were able to increase total sales to $746,857,000, a gain of 12% over the preceding year. Net income at $26,416,000 was 6% higher than in 1977. After providing for dividends of $3,930,000 on the February issue of preferred shares, earnings a common share amounted to $2.28 compared to $2.52 for the previous year. Dividends on common shares were $1.28 a share, unchanged from the previous year.

These results, while short of expectations and far from satisfactory relative to return on investment, were better than might have been expected under the circumstances and we recognize and are grateful for the intensive effort put forth by employees throughout a difficult year.

While some improvement in the economy is expected for the next year or so, we shall have to wait until the early 1980s for a stronger upturn. To CIL the challenge of this intervening period will be to seize the opportunity for improved productivity and effectiveness in preparation for the inevitable turnaround.

To conserve our resources during this inflationary period of high cost financing, we reviewed our forward capital expenditure program with extreme care. We deferred some projects of lesser importance for a year or two, while concentrating on expanding and modernizing facilities in those areas which have potential for better returns in the early 1980s.

Construction continued ahead of schedule on the expansion at Bécancour, Quebec, which will double our capacity for production of chloralkali products at this location. This project, which will be completed significantly below the projected cost of $100 million, will go on stream in the latter half of 1979. Its output will be sold in the northeastern United States as well as in Eastern Canada.

A new project to increase production of urea at Lambton Works, the Company's fertilizer manufacturing complex near Sarnia, Ontario, was begun in 1978. This $18 million expansion, when completed early in 1980, will help to supply a fast growing demand for urea in preference to other fertilizer materials. It will be sold in granular form and as a nitrogen solution.

A new plant for making cap-sensitive slurry explosives was started up at Nobel, Ontario. Also, construction of a plant to produce explosives grade nitric acid was completed at Lambton Works during the fourth quarter and is now in full production. Its nitric acid output will provide the feedstock for newly expanded TNT capacity at Beloeil, Quebec.

Development of our industrial chemicals export business continued with expansion of both distribution facilities and the marketing organization of C-I-L Chemicals, Inc., a wholly-owned U.S. subsidiary. A shipping terminal on Georgian Bay for transportation of sulphuric acid on the Great Lakes to C-I-L Chemicals' terminals in the United States was completed. Economies in long-distance movement of sulphuric acid by unit train and by ship are fundamental to the rapid growth of this business.

A parcel of land was acquired in metropolitan Toronto during 1978 for future use as a Toronto regional office. Centrally located, the property when developed will provide more efficient accommodation for CIL regional personnel currently located at nine sites in the area.

The large expansion of CIL's chloralkali manufacturing plant at Bécancour, Quebec, as shown in this photo, will be completed in mid-'79.

We are considering an expansion to double present capacity of low density polyethylene at our Edmonton plant. Current plans call for site work to begin in 1979 with completion and start-up in the fourth quarter of 1981.

Overall, capital expenditures in 1978 amounted to $103 million and will remain high over the next two years. It is expected that the necessary funds will be generated internally and through temporary short-term borrowing. No additional long-term financing is contemplated for the present program.

While making prudent use of capital for expansion, we are also concentrating on making the best use of all our other resources — people, technology and existing assets. In 1978 our technology and know-how were used to help improve overall productivity by upgrading and modernizing several manufacturing facilities and by extending capaciy at some sites..Manufacture of explosives at James Island, B.C., and of chloralkali products at Shawinigan, Quebec, were discontinued, these operations being no longer viable. Other activities continue at these sites.

The international marketing of plants and equipment, based on our explosives and chemicals manufacturing technology, by our subsidiary Chemetics International, was pursued vigorously throughout the year and contributed directly to the generation of new income.

With respect to people, some reorganization at the senior management level has resulted in a stronger, leaner management group overall. A new unit, under the name CIL Région du Québec, was formed to take responsibility for CIL plants, warehouses, sales and marketing activities in the province. It is already in operation and developing according to plan.

Though the immediate outlook is one of only moderate economic growth in Canada, we look forward with optimism and purpose. We will continue to give attention to internal cost reduction, to the best deployment of all of our resources, and to the strenghthening of our high potential businesses. Our capital investment of the past two years is not yet contributing greatly to earnings, but is well placed for the upturn we expect within the next few years. While no more than a modest advance in earnings is forecast for 1979, the Company is well prepared for greater economic activity with higher returns in the not too distant future.

