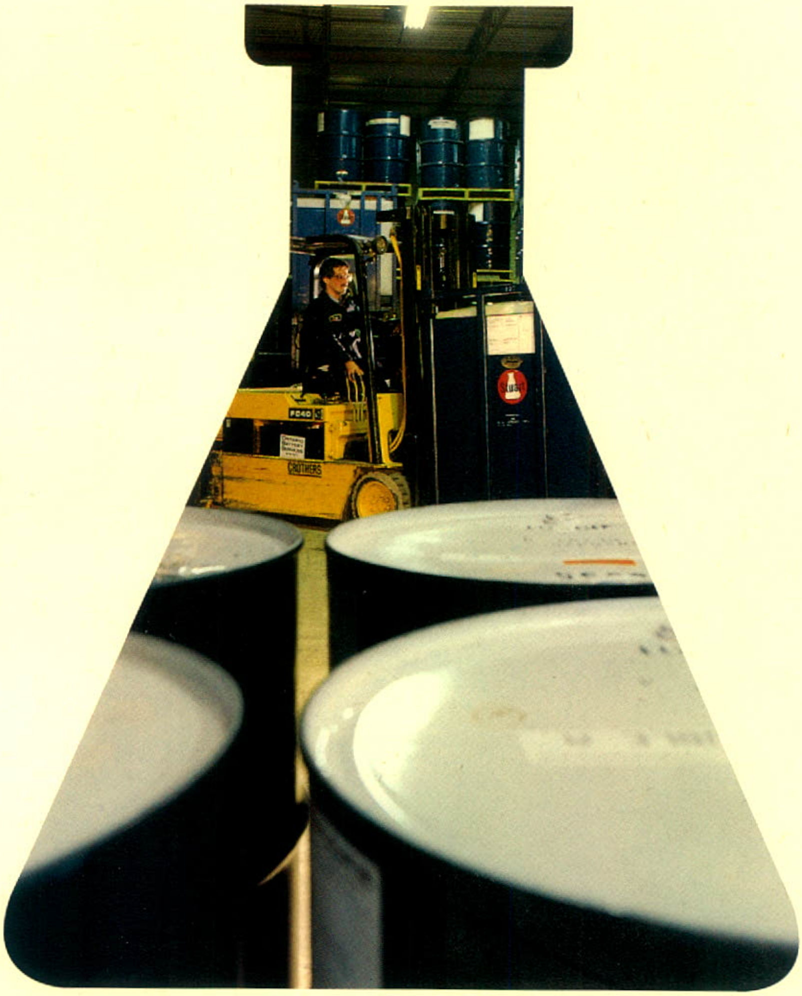
D. A. Stuart Ltd.

Annual Report
1990

STUART



D. A. Stuart Ltd.

D. A. Stuart Ltd. is internationally recognized as a leader in the manufacture and development of chemical specialty products for industry.

The Company's global network of manufacturing and R & D facilities is committed to setting new standards in both customer service and product development.

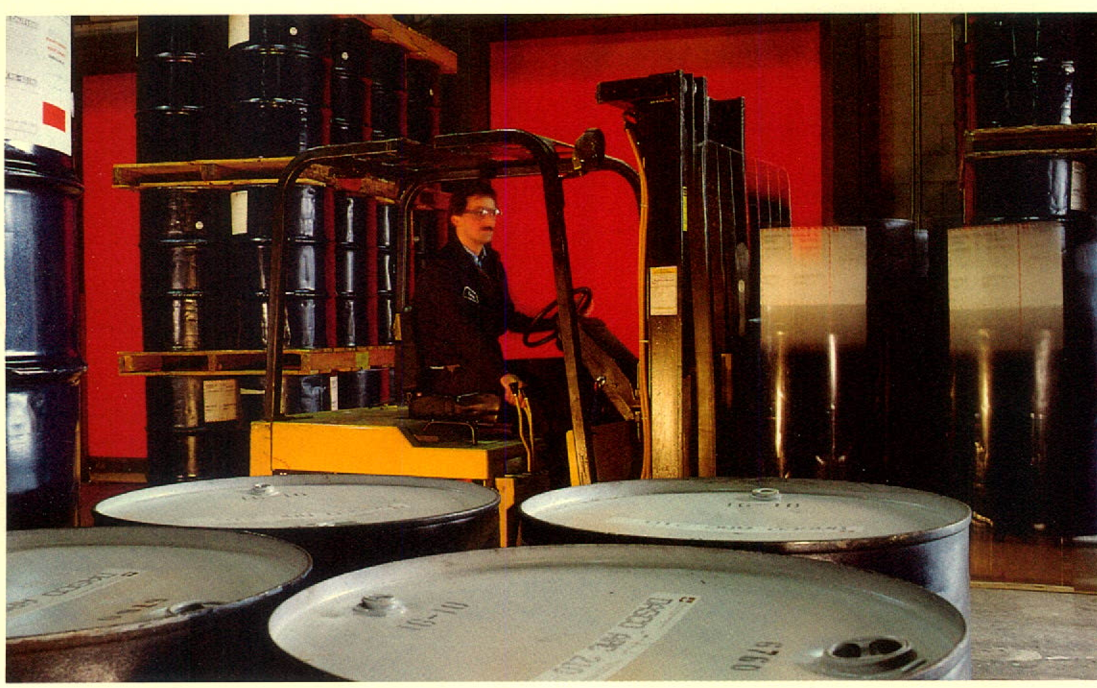
STUART

CONTENTS

Financial Highlights

(Expressed in United States currency, except as noted)	1990	1989	1988
Net sales	$ 89,513,501	$ 88,109,913	$ 66,850,945
Net income (loss) after taxes	(10,639,100)	(794,039)	1,783,503
Net sales by segment			
Canada	12,369,256	13,109,325	7,404,803
U.S.A.	62,310,238	62,618,868	51,369,130
Europe	16,761,413	13,450,396	8,657,423
Inter-area	(1,927,406)	(1,068,676)	(580,411)
Total	89,513,501	88,109,913	66,850,945
Total shareholders' equity	25,363,750	27,694,428	29,001,343
Dividends per common share (Cdn. $)	$ 0.05	$ 0.20	$ 0.32
Depreciation and amortization	3,219,074	2,873,625	1,578,742
Capital expenditures	1,841,875	2,320,384	2,705,687

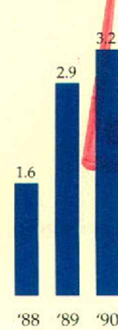
• Our customers have come to depend on Stuart products for their quality and reliability.



