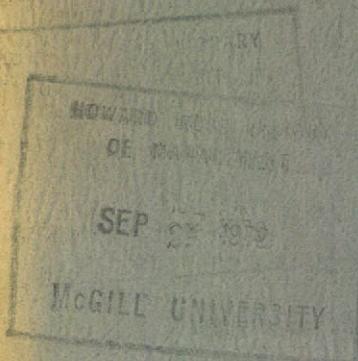




D. A. L STUART OIL CO., LIMITED

ANNUAL REPORT
1978





D. A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

DANIEL GIANNINI, M.B.E.
DAVID I. JOHNSTON
CHRIS. T. LOUGHIN
NORMAN J. MUNN
STEPHEN P. OGRYZLO, Ph.D.
CHARLES E. SANTANGELO
HERIBERT WERHAHN
PETER H. WERHAHN

Honorary Directors

M. CLIFFORD DEANS
GORDON McMILLAN, Q.C.

Officers of the Company

Chairman of the Board and Chief Executive Officer
DANIEL GIANNINI, M.B.E.

President
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
2727 South Troy Street
Chicago, Illinois 60623

General Office:

2727 South Troy Street
Chicago, Illinois 60623

Head Office:

Suite 1105, 65 Queen Street West
Toronto, Ontario, Canada M5H 2M5

The Annual Meeting of Shareholders will be held in the Library of The Royal York Hotel, Toronto, Canada, on Friday, September 29, 1978, 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 sales amounted to U.S.\$18,985,198 in comparison to U.S.\$18,876,288 for the previous year. Net earnings for the year under review amounted to U.S.\$395,763 as against U.S.\$769,484 last year. An extraordinary gain on the sale of assets amounted to U.S.\$53,163, bringing the total income after taxes for the year to U.S.\$448,926. This is the equivalent in U.S. funds to 98¢ per share for the past year in comparison to \$1.69 for the previous year.

The principal reasons for the lower level of earnings is the increased costs and a significant drop in royalties which amounted to U.S.\$315,209 in the previous year as against U.S.\$129,023 in the year just ended. As a result of the drop in profits during the year, and because of capital requirements, your Company announced on April 28, 1978 that the quarterly dividend normally paid would be reduced from 20¢ per share to 10¢ per share.

The United States operations of the Company have been reorganized into a separate operating division now known as the D. A. Stuart Oil Company of America. Mr. Charles E. Santangelo has been appointed President of this division and took office in Chicago effective November 1, 1977. Mr. Santangelo was also elected to the Board of Directors of your Company. Under Mr. Santangelo's direction the D. A. Stuart Oil Company of America has undertaken a significant capital expenditure programme to modernize and improve its facilities. The marketing organization in the United States was also re-aligned by product line. The Indianapolis re-refinery was sold because of unprofitable performance and significant cost reductions are being achieved through the elimination of the Company's warehousing operations at several locations. The performance in the United States was adversely affected by higher material costs and the failure of gear lubrication and foreign sales to materialize as had been anticipated.

Canadian D. A. Stuart Oil Co. Limited had another record year of sales but competitive conditions and higher material costs affected profitability. Mr. William Mann, President of the Canadian subsidiary, also assumed corporate responsibility during the year for your Company's research and development programmes. Dr. Stephen Cohen was appointed Director of Corporate Research to coordinate from Canada the research and development activities in our subsidiaries and U.S. Division, as well as with our licensees. During the forthcoming year a new centralized research facility will be established in the Toronto area, together with a technical library.

Effective January 27, 1978 your Company acquired the 50% interest in D. A. Stuart Oil GmbH from AB Axel Christiernsson of Sweden thereby making the Langenselbold company a



wholly owned subsidiary. As a result, in the preparation of the consolidated financial statements, for the first time the financial position and operating results of D. A. Stuart Oil GmbH have been included on a fully consolidated basis which has had an adverse effect on the consolidated working capital of the Company.

D. A. Stuart Oil GmbH substantially increased its sales during the past year through concentrating on the sale of additives instead of finished products. For the first time it completed a profitable year end as at May 31, 1978, and a positive trend in sales and profits is anticipated.