On behalf of the Board of Directors,

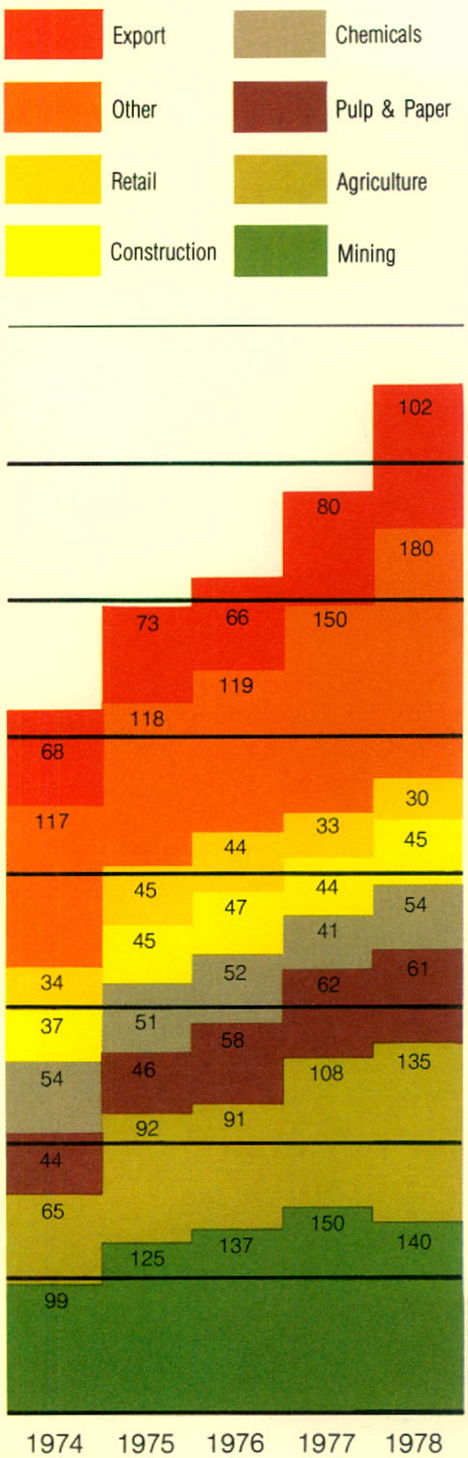
W. J. Mandry

W. J. Mandry
President and Chief Executive Officer

Montreal, Quebec, March 22, 1979

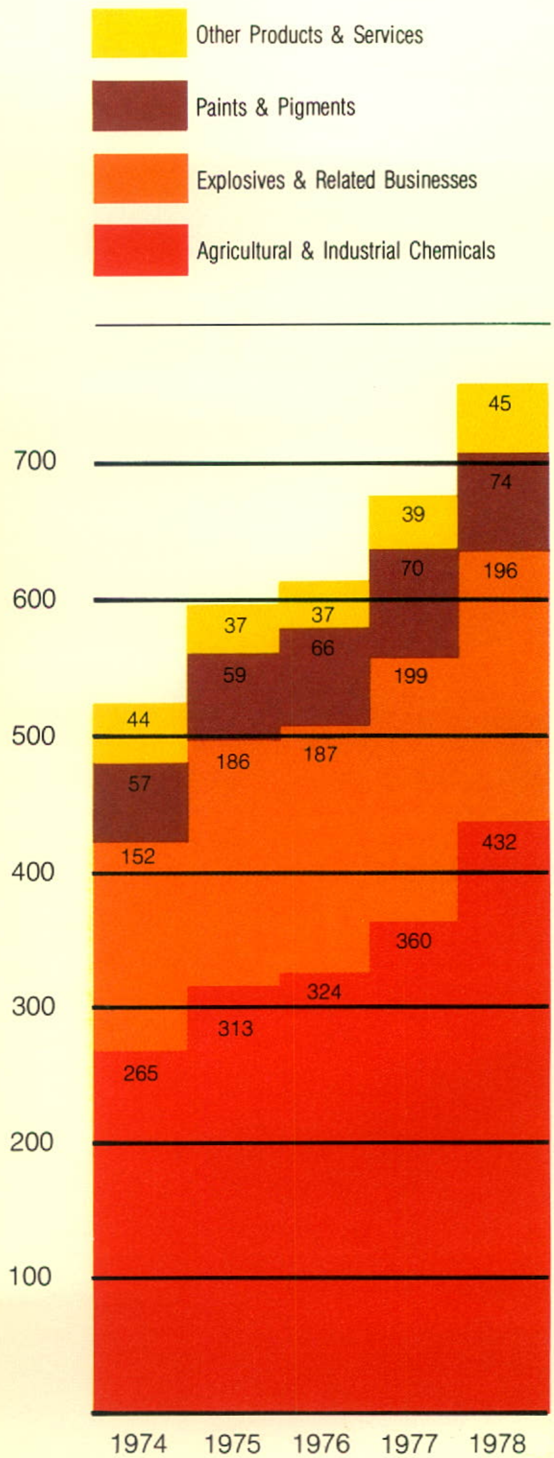
Sales by industry

millions of dollars



Sales by business area

millions of dollars



Operations

Agricultural and Industrial Chemicals

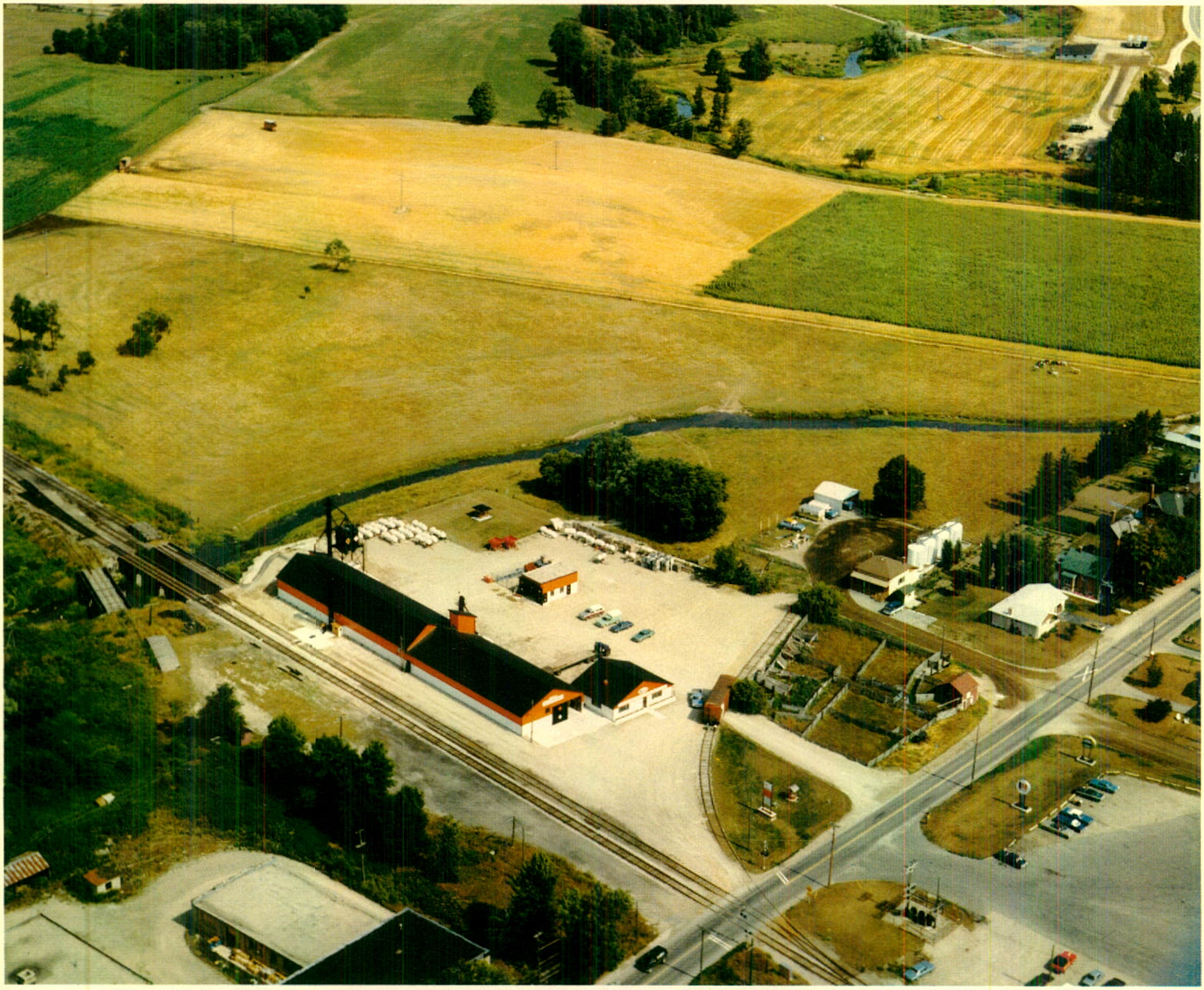
Agricultural Chemicals

CIL has been producing fertilizer chemicals since 1900 and today is the largest single supplier of nitrogen and phosphate fertilizers in Eastern Canada. Exports are made to the north central United States and, on occasion, overseas.

Fertilizer materials are sold to co-manufacturers and large distributors and blenders as well as to individual farmers. The business operates a network of more than 50 farm supply centres in Eastern Canada, known as "Agrocentre" or "Agromart" centres. Fertilizers are custom-blended for the farmer at these locations. In addition, specialty fertilizers for the home gardener are sold to garden centres.

The continuing rise in the cost of natural gas is a major concern in this business area and was a strong factor in holding earnings in 1978 below those of the preceding year. Natural gas is an essential raw material representing more than 75% of the total cost of producing ammonia and, in Canada, it has increased in price by more than four times over the past five years. The result has been an average increase of 23% per year since 1973 in the production costs of ammonia, a basic fertilizer material.

Of the more than 50 farm supply centres distributing CIL fertilizers to farming communities across Eastern Canada, many are wholly-owned and some are joint ventures, such as this CIL 'Agromart' at Elmira, Ontario.



U.S. producers, who represent major competition for CIL, have not had similar imposed increases and, in order to remain competitive, CIL fertilizer prices could not be increased to recover the higher costs of raw materials.

Little relief from this cost/price squeeze is expected without a change in current government policy which indexes the price of natural gas, which is in surplus, to the international price of oil. It is hoped that natural gas will eventually be priced to be competitive with the prevailing price paid by ammonia producers in major producing states in the U.S.A.

Since 1970 market demand for urea fertilizer has increased much faster than for other fertilizer materials, due to the higher proportion of nitrogen nutrient in urea. This changing trend prompted the decision to expand production of urea, and construction of new facilities began in 1978. The $18 million expansion at CIL's main fertilizer manufacturing complex near Sarnia, Ontario, will double urea capacity to 140,000 tonnes a year. It will be sold as granular urea and in nitrogen solutions. Production is scheduled to begin early in 1980.

For the year immediately ahead, the Company sees little change in results from its agricultural chemicals business. However, further down the road as the fertilizers market continues its high rate of growth, supply and demand will become better balanced. This situation, together with improvements in prices over costs, and CIL's additional capacity in urea, should result in better performance in this business.

Chipman Inc.
Chipman Inc., the Company's wholly-owned formulator and Canada-wide distributor of crop protection products, had an excellent year in 1978 and expects 1979 to be another year of growth.

Sales were up 25% from 1977 and earnings increased substantially despite sharp increases in operating costs. The greatest gains were in Western Canada where an increasing percentage of this company's sales and profits are being made. In Eastern Canada, drought conditions and an early frost in some potato-growing areas adversely affected the volume of products sold.

A $1.2 million expansion of production facilities at Stoney Creek, Ontario, was constructed in 1978 and went on stream in November. The new plant enables Chipman to make liquid and granular herbicides and, with other facilities at Stoney Creek and at Moose Jaw, Saskatchewan, it gives the company the most comprehensive pesticide formulating facilities in Canada.

Industrial Chemicals

With assets representing the Company's largest capital investment, the industrial chemicals business area is an important contributor to Company profits. This business in bulk chemicals includes operations of a wholly-owned U.S. subsidiary, C-I-L Chemicals, Inc. In 1978 combined sales were up significantly from the preceding year but profits were lower as a result of major difficulties in the sulphur products business area.

CIL is Canada's principal supplier of merchant sulphuric acid, marketing and distributing not only its own acid but also acid purchased on long term contracts from other producers. From the start of 1978, only reduced amounts of sulphuric acid were available from these suppliers, due to less activity in the metallurgical industries. This situation deteriorated further until finally a strke at Inco Limited which supplies the feedstock for CIL's sulphuric acid manufacturing operations at Copper Cliff, Ontario, completely cut off production at that location. This strike, which started in mid-September was still unresolved at year-end. Due to the shortage of supply from these regular sources throughout the year, sulphuric acid for CIL customers had to be purchased from around the world, adversely affecting results from this business area in 1978.