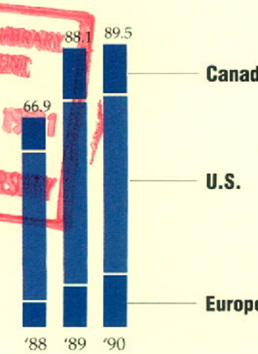
Net Sales
(in $ millions)

Capital Expenditures
(in $ millions)

Depreciation and Amortization
(in $ millions)



Sales by Segment
(in $ millions)



125TH ANNIVERSARY OF THE COMPANY'S FOUNDING

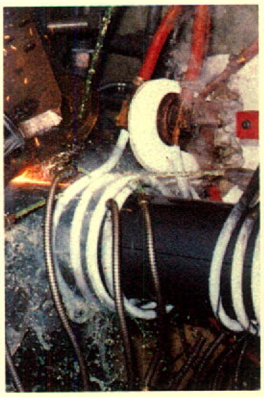
David Alexander Stuart *started business in 1865 primarily to supply whale oil for lamps and lubricating grease for horse drawn carts. He later supplied the growing metal-working industry with simple cutting oils. These simple products became more sophisticated with the addition of other chemical additives.*

The business continued to grow and in 1936 the Company was reorganized and listed on the Toronto Stock Exchange. During the 1950's and 1960's the Company acquired businesses in Germany, Canada and the U.K. Further expansion in the 1980's added products for the steel, aluminum, and mining industries.

Stuart products today contribute to improved production in the metal-working industry.

David Alexander Stuart

Report of the Directors



To the Shareholders:

Total sales for the year 1990 were U.S. $89,513,501 compared with sales for the year 1989 of U.S. $88,109,903. When 1989 sales are adjusted for the specialty motor oil business disposed of in early 1990, sales of our ongoing businesses increased by 4%. The specialty motor oil business was sold due to its low profitability and lack of significant growth opportunities. Sales growth was limited in 1990 because of poor economic conditions, especially in the market areas in North America in which the Company participates. The year 1990 results in a loss of U.S. $10,639,100 compared to a loss for the year 1989 of U.S. $794,039.

Your Board of Directors formally adopted a plan for the closing of five manufacturing facilities located in Canada, the United States and Germany. The cost of implementing this plan, which will be carried out over the next three years, has been included in the 1990 results of operations as costs related to restructuring in the amount of U. S. $5,409,103. A significant portion of this charge reflects the anticipated costs of environmental remediation relating to five manufacturing facilities. Management truly believes that these restructuring costs are an investment in the future of your Company but should be recognized now, since the plan to incur them has been put in place.

In addition to the increased manufacturing efficiency which is expected to be realized in 1991 and 1992 as a result of the closing of the five manufacturing facilities, your management has also undertaken the following measures during 1990 and is committed to continuing its efforts in 1991 to reduce costs, improve facilities, upgrade the quality of its product and enhance its overall efficiency and customer service:

- implemented a cost savings program to reduce costs and expenses, the benefit of which will be realized in 1991 and in subsequent years;
- improved manufacturing facilities;
- advanced the product quality program which has enabled us to be one of the few companies within our industry to have a manufacturing facility qualified as a Ford Q-1 supplier;
- streamlined our operations, including the consolidation of product groups and centralization of administrative services, in order to improve overall efficiency and customer service;
- increased our share capital by U.S. $8.1 million.

On March 18, 1991, the Board of Directors approved an additional capital increase of at least U.S. $3,000,000, subject to regulatory approval.

These measures position the Company for improved operating results once economic conditions improve.

We regret to report that in November 1990, Mr. Heribert Werhahn, a director and former Chairman of the Company died. From 1977 until his retirement in February 1990, Mr. Heribert Werhahn was a director of D. A. Stuart Ltd. and from 1982 until 1987 served as its Chairman. Throughout the years of his involvement with the Company, Mr. Heribert Werhahn made significant contributions to the progress of the Company, and his advice and counsel will be missed by the directors.

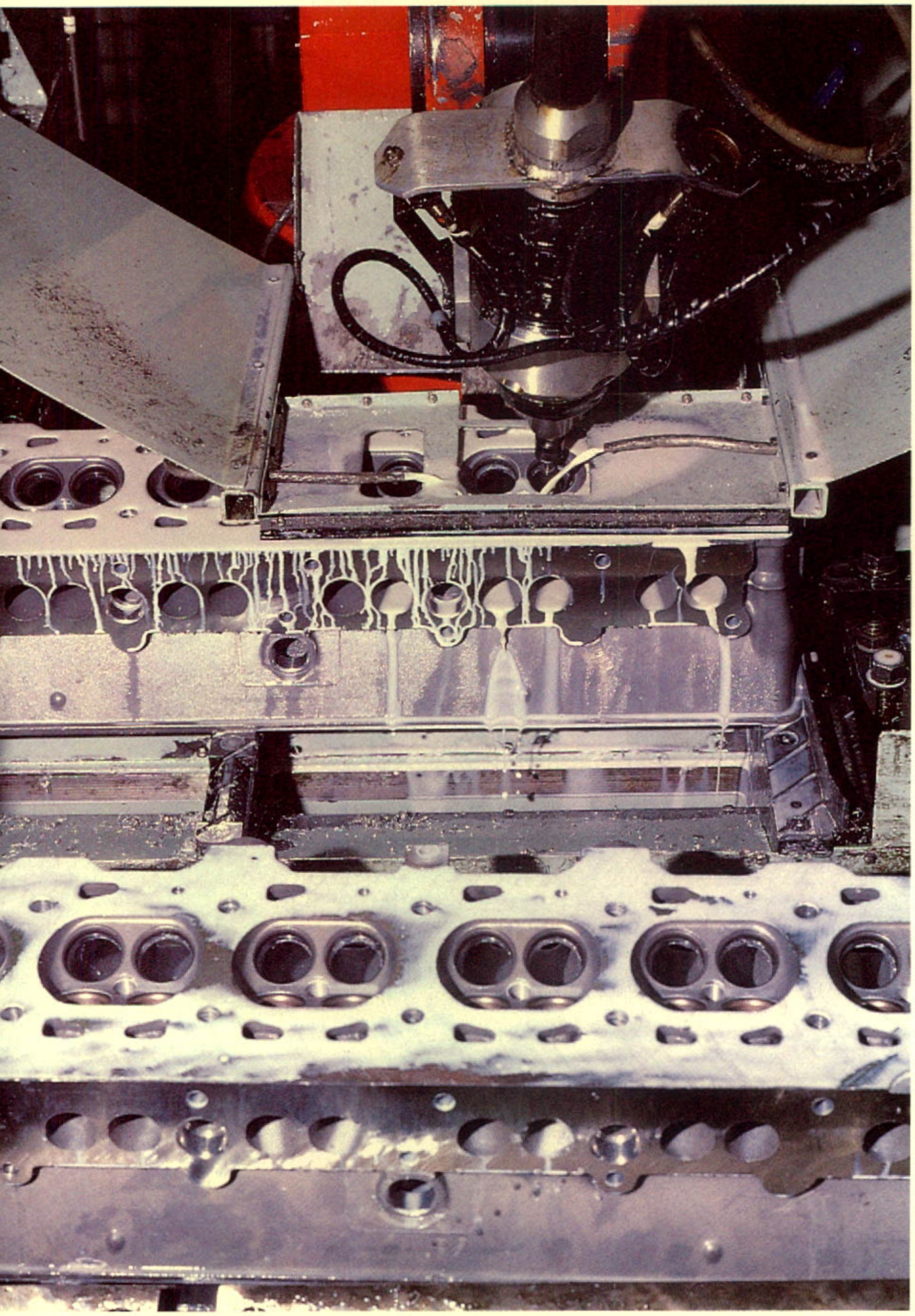
The management and directors wish to express their appreciation to all employees for their efforts during this difficult period.

