



D. A. STUART OIL CO., LIMITED

ANNUAL REPORT 1979





D. A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

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

Honorary Director

M. CLIFFORD DEANS

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

43 Upton Road
Scarborough, Ontario, Canada M1K 5C3

The Annual Meeting of Shareholders will be held in the Library of The Royal York Hotel, Toronto, Canada, on Friday, September 28, 1979, 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 amount to U.S.\$22,418,474 in comparison to U.S.\$18,985,198 for the previous year. Net earnings for the year under review amounted to U.S.\$841,267 as against U.S.\$395,763 last year. This is the equivalent in U.S. funds to \$1.84 per share for the past year in comparison to \$0.87 for the previous year. An extraordinary gain on the sale of assets amounted to U.S.\$32,431 and this was offset by the extraordinary loss in the Nix case in the amount of U.S.\$40,030 after taxes which was reported in the unaudited financial statement for the six months ended November 30, 1978. Thus the total income after taxes for the year was U.S.\$833,668 in comparison to U.S.\$448,926 last year.

Your Company has completed a very satisfactory year. The principal reason for the improved earnings was the performance of the D. A. Stuart Oil Company of America.

The benefits of reorganization of the operations in the United States under the D. A. Stuart Oil Company of America have become apparent during the past year and the marked improvement is forecast to continue. The gross margins have improved considerably due to increased efficiency and a more profitable product mix. The closing of six warehousing operations resulted in significant savings but has not affected the services which we are providing to our customers. During the past year D. A. Stuart Oil Company of America purchased a suitable site in the Chicago suburb of Willowbrook for a new office and laboratory facility. During the past year D. A. Stuart Oil Company of America made significant capital expenditures on its plant and facilities, including the conversion of the Northville plant from oil reclamation to finished product manufacturing. It is of interest that the capital expenditure budget for new facilities in the United States, in addition to the land which has already been purchased for the office and laboratory will be in excess of one million dollars this year.

Canadian D. A. Stuart Oil Co. Limited has again completed a successful year and was able to achieve a satisfactory after tax profit after absorbing a significantly higher level of research and development costs. An increased volume of business resulted in the addition of a partial second shift at the Scarborough manufacturing operation and the rental of a warehouse facility in Montreal to better serve our customers in the Quebec area. The Company is offering its customers in the Toronto area bulk deliveries via tanker for the first time and this has increased our market penetration with respect to certain product lines. The new Canadian laboratory facility at 59E Howden Road, Scarborough was brought into operation in December 1978 and was the site of this year's international technical conference.

Our international licensing programme is under the direction of Mr. William Mann, Corporate Vice President of Research and Development. During the past year Mr. Mann and other company representatives met with all of our licensees and this resulted in the termination of three unproductive licensing arrangements. A new license was entered into during the year with Texaco, S.A. in Mexico under which that company has become a licensee of D. A. Stuart Oil Co., Limited for the manufacture and sale of rolling oils in Mexico. AB Axel Christiernsson is a strong licensee covering the Scandinavian countries and continues to develop new markets for our products.



In Europe we have continued to upgrade our personnel and facilities to enable us to achieve a greater market share. D. A. Stuart Oil Co. Ltd. in the United Kingdom was adversely affected during the past year by marketing problems with respect to a major product line and also due to general labour difficulties in the United Kingdom, particularly the general transportation strike which occurred this spring. Action has been taken to strengthen our marketing organization in the United Kingdom and a gradual improvement has occurred in recent months.

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

Your management expects that the improvements that have resulted from our rebuilding programme will continue during the forthcoming year. All of our operations are concerned with increases in the rates of inflation in the countries in which our manufacturing plants are situated. The petrochemical industry of which your Company is a part is particularly affected by this inflationary trend with the current worldwide shortage of crude oil supply. This situation will not change in the foreseeable future and therefore your management is taking every action possible to protect our position with respect to raw materials supply and to ensure that our pricing is as current as possible. Another factor not within our control is of course the possibility of a recession in the United States of America where the preponderance of our business operations is located. With the recent changes in our organization the D. A. Stuart Oil Company of America is in a better competitive position to deal with this type of adversity.

