D. A. STUART OIL CO., LIMITED

Stuart

ANNUAL REPORT
1983

D. A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

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

Officers of the Company

Chairman of the Board
DAVID I. JOHNSTON

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 and a Special Meeting of Shareholders will be held in the Library of The Royal York Hotel, Toronto, Canada, on Thursday, October 20, 1983 at 11 A.M. Toronto Time.

Report of the Directors

To the Shareholders:

Consolidated net sales for the year ended May 31, 1983 were U.S. $36,588,136 compared to U.S. $39,677,400 for the previous year. Net income for the year was U.S. $831,714 versus U.S. $417,817 last year. This income is equivalent to U.S. $1.82 per share compared to U.S. $0.92 per share for the previous year. Royalties and other income amounted to U.S. $450,281 in comparison to U.S. $363,872 for last year. Included in royalties and other income was a profit of U.S. $243,482 on the sale of an investment. There was a loss of U.S. $6,986 on the sale of the Northville, Michigan manufacturing facility. This operation had previously been discontinued to improve manufacturing efficiency.

The results of your Company's operations continued to be affected on a worldwide basis by the depressed state of the steel and automotive industries. A slight upturn in the U.S. economy during the fourth quarter, combined with Company-wide cost reduction programs, enabled us to show improved earnings during this period. Lower interest expense related to the Ironsides acquisition also contributed substantially to the increase in earnings over last year.

Mr. Daniel Giannini has recently resigned as a director and the board of directors wishes to express its gratitude to Mr. Giannini for his nineteen years of outstanding contribution as a director and as a former Chairman of the Board. Mr. William H. Mann, the recently retired President of D. A. Stuart Inc., has been appointed a member of the Board. The Board is pleased to have Mr. Mann's counsel, which has served the Company so well in the past, available for future years.

The Management and Directors would like to express their sincere appreciation to all Company employees for their contributions in the past, very difficult year.

On behalf of the Board

DAVID I. JOHNSTON
Chairman of the Board

CHARLES E. SANTANGELO
President

Toronto, Canada
August 26, 1983

D. A. STUART OIL CO., LIMITED
(Incorporated under the laws of Ontario)

Consolidated

(Expressed in United

ASSETS

	May 31 1983	May 31 1982
Current Assets		
Cash and deposit receipts	**$ 568,448**	$ 445,144
Accounts receivable	**6,193,013**	4,954,083
Inventories	**5,132,235**	4,974,623
Drums, other containers and supplies	**171,104**	120,975
Advances and prepaid expenses	**301,079**	309,670
Income taxes recoverable	**307,151**	283,062
	12,673,030	11,087,557
Other Assets, at cost	**235,769**	575,345
Property, Plant and Equipment — Notes C and D		
Land, buildings and equipment	**10,033,697**	10,164,284
Less accumulated depreciation	**4,025,670**	3,517,536
	6,008,027	6,646,748
Excess of Cost of Acquired Assets over Values Assigned, less amortization	**3,951,492**	4,055,059
	$22,868,318	$22,364,709

Approved on Behalf of the Board:

DAVID I. JOHNSTON, Director

CHARLES E. SANTANGELO, Director

AUDITORS'

To the Shareholders
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, 1983 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 11, 1983

Balance Sheet

States currency)

LIABILITIES AND SHAREHOLDERS' EQUITY

	May 31 1983	May 31 1982
Current Liabilities		
Bank indebtedness — Note C	**$ 943,382**	$ 1,191,406
Accounts payable and accrued liabilities	**3,380,559**	3,184,269
Income taxes payable	**12,063**	4,834
Dividend payable	**18,549**	37,555
Current portion of long-term debt	**29,670**	31,943
	4,384,223	4,450,007
Long-Term Debt — Note D	**10,084,853**	9,999,427
Deferred Income Taxes	**605,014**	727,240
Minority Interest	**22,500**	48,900
Shareholders' Equity		
Common stock, no par value: Authorized — 2,000,000 shares; Issued — 456,256 shares	**424,608**	424,608
Contributed surplus	**11,880**	—
Retained earnings	**7,882,897**	7,125,884
Equity adjustment arising from foreign currency translation	**(547,657)**	(411,357)
	7,771,728	7,139,135
	$22,868,318	$22,364,709

See notes to consolidated financial statements

REPORT

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at May 31, 1983 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, after giving retroactive effect to the change in the method of foreign currency translation as explained in Note A, with which we concur, on a basis consistent with that of the preceding year.