Maximilian Werhahn
Chairman

Douglas F. Haslam
Executive Vice President

Toronto, Canada, March 18, 1991

STUART

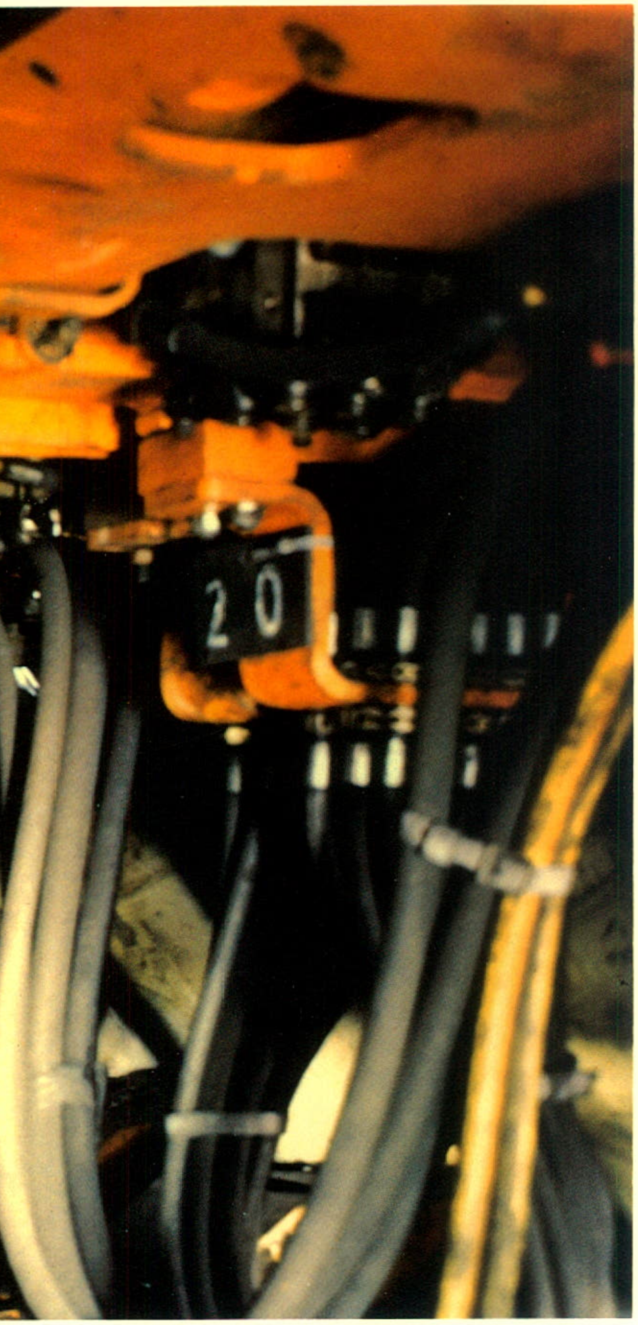


Stuart products are proprietary formulations developed by the Stuart worldwide network of research and development laboratories.

Stuart is an international chemical specialty company. Stuart develops, manufactures and markets a wide range of products for various industrial markets. These products are used primarily in the production of flat roll steel and aluminum, automotive, aircraft, can manufacturing and the general metalworking industries. Stuart's product lines cover the broad spectrum of ferrous and nonferrous mill lubricants, metalworking lubricants, hydraulic fluids, cleaning compounds, corrosion preventives, can making lubricants, metal forming lubricants, automotive gear oils and associated additives, metal treatment products and phenolic resins. Stuart products are proprietary formulations developed by the Stuart worldwide network of research and development laboratories. Stuart's commitment to set new standards in both customer service and "state-of-the-art" technology is very important in today's highly competitive industrial world.

Stuart has been able to expand its access to the world market with manufacturing and R & D facilities in the United States, Great Britain, Germany and Canada. In addition, we have licensees operating in Argentina, Sweden and Australia. Customers with international operations know they can count on Stuart products which are available to their organization on a worldwide basis.

This is another growth area in which Stuart is positioned to continue its advanced technology.



• (Above) Fire resistant hydraulic fluids being used for underground mines.

• (Left) Cupping lubricant application for D & I (Drawn & Ironed) cans.

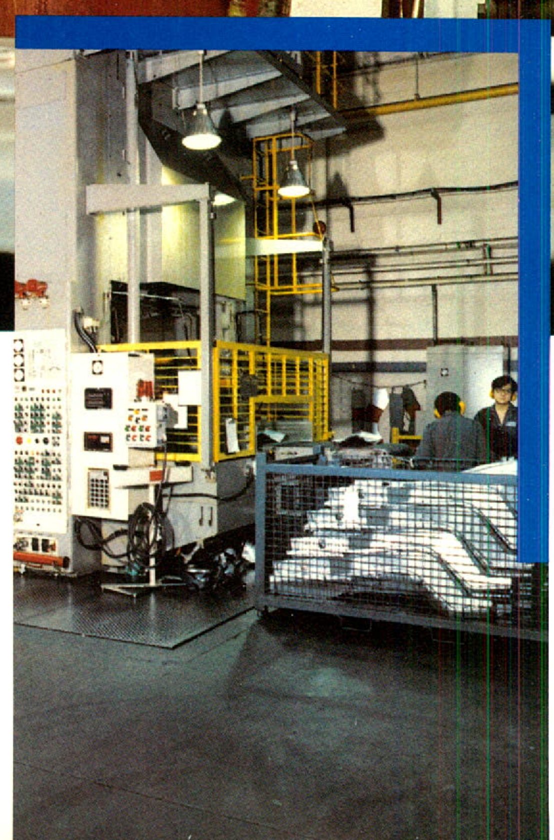
Stuart is a major supplier of products to the steel and aluminum rolling industries in the U.S., South America, Canada, the United Kingdom and Asia. This market represents a major growth area in the future for Stuart. Stuart has achieved its recognized standing in industry through innovative technology coupled with unsurpassed technical service expertise.

