D. A. STUART LTD.

Stuart

ANNUAL REPORT

1988

D. A. STUART LTD.

DIRECTORS and OFFICERS

Directors

DOUGLAS F. HASLAM
HELMUT HOFMANN
FREDERICK W. HOHAGE
CHRISTOPHER T. LOUGHRIN
WILLIAM H. MANN
NORMAN J. MUNN, Q.C.
CHARLES E. SANTANGELO
Dr. HEYO SCHMIEDEKNECHT
HERIBERT WERHAHN

Officers of the Company

Chairman of the Board
Dr. HEYO SCHMIEDEKNECHT

President
CHARLES E. SANTANGELO

Secretary and Vice President, Finance
DOUGLAS F. HASLAM

Transfer Agents and Registrars

NATIONAL TRUST COMPANY
4 King Street West
Toronto, Ontario M5H 3W7

General Office

7575 Plaza Court
Willowbrook, Illinois 60521

Head Office

43 Upton Road
Scarborough, Ontario, Canada M1L 2C1

The Annual and Special Meeting of Shareholders will be held in the Library of the Royal York Hotel, Toronto, Canada, on Thursday, May 18, 1989 at 11 A.M. Toronto Time.

D. A. STUART LTD.
Serving the metal working industry for over 100 years

Report of the Directors

To the Shareholders:

Consolidated net sales for the twelve-month period ended December 31, 1988 were U.S. $66,850,945 compared with U.S. $31,670,084 for the seven-month period ended December 31, 1987. In addition to the difference in reporting periods, the increase in net sales was due to increased sales in most operations and the inclusion of sales of Key Chemicals, Inc., which was acquired in December 1987, the sales of Far-Best Corp., which was acquired on June 3, 1988 and the sales of the Surbond Group, which was acquired on November 22, 1988.

Consolidated net income for the year was U.S. $1,783,503 compared to U.S. $2,029,115 for the seven-month period of the prior year. This reduction in earnings was due to higher expenses in the U.S. operations, continuing raw material increases, and lower sales performance of the German subsidiary and some segments of the U.S. operation. The deferral of a large customer order in the German subsidiary during the fourth quarter also impacted negatively on earnings. These results include a foreign exchange loss of U.S. $41,344 versus a gain of U.S. $164,516 for the seven-month prior period. Interest expense for 1988 was U.S. $1,359,107 compared with U.S. $355,250 for the shortened previous year. The 1987 results include a gain on termination of a pension plan of U.S. $871,985 before income tax.

The Far-Best acquisition has increased the Company's market share in the non-ferrous industry both in North America and internationally and has provided an important west coast manufacturing plant from which the Company can supply the Pacific Basin with all product lines.

During the year, the U.S. operation underwent an extensive reorganization of its divisions. This resulted in a structure which better enables the Company to coordinate its sales and technical efforts in this era of increased customer demand for service. The U.S. operation also completed the installation of a Marketing Information System which will become the standard of our industry.

The Surbond Group acquisition has doubled the size of the Canadian operation and provided important new technology and marketing expertise in the area of drawing and forming compounds. This know-how will be used by all of the Company's operations.

On January 1, 1989 the Company acquired The Theunissen Company of Wuppertal, West Germany which specializes in the manufacture and sale of fire resistant hydraulic fluids for the mining industry. In addition to this technology, this acquisition will increase the size of the Company's European sales force and provide a modern manufacturing facility for all of the Company's products.

The planned acquisition of Far-Best when combined with the opportunities to acquire the Surbond Group and the Theunissen Group gave rise to larger than anticipated expenses and of necessity deferred the realization of the synergistic benefits from the Far-Best acquisition over a longer period of time. These acquisitions together with normal sales growth will bring 1989 sales to more than U.S. $90,000,000 and provide the Company with substantial opportunity for growth in the future.

The Management and Directors wish to express their appreciation to all employees for their efforts during a difficult year of reorganization and acquisition assimilation.