Ernst & Whinney
Chartered Accountants

D. A. STUART OIL CO., LIMITED

Consolidated Statement of Income

(Expressed in United States currency)

	Year Ended May 31 1983	1982
Net sales	$36,588,136	$39,677,400
Royalties and other income	450,281	363,872
	37,038,417	40,041,272
Costs and expenses:		
Cost of products sold	26,246,789	28,609,323
Selling and administrative expenses	8,765,478	8,810,728
Interest expense, including interest on long-term debt of $1,220,671 (1982 – $1,601,457)	1,350,808	1,910,397
Realized gain on foreign currency translation	(11,148)	(4,175)
	36,351,927	39,326,273
Income Before Income Taxes	686,490	714,999
Income taxes:		
Current (recoverable)	(165,959)	262,349
Deferred	20,735	34,833
	(145,224)	297,182
Net Income	$ 831,714	$ 417,817
Earnings per share	$1.82	$0.92

Consolidated Statement of Retained Earnings

(Expressed in United States currency)

	Year Ended May 31 1983	1982
Balance at beginning of year	$ 7,125,884	$ 6,863,756
Net income	831,714	417,817
	7,957,598	7,281,573
Cash dividends on minority interest	(1,125)	(3,423)
Common dividends – Note B	(73,576)	(152,266)
Balance at End of Year	$ 7,882,897	$ 7,125,884

See notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

(Expressed in United States currency)

	Year Ended May 31 1983	1982
Source of Funds		
Net income	$ 831,714	$ 417,817
Charges (credits) to income not affecting working capital:		
Depreciation	693,823	681,218
Amortization of excess of cost of acquired assets over values assigned	103,567	92,730
Amortization of imputed interest — Note D	124,334	124,333
Loss (gain) on disposals of property, plant and equipment	1,004	(41,119)
Deferred income taxes	(122,226)	77,566
Total From Operations	1,632,216	1,352,545
Proceeds from disposals of property, plant and equipment	86,220	224,271
Deferred income taxes	—	520,273
Decrease in excess of cost of acquired assets over values assigned	—	667,727
Contributed surplus resulting from retirement of minority interest	11,880	—
Decrease in other assets	339,576	—
Foreign exchange fluctuation on:		
Long-term debt	(9,238)	(23,293)
Property, plant and equipment	49,999	170,531
Other items	—	76,722
	2,110,653	2,988,776
Application of Funds		
Dividends	74,701	155,689
Increase in other assets	—	58,672
Purchases of property, plant and equipment	192,325	560,273
Decrease in long-term debt	29,670	315,431
Allocation of fair values to property, plant and equipment	—	981,000
Allocation of fair values to other assets	—	92,000
Retirement of minority interest	26,400	—
Increase in equity adjustment arising from foreign currency translation	136,300	411,357
	459,396	2,574,422
Increase in Working Capital	1,651,257	414,354
Working capital at beginning of year	6,637,550	6,223,196
Working Capital at End of Year	$ 8,288,807	$ 6,637,550

See notes to consolidated financial statements

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 1983

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: The 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.

All significant intercompany transactions and balances have been eliminated on consolidation.

Foreign Currency Translation: The Company operates principally in the United States and the accompanying financial statements are expressed in United States currency.

During the year, the Company adopted the provisions of the reissued CICA Handbook Section 1650 on foreign currency translation. 1982 amounts have been restated to conform with this change in accounting policy. 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.
>
> Realized gains or losses on translation of foreign currency are recognized in income for the year in which they arise.

The change has resulted in an increase of approximately \$98,300 in income before income taxes for the year ended May 31, 1983. As a result of the retroactive application of the accounting policy, 1982 income before income taxes has been increased by approximately \$183,200.

Inventories: Raw materials are valued at the lower of cost (first-in, first-out method) and replacement costs. 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.

Income Taxes: The Company charges income with income taxes currently payable and also with income taxes deferred by claiming certain costs for income taxes in excess of related costs charged to income. The accumulated total of such income tax deferments is reflected in the consolidated balance sheet as "deferred income taxes".

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

NOTE B — DIVIDENDS

Common dividends shown in the consolidated statement of retained earnings represent the United States currency equivalent of common dividends which were declared in Canadian funds (1983 — \$0.20 per share; 1982 — \$0.40 per share).

NOTE C — BANK INDEBTEDNESS

The bank indebtedness of the Company's United Kingdom subsidiary, approximately \$233,000 at May 31, 1983, is secured by the land and buildings of the subsidiary.

NOTE D — LONG-TERM DEBT

	1983	1982
8¾% mortgage bond secured by land and buildings of D. A. Stuart Oil GmbH. Repayment is made in quarterly instalments of 18,750 Deutsch Marks (\$7,418 U.S.)	\$ 124,884	\$ 166,065
Term note payable to bank, interest payable in quarterly amounts at ¾% over the bank's prime interest rate or 1¼% over the London Interbank Offer Rate (Libor), at the Company's option. The applicable interest rate at May 31, 1983 was 10.27%. The principal is payable in seventeen quarterly instalments of \$250,000 commencing on August 15, 1983, with the balance payable on November 15, 1988	5,000,000	5,000,000
Deferred payment related to the acquisition of subsidiary company, due on or before June 30, 1983. Interest (on the portion not considered to be retained as security) has been imputed at a rate of 12% and is being amortized to expense over the term of the loan	1,989,639	1,865,305
Interim financing note, payable to a related party under the terms of an agreement dated June 2, 1980. The note is subordinated to the \$5,000,000 term bank loan. If not retired earlier, it is repayable pro-rata to the term loan repayment. Interest is negotiated quarterly and approximates the bank prime lending rate. The applicable interest rate at May 31, 1983 was 10.5%	3,000,000	3,000,000
	10,114,523	10,031,370
Less current portion	29,670	31,943
Long-Term Portion	\$10,084,853	\$ 9,999,427

On June 30, 1983, the $5,000,000 term note and $1,989,639 deferred payment were replaced by a $4,000,000 unsecured term loan and a $3,000,000 unsecured revolving loan. The term loan is payable 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 revolving loan is repayable June 30, 1986.