Stuart's management, marketing, sales and technical staff are experienced in both product technology and customer applications. Stuart's "state-of-the-art" steel mill rolling technology has enabled some of the most modern steel mills in the world to realize their full production and strip quality potentials. Stuart's unique "synthetic sulfur" rolling lubricant technology provides unsurpassed steel cleanliness for subsequent steel processing operations.

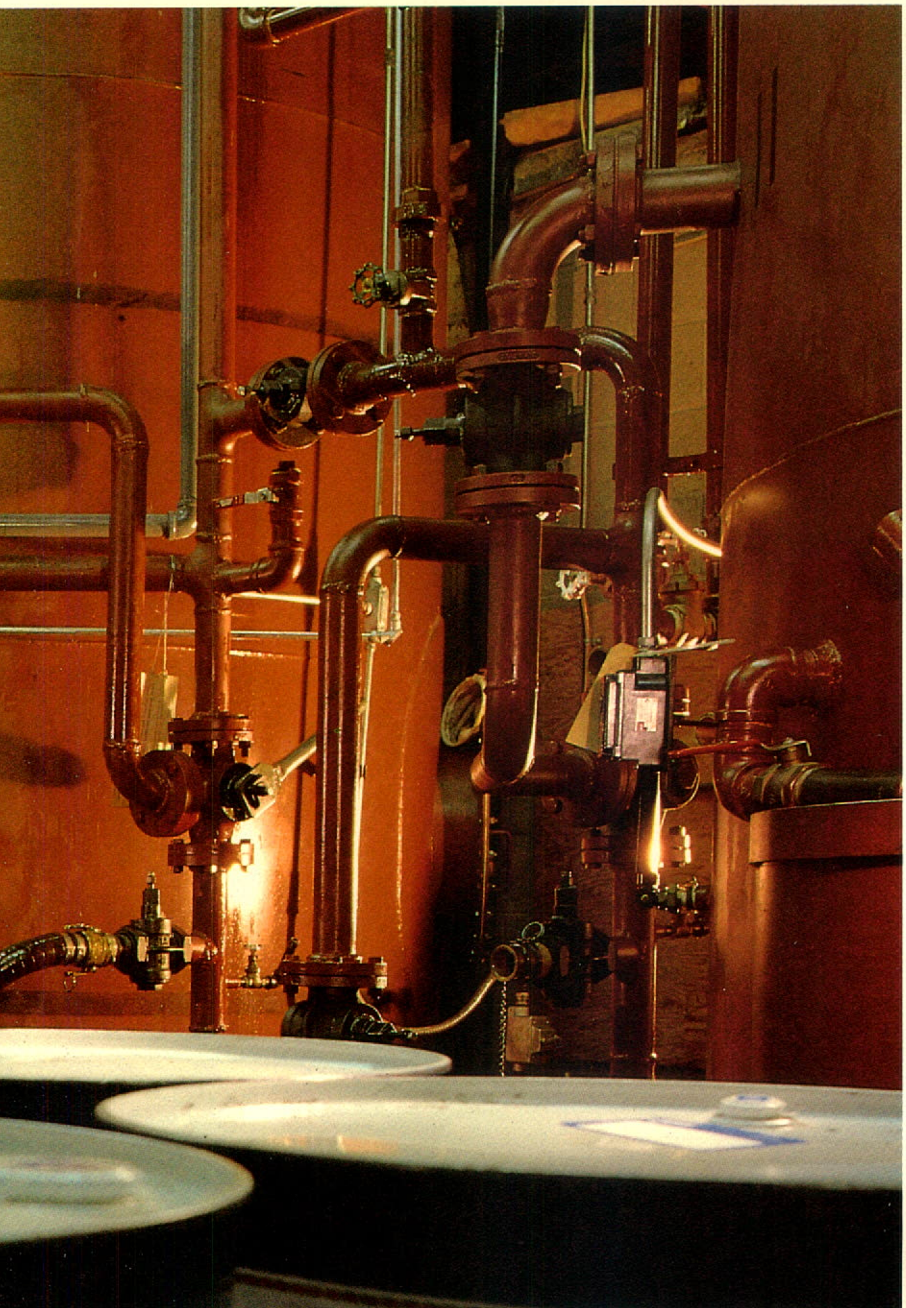
Stuart's innovative line of biostatic coolants represents a major expansion opportunity throughout the metalworking industry. These multi-purpose products provide long service life, reduced use of additives, excellent lubrication, reduced effluent for environmental concerns and ease of use, all at an overall economical cost to the customer. Stuart's extensive line of grinding oils has become the exclusive choice as the Original Equipment Manufacturer (OEM) lubricant recommended by various machine manufacturers throughout the world.

Stuart's phenolic resins are involved in various U.S. commercial and military aircraft applications, the U.S. space shuttle program and specialty adhesives. The aircraft applications include brakes on commercial and military aircraft, wing tips, and nozzles. This is another growth area in which Stuart is positioned to continue its advanced technology.

A Commitment to Quality



We are constantly improving quality through Statistical Process Control (SPC), analysis of manufacturing processes, and equipment.



Stuart's Quality Assurance Program is a worldwide effort involving sales, service, manufacturing, quality control, research and development and management. The Stuart Quality Assurance Program ensures our customers of a consistent quality product. As a result of this extensive and ongoing program, Stuart is one of the very few companies in our business to be awarded the Ford Q-1 Award.

We are constantly improving quality through Statistical Process Control (SPC), analysis of manufacturing processes, and equipment. These highly sophisticated techniques have been a driving force in our program to modernize and upgrade our manufacturing facilities and processes to "state-of-the-art" standing.

• (Above) Stuart production facility in Scarborough, Ontario.

• (Left) Stuart products in use.

Management's Discussion and Analysis

(Expressed in United States currency)

Corporate Overview

D. A. Stuart Ltd. is an international specialty chemical company which operates in a single business segment namely, the manufacture and sale of specialty lubricants and chemicals. The Company's products cover a broad spectrum of industrial uses in the metalworking industry, and its primary customers are flat roll steel and aluminum companies and automotive manufacturers. The Company's results are affected significantly by the performance of these customers. The Company's strategy is to sell high value added cost effective products which meet the needs of the industrial markets it serves. The Company has four geographic segments namely, Canada, U.S., Germany and the United Kingdom. Exports of products to the Pacific Rim occur primarily from the United States. Approximately 80% of total sales occur in North America and the balance in Europe.