On behalf of the Board

HEYO SCHMIEDEKNECHT
Chairman

CHARLES E. SANTANGELO
President

Toronto, Canada
March 7, 1989

Business of the Company

D. A. Stuart Ltd. comprises four separate operating units in four different countries: the United States, Canada, the United Kingdom and West Germany. Each of these operating units is described below.

The United States Operating Unit

The U.S. operating unit, being much larger than the other three and consisting of several acquired companies, is organized into three sales divisions, the Stuart Division, the Ironsides Division and the Specialty Products Division. Customers of this operating unit include General Motors, Ford Motor Company, Chrysler Corp., USX, LTV Steel, USS Posco, National Steel, Reynolds Metals Co., Commonwealth Aluminum Co., Witco, Coors, Crown Cork & Seal, Ball Container Corp., Caterpillar Tractor Corp., John Deere and Bendix.

The Stuart Division

The Stuart Division is comprised of four strategic business units: the Metalworking Products Group, the Metalforming Products Group, the Industrial Products Group and the Automotive Products Group. Each of these product groups is distinguished by the specific type of products that it markets even though each of them sell to basically the same major markets. Major markets for the Stuart Division are the automotive industry, industrial machine shops, equipment manufacturers and the aircraft industry. The products are sold by Stuart Division Sales Engineers who are located throughout the United States.

(1) The Metalworking Products Group
The Metalworking Products Group provides metal removal type products such as machining, cutting and grinding fluids ranging from straight oil based products to heavy duty water soluble, semi-synthetic and synthetic water based fluids. This group is the largest of the four groups in the Stuart Division.

(2) The Metalforming Products Group
The products sold by this group are comprised of drawing and stamping compounds, forging compounds and wire drawing compounds and are sold to stamping, forging and wire manufacturing plants.

(3) The Industrial Products Group
This group markets hydraulic fluids and industrial fluids such as waylubes, greases and gear oils. Of these products, the fire resistant hydraulic fluids offer the greatest area for potential growth. These fluids are designed to reduce the environmental problems of toxic fumes and waste disposal.

(4) The Automotive Products Group
The Automotive Products Group markets initial fill lubricants to the automotive industry as well as additive packages to suppliers of high performance lubricants. This industry is highly competitive and the market is dominated by the major oil companies.

The Ironsides Division

The Ironsides Division is comprised of three strategic business units: the Steel Mill Products Group, the Non-Ferrous Mill Products Group and the D & I (Drawn and Ironed) Can Industry Products Group. Each of these groups is distinguishable by the market served and the specific product technology required. The Ironsides Division Sales Engineers are strategically located to cover the entire U.S. market.

(1) The Steel Mill Products Group
The Steel Mill Products Group markets hot and cold rolling lubricants, pickle line lubricants, hydraulic fluids, corrosion preventatives, tempering lubricants, casting lubricants and pipe coating products. The Ironsides Division is one of the largest domestic suppliers of these products in the U.S. market.

(2) The Non-Ferrous Mill Products Group
This group markets non-ferrous hot and cold rolling mill lubricants, hydraulic fluids and biocides.

(3) The D & I Can Industry Products Group
This group markets lubricants, cleaners, biocides and filter media for the aluminum and steel can industry. The group represents a significant area for growth within the Company.

The Specialty Products Division

The Specialty Products Division is comprised of four strategic business units: the Key Chemical Products Group, the Torco High Performance Products Group, the Resin Products Group and the Metal Protection Products Group. These four units comprise the newest Division within the U.S. operating unit. Each represents a highly specialized product area. The markets for the Resin Products Group and the Torco High Performance Products Group are diverse from each other as well as from the Company's normal markets; however, each offers significant growth opportunities for the Company.

(1) The Key Chemical Products Group
The acquisition of the business of Key Chemicals, Inc. filled a void in the U.S. line of products for the metalworking industry. Key manufactures a complete line of cleaners and conversion coating chemicals.