The D. A. Stuart Oil Co. Limited in the United Kingdom had another record sales year but its profits for the second half of the year were disappointing. Labour unrest and the vicissitudes of the British steel industry, which represents our largest customers, adversely affected sales and profits beginning in December with some improvement occurring towards the year-end. It is expected that the subsidiary will return to a more satisfactory level of profit during the current year.

Your management expects that the results of a rebuilding programme upgrading human resources, physical facilities and technology will begin to reflect itself in the financial results of the current year.

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

DANIEL GIANNINI
Chairman of the Board

Toronto, Canada
July 28, 1978

DAVID I. JOHNSTON
President

D. A. STUART OIL CO., LIMITED

(Incorporated under the laws of Ontario)

Consolidated Balance

Expressed in United

ASSETS

Current Assets

	1978	1977
Cash and deposit receipts	\$ 647,538	\$ 810,152
Accounts receivable	2,950,165	2,786,558
Inventories	3,114,318	2,490,736
Drums, other containers and supplies	119,951	148,016
Advances and prepaid expenses	130,538	137,008
	<u>6,962,510</u>	<u>6,372,470</u>

Marketable Securities, at cost (quoted market value 1978, \$22,953; 1977, \$12,760)

34,308	34,308
--------	--------

Other Investments

53,615	53,615
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Life Insurance, cash surrender value

77,082	66,113
--------	--------

Fixed Assets, at cost (note 3)

Land, buildings and equipment	4,387,948	3,734,138
Less accumulated depreciation	2,290,488	2,207,539
	<u>2,097,460</u>	<u>1,526,599</u>
	<u><u>\$9,171,360</u></u>	<u><u>\$8,053,105</u></u>

Approved by the Board

D. GIANNINI, Director

D. I. JOHNSTON, Director

AUDITORS*

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

We have examined the consolidated balance sheet of D. A. Stuart Oil Co., Limited as at May 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position 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.

Toronto, Canada
July 13, 1978



Sheet as at May 31, 1978

States currency

LIABILITIES

Current Liabilities

	<u>1978</u>	<u>1977</u>
Bank advances, of which \$333,300 is secured by a mortgage on land and buildings	\$ 849,220	\$ 250,000
Accounts payable and accrued liabilities	2,211,942	1,756,659
Income and other taxes payable (note 4)	217,203	296,597
Dividend payable	40,671	86,853
Liability for returnable containers	105,069	108,359
	<u>3,424,105</u>	<u>2,498,468</u>
 Deferred Income Taxes	 <u>207,856</u>	 <u>173,051</u>

SHAREHOLDERS' EQUITY

Capital Stock

Authorized — 800,000 common shares of no par value		
Issued — 456,256 shares	424,608	424,608

Retained Earnings (note 5)

<u>5,114,791</u>	<u>4,956,978</u>
<u>5,539,399</u>	<u>5,381,586</u>
<u>\$ 9,171,360</u>	<u>\$ 8,053,105</u>

Contingent liability (note 7)

REPORT

In our opinion, these consolidated financial statements present fairly the financial position of the company as at May 31, 1978 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.

THORNE RIDDELL & CO.
Chartered Accountants

D. A. STUART OIL CO., LIMITED

CONSOLIDATED STATEMENT OF INCOME

Year Ended May 31, 1978

Expressed in United States currency

	1978	1977
Sales	\$18,985,198	\$18,876,288
Cost of sales	14,393,682	14,310,920
<hr/>	<hr/>	<hr/>
Gross margin	4,591,516	4,565,368
Royalties and other income	129,023	315,209
<hr/>	<hr/>	<hr/>
Income before undernoted items	4,720,539	4,880,577
Selling and administrative expenses	3,938,400	3,259,386
Loss on foreign currency	19,097	79,825
<hr/>	<hr/>	<hr/>
Income before income taxes and extraordinary item	3,957,497	3,339,211
<hr/>	<hr/>	<hr/>
Income taxes	763,042	1,541,366
Current	218,185	779,311
Deferred (reduction)	149,094	(7,429)
<hr/>	<hr/>	<hr/>
367,279	771,882	
<hr/>	<hr/>	
Income before extraordinary item	395,763	769,484
Extraordinary item		
Gain on sale of land, buildings and equipment, net of income taxes of \$32,823	53,163	
<hr/>	<hr/>	
Net Income	\$ 448,926	\$ 769,484
<hr/>	<hr/>	
Earnings per Share		
Income before extraordinary item	\$0.87	\$1.69
Net income	\$0.98	\$1.69

