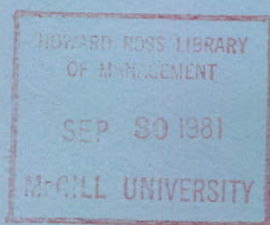




D. A. STUART OIL CO., LIMITED

ANNUAL REPORT 1981





D. A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

DANIEL GIANNINI, M.B.E.
DAVID I. JOHNSTON
CHRISTOPHER T. LOUGHRIN
Dr. ERWIN MORAWSKI
NORMAN J. MUNN
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
Vice President, Research and Development
WILLIAM H. MANN

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 Wednesday, October 21, 1981 at 11 A.M. Toronto Time.

D. A. STUART OIL CO., LIMITED

Serving the metal working industry for over 100 years

Report of the Directors

To the Shareholders:

Consolidated net sales for the year ended May 31, 1981 amounted to U.S. \$38,749,204 in comparison to U.S. \$23,501,243 for the previous year, this being the first year in which the results of The Ironsides Company have been consolidated. Net income for the year under review amounted to U.S. \$492,579 as against U.S. \$808,306 last year. This is the equivalent in U.S. funds to \$1.08 per share for the past year in comparison to \$1.77 for the previous year. Royalties and other income for the past year amounted to U.S. \$314,330 in comparison to U.S. \$224,697 for the previous year.

The major operations of your Company located in the United States of America, namely the D. A. Stuart Oil Company of America Division and The Ironsides Company, continued to be affected from a financial point of view during the past year as a result of depressed economic conditions in that country. During the last quarter of the fiscal year some improvement was experienced and a moderate upward trend is continuing. The D. A. Stuart Oil Company of America Division has had limited success in replacing lost sales in the automotive industry with other new business, particularly in the export field.

The Ironsides Company had a successful year of operations and management has devoted a considerable amount of effort coordinating its marketing and research and development activities with those of the D. A. Stuart Oil Company of America Division. High interest costs adversely affected corporate results, particularly in relation to the acquisition financing of The Ironsides Company.

D. A. Stuart Inc., formerly known as Canadian D. A. Stuart Oil Co. Limited, has completed another successful year and this trend continues.

In Europe, the United Kingdom subsidiary operated profitably during the year but significant losses were incurred in Germany by D. A. Stuart Oil GmbH. These losses were due to marketing and development expenses associated with the introduction of new product lines and also due to a lower level of sales to a major customer.

A General Meeting of Shareholders is being held in conjunction with the Annual Meeting to seek authorization to obtain Articles of Amendment to increase and alter the authorized capital by creating an additional 1,200,000 common shares without par value to rank on a parity with the



existing 800,000 common shares without par value and by removing the maximum consideration of \$3,500,000 for which such shares can be issued. The purpose is to enable the Company to increase its equity base in future.

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
September 4, 1981

(Incorporated under the laws of Ontario)

(Expressed in United

	May 31	
	1981	1980
Current Assets		
Cash and deposit receipts	\$ 413,756	\$ 627,184
Accounts receivable	6,068,444	2,802,01
Inventories	4,961,453	4,190,858
Drums, other containers and supplies	106,356	129,114
Advances and prepaid expenses	327,607	162,793
	<u>11,877,616</u>	<u>7,911,960</u>
Other Assets	431,395	115,094
Property, Plant and Equipment — Note E		
Land, buildings and equipment	9,216,940	6,314,863
Less allowances for depreciation	3,076,564	2,579,710
	<u>6,140,376</u>	<u>3,735,153</u>
Goodwill and Other Intangible Assets — Note E	4,815,516	—
	<u>\$23,264,903</u>	<u>\$11,762,207</u>
Approved on Behalf of the Board:		
D. I. JOHNSTON, Director		
D. GIANNINI, Director		

AUDITORS'

We have examined the consolidated balance sheet, expressed in United States currency, of D. A. Stuart Oil Co., Limited as at May 31, 1981 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.

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Balance Sheet

(States Currency)

LIABILITIES AND SHAREHOLDERS' EQUITY

	May 31	
	1981	1980
Current Liabilities		
Bank indebtedness	\$ 1,392,427	\$ 947,990
Accounts payable and accrued liabilities	3,787,455	2,872,349
Income taxes payable	251,599	405,015
Dividend payable	37,993	38,891
Liability for returnable containers	67,851	102,860
Current portion of long-term debt	117,095	41,925
	<u>5,654,420</u>	<u>4,409,030</u>
Long-Term Debt — Note C	10,330,913	267,031
Less current portion	117,095	41,925
	<u>10,213,818</u>	<u>225,106</u>
Deferred Income Taxes	144,259	260,000
Minority Interest	48,900	—
Shareholders' Equity		
Common stock, no par value:		
Authorized — 800,000 shares		
Issued — 456,256 shares	424,608	424,608
Retained earnings	6,778,898	6,443,463
	<u>7,203,506</u>	<u>6,868,071</u>
	<u>\$23,264,903</u>	<u>\$11,762,207</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, 1981 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 & Whinney
Chartered Accountants

D. A. STUART OIL CO., LIMITED

Consolidated Statement of Income

(Expressed in United States Currency)

	Year Ended May 31	
	1981	1980
Net sales	\$38,749,204	\$23,501,243
Royalties and other income	314,330	224,697
	<u>39,063,534</u>	<u>23,725,940</u>
Costs and expenses:		
Cost of products sold	27,576,180	17,084,160
Selling and administrative expenses	8,641,145	5,019,951
Interest expense, including interest on long-term debt of \$1,292,760 (1980 — \$28,036)	1,619,771	127,840
Loss (gain) on foreign currency translation	21,811	(46,231)
	<u>37,858,907</u>	<u>22,185,720</u>
Income Before Income Taxes	1,204,627	1,540,220
Income taxes:		
Current	876,995	728,777
Deferred (reduction)	(164,947)	3,137
	<u>712,048</u>	<u>731,914</u>
Net Income	\$ 492,579	\$ 808,306
Earnings per share	\$1.08	\$1.77

