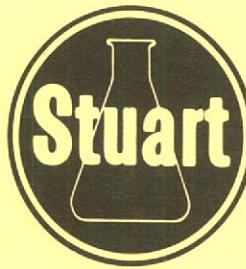


D. A. LSTUART OIL CO., LIMITED



ANNUAL REPORT 1982

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D. A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

DANIEL GIANNINI, M.B.E.
DAVID I. JOHNSTON
CHRISTOPHER T. LOUGHIN
Dr. ERWIN MORAWSKI
NORMAN J. MUNN, Q.C.
Dr. STEPHEN P. OGRYZLO
CHARLES E. SANTANGELO
HERIBERT WERHAHN

Officers of the Company

Chairman of the Board, President and Chief Executive Officer
DAVID I. JOHNSTON

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 General Meeting of Shareholders will be held in the Library of The Royal York Hotel, Toronto, Canada, on Tuesday, October 5, 1982 at 11 A.M. Toronto Time.



Report of the Directors

To the Shareholders:

Consolidated net sales for the year ended May 31, 1982 amounted to U.S. \$39,677,400 in comparison to U.S. \$38,749,204 for the previous year. Net income for the year under review amounted to U.S. \$234,598 as against U.S. \$492,579 last year. This is the equivalent in U.S. funds to \$.51 per share for the past year in comparison to \$1.08 for the previous year. These results are after taking into account foreign exchange losses of U.S. \$179,044 for the year ended May 31, 1982 in comparison to losses of U.S. \$21,811 for the previous year. Royalties and other income for the past year amounted to U.S. \$363,872 in comparison to U.S. \$314,330 for the previous year. The results of the current year included those of The Ironsides Company for the full twelve months while the results for last year included those figures for eleven months beginning July 1, 1980.

The results of your Company's operations this past year are disappointing. All of our major operations are dependent to a significant degree upon the steel industry and the automotive industry and these industries continue to be depressed on a worldwide basis. A General Meeting of Shareholders was held last year in conjunction with the Annual Meeting to increase the Company's authorized capital so that the Company would be in a position to broaden its equity base. In this connection you were subsequently informed that the Company was considering a rights issue but adverse market conditions prevented the rights issue from proceeding. Hence the Company continues to carry a significant debt load primarily due to the acqui-

sition of The Ironsides Company. During the past year financial expenses relating to the Ironsides acquisition amounted to U.S. \$1,651,467 and this was another significant factor in depressing earnings.

All of the Company's operating divisions and subsidiaries were profitable during the past year on generally lower levels of products shipped in comparison to the previous year. Cost reduction programs introduced on a Company-wide basis and a more effective management structure enabled the Company to improve margins to offset lower sales volumes. D. A. Stuart Oil GmbH, the German subsidiary, had a higher sales volume last year and became profitable after several years of losses.

A claim for damages was filed since the year end against a subsidiary company by a customer to whom certain products were sold and management is of the opinion that the claim is without merit.

The Management and Directors take this opportunity to express their appreciation for the contribution of all employees to the Company during the past year.

On behalf of the Board

DAVID I. JOHNSTON
Chairman of the Board and President

Toronto, Canada
August 27, 1982

D. A. STUART OIL CO., LIMITED

(Incorporated under the laws of Ontario)

Consolidated

(Expressed in United

ASSETS

	May 31	
	1982	1981
Current Assets		
Cash and deposit receipts	\$ 445,144	\$ 413,756
Accounts receivable	4,954,083	6,068,444
Inventories	4,974,623	4,961,453
Drums, other containers and supplies	120,975	106,356
Advances and prepaid expenses	309,670	290,032
Income taxes recoverable	283,062	37,575
	<u>11,087,557</u>	<u>11,877,616</u>
Other Assets, at cost	582,067	431,395
Property, Plant and Equipment — Notes C and D		
Land, buildings and equipment	10,510,452	9,216,940
Less accumulated depreciation	3,693,173	3,076,564
	<u>6,817,279</u>	<u>6,140,376</u>
Excess of Cost of Acquired Assets over Values Assigned, less amortization — Note F	<u>4,055,059</u>	<u>4,815,516</u>
	<u><u>\$22,541,962</u></u>	<u><u>\$23,264,903</u></u>

Approved on Behalf of the Board:

D. I. JOHNSTON, Director

D. GIANNINI, 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, 1982 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, 1982



Balance Sheet

(States Currency)

LIABILITIES AND SHAREHOLDERS' EQUITY

	May 31	
	1982	1981
Current Liabilities		
Bank indebtedness — Note C	\$ 1,191,406	\$ 1,392,427
Accounts payable and accrued liabilities	3,184,269	3,855,306
Income taxes payable	4,834	251,599
Dividend payable	37,555	37,993
Current portion of long-term debt	<u>31,943</u>	<u>117,095</u>
	4,450,007	5,654,420
Long-Term Debt — Note D	10,018,542	10,213,818
Deferred Income Taxes	742,098	144,259
Minority Interest	48,900	48,900
Shareholders' Equity		
Common stock, no par value:		
Authorized — 2,000,000 (1981 — 800,000) shares		
Issued — 456,256 shares	424,608	424,608
Retained earnings	<u>6,857,807</u>	<u>6,778,898</u>
	<u>7,282,415</u>	<u>7,203,506</u>
	<u>\$22,541,962</u>	<u>\$23,264,903</u>

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, 1982 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.