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended May 31, 1978

Expressed in United States currency

	1978	1977
Balance at Beginning of Year	\$ 4,956,978	\$ 4,625,082
Net income	448,926	769,484
<hr/>	<hr/>	<hr/>
Dividends*	5,405,904	5,394,566
<hr/>	<hr/>	<hr/>
291,113	437,588	
<hr/>	<hr/>	
Balance at End of Year	\$ 5,114,791	\$ 4,956,978
<hr/>	<hr/>	

* Dividends were declared in Canadian funds 1978, 70¢ per share and 1977, 96.4¢ per share.
Amounts shown above are stated in U.S. funds.



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended May 31, 1978

Expressed in United States currency

Working capital derived from

Operations

	1978	1977
Income before extraordinary item	\$ 395,763	\$ 769,484
Items not involving working capital		
Depreciation	159,454	138,676
Gain on disposal of fixed assets	(5,479)	(4,219)
Deferred income taxes (reduction)	34,805	(7,429)
	584,543	896,512
Decrease in advances to other companies	10,777	3,136
Reclassification of investment in and advances to 50% owned company as a result of the purchase of additional shares in that company (note 2)	42,838	
Proceeds from sale of fixed assets, net of income taxes of \$32,823 in 1978	216,891	12,873
Decrease in investment in and advances to 50% owned company		3,453
	855,049	915,974

Working capital applied to

Purchase of shares of D. A. Stuart Oil GmbH plus its working capital deficiency at date of acquisition of \$489,418 (note 2)

Dividends	692,356	
Additions to fixed assets	291,113	437,588
Life insurance, cash surrender value	188,854	246,043
Other	10,969	3,224
	7,354	
	1,190,646	686,855
Increase (decrease) in working capital	(335,597)	229,119
Working capital at beginning of year	3,874,002	3,644,883
Working capital at end of year	\$3,538,405	\$3,874,002

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended May 31, 1978

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary companies Canadian D. A. Stuart Oil Co. Limited, D. A. Stuart Oil Co. Limited (English subsidiary) and D. A. Stuart Oil GmbH (German subsidiary).

(b) Basis of translation

The company operates principally in the United States and the accompanying financial statements are expressed in United States currency. Assets, liabilities, and revenues and expenses maintained in other than U.S. currency have been translated to United States dollars at the following rates of exchange:

(i) Current assets and liabilities, at exchange rates prevailing at the year end.

(ii) 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.

(iii) Income, expenses and changes in non-current assets and liabilities at average rates in effect annually during the years since June 1, 1964.

(iv) Gains or losses on translation of foreign currency are recognized during the year in the statement of income.

(v) Taxes on unremitted profits of foreign subsidiaries are not recorded as these amounts are considered to be a permanent investment.

(c) Inventories

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(d) Fixed assets

All fixed assets are recorded in the accounts at cost.

Depreciation is recorded principally on a straight-line basis to amortize the cost of depreciable fixed assets over their estimated useful life. The rates range from 2½% on buildings to 25% on certain automotive equipment.

(e) Income taxes

The company charges income with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes 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".

2. ACQUISITION OF SUBSIDIARY COMPANY

Effective January 27, 1978 the company acquired 50% of the voting common shares of D. A. Stuart Oil GmbH. The company previously owned the other 50% of the voting common shares and as a result of this additional purchase the investment has been consolidated using the purchase method of accounting effective January 27, 1978. The details of this acquisition are as follows:

Current assets, at fair values	\$ 443,096
Current liabilities, at fair values	(932,514)
	<hr/>
	(489,418)
Fixed assets, at fair values	692,356
	<hr/>
	\$ 202,938
Consideration, to be paid in cash	<hr/>
	\$ 202,938

3. FIXED ASSETS

1978			1977	
	Asset value	Accumulated depreciation	Net	Net
Land	\$ 489,852		\$ 489,852	\$ 255,202
Buildings and railway sidings	1,652,782	\$ 598,970	1,053,812	779,201
Factory equipment	1,788,703	1,328,166	460,537	422,155
Office and laboratory equipment	388,700	310,468	78,232	51,315
Automotive equipment	67,911	52,884	15,027	18,726
	<hr/>	<hr/>	<hr/>	<hr/>
	\$4,387,948	\$2,290,488	\$2,097,460	\$1,526,599