In preparation for greater sales volume of sulphuric acid in the near future, a terminal at Spragge, Ontario, on Georgian Bay, was completed in 1978. This terminal will enable the Company to ship sulphuric acid by water to C-I-L Chemicals' terminals in the United States. A terminal at Cleveland received its first shipload of acid in December 1978, while land was purchased for a future terminal to be located at Chicago.

Sulphuric acid is also manufactured by a wholly-owned CIL subsidiary in Western Canada, Inland Chemicals Ltd. This company, which also produces aluminum sulphate, increased its sales by 17% over 1977.

Production of liquid sulphur dioxide at Copper Cliff was also stopped by the Inco strike. CIL helps to supply the North American market for this product and is currently studying the feasibility of installing manufacturing facilities in the Chicago area.

The expansion to double capacity of CIL's chloralkali plant at Bécancour, Quebec continued ahead of schedule in 1978. This project will be completed by mid-'79 below the estimated cost of $100 million. Other capital expenditures in the chloralkali business in 1979 will include upgrading of facilities at Cornwall, Ontario.

The industrial chemicals marketing organization of C-I-L Chemicals, Inc. was restructured in 1978 with the formation of a unit to focus specifically on markets for chloralkali. A new office was opened by C-I-L Chemicals at Westport, Connecticut; other offices are operating in Detroit, Cleveland and Chicago.

This subsidiary continued to develop and expand its operations in 1978 and now also markets CIL's agricultural chemicals and explosives, and the services offered by Eco-Research Ltd., a wholly-owned CIL subsidiary.

The decision was made to close down the 40-year-old chloralkali manufacturing operations at Shawinigan, Quebec, at the end of January 1979. The manufacture of chlorinated solvents and the operation of caustic soda finishing facilities will continue at this location.

In 1979, it is expected that demand from the pulp and paper industry, which uses about one half of the division's total production of chloralkali products, will increase. Also, sales of ore processing chemicals will continue to expand, particularly with increased activity in uranium mining. The overall outlook is for a substantial increase in sales but results will again be adversely affected by the strike at Inco.

Rigid urethane foam is the only insulation that can be sprayed or poured in place, and it is the most efficient insulation in the market. Demand for this product is increasing at about 10% per year.

General Chemicals

The general chemicals business covering the packaging and marketing of chemicals, has been a steady and important contributor to Company profits. One of the reasons for this good performance is the wide variety of industries served through 4000 customers and 200 product lines.

In 1978 the business continued its rate of growth in most of its markets for both manufactured and resale products. There was a marked improvement in the high growth urethanes insulation business as well as in the profitability of the business in packaged chemicals in Western Canada. Sales to the mining industry were adversely affected by the depressed state of parts of this industry. It is expected that overall profitability will improve further in 1979.

The Company plans to build a new packaging plant for compressed gases in Alberta in 1979 to support continuing growth of this business in that area.

C-I-L Chemicals, Inc. markets and distributes CIL's products in the United States. Besides this office at River Rouge, Michigan, it has offices at Cleveland, Ohio; Chicago, Illinois and Westport, Connecticut.

Alchem Inc.

Sales of Alchem Inc., a specialty chemicals manufacturing and distributing subsidiary owned 51% by CIL, improved substantially in 1978 in all of its business areas. Major gains were made in chemicals for steel, oil refineries, and pulp and paper applications.

Profits improved as well although costs of raw materials and services continued to increase while competitive pressure made it difficult to maintain traditional profit margins.

It is expected that new products and expanded manufacturing facilities in Canada will broaden the market in 1979 for chemicals used in steel mills, pulp and paper, water clarification and effluent control applications.

Canadian Hanson Limited

Canadian Hanson Limited, owned 85% by CIL, specializes in the manufacture and supply of products and equipment for industrial plating of various surfaces, chiefly metal and plastic. Sales and earnings for all segments of its business in 1978 exceeded the previous year, reflecting the increased demand for all of these products in the Canadian market. The demand for equipment was particularly strong.

Cornwall Chemicals Limited

Cornwall Chemicals Limited, owned 50% and managed and operated by CIL, had an excellent year in 1978. Unusually high sales of sodium hydrosulphide to the pulp and paper industry more than offset declines in mining and other sectors. As a result, profits were significantly higher in 1978 than in the preceding year.

Chemetics International Ltd.

Chemetics International Ltd., a wholly-owned subsidiary formed in 1970, continued its rapid growth in 1978, more than doubling revenue of the preceding year. This company, which sells chemical process technology in the form of fully engineered systems world wide, had a $45 million turnover from operations in 16 countries, in 1978.

At the end of the year Chemetics had unfilled orders of about $35 million. Principal agreements signed in 1978 include two for nitration plants at Hannibal, Missouri and one for the second phase of a sulphuric acid concentration plant at Desoto, Kansas.

In addition, major new sulphuric acid cooler contracts were obtained in the United States, Saudi Arabia, Norway, Africa, Jordan, Sweden and England. These coolers, representing technology developed and proven at CIL's Copper Cliff Works, are now used in the manufacture of more than 55% of the sulphuric acid production of the Western world, in more than 120 plants in 19 countries.

Chemetics has subsidiary and associated companies in Canada, the United States, Brazil, Sweden, Belgium and Malaysia and maintains offices in Paris and Tampa, Florida. Its outlook is for continuing growth, commercially exploiting its own resources of proprietary technology and knowhow, together with those of CIL and CIL's major shareholder, ICI, one of the worlds' largest chemical companies.

In 1978 CIL developed a new seismic explosives product for geophysical exploration which has been very well received by contractors. This photo shows the new 'Geo-Line' in use at Hinton, Alberta.

An adiabatic nitrobenzene plant is being built for Rubicon Chemicals Inc. in Geismar, Louisiana by Chemetics International Ltd., a CIL subsidiary. Capacity will be 190,000 tons per year.

Explosives

CIL's explosives business had a disappointing year in 1978 with sales lower than in the preceding year. The decrease was due to strikes at major mines, and a general slowdown in iron ore mining and in construction, particularly in Ontario and Quebec. However, sales of explosives accessories for seismic geophysical exploration were significantly higher and sales of commercial explosives for road construction in Newfoundland were also increased.

CIL maintained its leadership position, supplying roughly two-thirds of the domestic market for commercial explosives, despite strong competition. In the market for ammonium nitrate — a basic explosives ingredient made by CIL at Carseland, Alberta — an oversupply situation forced prices down while production costs continued to rise.

Major productivity improvements were made during 1978 which helped to offset the drop in sales and which will have a favorable on-going effect on performance of this business sector.

A new plant for making cap-sensitive slurry explosives at Nobel, Ontario, began operating in 1978. These products, which are safer to manufacture and use and which are technically superior to the conventional nitroglycerine-based explosives they are replacing in the market, are also made by the Company at Beloeil, Quebec, and at Calgary, Alberta. With the new facilities in Ontario, CIL is now well located to supply cap-sensitive slurries across Canada.

Because of the change in market requirements, the Company's high explosives manufacturing operations at James Island, B.C. were closed down in 1978. This site now serves as a major distribution centre for explosives products on the West Coast.

A new plant for the production of explosives grade nitric acid was constructed on the site of the Company's fertilizers manufacturing complex near Sarnia, Ontario. The plant was located there so that the by-product sulphuric acid generated in the process can be used in the phosphoric acid plant on the same site. The nitric acid output will be feedstock for newly-expanded TNT capacity at Beloeil, Quebec. This Beloeil site, oldest in the Company, has been in operation since 1878.

In assessing market potential for explosives, the main concern is the continuing lower growth rates in mining. The market potential is changing from base metals mining to energy resources such as coal and uranium.

More and more, mines are switching from packaged to bulk explosives, which are supplied on-site by small plants. The Company has now more than 20 of these plants on mining and construction sites across Canada.

Overall, the outlook for the explosives business in 1979 is one of improved performance, reflecting recovery of sales volumes lost because of strikes at customer locations in 1978, and improvements in operating efficiency.

CXA Ltd.

This subsidiary, owned about 70% by CIL, makes a complete range of blasting accessories that are sold through CIL's explosives division and through other explosives suppliers in Canada. 1978 was a formative year for CXA, a company which was set up late in 1977 by merging a former subsidiary, Canadian Safety Fuse Company Limited, with CIL's detonator manufacturing operations.

Jarvis Clark Company Limited

With the mining industry generally slack in Canada in 1978, Jarvis Clark Company Limited aggressively and successfully pursued export markets for mining equipment. Export sales now represent about one-third of this subsidiary's total sales.

