

D. A. STUART OIL CO., LIMITED



ANNUAL REPORT 1984





D. A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

CHRISTOPHER T. LOUGHRIN
WILLIAM H. MANN
NORMAN J. MUNN, Q.C.
Dr. STEPHEN P. OGRYZLO
CHARLES E. SANTANGELO
Dr. ROLF STÜSSER
HERIBERT WERHAHN

Officers of the Company

Chairman of the Board
HERIBERT WERHAHN
President
CHARLES E. SANTANGELO
Secretary and Vice President, Finance
DOUGLAS F. HASLAM

Transfer Agents and Registrars

NATIONAL TRUST COMPANY, LIMITED
21 King Street East
Toronto, Ontario M5C 1B3
D. A. STUART OIL COMPANY OF AMERICA
7575 Plaza Court
Willowbrook, Illinois 60521

General Office

7575 Plaza Court
Willowbrook, Illinois 60521

Head Office

43 Upton Road
Scarborough, Ontario, Canada M1K 5C3

The Annual Meeting of Shareholders will be held in the Library of the Royal York Hotel, Toronto, Canada, on Thursday, October 18, 1984 at 11 A.M. Toronto Time.



Report of the Directors

To the Shareholders:

Consolidated net sales for the year ended May 31, 1984 were U.S. \$43,791,955 compared to U.S. \$36,588,136 for the prior year. Net income for the year was U.S. \$1,606,305 versus U.S. \$831,714 last year. This income is equivalent to U.S. \$3.52 per share compared to U.S. \$1.82 per share for the previous year. These results represent a record year in both sales and net income. Royalties and other income amounted to U.S. \$179,148 in comparison to U.S. \$450,281 for last year which included \$243,482 gain on the sale of an investment.

The increase in sales over the prior year is a result of higher automotive and steel production and increased export sales. Sales of our subsidiary companies were also higher than in the previous year. Market penetration by our non-North American subsidiaries has increased in the steel and automotive industries in the past year.

We have increased our involvement in Scandinavia through a new technical agreement with a Swedish company. D.A. Stuart Inc. with Chemical

Systems, Inc. of Chicago has formed a company to manufacture and sell cleaners and conversion coatings for the Canadian market.

Because of increased earnings this year, your company has increased its dividend and repaid approximately \$1,500,000 of long-term debt associated with the Ironsides acquisition.

The Management and Directors would like to thank all employees for their contribution toward achieving this record year.

On behalf of the Board

H. WERHAHN
Chairman

C. E. SANTANGELO
President

Toronto, Canada
August 17, 1984

D. A. STUART OIL CO., LIMITED*(Incorporated under the laws of Ontario)***Consolidated***(Expressed in United States Dollars)***ASSETS**

	May 31	
	1984	1983
Current Assets		
Cash and deposit receipts	\$ 983,853	\$ 568,448
Accounts receivable	6,655,712	6,193,013
Inventories	6,164,014	5,132,235
Drums, other containers and supplies	190,633	171,104
Advances and prepaid expenses	155,905	301,079
Income taxes recoverable	2,863	307,151
	<hr/> 14,152,980	<hr/> 12,673,030
Other Assets, at cost	217,941	235,769
Property, Plant and Equipment – Notes 3 and 4		
Land, buildings and equipment	10,151,871	10,033,697
Less accumulated depreciation	4,547,184	4,025,670
	<hr/> 5,604,687	<hr/> 6,008,027
Excess of Cost of Acquired Assets over Values Assigned, less amortization	<hr/> 3,843,732	<hr/> 3,951,492
	<hr/> <hr/> \$23,819,340	<hr/> <hr/> \$22,868,318

Approved by the Board:

HERIBERT WERHAHN, Director

CHARLES E. SANTANGELO, Director

AUDITORS'

To the Shareholders of
D. A. Stuart Oil Co., Limited

We have examined the consolidated balance sheet, expressed in United States currency, of D. A. Stuart Oil Co., Limited as at May 31, 1984 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.

July 12, 1984



Balance Sheet

States currency)

LIABILITIES AND SHAREHOLDERS' EQUITY

	May 31	
	1984	1983
Current Liabilities		
Bank indebtedness — Note 3	\$ 573,819	\$ 943,382
Accounts payable and accrued liabilities	4,301,599	3,380,559
Income taxes payable	822,675	12,063
Dividend payable	35,251	18,549
Current portion of long-term debt	<u>27,465</u>	<u>29,670</u>
	<u>5,760,809</u>	<u>4,384,223</u>
Long-Term Debt — Note 4	8,560,954	10,084,853
Deferred Income Taxes	402,732	605,014
Minority Interest	22,500	22,500
Shareholders' Equity		
Common stock, no par value:		
Authorized — 2,000,000 shares		
Issued — 456,256 shares	424,608	424,608
Contributed surplus	11,880	11,880
Retained earnings	9,378,060	7,882,897
Equity adjustment arising from foreign currency translation	<u>(742,203)</u>	<u>(547,657)</u>
	<u>9,072,345</u>	<u>7,771,728</u>
	<u>\$23,819,340</u>	<u>\$22,868,318</u>

REPORT

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at May 31, 1984 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 year.