4. INCOME AND OTHER TAXES PAYABLE

Included in income and other taxes payable are the following:

	1978	1977
Income and other taxes payable	\$ 102,914	\$ 296,597
Deferred income taxes	114,289	
	<u>\$ 217,203</u>	<u>\$ 296,597</u>

5. RETAINED EARNINGS

Dividends from the English subsidiary are subject to exchange control authorization, which is usually granted, and withholding taxes at time of payment.

6. OTHER STATUTORY INFORMATION

	1978	1977
Depreciation	\$ 159,454	\$ 138,676
Remuneration of directors and senior officers (as defined by The Business Corporations Act)		
Directors and officers	\$ 184,483	\$ 191,571
Other employees	95,952	197,793
	<u>\$ 280,435</u>	<u>\$ 389,364</u>

7. CONTINGENT LIABILITY

During the year a judgment against the D. A. Stuart Oil Co., Limited in an amount of \$665,000, including \$250,000 in punitive damages, was awarded by the Boone County Circuit Court, Lebanon, Indiana to an Indianapolis fireman who was injured on the company's premises while fighting a fire which occurred on April 25, 1974. Insurance coverage in the amount of \$415,000 of the judgment has been acknowledged by the company's insurers. One of the insurance companies has informed the company that it intends to assert that no coverage exists for the \$250,000 punitive damages award. The company intends to assert that the \$250,000 in punitive damages is covered by a valid and binding insurance policy.

It is not possible at this time to determine the amount, if any, the company may be required to pay and accordingly no provision has been recorded in these financial statements.

8. PENSION PLAN

Current pension costs are charged to operations each year. Past service costs are being amortized over thirty years.

At May 31, 1978, based upon an actuarial valuation conducted as of April 30, 1977 the computed present value of the company obligations for unfunded past service costs approximated \$489,183 after deducting \$34,782 charged to operations for the year.

9. ANTI-INFLATION PROGRAMME

The company is subject to the mandatory guidelines under the Federal anti-inflation legislation until October 14, 1978 with respect to dividends.