Jarvis Clark, which is owned 95% by CIL, is the leading supplier in Canada of mobile underground equipment which is used for both mining and construction. It has a number of associated companies in other countries and intends to continue its expansion into international markets in 1979.

At Elliot Lake, Ontario, currently the busiest mining area in Canada, Jarvis Clark is doubling the size of its facilities to improve its service to the uranium mines. Completion of this project is scheduled for early spring 1979.

This jumbo drill being used at Rio Algom's Quirk uranium mine at Elliott Lake, Ontario, was made by CIL's subsidiary, Jarvis Clark Company Limited.

West African Explosives and Chemicals Ltd.
Sales of West African Explosives and Chemicals Ltd., a manufacturing subsidiary in Liberia owned about 60% by CIL, were up 8% in 1978 from the preceding year.

This company's principal market is the iron ore mining industry in Liberia which represents 75% of its business. In 1978 a recession in the steel industry which resulted in a large decrease in the explosives requirements of iron ore mining customers held down growth of domestic sales. However, substantial gains were made in export sales to nearby African countries.

The outlook for continuing growth in export sales is excellent although only modest increases are expected in domestic sales in 1979. Potential in the mining market includes iron ore mines in Liberia, in Ivory Coast and in Guinea, as well as uranium mines in Niger and new bauxite operations in Guinea. In addition, several hydroelectric projects are in progress and interest is being shown in seismic exploration for oil in several countries.

Paints and Pigments

Paints
The Company's paints business increased sales in 1978 over the preceding year but profit levels remained unsatisfactory due to difficult conditions in the industry.

Slow market growth, overcapacity and intense competition continue to plague the paint industry. Production costs, increased by inflation in 1978, were further increased by the effect of devaluation of the Canadian dollar on purchases of imported raw materials. These difficulties were partly offset by continuing efforts to reduce operating costs.

Other Products and Services

The first Canadian-made polyethylene resin was produced by CIL in 1953 at its Edmonton plant.

Plastics
CIL's plastics business has two main sectors, resins (low density polyethylene) and films. 1978 was a moderately good year for the former, although with some areas of difficulty, while the latter business achieved a high level of sales growth.

Completion of new polyethylene resin capacity by competitors and the dumping of European imports created an oversupply in the market, affecting price levels in 1978. At the same time production costs continued to rise with the increasing cost of natural gas, from which CIL extracts ethane for polyethylene manufacture at Edmonton.

A recent high escalation of feedstock costs in Europe has now eliminated dumping of European resins in North America and has put pressure on North American producers to supply world markets. Combined with the effect of the devaluation of the Canadian dollar, this situation has created sufficient demand to absorb excess Canadian capacity in export markets at realistic prices. As a result, the prospects for improvement in 1979 in both sales and earnings for resins are very good.

However, by 1981 more capacity will be required, and the Company is planning a $45 million expansion in low density polyethylene resin to be on stream at Edmonton in that year. This expansion would double existing capacity.

The films sector was able to increase its volume of sales by 17% in 1978, with resultant productivity improvements at its Brampton, Ontario plant. This business is expanding into the United States market with films for agricultural uses and with CIL's patented industrial shipping sacks.

A new line to increase production of shipping sacks at Brampton is planned for 1979; and additional sales strength will be added to CIL's U.S. subsidiary, CIL Chemicals, Inc., to promote further sales in the United States.

Environmental Improvement
Three companies comprise CIL's environmental improvement business area (EIBA), a subsidiary, Eco-Research Ltd., and two joint ventures, Tricil Limited and J. D. Lee Engineering Limited. In 1978 their total sales increased 20% over 1977, compensating in part for the cost of development work in this new and highly promising business area.

About 10% of CIL's total research and development effort was concentrated on EIBA projects in 1978, resulting in major improvements in the Deep Shaft process for treatment of waste water and in a system for treatment of solid waste and recovery of values, as well as developments in other related areas.

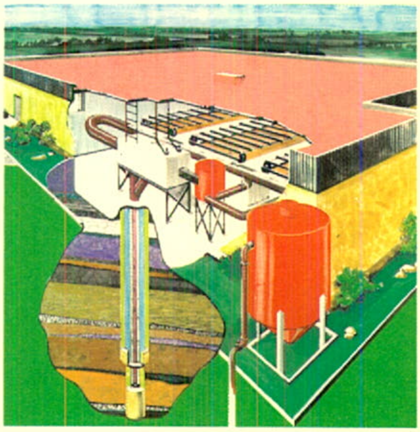
New contracts obtained in 1978 by Eco-Research Ltd. for Deep Shaft plants totalled about $5 million. These include a large sewage disposal plant now under construction at Portage La Prairie, Manitoba, another system to be built at Barrie, Ontario to treat brewery wastes and a demonstration sewage treatment plant to be constructed for the City of Ithaca, New York. Successful operation of this latter plant should favorably influence acceptance of the Deep Shaft system in the United States for treatment of sewage.

Technical improvements resulted in successful operation of a fluidized bed gasifier, part of a system to produce suitable fuel gas from garbage at a pilot plant at Kingston, Ontario. The process is designed and being developed to meet market demand for an economical way to reduce the volume of material requiring disposal as landfill while recovering useable energy from waste materials.

Tricil Limited, which collects, treats and disposes of all types of liquid and solid wastes had a very successful year with sales and net income considerably higher than in 1977. J. D. Lee Engineering Limited also showed improvement in profits over the preceding year.

Canadian Freehold Properties Ltd.
Assets of Canadian Freehold Properties Ltd., a property development company in which CIL owns a 50% interest, continued to grow in 1978. This company, which was formed in 1972, now has more than four million square feet of revenue-producing office and warehouse accommodation in prime North American locations.

In 1978 Canadian Freehold opened a hotel at Laurel Point, Victoria, B.C. and completed the sale of condominium units at that same site. A start was made on construction of a large office building in Edmonton and on a number of smaller industrial and office buildings in B.C. and Alberta. In November the company opened its first major shopping centre, in New Westminster, B.C.



A Deep Shaft effluent treatment plant is under construction at the City of Portage la Prairie, Manitoba.

A wholly-owned U.S. subsidiary, Freehold Properties Inc. had a successful year in 1978. Developments were completed in Seattle, Washington; Portland, Oregon; and in Santa Monica, El Segundo, Laguna Hills and San Diego in California. Other developments were begun in several of those locations as well as in the San Francisco area.

Since 1962 CIL has continuously circulated its collection of the works of contemporary Canadian artists. It is shown throughout Canada in both large and small centres, and selected works have been exhibited overseas as well. In the photo, school children are viewing the CIL Art Collection at Gatineau, Quebec.

Employees

Our safety performance was maintained at a superior level throughout the year although we fell somewhat short of our increasingly stringent short-term target. CIL's ultimate objecive is the elimination of all accidents.

Measured by a new, more comprehensive system which is in use now throughout the Company, employees experienced 0.40 occupational injuries per 200,000 working hours in 1978 compared to 0.42 in 1977. The new injury measurement system is based on one developed in the United States under the Occupational Safety and Health Act. It was adopted by the Company in order that we might improve our analysis of injuries and more readily compare our performance with the chemical industry throughout North America. It is gratifying to report, and a tribute to the safety efforts of employees at all levels of the organization, that our performance continues to be well above the chemical industry average.

As medical science discovers more about the relationship between health and exposure to materials being handled in the industry, an increasing part of the Company's overall safety program is being devoted to eliminating exposure to potentially hazardous conditions and to monitoring the health of employees.

During the year a comprehensive study of Company pension arrangements was completed and resulted in sweeping changes in our Pension Plan to become effective April 1st 1979. These improvements include Company-subsidized pensions for the surviving spouses of employees, significantly reduced service requirements to be eligible for retirement and improved pensions for many longer-service employees. In addition, on the same date the pensions of most of those already retired from the Company will be raised to help offset some of the impact of inflation on our pensioners. This is the fourth such increase since 1970.

The duration of collective agreements throughout the Company has shortened considerably in recent years, largely as a consequence of the Federal Government's anti-inflation program. As a result, collective bargaining was unusually heavy during 1978. All of the thirty-two bargaining units throughout the Company and its subsidiaries were open for negotiations at some point during the year. Twenty-one new agreements were reached during the year and eleven were carried over into 1979. A number of the new agreements were negotiated free of wage controls which began to be phased out in April 1978.

As reported last year the decreasing mobility of our management and professional employees is causing difficulty in manpower planning and career development programs. Three factors appear to be contributing to this trend.