(2) The Torco High Performance Products Group
This is the newest Product Group within the U.S. operating unit. The high performance products are those developed for racing cars and boats as well as motorcycle oils and lubricants.

(3) The Metal Protection Products Group
The Metal Protection Products Group consists of a variety of corrosion protection products for the metalworking industry as well as the steel industry.

(4) The Resin Products Group
The Resin Products Group develops and markets phenolic resins for the aerospace industry for use in aircraft brakes and the U.S. space shuttle program. Several other potential uses in the aircraft industry are currently being evaluated. These products are only manufactured for sale in the U.S. market.

Facilities

The U.S. operating unit is headquartered in Willowbrook, Illinois, a suburb of Chicago, with other offices located in Los Angeles and Philadelphia. The Company has seven manufacturing plants which are located in Somerville, New Jersey; Philadelphia, Verona, Pennsylvania; Columbus, Ohio; Chicago and Los Angeles. Product development laboratories are operated in Chicago, Philadelphia and Los Angeles.

Export Sales

Both the Stuart and Ironsides Divisions have developed significant export sales of their respective products. These sales are primarily to overseas customers in steel mills and automotive businesses. It is anticipated that this sector of the Company's business will grow significantly. The addition of Far-Best also enhances the Company's export opportunities through increased sales to aluminum mills overseas.

Research and Development

Recognizing that technology and service are crucial to the industries served, the Company places great importance on its research and development activities and attributes much of its market position to its strength in this area. It employs 57 chemists and technicians in its various laboratories representing approximately 16% of its total employees. This equates to a ratio of one of such people for every 1.3 salesmen in the field.

The Company has product development laboratories in Willowbrook, Illinois; Toronto, Canada; Wolverhampton, England and Langenselbold, West Germany. These laboratories have sophisticated equipment for the analysis of chemical properties and the monitoring of product characteristics while in field use.

The product development laboratories at these facilities simulate and reproduce real application conditions whenever possible for new product development and customer problem solving. Recognizing the need to address longer term projects and to explore new technologies and new application areas, a research group has been established in the Willowbrook facility which coordinates its activities with the development laboratories in order to help speed new product introductions.

The Canadian Operating Unit

The Canadian operating unit manufactures the Company's products in its Toronto and Milton, Ontario plants for the Canadian market. Metal working fluids represent the largest portion of sales with rolling oils, cleaners and hydraulic fluids being other significant sales areas. In addition to its own business, the Canadian Corporation is a 50% shareholder in ChemSys Inc. which sells cleaners and metal preparation chemicals manufactured by the Canadian Corporation under license from Chemical Systems Inc. of Chicago, Illinois.

The principal markets of the Canadian operation are the automotive markets both directly and indirectly, the aluminum and steel industry and the aircraft and mining industries. Customers include General Motors, Ford, Toyota, Magna, Stelco, Dofasco, Reynolds Aluminum, Alcan, Falconbridge Nickel, INCO and Northern Telecom.

The U.K. Operating Unit

The U.K. operating unit manufactures the Company's products in its Wolverhampton plant primarily for the U.K. market. Aluminum and steel rolling oils represent the largest portion of sales with metal working fluids and forging compounds being other significant sales areas. All sales are made through the U.K. Corporation's sales force.

The principal markets of the U.K. Corporation are the steel and aluminum industry for rolling oils and the automotive industry for metal working fluids. Customers include British Steel, Alcan, Jaguar, Ford and Massey-Ferguson.

The West German Operating Unit

The West German operating unit manufactures the Company's products in its Langenselbold plant primarily for the continental Europe market. Metal working fluids account for the largest portion of sales with D & I can products and forging compounds being other significant sales areas. All sales are made through the German Corporation's sales force.

The principal customers of the German Corporation are in Germany, Austria, Greece, France and Yugoslavia.