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

DAVID I. JOHNSTON
President

Toronto, Canada
August 3, 1979

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

	1979	1978
Cash and deposit receipts	\$ 844,287	\$ 647,538
Accounts receivable	3,427,486	2,950,165
Inventories	3,095,159	3,114,318
Drums, other containers and supplies	132,800	119,951
Advances and prepaid expenses	185,848	130,538
Total Current Assets	7,685,580	6,962,510

Marketable Securities, at cost (quoted market value 1979 — \$31,920;
1978 — \$22,953)

34,308 34,308

Life Insurance, cash surrender value

80,486 77,082

Property, Plant and Equipment — Note B

Land, buildings and equipment	4,671,690	4,387,948
Less allowances for depreciation	2,386,264	2,290,488
	2,285,426	2,097,460

Approved on behalf of the Board

D. GIANNINI, Director

D. I. JOHNSTON, Director

\$10,085,800 **\$ 9,171,360**

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, 1979 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. The consolidated financial statements of D. A. Stuart Oil Co., Limited for the year ended May 31, 1978 were examined by other independent auditors whose report dated July 13, 1978, expressed an unqualified opinion thereon.

July 13, 1979



Sheet as at May 31, 1979

States currency

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Current Liabilities		
Bank indebtedness	\$ 602,879	\$ 515,920
Accounts payable and accrued liabilities	2,010,327	2,211,942
Income and other taxes payable — Note C	556,450	217,203
Dividend payable	39,362	40,671
Liability for returnable containers	112,156	105,069
Current portion of long-term debt	41,227	36,030
Total Current Liabilities	3,362,401	3,126,835
Long-Term Debt — Note E	297,270	333,300
Less current portion shown above	41,227	36,030
	256,043	297,270
Deferred Income Taxes	251,588	207,856
Shareholders' Equity		
Common stock, no par value:		
Authorized — 800,000 shares		
Issued — 456,256 shares	424,608	424,608
Retained earnings — Note D	5,791,160	5,114,791
	6,215,768	5,539,399
	<u>\$10,085,800</u>	<u>\$ 9,171,360</u>

REPORT

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at May 31, 1979 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

Year Ended May 31, 1979

Expressed in United States currency

	1979	1978
Net sales	\$22,418,474	\$18,985,198
Royalties and other income	176,128	129,023
	<u>22,594,602</u>	<u>19,114,221</u>
Costs and expenses:		
Cost of products sold	16,796,911	14,393,682
Selling and administrative expenses	4,258,297	3,938,400
(Gain) loss on foreign currency translation	(470)	19,097
	<u>21,054,738</u>	<u>18,351,179</u>
Income before income taxes and extraordinary items	1,539,864	763,042
Income taxes:		
Current	714,673	218,185
Deferred (reduction)	(16,076)	149,094
	<u>698,597</u>	<u>367,279</u>
Income before extraordinary items	841,267	395,763
Extraordinary loss (gain) – Note F	7,599	(53,163)
Net Income	<u>\$ 833,668</u>	<u>\$ 448,926</u>
Earnings per share:		
Income before extraordinary item	\$1.84	\$0.87
Net income	1.83	0.98

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended May 31, 1979

Expressed in United States currency

	1979	1978
Balance at Beginning of Year	\$ 5,114,791	\$ 4,956,978
Net income	833,668	448,926
	<u>5,948,459</u>	<u>5,405,904</u>
Dividends – Note D	157,299	291,113
Balance at End of Year	<u>\$ 5,791,160</u>	<u>\$ 5,114,791</u>

D. A. STUART OIL CO., LIMITED



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Year Ended May 31, 1979

Expressed in United States currency

	1979	1978
Working capital derived from		
Income before extraordinary item	\$ 841,267	\$ 395,763
Charges to income not requiring an outlay of working capital:		
Depreciation	202,160	159,454
Gain on disposal of fixed assets	(3,499)	(5,479)
Deferred income taxes	43,732	34,805
Total from operations	1,083,660	584,543
Proceeds from sale of fixed assets	105,283	216,891
Decrease in advances to other companies	—	10,777
Reclassification of investments, advances and long-term debt	—	376,138
	1,188,943	1,188,349
Working capital applied to		
Purchase of shares of D. A. Stuart Oil GmbH plus its working capital deficiency of \$498,418 at date of acquisition	—	692,356
Dividends	157,299	291,113
Purchases of property, plant and equipment	459,479	188,854
Life insurance, cash surrender value	3,404	10,969
Current portion of long-term debt	41,227	36,030
Settlement of lawsuit — Note F	40,030	—
Other	—	7,354
	701,439	1,226,676
Increase (decrease) in working capital	487,504	(38,327)
Working capital at beginning of year	3,835,675	3,874,002
Working capital at end of year	\$4,323,179	\$3,835,675