Results of Operations

Economic conditions in North America adversely affected sales growth in 1990, and this trend is expected to continue throughout most of 1991.

Overall sales for 1990 were about 2% higher than the prior year. Sales to European customers increased by approximately 25%, about one-half of which was due to higher foreign currency rates than in the prior year.

The decrease in gross profit margin in 1990 is attributed primarily to the higher cost of petroleum based raw materials, which could not be passed on to customers due to pricing pressures. Petroleum based material costs are expected to stabilize in the second half of 1991.

Selling and administrative expenses increased over the previous year by about 15%. A portion of this increase resulted from higher foreign exchange rates than in the prior year and the balance related to employee fringe benefit costs, severance costs related to employee terminations and increased provisions for doubtful accounts receivable.

Cost savings programs which were instituted in 1990 in order to reduce costs and expenses included the centralization of certain administrative activities. The benefit of these cost savings programs will be realized in 1991. While management continues to review all operations for cost reduction opportunities, research and development costs in 1991 will continue at 1990 levels because the Company believes that continued product development and improvement is a key factor for future sales growth.

The costs related to restructuring in the amount of $5,409,103, represent management's estimate of the net loss to be incurred from the closing of five manufacturing plants located in Canada, the United States and Germany which have already been or will be closed in 1991 and 1992. This net loss includes environmental remediation costs of $3,747,000, employee severance costs and the cost of transferring production to other plant facilities. Fixed assets associated with the plant closings have been written down to net realizable value at December 31, 1990, resulting in a reduction in our investment in property, plant and equipment. With respect to environmental remediation costs, management has relied upon independent experts in establishing this amount, and, in view of the uncertainties involved, the actual amount could differ from the amount provided.

Worldwide, the number of manufacturing plants will be reduced from eleven to six by 1993. The cost savings which will result from these plant closings will occur to a limited degree in 1991 and to a larger extent in 1992 and thereafter.

Royalty and other income returned to normal levels in 1990, as the prior year included a gain on the sale of a plant facility sold in 1989.

Total current and deferred income taxes represent an effective tax rate of 8.3% in 1990 compared to 28.3% for 1989. The decrease in the effective tax rate is due primarily to losses for which the related tax benefit cannot now be recorded. These losses are available to be carried forward to future years.

Liquidity and Capital Resources

Proceeds from the issue of share capital during the year 1990 in the amount of $8,100,762 were used to repay long-term debt, reduce bank indebtedness, and finance operations. At the end of the fourth quarter, the Company converted approximately $2.7 million of short-term bank indebtedness from a related party to long-term debt.

Accounts receivable declined compared to the prior year as a result of lower sales in the latter part of the year, improved collection activities and greater provisions for doubtful customer accounts. Inventory increased by approximately 6% due to higher unit costs of raw materials. Accounts payable and accrued liabilities increased primarily due to the amount recorded in connection with the costs related to restructuring and higher foreign exchange rates than in the previous year.

Cash resources were also used for additions to property, plant and equipment which totalled $1,841,875 compared to $2,320,384 for the year 1989.

Total capital expenditures for 1991 are planned to be approximately $4,000,000. These capital investments, primarily for improvements in manufacturing facilities, are necessary to adjust for the planned plant closings and to further improve manufacturing efficiency and product quality.

It is believed that cash provided from operations, together with anticipated tax recoveries and at least $3,000,000 of capital from the sale of common shares is projected to provide sufficient working capital for the Company's 1991 business requirements.

With respect to 1992 and thereafter, it is recognized that long-term debt obligations which become due in early 1992 will have to be extended and that depending upon operating results, additional funding may be necessary.

Future Prospects

Limited sales growth is projected for 1991 primarily due to the anticipated continued weakness of the North American automotive, aluminum and steel markets served by the Company. Some sales growth is expected in continental European markets and in export markets.

A return to reasonable price stability for raw materials is anticipated in the second half of 1991. This should improve profit margins realized by the Company.

When the North American economy recovers, the Company will be well positioned to participate in the resulting sales growth in its primary markets which should improve future operating results.

D. A. Stuart Ltd.

Consolidated Statement of Operations

(Expressed in United States currency)

Year ended December 31	1990	1989
Net sales	**$ 89,513,501**	$ 88,109,913
Royalties and other income	**469,926**	843,783
	89,983,427	88,953,696
Costs and expenses:		
Cost of products sold	**67,243,495**	63,847,923
Selling and administrative expenses	**26,123,886**	22,637,780
Interest expense, including interest on long-term debt of $ 2,338,247 (1989 - $ 2,583,463)	**2,883,831**	2,748,416
Costs related to restructuring (Note 7)	**5,409,103**	742,000
Gain (loss) on foreign exchange	**(77,164)**	84,809
	101,583,151	**90,060,928**
Loss before income taxes	**(11,599,724)**	(1,107,232)
Income taxes (Note 8):		
Current	**(539,434)**	(466,348)
Deferred	**(421,190)**	153,155
	(960,624)	(313,193)
Loss for the year	**$ (10,639,100)**	$ (794,039)
Loss per common share	**$ (4.10)**	$ (0.37)

Consolidated Statement of Retained Earnings

(Expressed in United States currency)

Year ended December 31	1990	1989
Retained earnings, beginning of year	**$ 18,625,814**	$ 19,778,300
Loss for the year	**(10,639,100)**	(794,039)
Share issue expenses	**(117,829)**	–
	7,868,885	18,984,261
Dividends on common shares (Note 6)	**(85,578)**	(358,447)
Retained earnings, end of year	**$ 7,783,307**	$ 18,625,814

D. A. Stuart Ltd.

Consolidated Balance Sheet

(Expressed in United States currency)

Assets

December 31	1990	1989
Current assets:		
Cash	**$ 1,381,892**	$ 712,445
Accounts receivable	**14,863,444**	16,133,804
Inventories	**12,890,486**	12,216,223
Advances and prepaid expenses	**855,759**	847,569
Deferred income taxes	**–**	132,600
	29,991,581	30,042,641
Property, plant and equipment:		
Land, buildings and equipment	**24,104,365**	29,929,058
Less: Accumulated depreciation	**7,609,636**	10,017,252
	16,494,729	19,911,806
Intangible assets, net of amortization (Note 3)	**16,618,466**	17,583,978
Other assets	**328,185**	419,152
	$ 63,432,961	$ 67,957,577

Approved by the Board:

Maximilian Werhahn, Director

Douglas F. Haslam, Director

Liabilities

December 31	1990	1989
Current liabilities:		
Bank indebtedness	**$ 2,256,672**	$ 4,352,792
Accounts payable and accrued liabilities	**13,838,960**	10,418,364
Income taxes payable	**204,633**	1,693,388
Current portion of long-term debt (Note 4)	**666,664**	683,575
	16,966,929	17,148,119
Long-term debt (Note 4)	**21,023,823**	22,481,781
Deferred income taxes	**78,459**	632,249
Minority interest	**–**	1,000

Contingencies (Note 11)

Shareholders' Equity

Share capital (note 5):		
Authorized		
Unlimited number of common shares without par value		
Issued		
3,317,155 (1989 – 2,123,004) common shares	**17,627,151**	9,526,389
Contributed surplus	**11,880**	11,880
Retained earnings	**7,783,307**	18,625,814
Equity adjustment arising from foreign currency translation	**(58,588)**	(469,655)
	25,363,750	27,694,428
	$ 63,432,961	$ 67,957,577

Auditors' Report

To the Shareholders of D. A. Stuart Ltd.