D. A. STUART LTD.
(Incorporated under the laws of Ontario)

Consolidated
(Expressed in United

ASSETS

	December 31 1988	1987
Current assets:		
Cash and short-term investments	**$ 1,455,138**	$ 2,453,053
Accounts receivable	**13,293,475**	9,308,419
Inventories	**10,807,558**	7,557,004
Advances and prepaid expenses	**894,151**	577,709
Deferred income taxes	**260,000**	176,000
	26,710,322	20,072,185
Property, plant and equipment:		
Land, buildings and equipment	**26,273,905**	16,686,840
Less: Accumulated depreciation	**8,359,108**	7,314,106
	17,914,797	9,372,734
Intangible assets, net of amortization (Note 2)	**15,571,630**	3,597,766
Other assets	**496,246**	382,696
	$60,692,995	$33,425,381

Approved by the Board:

Heyo Schmiedeknecht, Director

Charles E. Santangelo, Director

AUDITORS'

To the Shareholders of
D. A. Stuart Ltd.

We have examined the consolidated balance sheet, expressed in United States currency, of D. A. Stuart Ltd. as at December 31, 1988 and the consolidated statements of income, retained earnings and changes in financial position, all expressed in United States currency, 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.

Toronto, Ontario
February 27, 1989

Balance Sheet

States currency)

LIABILITIES

	December 31 1988	1987
Current liabilities:		
Bank indebtedness	**$ 1,516,784**	$ —
Accounts payable and accrued liabilities	**7,860,873**	4,674,132
Income taxes payable	**2,678,034**	3,872,998
Current portion of long-term debt (Note 3)	**743,990**	1,700,000
	12,799,681	10,247,130
Long-term debt (Note 3)	**18,284,477**	4,000,000
Deferred income taxes	**606,494**	457,108
Minority interest	**1,000**	22,600

SHAREHOLDERS' EQUITY

Share capital (Note 4):		
Authorized —		
Unlimited number of common shares without par value		
Issued —		
2,123,004 (1987 — 1,368,768) common shares	**9,526,389**	424,608
Contributed surplus	**11,880**	11,880
Retained earnings (Note 5)	**19,778,300**	18,471,062
Equity adjustment arising from foreign currency translation	**(315,226)**	(209,007)
	29,001,343	18,698,543
	$60,692,995	$33,425,381

REPORT

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Price Waterhouse

Chartered Accountants

D. A. STUART LTD.

Consolidated Statement of Income

(Expressed in United States currency)

	Year ended December 31 1988	Seven months ended December 31 1987
Net sales	**$66,850,945**	$31,670,084
Royalties and other income	**472,727**	251,076
	67,323,672	31,921,160
Costs and expenses:		
Cost of products sold	**47,621,633**	21,786,915
Selling and administrative expenses	**16,049,472**	7,063,586
Interest expense, including interest on long-term debt of $1,338,337 (1987 – $352,512)	**1,359,107**	355,250
Loss (gain) on foreign exchange	**41,344**	(164,516)
	65,071,556	29,041,235
Income before the undernoted item	**2,252,116**	2,879,925
Gain on termination of pension plan	—	871,985
Income before income taxes	**2,252,116**	3,751,910
Income taxes (Note 7):		
Current	**507,445**	2,130,267
Deferred	**(38,832)**	(407,472)
	468,613	1,722,795
Net income for the period	**$ 1,783,503**	$ 2,029,115
Earnings per common share (Note 4(d))	**$1.13**	$1.48

Consolidated Statement of Retained Earnings

(Expressed in United States currency)

	Year ended December 31 1988	Seven months ended December 31 1987
Retained earnings, beginning of period	**$18,471,062**	$16,512,293
Net income for the period	**1,783,503**	2,029,115
Share issue expenses	**(252,755)**	—
	20,001,810	18,541,408
Dividends on minority interest	**(198)**	(1,159)
Dividends on common shares (Note 6)	**(223,312)**	(69,187)
Retained earnings, end of period	**$19,778,300**	$18,471,062