Consolidated Statement of Retained Earnings

(Expressed in United States Currency)

	Year Ended May 31	
	1981	1980
Balance at beginning of year	\$ 6,443,463	\$ 5,791,160
Net income	492,579	808,306
	<u>6,936,042</u>	<u>6,599,466</u>
Cash dividends on minority interest	(2,200)	—
Common dividends — Note B	(154,944)	(156,003)
Balance at End of Year	\$ 6,778,898	\$ 6,443,463

See notes to consolidated financial statements



Consolidated Statement of Changes in Financial Position

(Expressed in United States Currency)

	Year Ended May 31	
	1981	1980
Source of Funds		
Net income	\$ 492,579	\$ 808,306
Charges (credits) to income not affecting working capital:		
Depreciation	502,903	227,905
Amortization of goodwill and other intangible assets	112,941	—
Amortization of imputed interest — Note C	113,972	—
Loss (gain) on disposal of property, plant and equipment	7,920	(3,593)
Deferred income taxes	(115,741)	8,412
Foreign exchange fluctuation on long-term debt	(3,025)	10,988
Total From Operations	1,111,549	1,052,018
Proceeds from increase in long-term debt	9,639,860	—
Proceeds from sale of property, plant and equipment	42,843	13,343
	10,794,252	1,065,361
Application of Funds		
Dividends	157,144	156,003
Purchases of property, plant and equipment	779,509	1,687,382
Increase in other assets	28,955	300
Current portion of long-term debt	117,095	41,925
Purchase of subsidiary company — Note E	6,991,283	—
	8,073,986	1,885,610
Increase (decrease) in working capital	2,720,266	(820,249)
Working capital at beginning of year	3,502,930	4,323,179
Working capital at end of year	\$ 6,223,196	\$ 3,502,930

See notes to consolidated financial statements

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1981

NOTE A — 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 \$252,670.

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".

Goodwill and Other Intangible Assets: Goodwill is being amortized over 40 years on the straight-line method. Other intangible assets are to be amortized on the straight-line method over their estimated useful lives not to exceed 40 years.

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 (1981 — \$0.40 per share; 1980 — \$0.40 per share).

NOTE C — LONG-TERM DEBT

	1981	1980
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 (\$8,181 U.S.)	\$ 222,081	\$267,031
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, 1981 was 15⅞%. The principal is payable in twenty equal quarterly instalments beginning December 31, 1982	5,000,000	—
Deferred payment related to the acquisition of subsidiary company is 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	1,753,832	—
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 interest rate at May 31, 1981 was 18%	3,000,000	—
Unsecured debenture notes, the principal of which is payable annually. The minimum repayment is based upon the net income of a consolidated subsidiary for the preceding year. Any remaining unpaid principal is due in 1997. Interest is payable quarterly at the rate of 6%	355,000	—
	10,330,913	267,031
	117,095	41,925
Long-Term Portion	\$10,213,818	\$225,106



NOTE D — SEGMENTED INFORMATION

The Company's consolidated net sales and contribution to income by principal geographic location of its operations for the years ended May 31, 1981 and 1980 were as follows:

	Year Ended May 31	
	1981	1980
Net sales:		
Canada	\$ 4,873,802	\$ 4,200,568
United States	29,240,102	13,887,903
Europe	4,885,238	5,611,207
	38,999,142	23,699,698
Less: Inter-area eliminations	249,938	198,455
NET SALES	\$38,749,204	\$23,501,243
Contributions to income:		
Canada	\$ 228,295	\$ 480,880
United States	1,381,105	838,180
Europe	(270,645)	252,052
	1,338,755	1,571,112
Deduct:		
Unallocated general and administrative expenses	278,794	149,673
Corporate gains and royalty income	(144,666)	(118,781)
INCOME BEFORE INCOME TAXES	\$ 1,204,627	\$ 1,540,220
Identifiable assets:		
Canada	\$ 5,072,489	\$ 1,920,422
United States	17,992,524	6,072,847
Europe	3,169,078	3,620,829
	26,234,091	11,614,098
Inter-area eliminations	(3,130,112)	(85,717)
Corporate assets	160,924	233,826
ASSETS	\$23,264,903	\$11,762,207

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 E — ACQUISITION 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 U.S. 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 goodwill 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)
Goodwill and other intangible assets	4,928,457
	9,692,112
Less working capital acquired	2,700,829
	\$6,991,283

The value of certain fixed assets, goodwill and other intangible assets is presently under assessment by management, acting on the advice of expert appraisers. When final determinations are made in this regard, the allocation of values to such assets may change. The impact of this matter as it relates to these financial statements is not determinable.

D. A. STUART OIL CO., LIMITED

NOTE F — RELATED PARTY TRANSACTIONS

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

NOTE G — OTHER STATUTORY INFORMATION

The aggregate remuneration paid to directors and senior officers as defined by the Business Corporations Act of Ontario amounted to \$876,424 (1980 — \$454,444).

NOTE H — PENSION PLAN

Current pension costs are charged to operations each year and past service costs are being amortized over thirty years. At May 31, 1981, based upon the most recent actuarial valuation, the computed present value of Company obligations for unfunded past service costs approximated \$1,279,877 after deducting \$103,406 charged to operations for the year.

NOTE I — 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
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
1977	18,876,288	1,541,366	771,882	769,484	437,588	331,896

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

