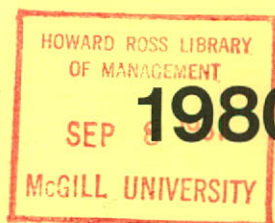
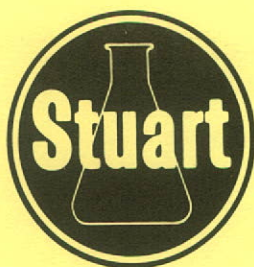


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D. A. STUART OIL CO., LIMITED



1980 Annual Report



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 Meeting of Shareholders will be held in the
York Room of The Royal York Hotel, Toronto, Canada,
on Friday, September 26, 1980 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 amount to U.S. \$23,501,243 in comparison to U.S. \$22,418,474 for the previous year. Net income for the year under review amounted to U.S. \$808,306 as against U.S. \$833,668 last year. This is the equivalent in U.S. funds to \$1.77 per share for the past year in comparison to \$1.83 for the previous year. There was an extraordinary gain on the sale of assets of U.S. \$32,431 last year, offset by an extraordinary loss in the Nix case in the amount of U.S. \$40,030 after taxes.

The consolidated performance of your Company during the past year has been adversely affected from a financial point of view due primarily to the recession in the United States of America and the depressed level of sales of the automotive industry which impacted on the D. A. Stuart Oil Company of America Division. The results had been expected to be an improvement over the previous year but this did not turn out to be the case due to a poor last six months. The new office and laboratory facility in the Chicago suburb of Willowbrook was completed on time and has now been occupied.

Canadian D. A. Stuart Oil Co. Limited has completed a successful year and was able to replace to a significant degree lost sales in the automotive industry with other new business. Mr. William Mann, who handles international licensing arrangements, visited Europe during the past year to support our license activities there and your Company has now entered into a new license agreement with Lubriana S.p.A. in Milan, Italy for certain of our products. This license replaces the previous license with Stuart Oil Italiana S.p.A. which has now been merged by a new shareholding group into Lubriana S.p.A.

In Europe there has been a reorganization of management under the direction of Mr. William Robertson, who is based at Langenselbold but has responsibility for the subsidiary in the United Kingdom as well as our licensing arrangements on the Continent. D. A. Stuart Oil Co. Ltd. in the United Kingdom and D. A. Stuart Oil GmbH in Germany have both completed satisfactory years in their traditional product lines.

On July 1, 1980, D. A. Stuart Chemicals, Inc., a wholly owned subsidiary of Canadian D. A. Stuart Oil Co. Limited, acquired all of the common shares and certain of the preferred shares of The Ironsides Company. Ironsides is a leading supplier in the United States and Canada of rolling oils and other metalworking products and has its manufacturing facilities and head office in Columbus, Ohio. Sales of Ironsides for the fiscal year ended March 31, 1980 were in excess of U.S. \$16,000,000. The management of your Company believes that Ironsides will strengthen your Company significantly through its dominant market position and technology in the rolling oil field. Its product lines are not predominantly dependent upon mineral oils or upon the automotive industry. The acquisition was financed with borrowed funds.



The Board of Directors must record with regret the death of M. Clifford Deans, an Honourary Director of the Company. The late Mr. Deans made an outstanding contribution to the Company during the formative years in which its operations were established in Canada.

The Board of Directors wish to recognize the outstanding service which Mr. Daniel Giannini rendered to the Company during his tenure of office and express their appreciation to Mr. Giannini on behalf of the Shareholders on the occasion of his retirement as Chairman of the Board during the past year. Mr. Giannini's counsel and support will continue in future years to be available to the Board of Directors since he will continue as a member. The Company also must express its appreciation to Dr. Peter H. Werhahn who also retired during the past year and was replaced by Dr. Erwin Morawski.

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 1, 1980

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

	May 31	
	1980	1979
Current Assets		
Cash and deposit receipts	\$ 627,184	\$ 844,287
Accounts receivable	2,802,011	3,427,486
Inventories	4,190,858	3,095,159
Drums, other containers and supplies	129,114	132,800
Advances and prepaid expenses	162,793	185,848
Total Current Assets	7,911,960	7,685,580
Other Assets	115,094	114,794
Property, Plant and Equipment — Note B		
Land, buildings and equipment	6,314,863	4,671,690
Less allowances for depreciation	2,579,710	2,386,264
	3,735,153	2,285,426
	\$ 11,762,207	\$ 10,085,800

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, 1980 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 18, 1980



Balance Sheet

(States Currency)