Ernst & Whitney
Chartered Accountants

D. A. STUART OIL CO., LIMITED

Consolidated Statement of Income

(Expressed in United States Currency)

	Year Ended May 31	1982	1981
Net sales	\$39,677,400	\$38,749,204	
Royalties and other income	363,872	314,330	
	<u>40,041,272</u>	<u>39,063,534</u>	
Costs and expenses:			
Cost of products sold	28,609,323	27,576,180	
Selling and administrative expenses	8,810,728	8,641,145	
Interest expense, including interest on long-term debt of \$1,601,457 (1981 — \$1,292,760)	1,910,397	1,619,771	
Loss on foreign currency translation	179,044	21,811	
	<u>39,509,492</u>	<u>37,858,907</u>	
Income Before Income Taxes	531,780	1,204,627	
Income taxes:			
Current	262,349	876,995	
Deferred (reduction)	34,833	(164,947)	
	<u>297,182</u>	<u>712,048</u>	
Net Income	<u>\$ 234,598</u>	<u>\$ 492,579</u>	
Earnings per share	\$0.51	\$1.08	

Consolidated Statement of Retained Earnings

(Expressed in United States Currency)

	Year Ended May 31	1982	1981
Balance at beginning of year	\$ 6,778,898	\$ 6,443,463	
Net income	234,598	492,579	
	<u>7,013,496</u>	<u>6,936,042</u>	
Cash dividends on minority interest	(3,423)	(2,200)	
Common dividends — Note B	(152,266)	(154,944)	
Balance at End of Year	<u>\$ 6,857,807</u>	<u>\$ 6,778,898</u>	

See notes to consolidated financial statements



Consolidated Statement of Changes in Financial Position

(Expressed in United States Currency)

	Year Ended May 31	
	1982	1981
Source of Funds		
Net income	\$ 234,598	\$ 492,579
Charges (credits) to income not affecting working capital:		
Depreciation	681,218	502,903
Amortization of excess of cost of acquired assets over values assigned	92,730	112,941
Amortization of imputed interest — Note D	124,333	113,972
(Gain) loss on disposals of property, plant and equipment	(41,119)	7,920
Deferred income taxes	77,566	(115,741)
Foreign exchange fluctuation on long-term debt	(4,178)	(3,025)
Total From Operations	1,165,148	1,111,549
Proceeds from increase in long-term debt	—	9,639,860
Proceeds from disposals of property, plant and equipment	224,271	42,843
Deferred income taxes — Note F	520,273	—
Decrease in excess of cost of acquired assets over values assigned — Note F	667,727	—
	2,577,419	10,794,252
Application of Funds		
Dividends	155,689	157,144
Increase in other assets	58,672	28,955
Purchases of property, plant and equipment	560,273	779,509
Current portion of long-term debt	31,943	117,095
Decrease in long-term debt	283,488	—
Purchase of subsidiary company	—	6,991,283
Allocation of fair values to property, plant and equipment — Note F	981,000	—
Allocation of fair values to other assets — Note F	92,000	—
Increase in Working Capital	2,163,065	8,073,986
Working capital at beginning of year	414,354	2,720,266
Working Capital at End of Year	6,223,196	3,502,930
	\$ 6,637,550	\$ 6,223,196

See notes to consolidated financial statements

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS May 31, 1982

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of D. A. Stuart Oil Co., Limited and its subsidiary companies, all of which are 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. Accounts maintained in other than United States currency have been translated at the following rates of exchange:

1. Current assets and liabilities at exchange rates prevailing at year end.
2. Fixed assets, capital stock and earnings accumulated prior to June 1, 1964 on the basis of U.S. \$1 = Canadian \$1 and U.S. \$2.80 = £1.
3. Income, expenses and changes in noncurrent assets and liabilities at average rates in effect annually during the years since June 1, 1964.

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 costs. Finished goods are principally valued at the lower of cost (first-in, first-out method) and net realizable value. The balance of the inventories is valued at cost as determined by the last-in, first-out method. If the inventory valued by the last-in, first-out method had been valued by the first-in, first-out method, inventory values would be increased by \$25,580 at May 31, 1982 and \$252,670 at May 31, 1981.

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 deferrals 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 (1982 — \$0.40 per share; 1981 — \$0.40 per share).

NOTE C — BANK INDEBTEDNESS

The bank indebtedness of the Company's United Kingdom subsidiary is secured by the land and buildings of the subsidiary.

NOTE D — LONG-TERM DEBT

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 (\$7,986 U.S.)