First, many younger employees are no longer willing to accept transfers or even promotions if moving to a new location is involved. In some cases the career of a spouse is an important consideration in an employee's decision to reject a move.

The second factor is the increasing disparity between disposable incomes from one region of the country to another, caused by differences in income tax, sales tax and property values and taxes — the residents of Quebec being at the greatest disadvantage.

The third factor is the socio-political situation in Quebec and its impact on the choice of the language of instruction for children of employees who did not reside in that province at the time Bill 101 was passed in 1977. Employees do not appear to have confidence in the three year special permit (renewable for one similar term) which allows English education for families transferred into Quebec, since its administration is discretionary and appears vulnerable to interpretation and change. Representations on the Company's behalf have been made through several avenues to the Quebec Government, and will continue to be made in the hope that the government will take steps to improve this situation.

New technology for pulp and paper mills was developed in CIL's Chemicals Research Laboratories using anthraquinone in alkaline pulping. In the photo, Hutch Holton, who was responsible for the development, examines one gram of anthraquinone in dispersion, enough to produce 1000 grams of linerboard pulp. The Company considers the new technology the most important breakthrough since the introduction of kraft pulping.

In 1978 employees marked the 50th anniversary of play in the Company-wide golf tournament initiated by Arthur B. Purvis, former president. Employees who are winners of local golf field days, compete in regional finals and then, if successful, try for the Purvis Cup at a final tournament held in the fall of the year. The event has grown steadily in popularity.

The number of regular employees in the Company and its subsidiary companies at year end was 8066, a slight decrease from a year ago. Manufacturing operations at the Bapco Surrey plant and James Island explosives works, both in B.C., were terminated during the year. Also, part of the manufacturing operations at Shawinigan, Quebec, were closed down early in 1979. In each case special programs were implemented to assist those employees affected in relocating to other jobs both within and outside the Company.

Directors

During the year E. L. Hamilton and C. Hampson resigned from the Board and D. I. W. Braide and C. H. Hantho were appointed to fill the vacancies.

Mr. Hamilton had been elected a director in 1955, President in 1971 and Chairman in 1975. His leadership contributed significantly to the progress of the Company and his integrity and ability had earned him the respect of his fellow directors and that of the business and financial communities across Canada. His resignation from the Board in September 1978 followed his decision not to accept re-appointment as Chairman after the Annual General Meeting in April 1978.

D. I. W. Braide, a vice-president of the Company since 1968, was appointed to fill the vacancy on the Board resulting from Mr. Hamilton's resignation.

Mr. Hampson resigned as a director and as a vice-president upon secondment to Imperial Chemical Industries Limited to take up a senior appointment with that company in London, England. Mr. Hantho who has been a director and a vice-president prior to 1976 when he resigned to take up a similar appointment, returned from secondment to Imperial Chemical Industries Limited and was appointed a director and a vice-president.

Financial Overview

Sales and Earnings

In 1978, sales of CIL and its subsidiaries amounted to $746,857,000 compared to $667,838,000 in 1977, an increase of $79,019,000 or 12%. Consolidated net income before extraordinary items totalled $26,416,000 for the year, equivalent to $2.28 a common share after deducting preferred dividends of $4,104,000. The corresponding earnings a share for 1977 were $2.52 after preferred dividends of $174,000. Extraordinary gains of a net amount of $163,000 represented realizations on the sale of a manufacturing operation and certain properties less costs associated with the closing of a portion of the chloralkali operations at Shawinigan, Quebec and explosives manufacturing at James Island B.C. and less the write-off of an investment in an associated company. Dividends for the year totalled $1.28 a common share, unchanged from 1977.

Sales improved in nearly all units of the Company in 1978, with the most significant gains occurring in the sale of chemical process technology, industrial and agricultural chemicals. Sales of commercial explosives and mining equipment were moderately below the 1977 levels. Volume gains accounted for less than half of the sales increase for 1978, while the balance represented price increases. The improved volume was concentrated in industrial chemicals and in specialty fields including urethanes, plant protection chemicals and process technology.

Income from operations at $51,435,000 for 1978 compares with $54,147,000 for 1977, a decrease of 5%. The operating results of the Company were seriously impaired by strikes at major customers during 1978. In the early part of the year a lengthy strike at the iron ore mines affected the commercial explosives business. In the fourth quarter the strike at the mining and smelting operations of Inco Limited, at Sudbury, Ontario, a major CIL customer and the supplier of feedstock for our large sulphuric acid and sulphur dioxide manufacturing facilities, adversely affected the industrial chemicals business. Income for the year was further reduced by higher costs which could not be fully recovered through selling price increases. The most significant was in the price of natural gas, the raw material for ammonia which is a major fertilizer product and is also used in the manufacture of ammonium nitrate, an important explosives ingredient and agricultural product.

Income from investments increased $1,451,000 reflecting the temporary investment during 1978 of proceeds of the new preferred share issue in excess of the immediate capital and operating requirements.

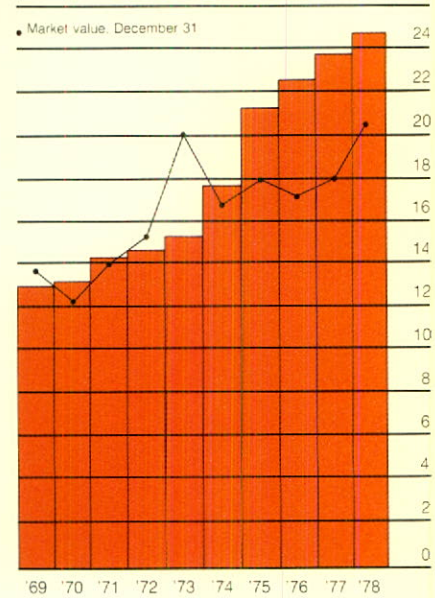
Long term debt interest, discount and expense declined by $617,000 following the redemption at maturity of the remaining 5¾% debentures late in 1977.

The provision for income taxes was lower than in 1977 by $1,650,000 mainly reflecting an increase in tax credits claimed.

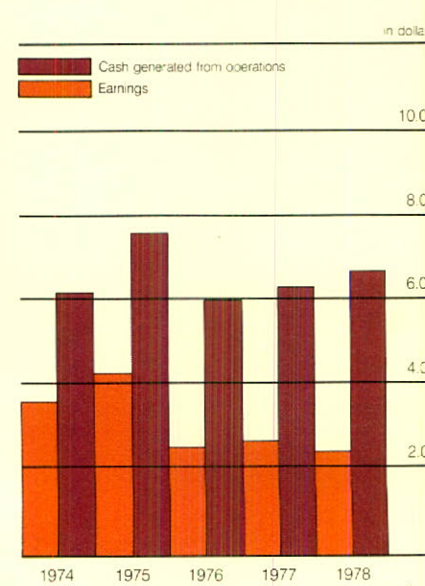
Depreciation

Depreciation of $30,670,000 was provided during 1978, an increase of $3,495,000 from 1977. This increase results from providing depreciation on new facilities brought into operation during the year, principally industrial chemical and explosives manufacturing facilities. It is the Company's policy to write off the cost of manufacturing facilities on a straight line basis over their estimated remaining useful lives. Annual reviews are made of the residual lives of all productive assets taking into account technological and commercial obsolesence as well as current physical condition.

Book value a common share



Earnings and cash flow a common share



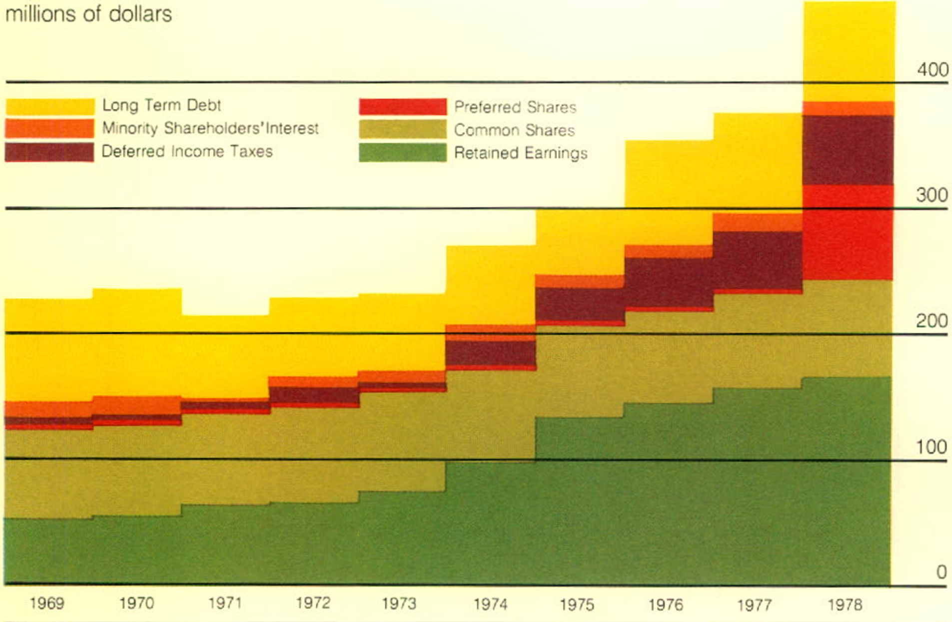
Financing
In February 1978 the authorized capital of the Company was increased by the creation of 8,000,000 floating rate second preferred shares at a par value of $25 each. A total of $75,000,000 was successfully raised through the sale of 3,000,000 of these Second Preferred shares, Series A, placed privately with a number of Canadian financial institutions. The cumulative dividend on the Series A shares is payable quarterly at a floating rate equal to 1¼% per annum plus one half of the average of the prime lending rates of four leading Canadian banks. The shares will be redeemable at the option of the Company after February 20, 1981 and are retractable at the option of the holder on February 21, 1988. The proceeds of the issue were added to the general funds of the Company and have been used principally to finance capital expenditures.