We have audited the consolidated balance sheets, expressed in United States currency, of D. A. Stuart Ltd. as at December 31, 1990 and 1989 and the consolidated statements of operations, retained earnings and changes in financial position, all expressed in United States currency, for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1990 and 1989 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

Toronto, Ontario
March 8, 1991 (except as to Note 14 which is as of March 18, 1991)

D. A. Stuart Ltd.

Consolidated Statement of Changes in Financial Position

(Expressed in United States currency)

Year ended December 31	1990	1989
Cash provided by (used in) operating activities		
Loss for the year	**$ (10,639,100)**	$ (794,039)
Adjusted for non-cash items - Depreciation	**2,061,933**	1,773,937
Amortizations of intangibles	**1,157,141**	1,099,688
Deferred income taxes	**(421,190)**	153,155
Gain on sale of fixed assets	–	(461,826)
Provision for costs related to restructuring	**5,409,103**	742,000
Decrease (increase) in non-cash working capital	**675,645**	(3,326,135)
	(1,756,468)	(813,220)
Cash provided by (used in) investing activities		
Purchase of businesses, net of bank overdraft assumed	–	(4,858,316)
Additions to property, plant and equipment	**(1,841,875)**	(2,320,384)
Proceeds from sale of fixed assets	**69,860**	2,573,800
Proceeds from sale of line of business	**70,000**	–
Other	–	(122,906)
	(1,702,015)	(4,727,806)
Cash provided by (used in) financing activities		
Proceeds on issue of share capital	**8,100,762**	–
Share issue expenses	**(117,829)**	–
Proceeds on issue of long-term debt	**2,693,498**	4,403,298
Repayment of long-term debt	**(4,727,658)**	(1,436,221)
Dividends	**(85,578)**	(358,447)
Foreign exchange and other	**360,855**	(646,305)
	6,224,050	1,962,325
Increase (decrease) in cash during the year	**2,765,567**	(3,578,701)
Cash, net of bank indebtedness, beginning of year	**(3,640,347)**	(61,646)
Cash, net of bank indebtedness, end of year	**$ (874,780)**	$ (3,640,347)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1990
(Expressed in United States currency)

1. Summary of significant accounting policies

General
The consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles, which conform in all material respects to International Accounting Standards.

Principles of consolidation
The accompanying consolidated financial statements include the accounts of D. A. Stuart Ltd. and its subsidiary companies, the common shares of which are all wholly owned.

Foreign currency translation
The company operates principally in the United States and the accompanying financial statements are expressed in United States currency. Accounts maintained in other than United States currency have been translated on the following bases:

Revenues and expenses are translated at average rates of exchange prevailing during the year. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Unrealized gains and losses arising on translation of assets and liabilities of self-sustaining foreign operations are deferred and shown separately in shareholders' equity.

Realized gains or losses on foreign currency transactions are recognized in income for the year in which they arise.

Inventories
Raw materials are valued at the lower of cost (first-in, first-out method) and replacement cost. Finished goods are valued at the lower of cost (first-in, first-out method) and net realizable value.

The company routinely incurs expenditures related to waste disposal during the normal course of operations. Such costs are charged to cost of products sold in the consolidated statement of operations as incurred.

Property, plant and equipment
Property, plant and equipment are recorded at cost. Depreciation is recorded using the straight-line method and accelerated methods at rates varying between 2-1/2% and 33%, which are based upon the estimated useful lives of the assets.

Intangible assets
Intangible assets are recorded at cost. In 1990, the company began to amortize its trademarks but the effect of this change was not material. Intangible assets are amortized on a straight-line basis over the following periods:

Excess of cost of assets over values assigned	40 years
Trademarks	20 years
Formulae, noncompetition agreement and other intangible assets	5 to 20 years (average 14.5 years)

2. Acquisitions

Theunissen group
On January 1, 1989, the company acquired the Theunissen group of companies of Wuppertal, Germany. The acquisition was financed by long-term borrowings from an affiliate of the parent company and is summarized as follows:

	DM	U.S.
Current assets	1,074,000	$ 604,232
Property, plant and equipment	6,039,000	3,397,541
Excess of cost of acquired assets over value assigned	4,947,000	2,783,182
Less: Liabilities assumed	(6,393,000)	(3,596,701)
	5,667,000	$ 3,188,254

3. Intangible assets, net of amortization

	1990	1989
Excess of cost of acquired assets over values assigned	$ 11,321,421	$ 11,507,230
Formulae, noncompetition agreement and other intangible assets	4,660,545	5,400,675
Trademarks	636,500	676,073
	$ 16,618,466	$ 17,583,978

4. Long-term debt

	1990	1989
Interim financing note (unsecured), Cdn. $8,113,428 (1989 -$8,113,428), payable to the parent company. If not retired earlier, it is repayable January 29, 1992. The interest rate at December 31, 1990 was 12.75% (1989 -12.75%)	$ 6,994,586	$ 7,005,946
Revolving loan (unsecured), repayable at any time but not later than January 29, 1992. The interest rate at December 31, 1990 was 9.85% (1989 - 9.85%)	3,250,000	6,000,000
Term loan (unsecured), dated December 29, 1988, repayable in principal amounts of $600,000 on each of December 29, 1991 and 1992 and $3,600,000 on December 29, 1993. The interest rate is fixed at 10.7%	4,800,000	5,400,000
Carried forward	15,044,586	18,405,946