Consolidated Statement of Changes in Financial Position

(Expressed in United States currency)

	Year ended December 31 1988	Seven months ended December 31 1987
Cash provided by (used in) operating activities:		
Net income for the period	$ 1,783,503	$ 2,029,115
Adjusted for non-cash items –		
Depreciation	1,096,483	508,892
Amortization of intangibles	482,259	81,735
Deferred income taxes	(38,832)	(407,472)
Decrease (increase) in non-cash working capital	(1,184,136)	2,232,507
	2,139,277	4,444,777
Cash provided by (used in) investing activities:		
Purchase of businesses, net of bank overdraft assumed	(22,927,584)	(1,600,000)
Additions to property, plant and equipment	(2,705,687)	(674,708)
Other	–	259,999
	(25,633,271)	(2,014,709)
Cash provided by (used in) financing activities:		
Proceeds on issue of long-term debt	18,219,379	1,200,000
Repayment of long-term debt	(5,700,000)	(2,600,000)
Proceeds on issue of share capital	9,101,781	–
Share issue expenses	(252,755)	–
Dividends	(223,510)	(70,346)
Other	(165,600)	–
	20,979,295	(1,470,346)
(Decrease) increase in cash and short-term investments during the period	(2,514,699)	959,722
Cash and short-term investments, net of bank indebtedness, beginning of period	2,453,053	1,493,331
Cash and short-term investments, net of bank indebtedness, end of period	$ (61,646)	$ 2,453,053

D. A. STUART LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States currency)

December 31, 1988

NOTE 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 with 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 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 are deferred except for gains and losses on intercompany trading balances which are included in income.

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.

Property, plant and equipment — Property, plant and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates varying between 2½% and 25% which are based upon the estimated useful lives of the assets.

Intangible assets — Intangible assets are recorded at cost. With the exception of trademarks which are not amortized, other intangible assets are amortized on a straight-line basis over the following periods:

Excess of cost of assets over values assigned	— 40 years
Formulae, non-competition agreement and other intangible assets	— 5 to 20 years (average 14.5 years)

NOTE 2 — INTANGIBLE ASSETS, NET OF AMORTIZATION:

	December 31 1988	December 31 1987
Excess of cost of acquired assets over values assigned	$ 8,869,575	$3,597,766
Formulae, non-competition agreement and other intangible assets	6,042,057	—
Trademarks	659,998	—
	$15,571,630	$3,597,766

NOTE 3 — LONG-TERM DEBT:

	December 31 1988	1987
Term loan (unsecured) dated December 29, 1988, repayable in principal amounts of $600,000 on each of December 29, 1989, 1990, 1991, 1992, and $3,600,000 on December 29, 1993. The interest rate at December 31, 1988 was 10.7%	$ 6,000,000	$ —
Interim financing note (unsecured), Cdn. $6,900,000 payable to the parent company. If not retired earlier, it is repayable November 24, 1990. The interest rate at December 31, 1988 was 11.75%	5,783,580	—
Revolving loan (unsecured), repayable at any time but not later than December 29, 1991. The interest rate at December 31, 1988 was 10.1875%	6,000,000	—
Interim financing note (unsecured), Cdn. $533,000 payable to the parent company. If not retired earlier, it is repayable January 1, 1990. The interest rate at December 31, 1989 was 10.4375%	446,761	—
Promissory notes (unsecured) Cdn. $405,527, repayable by monthly instalments of Cdn. $3,437 and the balance, if not paid earlier, on January 1, 1993. The interest rate is ½ of 1% over prime rate and at December 31, 1988 was 12.75%	339,913	—
Term loan secured by the assets of a subsidiary and a guaranty of the Royal Bank of Canada maturing April 1, 1994, repayable in blended monthly instalments of principal and interest of $1,381. The interest rate is at the bank's prime rate plus 1½% and at December 31, 1988 was 12.0%	66,642	—
Promissory note secured by the assets of a subsidiary, repayable in blended monthly payments of principal and interest of $1,453. The loan matures April 1, 1992 and bears interest at 5%	58,303	—
Mortgage loan Cdn. $397,600 secured by the land and buildings of a subsidiary, repayable in monthly instalments of Cdn. $7,500. Interest is at the lender's prime rate plus ½ of 1% and at December 31, 1988 was 12.75%	333,268	—
Term loan (unsecured) dated June 30, 1983	—	2,000,000
Interim financing note payable to an affiliate of the parent company	—	2,500,000
Instalment contract dated December 1, 1987	—	1,200,000
	19,028,467	5,700,000
Less: Current portion	743,990	1,700,000
	$18,284,477	$4,000,000