Working Capital
Cash resources improved by $16,380,000 from December 31, 1977. The $75,000,000 preferred share issue combined with funds of $65,393,000 generated from operations more than offset the high level of capital expenditures and investments, increased dividends on preferred shares and increased working capital requirements. Excluding cash, working capital increased by 5% over 1977.

Capital Expenditures
Expenditures on land, buildings, equipment and long term investments were the highest in the Company's history and amounted to $102,507,000 an increase of $43,250,000 over 1977. Major items were expenditures on the expansion of chloralkali capacity at Bécancour, Quebec; strong nitric acid facilities at Lambton, Ontario and TNT facilities at Beloeil, Quebec; expansion of urea capacity at Lambton; and expenditures on the new cap sensitive slurry explosives plant at Nobel, Ontario. The unexpended balance at December 31, 1978 on projects authorized is estimated at $72,000,000 including $31,000,000 for the chloralkali plant expansion at Bécancour.

Anti-Inflation Legislation
CIL and its Canadian subsidiaries were subject to the Anti-Inflation Act guidelines during the year requiring quarterly compliance reporting and notification of significant price increases for the Company's manufactured products. The Company had no excess revenue at the end of 1978.

Financing of funds invested
millions of dollars



Impact of Inflation

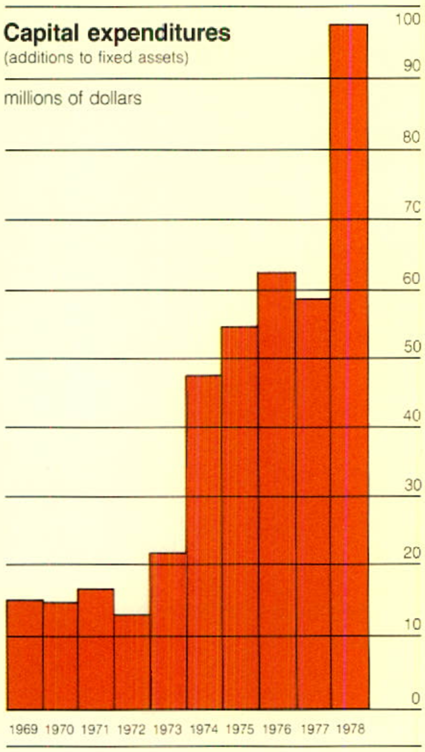
Inflation continued to plague the Canadian economy in 1978, and remains an important factor to be considered in evaluating the financial results of the Company. Unfortunately, despite considerable study by the accounting profession, governments and other bodies, a suitable method of measuring the impact of inflation has not yet been agreed upon.

CIL is still concerned over the distortion of financial results using traditional historical accounting principles and would like to encourage industry, the accounting profession, governments and the financial community to continue to pursue this matter until an improved method of financial reporting is achieved.

For several years the Company has been experimenting with the use of a "replacement cost of productive capacity" concept of accounting for inflation in its internal management accounts. Although there are certain recognized weaknesses inherent in this system, such as the difficulty of quantifying potential operating cost reductions arising from improved technology and/or economies of scale, as well as the subjectivity in the compilation of the replacement cost of some plant investment, this inflation accounting system has been beneficial to CIL. It has been useful in identifying and evaluating those businesses which are unable to generate sufficient funds to maintain existing capacity and finance growth. It has also been used in assessing dividend policy and in developing long term capital strategy and in considering pricing policies.

It is believed essential for corporate management, investors, unions, governments, and the public to understand the impact of inflation on the earning power and capital invested in a business. This information is of particular importance to governments to ensure that they do not tax fictitious inventory profits or impose taxes at levels that impair capital formation and discourage investment or even destroy industries basic to the country's welfare.

Some token progress has been made in recognizing the impact of inflation on business inventories through the Federal Government's 3% inventory tax credit introduced in 1977. Recommendations of the Ontario Committee on Inflation Accounting in 1977 included what is considered to be a worthwhile interim approach to recognizing the effects of inflation by displaying the funds available for distribution or growth after ensuring the maintenance of productive capacity. Applying this funds available method to a replacement cost of productive capacity approach produces the following results for CIL.



Statement of Effects of Inflation on Funds Available for Distribution or Expansion (Unaudited)

(millions of dollars)

			1978		1977
Funds generated from operations (as per Statement of Changes in Financial Position)			**65.4**		61.2
Less: Funds required to finance productive assets — historical cost depreciation			**30.7**		27.2
			34.7		34.0
Funds required to finance increased cost of maintaining operating capacity —					
Plant, machinery and equipment	(Note 1)	**25.2**		20.8	
Inventories	(Note 2)	**6.3**		4.3	
Other — accounts receivable less accounts payable	(Note 3)	**2.6**		1.6	
		34.1		26.7	
Less: financing adjustment	(Note 4)	**6.1**		8.0	
Estimated impact of inflation on accounts of the Company			**28.0**		18.7
Funds available for distribution or expansion			**6.7**		15.3

Notes

1. Fixed assets have been revalued on the basis of replacing productive capacity at present day costs taking into account factors such as economies of scale and changing technology. The additional funds required are equivalent to the extra depreciation on the higher net replacement cost of fixed assets employed during the year.

2. The inventory adjustment provides for the cost of replacing products at the date of sale rather than at their historic average costs.

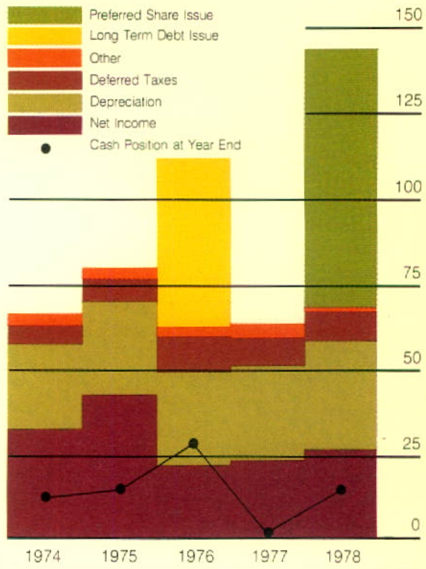
3. This adjustment is an estimate of the loss of purchasing power (caused by inflation) of net accounts receivable less accounts payable.

4. Under the replacement cost of productive capacity concept used by CIL, the financing adjustment reflects that portion of the current year appreciation in the value of operating assets (attributable to inflation) equivalent to the percentage of the total operating assets that are financed by long term borrowing and deferred taxes less net cash resources. This method differs from the approach suggested by the Ontario Committee on Inflation Accounting.

It is again emphasized that these figures are designed to provide only an order of magnitude indication of the effect of inflation on the Company's business. The replacement cost of productive capacity approach to dealing with inflation involves more subjective judgment than is required by a historic cost accounting method. Nevertheless the general problem of corporate liquidity caused by inflation, whereby a disproportionate amount of funds generated by the business is needed just to maintain existing productive capacity and to replenish working capital, is clearly illustrated. To the extent that these funds are taxed away by governments a business is forced to borrow funds at high interest rates not only to make up the shortfall to maintain the business but to meet expansion requirements. This adds to the inflation spiral resulting in higher cost of goods to the consumer.