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, 1982 was 17.25%. The principal is payable in seventeen quarterly instalments of \$250,000 commencing on August 15, 1983, with the balance payable on November 15, 1988

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

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, 1982 was 16.75%

Unsecured debenture notes, the repayment of which is based upon the net income of a consolidated subsidiary for the preceding year. Interest is payable quarterly at the rate of 6%

Less current portion

Long-Term Portion

	1982	1981
8½% mortgage bond secured by land and buildings of D. A. Stuart Oil GmbH.	\$ 185,180	\$ 222,081
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, 1982 was 17.25%. 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	1,865,305	1,753,832
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, 1982 was 16.75%	3,000,000	3,000,000
Unsecured debenture notes, the repayment of which is based upon the net income of a consolidated subsidiary for the preceding year. Interest is payable quarterly at the rate of 6%	—	355,000
Less current portion	10,050,485	10,330,913
Long-Term Portion	31,943	117,095
	<u>\$10,018,542</u>	<u>\$10,213,818</u>



NOTE E — SEGMENTED INFORMATION

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

	1982	1981
Net sales:		
Canada	\$ 5,983,713	\$ 4,873,802
United States	29,536,961	29,240,102
Europe	4,829,554	4,885,238
	40,350,228	38,999,142
Less: Inter-area eliminations	672,828	249,938
NET SALES	\$39,677,400	\$38,749,204
Contributions to income:		
Canada	\$ 391,755	\$ 228,295
United States	363,491	1,381,105
Europe	(66,618)	(270,645)
	688,628	1,338,755
Deduct (add):		
Unallocated general and administrative expenses	286,578	278,794
Corporate gains and royalty income	(129,730)	(144,666)
INCOME BEFORE INCOME TAXES	\$ 531,780	\$ 1,204,627
Identifiable assets:		
Canada	\$ 5,144,571	\$ 5,072,489
United States	17,576,192	17,992,524
Europe	2,997,017	3,169,078
	25,717,780	26,234,091
Inter-area eliminations	(3,315,368)	(3,130,112)
Corporate assets	139,550	160,924
ASSETS	\$22,541,962	\$23,264,903

Contributions to income represent net sales, royalties and other income, less cost of products sold, selling and allocated administrative expenses, and 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 — ACQUISITION AND MERGER OF SUBSIDIARY COMPANY

On July 1, 1980, D. A. Stuart Oil Co., Limited through a wholly-owned subsidiary acquired all of the common shares and second preferred shares of The Ironsides Company (Ironsides) of Columbus, Ohio, for \$9,692,000 including expenses. Of this amount, \$2,000,000, including imputed interest of \$373,000, is payable on or before June 30, 1983. An additional amount will be payable if Ironsides' gross profit on sales for the year ended March 31, 1983 exceeds \$6,000,000. Any additional payment will be recorded as excess of cost of assets acquired over values assigned and will be amortized over its then remaining life. The acquisition has been accounted for as a purchase.

Major categories of assets acquired and liabilities assumed were:

Current assets	\$3,492,460
Property, plant and equipment	2,179,380
Other assets	287,346
Current liabilities	(791,631)
Long-term liabilities	(355,000)
Minority interest	(48,900)
Excess of cost of assets acquired over values assigned	4,928,457
	9,692,112
Less working capital acquired	2,700,829
	\$6,991,283

With effect from April 1, 1982, Ironsides merged with its parent company, D. A. Stuart Chemicals, Inc. As a result of the merger, the Ironsides assets acquired were increased to their fair values as determined by independent appraisers, as follows:

	Increase (Decrease)
Inventories	\$115,000
Property, plant and equipment	981,000
Other assets	92,000
Excess of cost of assets acquired over values assigned	(667,727)
Deferred income taxes	520,273

D. A. STUART OIL CO., LIMITED

NOTE G – RELATED PARTY TRANSACTIONS

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

NOTE H – OTHER STATUTORY INFORMATION

The aggregate remuneration paid to directors and senior officers as defined by the Business Corporations Act of Ontario amounted to \$912,049 (1981 – \$876,424).

NOTE I – PENSION PLAN

Current pension costs are charged to operations each year and past service costs are being amortized over thirty years. At May 31, 1982, based upon the most recent actuarial valuation, the computed present value of Company obligations for unfunded past service costs approximated \$1,157,160 after deducting \$111,260 of past service costs charged to operations for the year.

NOTE J – CONTINGENCIES

The Company has been reassessed by Revenue Canada on the treatment of foreign exchange for tax purposes for the years ended May 31, 1977, 1978 and 1979, in the amount of approximately \$100,000. The Company has filed a Notice of Objection and it is management's opinion that the appeal is likely to succeed.

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 K – 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
1982	\$39,677,400	\$ 531,780	\$297,182	\$234,598	\$155,689	\$ 78,909
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
1978	18,985,198	816,205(1)	367,279	448,926	291,113	157,813

(1) After increase for extraordinary item of \$53,163 in 1978; and a decrease for extraordinary items of \$7,599 in 1979.