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Year Ended May 31, 1979

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
D. A. Stuart Oil Co. Limited (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

	1979		1978	
	Cost	Accumulated Depreciation	Net	Net
Land	\$ 492,352	\$ —	\$ 492,352	\$ 489,852
Buildings and railway sidings	1,714,089	603,349	1,110,740	1,053,812
Factory equipment	1,900,490	1,389,243	511,247	460,537
Office and laboratory equipment	480,201	335,615	144,586	78,232
Automotive equipment	84,558	58,057	26,501	15,027
	<u>\$4,671,690</u>	<u>\$2,386,264</u>	<u>\$2,285,426</u>	<u>\$2,097,460</u>

NOTE C – INCOME AND OTHER TAXES PAYABLE

Included in income and other taxes payable are the following:

	1979	1978
Income and other taxes payable	\$ 501,969	\$ 102,914
Deferred income taxes	54,481	114,289
	<u>\$ 556,450</u>	<u>\$ 217,203</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 (1979 – \$0.40 per share; 1978 – \$0.70 per share).

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

NOTE E – LONG-TERM DEBT

The principal amount of the long-term debt of 610,856 Deutsch marks (\$297,270 U.S.) is repayable in quarterly instalments of 18,750 Deutsch marks (\$10,307 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 (GAIN)

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

	1979	1978
Loss on settlement of lawsuit	\$ 40,030	\$ —
Gain on sale of property, plant and equipment	(32,431)	(53,163)
	<u>\$ 7,599</u>	<u>\$ (53,163)</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.

The 1978 extraordinary gain relates to a gain on sale of property, plant and equipment and is net of income taxes of \$32,823.

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 \$443,663 (1978 – \$400,852).

NOTE H – PENSION PLAN

Current pension costs are charged to operations each year and past service costs are being amortized over 30 years. At May 31, 1979, based upon an actuarial valuation conducted as of May 1, 1978, the computed present value of the Company obligations for unfunded past service costs approximated \$596,608 after deducting \$46,671 charged to operations for the year.

NOTE I – COMPARATIVE AMOUNTS

Certain 1978 balances have been reclassified to conform with financial statement presentation for the year ended May 31, 1979.

FIVE YEAR COMPARATIVE REVIEW OF OPERATIONS

	Sales	Income before income taxes	Income taxes	Net income	Dividends declared	Income retained
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
1975	16,779,499	1,808,957 (1)	915,071	893,886	391,114	502,772

(1) After increase for extraordinary item of \$29,864 in 1975 and \$53,163 in 1978; and a decrease for extraordinary items of \$7,599 in 1979.

UNITED STATES AND INTERNATIONAL OPERATIONS



INTERNATIONAL

ARGENTINA, Buenos Aires
D. A. Stuart Oil Co. (Arg.) S.A.I.C.
ENGLAND, Wolverhampton
D. A. Stuart Oil Co. Ltd.
GERMANY, Langenselbold
D. A. Stuart Oil GmbH
JAPAN, Tokyo
Takata & Co. Ltd.
MEXICO, Mexico City, D.F.
Texaco S.A.
SPAIN, Madrid
MecanOil, S.A.
SWEDEN, Goteborg
AB Axel Christiernsson
YUGOSLAVIA, Krusevac
Fabrika Ulica Maziva

MANUFACTURING

CHICAGO, Illinois
D. A. Stuart Oil Company of America
LOS ANGELES, California
D. A. Stuart Oil Company of America
NORTHVILLE, Michigan
D. A. Stuart Oil Company of America
SOMERVILLE, New Jersey
D. A. Stuart Oil Company of America
SCARBOROUGH, Ontario, Canada
Canadian D. A. Stuart Oil Co. Limited
WOLVERHAMPTON, England
D. A. Stuart Oil Co. Ltd.
LANGENSELBOLD, Germany
D. A. Stuart Oil GmbH