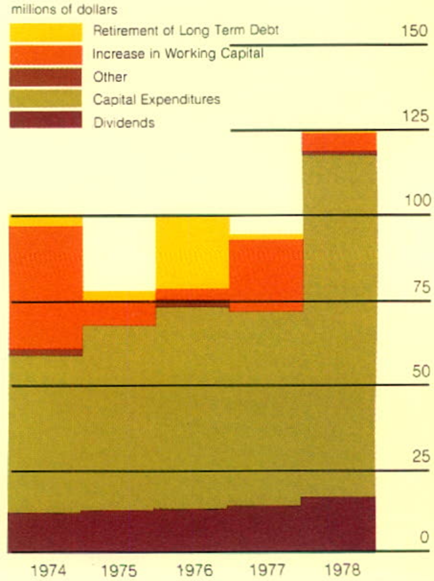
Funds generated by

millions of dollars



Funds used for

millions of dollars



Consolidated Statement of Income and Retained Earnings

for the year ended December 31

	1978	1977
Sales	**$746,857,000**	$667,838,000
Costs and expenses		
Operating costs excluding depreciation	**664,752,000**	586,516,000
Provision for depreciation	**30,670,000**	27,175,000
	695,422,000	613,691,000
Income from operations	**51,435,000**	54,147,000
Income from investments	**3,287,000**	1,836,000
Share in earnings of associated companies	**1,709,000**	1,440,000
Long term debt interest, discount and expense	**(7,167,000)**	(7,784,000)
Income before provision for income taxes	**49,264,000**	49,639,000
Provision for income taxes	**19,450,000**	21,100,000
Net income including minority interest	**29,814,000**	28,539,000
Minority shareholders' interest in the net income of subsidiary companies	**3,398,000**	3,686,000
Net income before extraordinary items	**26,416,000**	24,853,000
Extraordinary items — net (Note 6)	**163,000**	—
Net income after extraordinary items	**26,579,000**	24,853,000
Retained earnings at beginning of year	**158,345,000**	146,203,000
Deduct: Dividends		
Preferred	**4,104,000**	174,000
Common	**12,537,000**	12,537,000
	16,641,000	12,711,000
Retained earnings at end of year	**$168,283,000**	$158,345,000
Earnings a common share, after preferred dividends		
Before extraordinary items	**$2.28**	$2.52
After extraordinary items	**$2.30**	$2.52

Consolidated Balance Sheet

at December 31

	1978	1977
Current Assets		
Cash and deposits at interest	**$ 19,029,000**	$ 12,257,000
Accounts receivable		
Trade and other	**119,436,000**	108,245,000
Affiliated companies	**1,800,000**	1,080,000
Inventories (Note 2)	**133,976,000**	119,400,000
Prepaid expenses	**2,316,000**	3,091,000
Total	**276,557,000**	244,073,000
Deduct:		
Current liabilities		
Bank loans	**1,933,000**	11,541,000
Accounts payable and accrued liabilities		
Trade and other	**108,598,000**	92,464,000
Affiliated companies	**8,396,000**	4,394,000
Federal and provincial income taxes payable	**2,784,000**	4,055,000
Dividends payable	**3,846,000**	3,178,000
Total	**125,557,000**	115,632,000
Working capital	**151,000,000**	128,441,000
Investment in associated companies	**19,587,000**	19,198,000
Land, buildings and equipment (Note 3)	**294,550,000**	227,251,000
Unamortized debenture discount and expense	**1,201,000**	961,000
Funds invested	**$466,338,000**	$375,851,000
Financed by:		
Long term debt (Note 4)	**$ 80,482,000**	$ 80,699,000
Minority shareholders' interest in subsidiary companies	**10,789,000**	13,759,000
Deferred income taxes	**55,593,000**	46,857,000
Shareholders' equity		
Capital stock (Note 5)	**151,191,000**	76,191,000
Retained Earnings	**168,283,000**	158,345,000
Total	**319,474,000**	234,536,000
	$466,338,000	$375,851,000

On behalf of the Board:

W. J. Mandry , Director
A. M. Campbell , Director

Consolidated Statement of Changes in Financial Position

for the year ended December 31

	1978	1977
Source of funds		
Funds from operations		
Net income before extraordinary items	**$ 26,416,000**	$ 24,853,000
Depreciation and amortization	**31,201,000**	27,644,000
Deferred income taxes	**8,159,000**	8,678,000
Share in earnings of associated companies in excess of dividends received	**(383,000)**	69,000
	65,393,000	61,244,000
Issue of second preferred shares	**75,000,000**	—
Minority share of net income in subsidiary companies, less dividends	**569,000**	2,201,000
Sale of fixed assets	**129,000**	684,000
Issue of capital stock by subsidiary companies	**44,000**	577,000
Redemption of preferred shares of associated companies	**—**	21,000
Total	**141,135,000**	64,727,000
Application of funds		
Dividends	**16,641,000**	12,711,000
Additions to fixed assets	**97,553,000**	58,503,000
Acquisition and disposal of subsidiaries and shares in associated companies — net, less cash acquired	**4,954,000**	754,000
Retirement of long term debt	**217,000**	368,000
Underwriting cost related to preferred shares	**333,000**	—
Net increase in working capital excluding cash and bank loans	**5,057,000**	20,036,000
Total	**124,755,000**	92,372,000
Increase (reduction) in funds for year	**16,380,000**	(27,645,000)
Funds on hand less bank loans January 1	**716,000**	28,361,000
Funds on hand less bank loans December 31	**$ 17,096,000**	$ 716,000

Notes to Consolidated Financial Statements

December 31, 1978

1. Accounting policies

Basis of consolidation

The accounts include Canadian Industries Limited and all its subsidiary companies except one foreign subsidiary for which the investment has been written off.

The Company accounts for acquisitions on a purchase basis and follows the policy of adding to or deducting from consolidated fixed assets the difference between the cost of its investments and the net book value of the assets of subsidiaries at date of acquisition. This excess is being amortized over a period of ten years. At December 31, 1978 the unamortized amount is $3,278,000.

Foreign currencies

Current assets and liabilities and income accounts for those foreign subsidiaries included in the consolidation are converted into Canadian dollars at exchange rates in effect at the end of the respective reporting periods. Fixed assets, long term liabilities and shareholders' equity are converted at rates of exchange in effect when first acquired, incurred or issued.

Inventories

Inventories are valued at the lower of average cost and net realizable value. Goods in process and manufactured goods include the cost of raw material, direct labour and manufacturing overheads.

Investment in associated companies

From January 1, 1974 investments in associated companies have been accounted for on the equity method. Under this method, the Company's share of net income of these associated companies is included in the consolidated statement of income and retained earnings, rather than when realized through dividends. The investments are carried in the consolidated balance sheet at original cost plus the Company's share of earnings from January 1, 1974, less dividends received and less amounts written off where the underlying value of the assets no longer exists.

Fixed assets and depreciation

Buildings and equipment are carried at cost less accumulated depreciation. It is the Company's policy to write off the book value of each fixed asset evenly over its estimated remaining life; annual reviews are made of the residual lives of all productive assets, taking account of commercial and technological obsolescence as well as physical condition. Depreciation is not charged on construction in progress.

Research and development

All expenditures for research and development, except buildings and major items of equipment used for this purpose, are charged to income as incurred.

Pension costs

The majority of employees of the Company are covered by Company pension plans. The costs of these plans are charged against income in the year current contributions and past service funding requirements are payable. Past service costs in trusteed plans are being amortized within the requirements of the regulations of the Provinces in which the plans are registered.

Income taxes

The Company follows the tax allocation method of providing for income taxes. Under this method, income taxes currently payable may differ from the total income tax provision for the year as a result of timing differences between recognition of expenditures for accounting purposes and tax purposes. Such differences largely arise from claiming maximum capital cost allowances for tax purposes, which are higher than depreciation charged for determining reported income. The tax effect of these timing differences is reflected in the accounts as deferred income taxes.

Oil and gas exploration

Expenditures for oil and gas exploration are accounted for by the successful efforts method. Under this method the initial acquisition costs for oil and gas properties together with the costs of drilling successful wells are capitalized. Exploration expenditures including geological and geophysical surveys, administration and unsuccessful drilling and associated acquisition costs are charged to expense.

2. Inventories

The inventories are classified as follows:

	December 31 1978	December 31 1977
Raw materials	**$ 38,236,000**	$ 33,065,000
Goods in process and finished goods	**92,448,000**	83,157,000
Stores and supplies	**3,292,000**	3,178,000
	$133,976,000	$119,400,000

3. Land, buildings and equipment

	December 31 1978	December 31 1977
Buildings and equipment	**$474,933,000**	$441,158,000
Less: Accumulated depreciation	**271,655,000**	249,394,000
	203,278,000	191,764,000
Construction in progress	**81,642,000**	27,732,000
Land	**9,630,000**	7,755,000
	$294,550,000	$227,251,000

It is estimated that expenditures of $72 million will be required to complete projects authorized prior to December 31, 1978.