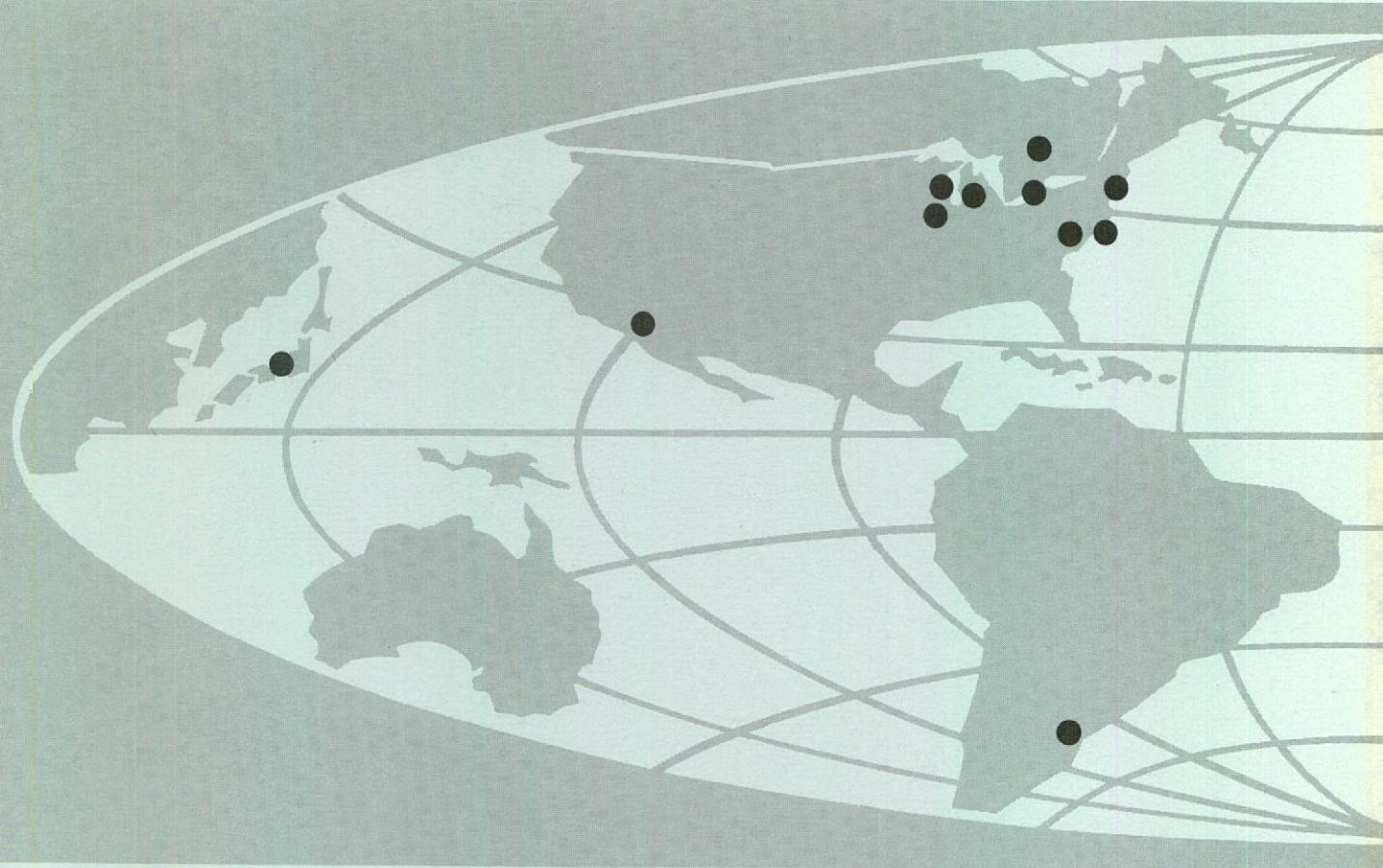
FIVE YEAR COMPARATIVE REVIEW OF OPERATIONS

	Sales	Income before income taxes	Income taxes	Net income	Dividends declared	Income retained
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
1975	16,779,499	1,808,957 (2)	915,071	893,886	391,114	502,772
1974	14,386,856	1,510,132 (2)	798,603	711,529	161,367	550,162

(1) After increase for extraordinary item of \$53,163 in 1978.

(2) After reduction for loss on discontinued operations of \$23,368 in 1975; \$56,588 in 1974 and gain on sale of shares of Argentinian subsidiaries of \$53,232 in 1975.

UNITED STATES AND INTERNATIONAL OPERATIONS



INTERNATIONAL

ARGENTINA, Buenos Aires
D. A. Stuart Oil Co. (Arg.) S.A.I.C.
AUSTRIA, Vienna
A. Johnson & Co.
BELGIUM, Brussels
Ets. Marcel Ponjaert S.P.R.L.
ENGLAND, Wolverhampton
D. A. Stuart Oil Co. Limited
ITALY, Milan
Stuart Oil Italiana, S.p.A.
JAPAN, Tokyo
Takata & Co. Ltd.
SPAIN, Madrid
MecanOil, S.A.
SWEDEN, Goteborg
D. A. Stuart Oil Nordiska AB
SWITZERLAND, Bern
Milloil AG
YUGOSLAVIA, Krusevac
Fabrika Ulica Maziva

MANUFACTURING

CHICAGO, Illinois
D. A. Stuart Oil Company of America
NORTHLVILLE, Michigan
D. A. Stuart Oil Co., Limited
SOMERVILLE, New Jersey
D. A. Stuart Oil Co., Limited
SCARBOROUGH, Ontario, Canada
Canadian D. A. Stuart Oil Co.
Limited
ENGLAND, Wolverhampton
D. A. Stuart Co. Limited
GERMANY, Langenselbold
D. A. Stuart Oil GmbH

BLENDING & SERVICE CENTRES

BROOK PARK, Ohio
CHICAGO, Illinois
LIVONIA, Michigan
LOS ANGELES, California
NORTHLVILLE, Michigan
SOMERVILLE, New Jersey
SOUTH WINDSOR, Connecticut