LIABILITIES AND SHAREHOLDERS' EQUITY

	May 31	
	1980	1979
Current Liabilities		
Bank indebtedness	\$ 947,990	\$ 602,879
Accounts payable and accrued liabilities	2,760,725	2,010,327
Income and other taxes payable — Note C	516,639	556,450
Dividend payable	38,891	39,362
Liability for returnable containers	102,860	112,156
Current portion of long-term debt	41,925	41,227
Total Current Liabilities	4,409,030	3,362,401
 Long-Term Debt — Note E	267,031	297,270
Less current portion shown above	41,925	41,227
	225,106	256,043
 Deferred Income Taxes	260,000	251,588
 Shareholders' Equity		
Common stock, no par value:		
Authorized — 800,000 shares		
Issued — 456,256 shares	424,608	424,608
Retained earnings — Note D	6,443,463	5,791,160
	6,868,071	6,215,768
	\$ 11,762,207	\$ 10,085,800

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, 1980 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	
	1980	1979
Net sales	\$ 23,501,243	\$ 22,418,474
Royalties and other income	224,697	176,128
	<u>23,725,940</u>	<u>22,594,602</u>
Costs and expenses:		
Cost of products sold	17,084,160	16,796,911
Selling and administrative expenses	5,147,791	4,258,297
Gain on foreign currency translation	(46,231)	(470)
	<u>22,185,720</u>	<u>21,054,738</u>
Income Before Income Taxes and Extraordinary Items	1,540,220	1,539,864
Income taxes:		
Current	728,777	714,673
Deferred (reduction)	3,137	(16,076)
	<u>731,914</u>	<u>698,597</u>
Income Before Extraordinary Items	808,306	841,267
Extraordinary loss — Note F	—	7,599
Net Income	\$ 808,306	\$ 833,668
Earnings per share:		
Income before extraordinary items	\$1.77	\$1.84
Net income	\$1.77	\$1.83

Consolidated Statement of Retained Earnings

(Expressed in United States Currency)

	Year Ended May 31	
	1980	1979
Balance at beginning of year	\$ 5,791,160	\$ 5,114,791
Net income	808,306	833,668
	<u>6,599,466</u>	<u>5,948,459</u>
Dividends — Note D	156,003	157,299
Balance at End of Year	\$ 6,443,463	\$ 5,791,160

See notes to consolidated financial statements



Consolidated Statement of Changes in Financial Position

(Expressed in United States Currency)

	Year Ended May 31	
	1980	1979
Working Capital Derived from		
Income before extraordinary item	\$ 808,306	\$ 841,267
Charges to income not requiring an outlay of working capital:		
Depreciation	227,905	202,160
Gain on disposal of fixed assets	(3,593)	(3,499)
Deferred income taxes	8,412	43,732
Foreign exchange fluctuation on long-term debt	10,988	—
Total from Operations	1,052,018	1,083,660
Proceeds from sale of fixed assets	13,343	105,283
	1,065,361	1,188,943
 Working Capital Applied to		
Dividends	156,003	157,299
Purchases of property, plant and equipment	1,687,382	459,479
Increase in other assets	300	3,404
Current portion of long-term debt	41,925	41,227
Settlement of lawsuit — Note F	—	40,030
	1,885,610	701,439
Increase (decrease) in working capital	(820,249)	487,504
Working capital at beginning of year	4,323,179	3,835,675
Working capital at end of year	\$ 3,502,930	\$ 4,323,179

See notes to consolidated financial statements

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended May 31, 1980

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.

Canadian D. A. Stuart Oil Co. Limited and its wholly-owned subsidiary, D. A. Stuart Chemicals, Inc.

D. A. Stuart Oil Co. Ltd. (English subsidiary)

D. A. Stuart Oil GmbH (German subsidiary)

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. The Company and its subsidiaries maintain their accounting records and prepare their financial statements in the currency of the countries wherein they are located. The accompanying consolidated financial statements, expressed in United States currency, represent a translation of the companies' local currency accounting records and financial statements in accordance with generally accepted accounting principles. Assets, liabilities and expenses 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 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".

NOTE B — PROPERTY, PLANT AND EQUIPMENT

	1980		1979	
	Cost	Accumulated Depreciation	Net	Net
Land	\$ 657,258	\$ — 0 —	\$ 657,258	\$ 492,352
Buildings and railway sidings	2,579,831	666,262	1,913,569	1,110,740
Factory equipment	2,419,755	1,473,253	946,502	511,247
Office and laboratory equipment	579,602	376,879	202,723	144,586
Automotive equipment	78,417	63,316	15,101	26,501
	<u>\$6,314,863</u>	<u>\$2,579,710</u>	<u>\$3,735,153</u>	<u>\$2,285,426</u>

NOTE C — INCOME AND OTHER TAXES PAYABLE

Included in income and other taxes payable are the following:

	1980	1979
Income and other taxes payable	\$ 467,433	\$ 501,969
Deferred income taxes	49,206	54,481
	<u>\$ 516,639</u>	<u>\$ 556,450</u>

NOTE D — RETAINED EARNINGS

Dividends shown in the consolidated statement of retained earnings represent the United States currency equivalent of dividends which were declared in Canadian funds (1980 — \$0.40 per share; 1979 — \$0.40 per share).