4. Long term debt

	December 31 1978	December 31 1977
5⅝ debentures due December 1, 1984	**$ 30,000,000**	$ 30,000,000
10⅝ sinking fund debentures due July 15, 1996	**50,000,000**	50,000,000
Other (net of current portion, $217,000;1977 — $523,000)	**482,000**	699,000
	$ 80,482,000	$ 80,699,000

Sinking fund provisions of the 10⅝% debentures require the Company to make payments to the trustee sufficient to retire $2,000,000 principal amount on July 15 in each of the years 1982 to 1995 inclusive.

5. Capital stock

	Shares	December 31 1978	December 31 1977
7½% cumulative First Preferred of $50 par value			
Authorized and issued	46,500	**$ 2,325,000**	$ 2,325,000
Floating rate cumulative Second Preferred of $25 par value			
Authorized	8,000,000		
Issued — Series A	3,000,000	**75,000,000**	—
Common of no par value			
Authorized	13,500,000		
Issued	9,794,161	**73,866,000**	73,866,000
		$151,191,000	$76,191,000

The cumulative dividend on the floating rate Second Preferred Shares, Series A, is payable quarterly at a rate equal to one half of a sum of the average prime lending rate of four leading Canadian banks plus 2½% per annum. The shares will be retractable at the option of the holder on February 21, 1988 and redeemable at the option of the Company commencing in 1981.

6. Extraordinary items

Details of extraordinary items are as follows:

Gains arising from sale of land, buildings and equipment (less income taxes of $400,000)		**$2,288,000**
Less: Provision for costs associated with shut-down of operating facilities (Net of income tax recovery of $1,008,000)	**$1,033,000**	
Write-off of investment where the underlying value no longer exists	**1,092,000**	**2,125,000**
		$ 163,000

7. Pension plan

The Company and most of its subsidiaries have a pension plan covering the majority of their employees. The contributions made by the companies and their employees are deposited in an irrevocable trust fund in accordance with the terms of the plan. There remains an unfunded liability at December 31, 1978 with respect to past services of $13,059,200 based on an actuarial valuation received in 1978. This amount will be paid in instalments, at an initial annual amount of approximately $1,600,000,in accordance with the regulations of the Provinces in which the plans are registered.

8. Contingent liabilities

The Company had contingent liabilities as at December 31, 1978 of $1,477,000 with respect to guarantees on behalf of other companies and other contingent liabilities of $833,000.

9. Lease commitments

The Company has certain lease commitments for the rental of buildings with aggregate net rentals of approximately $2,326,000 per annum expiring at various dates to 1998, for rental of operating facilities of $5,397,000 per annum expiring in 1979 and for rental of tank cars and other facilities of $5,426,000 per annum expiring at various dates to 1992.

10. Investment tax credits

At December 31, 1978 the Company has a balance of investment tax credits of approximately $8,200,000 available to reduce future income taxes otherwise payable.

11. Remuneration of all persons who acted as directors and senior officers of this company at any time during the year.

	1978		1977	
	Number	**Amount**	Number	Amount
As directors	**15**	**$ 69,000**	14	$ 68,000
As officers	**18**	**1,174,000**	16	1,286,000
Officers who are also directors	**6**		4	

12. Sales by classes of business

	1978		1977	
	Amount	**%**	Amount	%
Agricultural and Industrial Chemicals	**$432,136,000**	**58**	$359,672,000	54
Explosives and related products	**195,749,000**	**26**	198,681,000	30
Paints and Pigments	**74,348,000**	**10**	70,153,000	10
Other	**44,624,000**	**6**	39,332,000	6
	$746,857,000	**100**	$667,838,000	100

Auditors' Report

The Shareholders,
Canadian Industries Limited.

We have examined the consolidated balance sheet of Canadian Industries Limited as at December 31, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Montreal, Canada February 16, 1979

Consolidated Financial Review

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Consolidated Income Statement Items (millions of dollars)										
Sales	**746.9**	667.8	613.9	594.9	517.6	383.3	324.5	349.2	323.3	324.2
Depreciation	**30.7**	27.2	25.4	26.7	21.8	18.6	17.6	19.7	19.8	21.3
Income from operations	**51.4**	54.1	49.3	86.0	65.5	32.8	23.6	24.3	19.8	24.0
Long term debt interest, discount and expense	**7.2**	7.8	5.2	2.9	3.1	3.2	3.4	4.2	4.7	4,7
Provision for income taxes	**19.5**	21.1	20.5	39.5	28.9	14.9	10.1	9.9	6.5	7.4
Net income*	**26.4**	24.9	24.4	42.6	34.8	16.0	10.5	9.5	8.1	10.5
Dividends	**16.6**	12.7	12.3	11.9	11.4	8.5	6.1	6.1	6.1	6.1
Consolidated Balance Sheet Items (millions of dollars)										
Working capital	**151.0**	128.4	136.0	120.6	110.0	107.3	111.2	87.0	68.1	65.8
Fixed assets	**566.2**	476.6	420.4	366.5	316.4	280.0	262.3	253.0	320.2	297.0
Accumulated depreciation	**271.7**	249.4	224.5	206.1	183.6	164.5	148.6	132.7	164.6	145.9
Capital expenditures	**102.5**	58.5	62.1	54.3	47.6	21.5	12.8	16.8	14.8	15.0
Long term debt	**80.5**	80.7	80.5	51.1	51.7	55.5	63.1	66.1	83.6	82.5
Shareholders' equity										
Preferred	**77.3**	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Common	**242.1**	232.2	220.1	208.0	173.7	150.3	142.8	138.3	127.9	125.8
Per Share of Common Stock (dollars per share)										
Earnings*	**2.28**	2.52	2.47	4.34	3.54	1.61	1.06	0.95	0.81	1.05
Dividends	**1.28**	1.28	1.24	1.20	1.15	0.85	0.60	0.60	0.60	0.60
Equity	**24.72**	23.71	22.47	21.24	17.74	15.35	14.58	14.12	13.06	12.84
Quarterly earnings*										
1st Quarter	**0.29**	0.26								
2nd Quarter	**1.43**	1.36								
3rd Quarter	**0.32**	0.43								
4th Quarter	**0.24**	0.47								
Year	**2.28**	2.52								

*Before extraordinary items

Board of Directors

D. I. W. Braide
Vice-President,
Canadian Industries Limited
Montreal, Quebec

F. S. Burbidge
President,
Canadian Pacific Limited
Montreal, Quebec

Alistair M. Campbell
Chairman, Executive Committee
Sun Life Assurance Company of Canada
Residence: Ottawa, Ontario

D. M. Coyle
Vice-President,
Canadian Industries Limited
Montreal, Quebec

Roger DeSerres
President,
Omer DeSerres Ltée
Montreal, Quebec

E. J. Goett
President and Chief Executive Officer,
ICI Americas Inc.
Wilmington, Delaware, U.S.A.

A. G. S. Griffin
Chairman,
Home Oil Company Limited
Calgary, Alberta
Residence: Toronto, Ontario

C. H. Hantho
Vice-President,
Canadian Industries Limited
Montreal, Quebec

E. W. King
President,
Canadian Utilities Limited
Edmonton, Alberta

J. A. Lofthouse
Director,
Imperial Chemical Industries Limited
London, England

W. J. Mandry
President and Chief Executive Officer,
Canadian Industries Limited
Montreal, Quebec

F. Whiteley
Chairman,
Agricultural Division,
Imperial Chemical Industries Limited
London, England

Audit Committee

Alistair M. Campbell, Chairman,
F. S. Burbidge
W. J. Mandry

Officers

President and Chief Executive Officer
W. J. Mandry

Vice-Presidents
D. I. W. Braide
D. M. Coyle
P. R. Day
C. H. Hantho
A. T. G. Rodgers

Secretary
L. A. Wheable

Treasurer
M. C. Fitzsimmons

Controller
L. H. Chant

Assistant Secretary
A. F. M. Biggs

Assitant Treasurer
C. McLaughlin

Assistant Controller
M. E. Johnson

Registrar, Transfer Agent and Dividend Disbursing Agent
National Trust Company Limited
Montreal, Toronto, Calgary, Vancouver

Stock Exchange Listings
Montreal, Toronto, Vancouver

Registrar and Transfer Agent for Debentures
The Royal Trust Company
Montreal, Toronto, Winnipeg, Vancouver

Auditors
Touche Ross & Co.