Brought forward	$ 15,044,586	$ 18,405,946
Promissory note (unsecured), DM 9,400,565 (1989 - DM 5,375,012), payable to an affiliate of the parent company. If not retired earlier, it is repayable January 2, 1992. The interest rate at December 31, 1990 was 9.25% (1989 - 8.5%)	6,289,918	3,180,932
Promissory note, secured by assets of a subsidiary, DM 1,976,702, repayable in blended monthly instalments of principal and interest of DM 15,125. The loan was repaid in full during 1990. Interest rate at December 31, 1989 was 7.25%	–	1,169,812
Promissory notes (unsecured), Cdn. $326,483 (1989 - $356,320), repayable by monthly instalments of Cdn. $3,437 and the balance, if not paid earlier, on January 1, 1993. The interest rate is 1/2 of 1% over prime rate and at December 31, 1990 was 13.25% (1989 -14%)	281,462	307,683
Other	74,521	100,983
	21,690,487	23,165,356
Less: Current portion	666,664	683,575
	$ 21,023,823	$ 22,481,781

5. Share capital

(a) On March 6, 1990, the company issued 530,751 common shares at a price of Cdn. $9.00 per share pursuant to a rights offering to shareholders who were not residents of the United States. The parent company exercised all of the rights issued to it and purchased all of the common shares not otherwise taken up under the offer. The issue raised net proceeds of $3,977,840.

(b) On December 11, 1990, the company issued, by way of a private placement, 663,400 common shares at a price of Cdn. $7.125 per share. All of the shares were purchased by the parent company. The issue raised net proceeds of $4,005,093.

6. Dividends

Dividends on common shares, as shown in the consolidated statement of retained earnings, represent the United States currency equivalent of dividends which were declared in Canadian funds (year ended December 31, 1990 - Cdn. $0.05 per share; year ended December 31, 1989 - Cdn. $0.20 per share).

7. Costs related to restructuring

The costs of restructuring represent management's estimate of anticipated future losses related to the closing and sale of certain plant facilities in Canada, the United States and Germany. These estimated costs include the net book value of certain plant facilities which have been closed or will be closed less estimated proceeds of sale, plus severance costs, cost of transferring production, and the cost of environmental remediation (see Note 11).

8. Income taxes

The differences between the effective tax rate of the amounts recorded and the amounts computed by applying the statutory Canadian income tax rate to income before income taxes are explained as follows:

	% of pretax income	
	1990	1989
Income tax computed at statutory income tax rate	44.0%	44.0%
Differing asset bases for book and tax purposes	1.1	(16.8)
Investment and other tax credits	–	4.9
Income taxed at different rates in foreign jurisdictions	(0.7)	(1.4)
Income taxable at capital gains rates	–	12.1
Credits relating to prior years	–	11.2
Losses not tax effected	(34.5)	(15.5)
Nondeductible expenses	(1.8)	(9.8)
Other, net	0.2	(0.4)
	8.3 %	28.3 %

The company has accounting losses for which income tax benefits have not been recorded, comprised as follows:

Losses in Canada for income tax purposes expiring in:

	Cdn. dollars
1996	$ 236,800
1997	1,224,000
Amounts expensed in the financial statements not yet claimed for income tax purposes	673,900
	$ 2,134,700

The company's wholly-owned subsidiaries in the United States have accounting losses of approximately $4,942,000 and losses for income tax purposes of approximately $3,400,000, which expire in 2005. In addition, the company has alternative minimum tax credits of approximately $200,000, which are available to offset future income taxes and may be carried forward indefinitely.

The company's wholly-owned subsidiary in Germany has loss carryforwards for accounting and income tax purposes of approximately DM 5,526,000, which may be carried forward indefinitely.

9. Pension plans

The company has a defined benefit pension plan in the United States and defined contribution plans in certain other countries. Based on actuarial valuations of the defined benefit portion of these pension plans, the present value of the accrued pension benefits is $815,997 (1989 - $615,068) and the net pension fund assets are valued at $750,453 (1989 - $540,552).

10. Related party transactions

The company had no significant related party transactions during the year except as disclosed in Notes 4 and 5 and for certain short-term interim financing (December 31, 1990 - $896,700; 1989 - $394,600) provided through the parent company and one of its affiliates. During the year, interest on loans was paid to the parent company and affiliates of the parent company at normal commercial rates.

11. Site cleanup and restoration

In connection with the planned disposition of plant facilities referred to in Note 7, certain environmental remediation will be necessary in order to prepare the sites for sale. Included in costs related to restructuring in the 1990 consolidated statement of operations is a provision of $3,747,000 related to the estimated costs of such remediation. The estimates were prepared based on independent environmental studies for certain plant locations and management estimates for the remaining sites planned for disposal. In view of the uncertainties involved concerning environmental remediation, the ultimate cost to the company could differ from the amounts provided.

The company is unable to obtain insurance related to environmental impairment at reasonable rates.

12. Segmented information

The company's consolidated net sales, contribution to income and identifiable assets by principal geographic location of operations were as follows:

	1990	1989
Net sales		
Canada	$ 12,369,256	$ 13,109,325
United States	62,310,238	62,618,868
Europe	16,761,413	13,450,396
	91,440,907	89,178,589
Inter-area eliminations	(1,927,406)	(1,068,676)
Net sales	$ 89,513,501	$ 88,109,913
Export sales (included above)	$ 10,957,124	$ 10,428,632

	1990	1989
Contributions to (loss) income		
Canada	$ (2,070,282)	$ 8,169
United States	(6,797,071)	(888,292)
Europe	(2,516,859)	163,288
	(11,384,212)	(716,835)
Unallocated general and administrative expenses	(215,512)	(390,397)
Loss before income taxes	$(11,599,724)	$ (1,107,232)
Identifiable assets		
Canada	$ 21,745,887	$ 22,947,558
United States	39,105,214	42,832,562
Europe	14,819,470	12,420,873
	75,670,571	78,200,993
Inter-area eliminations	(12,426,701)	(10,344,144)
Corporate assets	189,091	100,728
Total assets	$ 63,432,961	$ 67,957,577

13. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 1990.

14. Subsequent event

On March 18, 1991, the Board of Directors resolved to raise additional equity financing in the amount of at least $3,000,000. The parent company has indicated its intention to support the issue in its entirety if required and to continue providing its current level of financial support to the company.

Directors and Officers

D.A. Stuart Ltd.