NOTE 4 — SHARE CAPITAL:

(a) By articles of amendment dated June 2, 1988, the company established its authorized capital as an unlimited number of common shares without par value and divided its then issued and outstanding common shares on a 3 for 1 basis, thereby giving rise to 1,368,768 common shares outstanding.

(b) On September 16, 1988, pursuant to a prospectus, the company issued 680,000 common shares at a price of Cdn. $14.75 per share for an aggregate value of Cdn. $10,030,000 (U.S. $8,186,416). The parent company of the corporation purchased 513,000 shares of the issue.

(c) On November 22, 1988, pursuant to the Surbond purchase agreement (Note 9(b)), the company issued 74,236 common shares at a price of Cdn. $14.75 per share for an aggregate consideration of Cdn. $1,094,981 (U.S. $915,295).

(d) Earnings per share have been calculated based on the weighted average number of common shares issued during the year and have been restated for the 1987 period to give effect to the division of shares referred to in Note 4(a).

NOTE 5 — RETAINED EARNINGS:

Retained earnings in the amount of $1,000,000 have been appropriated as a reserve for self-insurance of undetermined risks for which the company is unable to obtain insurance at reasonable rates.

NOTE 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, 1988 — Cdn. $0.32 per share; seven months ended December 31, 1987 — Cdn. $0.20 per share).

NOTE 7 – 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 pre-tax income	
	December 31	
	1988	1987
Income tax computed at statutory income tax rate	48.0 %	52.1 %
Differing asset bases for book and tax purposes in foreign jurisdictions	(8.8)	(1.7)
Investment and other tax credits	(1.6)	(0.8)
Income taxed at different rates in foreign jurisdictions	(16.4)	(1.7)
Tax on intercompany gain	3.4	–
Credits relating to prior years	(3.7)	–
Losses not tax effected	2.3	–
Other (net)	(2.4)	(2.0)
	20.8 %	45.9 %

NOTE 8 – PENSION PLANS:

The company has a defined benefit pension plan in the United States and defined contribution plans in certain other countries. Effective May 31, 1987, the old U.S. plan was terminated and in December 1987, the company received pension reversions of approximately $3,571,985, of which $871,985 was included in income in the seven-month period ended December 31, 1987. Effective June 1, 1987, a new defined benefit pension plan was established in the United States.

Based on actuarial valuations of the defined benefit portion of these pension plans, the present value of the accrued pension benefits is $1,102,422 (1987 – $414,385) and the net pension fund assets are valued at $152,029 (1987 – $Nil).

NOTE 9 – ACQUISITIONS:

(a) Far-Best Corporation –

On June 3, 1988, the company completed the purchase of all of the shares of Far-Best Corporation of Los Angeles, California for $14,616,342, including acquisition costs. Details of the acquisition are as follows:

Current assets	$ 3,619,557
Less: Current liabilities	1,029,666
	2,589,891
Property, plant and equipment	4,915,839
Intangible assets (Note 2)	7,110,612
	$14,616,342

Under the terms of the Far-Best purchase agreement, the company acquired the rights of the vendor to an escrow account of $3,500,000. The amount held in escrow is to be used to reimburse reasonable costs incurred by the company in clean-up or removal of hazardous substances from the Far-Best properties to the extent required by law. Any amount remaining unexpended in the escrow account at April 1, 1993 will revert to a previous owner of Far-Best. In the view of management the escrow account is adequate to meet the costs referred to above.