The lender is a subsidiary of a major insurance company. The interest rate is 2½% over the commercial paper rate of the lender, payable monthly, and the interest rate on both loans on June 30, 1983 was 11.44%.

The interim financing note payable to a related party is subordinated to the new loans described above. Restrictive covenants under the new debt agreement are as follows:

Except with the consent of the lender,

i) the retirement of subordinated debt is not to exceed 35% of the consolidated net income of the Company in any year; and

ii) restricted payments (defined as cash dividends declared or paid by the Company subsequent to May 31, 1983, redemptions or purchases 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 E — SEGMENTED INFORMATION

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

	1983	1982
Net sales:		
Canada	$ 5,111,620	$ 5,983,713
United States	27,827,103	29,536,961
Europe	4,371,158	4,829,554
	37,309,881	40,350,228
Less: Inter-area eliminations	721,745	672,828
Net Sales	$36,588,136	$39,677,400
Contributions to income:		
Canada	$ 305,494	$ 431,418
United States	320,383	362,092
Europe	99,063	25,310
	724,940	818,820
Deduct (add):		
Unallocated general and administrative expenses	142,380	233,551
Corporate gains and royalty income	(103,930)	(129,730)
Income Before Income Taxes	$ 686,490	$ 714,999
Identifiable assets:		
Canada	$ 4,723,544	$ 5,086,650
United States	17,802,263	17,576,192
Europe	3,095,579	2,580,107
	25,621,386	25,242,949
Inter-area eliminations	(3,033,597)	(3,017,785)
Corporate assets	280,529	139,545
Assets	$22,868,318	$22,364,709

Contributions to income represent net sales, royalties and other income, less cost of products sold, selling and allocated administrative expenses, and realized gains or losses on foreign currency translation, and are based on a policy of pricing all inter-area transactions at approximate market value.

NOTE F — RELATED PARTY TRANSACTIONS

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

NOTE G — PENSION PLAN

Current pension costs are charged to operations each year and past service costs are being amortized over thirty years. At May 31, 1983, based upon the most recent actuarial valuation, the net assets of the pension plans exceeded the computed present value of accumulated plan benefits by $545,600 after deducting $75,250 of past service costs charged to operations for the year.

NOTE H – CONTINGENCIES

On July 7, 1982, a claim for damages was filed against a subsidiary company by a customer to whom certain products were sold. The claim amounts to $1,500,000 excluding costs. The claim is covered by the subsidiary company's existing product liability insurance and in the opinion of management the claim is without merit and no financial loss is expected.

NOTE I – 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 51.2% (1982 – 51.8%) to income before income taxes are explained as follows:

	1983		1982	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income tax computed at statutory income tax rate	$ 351,480	51.2	$370,369	51.8
Inventory allowance	(40,390)	(5.9)	(40,728)	(5.7)
Rate reduction for manufacturing and processing profits and research and development	(13,000)	(1.9)	(22,692)	(3.2)
One half of capital gain not subject to tax	(62,330)	(9.1)	–	–
Investment tax credit	(24,590)	(3.6)	(17,344)	(2.4)
Lower tax rate in foreign jurisdictions	–	–	(25,540)	(3.6)
Losses of foreign subsidiaries including losses carried forward	28,830	4.2	60,031	8.4
Differing asset bases for book and tax purposes in foreign jurisdiction	(317,860)	(46.3)	–	–
Other	(67,364)	(9.8)	(26,914)	(3.8)
	$(145,224)	(21.2)	$297,182	41.6

At May 31, 1983, the Company has tax losses of approximately $529,000 available to reduce future taxable income, of which $284,000 expires in 1986 and the balance not earlier than 1988.

NOTE J – RECLASSIFICATIONS

Certain of the prior year's accounts have been reclassified to conform with the presentation adopted in the current year.

FIVE YEAR COMPARATIVE REVIEW OF OPERATIONS

	Sales	Income before income taxes	Income taxes	Net income	Dividends declared	Income retained
1983	$36,588,136	$ 686,490	$(145,224)	$831,714	$ 74,701	$757,013
1982	39,677,400	714,999(2)	297,182	417,817(2)	155,689	262,128(2)
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
1979	22,418,474	1,532,265(1)	698,597	833,668	157,299	676,369

(1) After decrease for extraordinary item of $7,599.
(2) 1982 restated to conform with 1983 change in accounting policy.

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