Directors

Douglas F. Haslam
Helmut Hofmann
Frederick W. Hohage
Christopher T. Loughrin
William H. Mann
Norman J. Munn, Q.C.
Charles E. Santangelo
Maximilian Werhahn
Dr. Michael Werhahn

Officers of the Company

Chairman of the Board,
President and Chief Executive Officer
Maximilian Werhahn

Vice Chairman
Charles E. Santangelo

Executive Vice President
Douglas F. Haslam

Secretary
Curtiss D. Summers

Transfer Agents and Registrars
National Trust Company
555 Wilson Avenue
Downsview, Ontario M3H 5Y6

General Office
7575 Plaza Court
Willowbrook, Illinois, U.S.A. 60521

Head Office
43 Upton Road
Scarborough, Ontario,
Canada

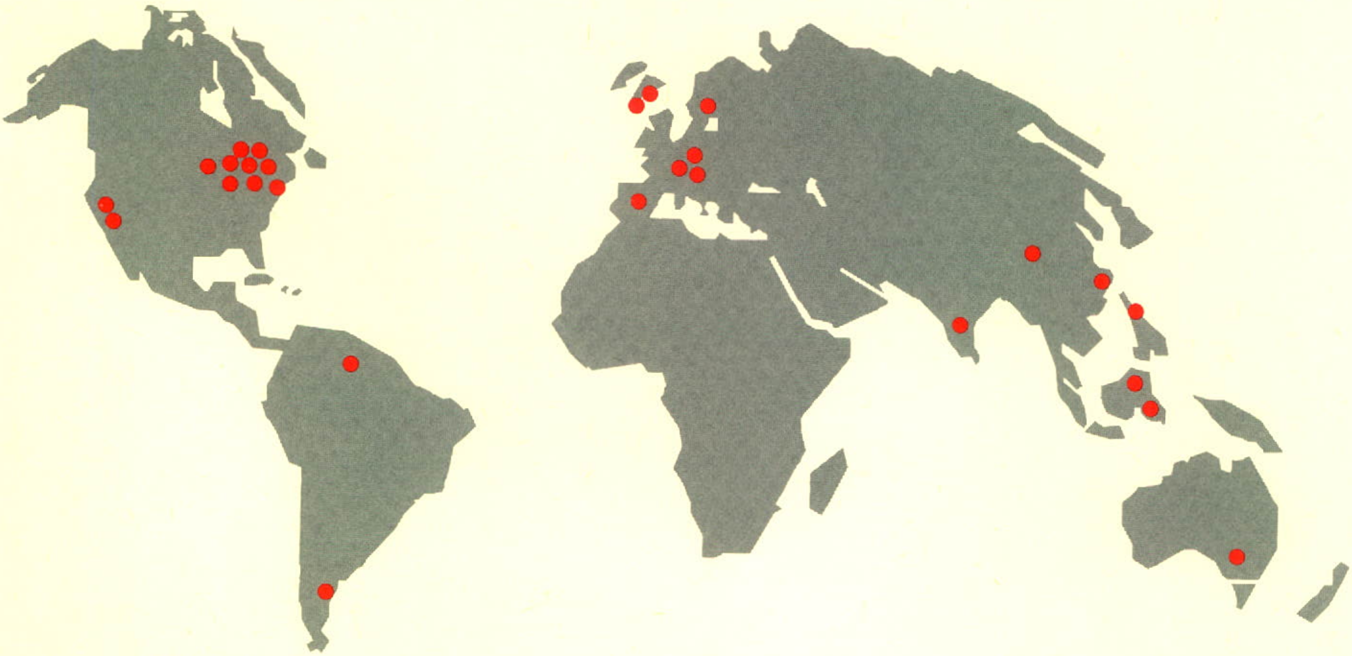
The **Annual Meeting of Shareholders** will be held in the Algonquin Room of the Royal York Hotel, Toronto, Ontario, Canada, on Friday, May 17, 1991 at 11:00 a.m. Toronto Time.

Comparative Review of Operations

	Net Sales	Income (loss) before taxes	Income taxes (recovery)	Net income (loss)	Dividends declared	Income (loss) retained
1990 (4)	$ 89,513,501	($ 11,599,724)	($ 960,624)	($ 10,639,100)	$ 85,578	($ 10,724,678)
1989 (4)	88,109,913	(1,107,232)	(313,193)	(794,039)	358,447	(1,152,486)
1988 (4)	66,850,945	2,252,116	468,613	1,783,503	223,510	1,559,993
1987 (2)	31,670,084	3,751,910 (5)	1,722,795	2,029,115	70,346	1,958,769
1987 (3)	42,796,666	6,183,508 (6)	2,600,501	3,583,007	135,236	3,447,771
1986 (3)	45,364,676	3,032,491	1,259,881	1,875,610 (1)	133,591	1,742,019
1985 (3)	49,164,207	3,622,284	1,539,341	2,082,943	138,500	1,944,443

(1) After extraordinary gain of $ 103,000.
(2) Seven-month period ended December 31.
(3) Twelve months ended May 31.
(4) Twelve months ended December 31.
(5) Includes pension reversion gain of $ 871,985 before tax.
(6) Includes pension reversion gain of $ 2,700,000 before tax.

Corporate Offices, Manufacturing Plants, Licensees, and Agents



D.A. Stuart Ltd.

Corporate Offices

D. A. Stuart Ltd.
43 Upton Road
Scarborough, Ontario
M1L 2C1

D. A. Stuart Inc.
43 Upton Road
Scarborough, Ontario
M1L 2C1

Stuart-Ironsides, Inc.
7575 Plaza Court
Willowbrook, Illinois
60521

D. A. Stuart Oil Co. Ltd.
Lincoln Street
Wolverhampton,
England
WV10 ODZ

Stuart-Theunissen
GmbH
Beyenburger Strasse
164-168
5800 Wuppertal 2
Germany

Manufacturing Plants

D. A. Stuart Inc.
43 Upton Road
Scarborough, Ontario
M1L 2C1

D. A. Stuart Inc.
89 Nipissing Road
Milton, Ontario
L9T 1R3

Surbond Lubricants,
Inc.
1 Mill Street
Batavia, New York
14020

Stuart-Ironsides, Inc.
2306 W. 47th Street
Chicago, Illinois 60609

Stuart-Ironsides, Inc.
270 West Mound Street
Columbus, Ohio
43216-1999

Stuart-Ironsides, Inc.
4346 Tacony Street
Philadelphia,
Pennsylvania 19124

Stuart-Ironsides, Inc.
6715 McKinley Avenue
Los Angeles, California
90001

Stuart-Ironsides, Inc.
Plum Street
Verona, Pennsylvania
15147

D. A. Stuart Oil Co. Ltd.
Lincoln Street
Wolverhampton,
England
WV10 ODZ

Stuart-Theunissen
GmbH
Beyenburger Strasse
164-168
5800 Wuppertal 2
Germany

Stuart-Theunissen
GmbH
Am Weiher 8
D-6456 Langenselbold
Germany

Licensees

Australia
Sweden
Argentina

Agents

China
India
Indonesia
Japan
Korea
Philippines
Spain
Venezuela

Printed in Canada
by Norgraphics (Canada) Limited

Design: Anthony Goodhoofd Limited