The consolidated financial statements as at May 31, 1983 and for the year then ended were reported upon by other independent chartered accountants.

Pricewaterhouse
Chartered Accountants

D. A. STUART OIL CO., LIMITED

Consolidated Statement of Income

(Expressed in United States currency)

	Year Ended May 31	1984	1983
Net sales	\$43,791,955	\$36,588,136	
Royalties and other income	179,148	450,281	
	<u>43,971,103</u>	<u>37,038,417</u>	
Costs and expenses:			
Cost of products sold	31,813,503	26,246,789	
Selling and administrative expenses	8,495,051	8,765,478	
Interest expense, including interest on long-term debt of \$1,108,713 (1983 - \$1,220,671)	1,173,133	1,350,808	
Loss (gain) on foreign exchange	91,327	(11,148)	
	<u>41,573,014</u>	<u>36,351,927</u>	
Income Before Income Taxes	2,398,089	686,490	
Income taxes:			
Current (recoverable)	651,108	(165,959)	
Deferred	140,676	20,735	
	<u>791,784</u>	<u>(145,224)</u>	
Net Income for the year	<u>\$ 1,606,305</u>	<u>\$ 831,714</u>	
Earnings per share	<u>\$3.52</u>	<u>\$1.82</u>	

Consolidated Statement of Retained Earnings

(Expressed in United States currency)

	Year Ended May 31	1984	1983
Retained earnings, beginning of year	\$ 7,882,897	\$ 7,125,884	
Net income for the year	1,606,305	831,714	
	<u>9,489,202</u>	<u>7,957,598</u>	
Dividends on minority interest	(1,350)	(1,125)	
Dividends on common shares - Note 2	(109,792)	(73,576)	
Retained earnings, end of year	<u>\$ 9,378,060</u>	<u>\$ 7,882,897</u>	



Consolidated Statement of Changes in Financial Position

(Expressed in United States currency)

	Year Ended May 31	1984	1983
Source of Funds			
Net income for the year	\$ 1,606,305	\$ 831,714	
Charges (credits) to income not affecting working capital:			
Depreciation	611,575	693,823	
Amortization of excess of cost of acquired assets over values assigned	107,760	103,567	
Amortization of imputed interest — Note 4	10,361	124,334	
Loss on disposals of property, plant and equipment	3,739	1,004	
Deferred income taxes	140,676	(122,226)	
	<u>2,480,416</u>	<u>1,632,216</u>	
Proceeds from disposals of property, plant and equipment	377	86,220	
Contributed surplus resulting from retirement of minority interest	—	11,880	
Decrease in other assets	17,828	339,576	
Increase in long-term debt	7,000,000	—	
Foreign exchange fluctuation on:			
Long-term debt	(6,795)	(9,238)	
Property, plant and equipment	93,602	49,999	
	<u>9,585,428</u>	<u>2,110,653</u>	
Application of Funds			
Dividends	111,142	74,701	
Purchases of property, plant and equipment	305,953	192,325	
Decrease in long-term debt	8,527,465	29,670	
Deferred income taxes	342,958	—	
Retirement of minority interest	—	26,400	
Increase in equity adjustment arising from foreign currency translation	194,546	136,300	
	<u>9,482,064</u>	<u>459,396</u>	
Increase in Working Capital			
Working capital, beginning of year	103,364	1,651,257	
Working Capital, end of year	<u>\$ 8,392,171</u>	<u>\$ 8,288,807</u>	

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS May 31, 1984

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 Oil Co., Limited 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.

The Company adopted the provisions of the reissued CICA Handbook Section 1650 on foreign currency translation in 1983. Accounts maintained in other than United States currency have been translated on the following basis:

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 translation of foreign currency 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.

Excess of Cost of Assets Acquired Over Values Assigned: The excess is being amortized over 40 years on the straight-line method.

NOTE 2 — 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 (1984 — \$0.30 Canadian per share; 1983 — \$0.20 Canadian per share).

NOTE 3 — BANK INDEBTEDNESS

The bank indebtedness of the Company's United Kingdom subsidiary amounted to approximately \$164,000 at May 31, 1984 and is secured by the land and buildings of the subsidiary.