NOTE E — LONG-TERM DEBT

The principal amount of the long-term debt of 537,610 Deutsch marks (\$267,031 U.S.) is repayable in quarterly instalments of 18,750 Deutsch marks (\$10,393 U.S.) and is secured by a mortgage bond on the land and buildings of subsidiary D. A. Stuart Oil GmbH and is guaranteed by D. A. Stuart Oil Co., Limited. Interest on the outstanding principal balance is calculated at a rate of 8¾% per annum.

NOTE F — EXTRAORDINARY LOSS

Extraordinary loss on the consolidated statement of income is comprised as follows:

	1980	1979
Loss on settlement of lawsuit	\$ —0—	\$ 40,030
Gain on sale of property, plant and equipment	—0—	(32,431)
	<u>\$ —0—</u>	<u>\$ 7,599</u>

In 1978, the Company reported that a judgment of \$665,000, including \$250,000 in punitive damages, was awarded against the Company. At that time the Company intended to assert that the \$250,000 was covered by a valid and binding insurance policy. In 1979 the Company settled its claim with the insurance company and agreed to pay \$77,762 in damages. The amount shown as an extraordinary loss is net of recovery of related income taxes of \$37,732.

In 1979 the Company sold one of its manufacturing facilities and realized a gain of \$32,431, net of related income taxes of \$20,000.

NOTE G — 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, 1980 and 1979 were as follows:

	Year Ended May 31	
	1980	1979
Net sales:		
North America (domestic)	\$ 18,008,793	\$ 18,181,278
Europe	5,611,207	4,265,368
	<u>23,620,000</u>	<u>22,446,646</u>
Less: Inter-area eliminations	118,757	28,172
NET SALES	<u>\$ 23,501,243</u>	<u>\$ 22,418,474</u>
Contributions to income:		
North America (domestic)	\$ 1,319,060	\$ 1,483,094
Europe	252,052	107,283
	<u>1,571,112</u>	<u>1,590,377</u>
Deduct:		
Unallocated general and administrative expenses	149,673	125,857
Corporate gains and royalty income	(118,781)	(75,344)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	<u>\$ 1,540,220</u>	<u>\$ 1,539,864</u>

The Company's assets by principal geographic location as at May 31, 1980 and 1979 were as follows:

	May 31	
	1980	1979
Identifiable assets:		
North America (domestic)	\$ 7,986,523	\$ 6,763,839
Europe	3,620,829	3,013,502
	<u>11,607,352</u>	<u>9,777,341</u>
Less: Inter-area eliminations	78,971	74,702
	<u>11,528,381</u>	<u>9,702,639</u>
Corporate assets	233,826	383,161
ASSETS	<u>\$ 11,762,207</u>	<u>\$ 10,085,800</u>

Contributions to income represent net sales, plus 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.

D. A. STUART OIL CO., LIMITED

NOTE H — FORMATION OF SUBSIDIARY

During the year, the Company's subsidiary, Canadian D. A. Stuart Oil Co. Limited, formed a wholly-owned subsidiary, D. A. Stuart Chemicals, Inc., a Delaware corporation. D. A. Stuart Chemicals, Inc., has had no operations since the date of formation.

NOTE I — SUBSEQUENT EVENT

On June 3, 1980, D. A. Stuart Chemicals, Inc. signed an agreement, effective July 1, 1980, to purchase all of the outstanding common and second preferred shares of The Ironsides Company, an Ohio corporation. D. A. Stuart Chemicals, Inc. agreed to pay \$8,000,000 on closing and a further amount, contingent upon earnings of The Ironsides Company for the year ended March 31, 1983, but not less than \$2,000,000 to be paid on or before June 30, 1983. The Company has arranged interim financing for the acquisition with its principal shareholder in the form of notes payable, totalling \$8,000,000, which bear interest at approximate bank prime lending rates. Longer-term financing is presently being negotiated.

NOTE J — RELATED PARTY TRANSACTIONS

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

NOTE K — OTHER STATUTORY INFORMATION

The aggregate remuneration paid to directors and senior officers as defined by The Business Corporations Act of Ontario amounted to \$454,444 (1979 — \$443,663).

NOTE L — PENSION PLAN

Current pension costs are charged to operations each year and past service costs are being amortized over thirty years. At May 31, 1980, based upon an actuarial valuation conducted as of May 1, 1979, the computed present value of Company obligations for unfunded past service costs approximated \$585,733 after deducting \$46,671 charged to operations for the year.

FIVE YEAR COMPARATIVE REVIEW OF OPERATIONS

	Sales	Income before income taxes	Income taxes	Net income	Dividends declared	Income retained
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
1976	16,070,630	1,500,409	661,171	839,238	385,026	454,212

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