(b) Surbond Group –

On November 22, 1988, the company acquired all of the shares of the Surbond Lubricants Limited group of companies of Milton, Ontario for a price of Cdn. $8,372,318, including acquisition costs. The purchase price was payable by the issue of 74,236 common shares at a value of $1,094,981 and the balance by cash. Details of the acquisition are as follows:

	Cdn.	U.S.
Current assets	$ 2,552,765	$ 2,139,728
Property, plant and equipment	2,431,664	2,038,221
Excess of cost of acquired assets over value assigned	6,377,339	5,345,511
Less: Liabilities assumed	(2,989,450)	(2,505,757)
	$ 8,372,318	$ 7,017,703

NOTE 10 — RELATED PARTY TRANSACTIONS:

The company had no significant related party transactions during the year except as disclosed in Notes 3 and 4 and for certain short-term interim financing provided by 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.

NOTE 11 — SEGMENTED INFORMATION:

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

	Year ended December 31 1988	Seven months ended December 31 1987
Net sales:		
Canada	$ 7,404,803	$ 3,393,772
United States	51,369,130	23,253,923
Europe	8,657,423	5,479,239
	67,431,356	32,126,934
Inter-area eliminations	(580,411)	(456,850)
Net sales	$66,850,945	$31,670,084
Export sales (included above)	$ 9,163,475	$ 5,683,695
Contributions to income:		
Canada	$ 172,366	$ 240,165
United States	1,329,439	1,691,353
Europe	910,203	801,721
	2,412,008	2,733,239
Unallocated general and administrative expenses	(178,541)	(80,553)
Corporate interest and royalty income	28,319	39,168
Unrealized inter-area exchange gains	(9,670)	188,071
Income before gain on termination of pension plan and income taxes	$ 2,252,116	$ 2,879,925
Identifiable assets:		
Canada	$21,926,099	$ 5,816,223
United States	42,590,774	24,470,548
Europe	4,607,843	5,345,819
	69,124,716	35,632,590
Inter-area eliminations	(9,072,954)	(3,049,341)
Corporate assets	641,233	842,132
Assets	$60,692,995	$33,425,381

NOTE 12 — COMPARATIVE FINANCIAL STATEMENTS:

The comparative financial statements are presented for the seven-month period ended December 31, 1987 because of the change in the company's fiscal year end from May 31 to December 31, commencing December 31, 1987.

Certain of the comparative figures have been adjusted to conform to the current year's presentation.

NOTE 13 — SUBSEQUENT EVENT:

Effective January 1, 1989, the company acquired the Theunissen Company of Wuppertal, West Germany for DM 5,000,000 (U.S. $2,813,000) with an additional payment of up to DM 1,000,000 (U.S. $564,300) depending on operating results of the Theunissen Company in 1989. The acquisition was financed by long-term borrowings from an affiliate of the parent company.

COMPARATIVE REVIEW OF OPERATIONS

	Net sales	Income before income taxes	Income taxes	Net income	Dividends declared	Income retained
1988(4)	$66,850,945	$2,200,116	$ 450,613	$1,749,503	$223,312	$1,526,191
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
1984(3)	43,791,955	2,398,089	791,784	1,606,305	111,142	1,495,163
1983(3)	36,588,136	686,490	(145,224)	831,714	74,701	757,013

(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 impact of a pension reversion gain of $871,985 before tax.
(6) Includes impact of a pension reversion gain of $2,700,000 before tax.

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