NOTE 4 — LONG-TERM DEBT

	1984	1983
8½% mortgage bond secured by land and buildings of D. A. Stuart Oil GmbH. Repayment is made in quarterly instalments of 18,750 Deutsch Marks (\$6,866 U.S.)	\$ 88,419	\$ 124,884
Term loan (unsecured) dated June 30, 1983. The loan is repayable in principal amounts of \$500,000 on June 30, 1987 and 1988; \$1,000,000 is payable on each of June 30, 1989, 1990, and 1991. The applicable interest rate on May 31, 1984 was 13.0%	4,000,000	—
Revolving loan (unsecured), dated June 30, 1983. The loan is repayable at any time but not later than June 30, 1986. The interest rate on May 31, 1984 was 13.0%	1,500,000	—
Interim financing note, payable to a related party. The note is subordinated to the loans dated June 30, 1983. If not retired earlier, it is repayable June 30, 1992. Interest is payable at the same rate as the loans dated June 30, 1983	3,000,000	3,000,000
Term note payable to bank, repaid on June 30, 1983	—	5,000,000
Deferred payment related to the acquisition of subsidiary company, repaid on June 30, 1983	—	1,989,639
Less: Current portion	8,588,419	10,114,523
	27,465	29,670
	<u>\$ 8,560,954</u>	<u>\$10,084,853</u>

The interest rate on the loans dated June 30, 1983 is 2½% over the commercial paper rate of the lender. These loans have restrictive covenants as follows:

Except with the consent of the lender,

- (a) the retirement of subordinated debt is not to exceed 35% of the consolidated net income of the Company in any year; and
- (b) restricted payments (defined as cash dividends declared or paid by the Company subsequent to May 31, 1983, redemptions or purchase by the Company of any of its shares, and payments to retire subordinated debt) are not to exceed \$150,000 plus 35% of consolidated net income less the excess of any restricted payments over amounts received after May 31, 1983 through the issuance of additional shares by the Company.



NOTE 5 — SEGMENTED INFORMATION

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

	1984	1983
Net sales:		
Canada	\$ 5,630,636	\$ 5,111,620
United States	34,210,132	27,827,103
Europe	5,026,723	4,371,158
	<u>44,867,491</u>	<u>37,309,881</u>
Inter-area eliminations	(1,075,536)	(721,745)
Net Sales	<u>\$43,791,955</u>	<u>\$36,588,136</u>
Contributions to income:		
Canada	\$ 306,294	\$ 305,494
United States	2,050,710	320,383
Europe	108,585	99,063
	<u>2,465,589</u>	<u>724,940</u>
Unallocated general and administrative expenses	(76,775)	(142,380)
Corporate interest and royalty income	104,234	103,930
Unrealized inter-area exchange losses	(94,959)	—
Income Before Income Taxes	<u>\$ 2,398,089</u>	<u>\$ 686,490</u>
Identifiable assets:		
Canada	\$ 4,773,187	\$ 4,723,544
United States	19,132,973	17,802,263
Europe	2,791,134	3,095,579
	<u>26,697,294</u>	<u>25,621,386</u>
Inter-area eliminations	(3,153,497)	(3,033,597)
Corporate assets	275,543	280,529
Assets	<u>\$23,819,340</u>	<u>\$22,868,318</u>

NOTE 6 — RELATED PARTY TRANSACTIONS

The Company had no significant related party transactions during the year except as disclosed in Note 4.

NOTE 7 — PENSION PLANS

Current pension costs are charged to operations each year and past service costs are being amortized over thirty years. At May 31, 1984, based upon the most recent actuarial valuations, the net assets of the pension plans exceeded the computed present value of accumulated plan benefits by approximately \$623,000 after deducting \$63,521 of past service costs (including interest) charged to operations for the year.

NOTE 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 of 51.9% (1983 — 51.2%) to income before income taxes are explained as follows:

	% of pre-tax income	1984	1983
Income tax computed at statutory income tax rate	51.9	51.2	
Inventory allowance	(.9)	(5.9)	
Rate reduction for manufacturing and processing profits and research and development	(.9)	(1.9)	
Losses of foreign subsidiaries including losses carried forward	(1.7)	4.2	
Differing asset bases for book and tax purposes in foreign jurisdiction	(13.7)	(46.3)	
Investment tax credits	(2.2)	(3.6)	
One-half of capital gain not subject to tax	—	(9.1)	
Other5	(9.8)	
Effective tax rate	<u>33.0</u>	<u>(21.2)</u>	

At May 31, 1984, the Company has tax losses of approximately \$187,000 available to reduce future taxable income. These losses expire in 1986.

D. A. STUART OIL CO., LIMITED

FIVE YEAR COMPARATIVE REVIEW OF OPERATIONS

	<u>Net Sales</u>	<u>Income before income taxes</u>	<u>Income taxes</u>	<u>Net income</u>	<u>Dividends declared</u>	<u>Income retained</u>
1984	\$43,791,955	\$2,398,089	\$ 791,784	\$1,606,305	\$111,142	\$1,495,163
1983	36,588,136	686,490	(145,224)	831,714	74,701	757,013
1982	39,677,400	714,999	297,182	417,817	155,689	262,128
1981	38,749,204	1,204,627	712,048	492,579	157,144	335,435
1980	23,501,243	1,540,220	731,914	808,306	156,003	652,303



