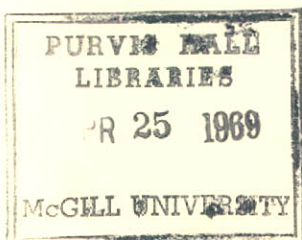


1968
ANNUAL
REPORT

SUPERTEST PETROLEUM CORPORATION, LIMITED





Big event for Supertest in the Province of Quebec was the opening in June of the only service centre in Laurentide Park. The service station (above) and separate restaurant are the only facilities of this nature for over 80 miles on the busy Highway 54 which connects Quebec City with Chicoutimi. The unusual architecture which blends so well with this magnificent natural setting has evoked many favourable comments.





SUPERTEST PETROLEUM CORPORATION, LIMITED

Canada's All Canadian Company

DIRECTORS

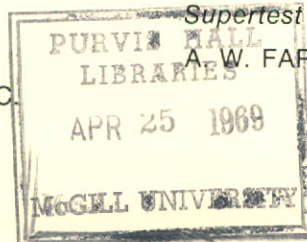
S. C. BACON
 R. G. IVEY, Q.C., LL.D.
 F. W. P. JONES
 J. D. JUDGE
 D. D. C. McGEACHY
 R. W. MITCHELL, M.B.E., Q.C.
 F. J. MOORE
 F. L. NORWOOD, F.C.A.
 J. A. TAYLOR
 A. S. THOMPSON
 JAMES G. THOMPSON
 J. G. THOMPSON
 D. G. WALLACE
 LIEUT.-COL. D. B. WELDON, M.C.

OFFICERS

J. G. THOMPSON . . . *Chairman of the Board*
 JAMES G. THOMPSON *President*
 S. C. BACON . *Vice-President & General Manager*
 R. W. MITCHELL . *Vice-President & Secretary*
 F. J. MOORE *Vice-President*
 A. W. FARMILO *Vice-President*
 F. L. NORWOOD *Treasurer*
 C. C. SMITH . . . *Assistant Secretary-Treasurer*
General Sales Manager
 P. B. EDMONSON
 Manager
 Sales Region
 F. A. VITA *Ontario West*
 C. J. ENGEL *Ontario East*
 J. J. LEHMAN *Quebec Division*
 S. W. MANLEY *Agencies*

EXPLORATION & PRODUCTION

Supertest Investments & Petroleum Limited
 A. W. FARMILO *Vice-President and
 General Manager, Calgary*



An older station in Tillsonburg was almost completely demolished to make way for a better building with improved facilities, more in keeping with present day needs.



This new station was completed during the year on Hamel Boulevard in Quebec City. It is a welcome addition to our growing representation in this important market.



J. GORDON THOMPSON
Chairman of the Board



JAMES G. THOMPSON
President

TO THE SHAREHOLDERS

All aspects of your company's operations for the year ended December 31, 1968 were improved substantially over the previous year. The trend established during the first six months continued for the remainder of the year and, calculated on the same basis as in prior years, resulted in earnings of \$2,373,896 being carried to surplus, as compared to \$1,511,611 in 1967 and \$1,964,373 in 1966. The year's results were not affected by unusual costs such as those experienced in 1967, thus permitting SUPERTEST to continue to record the progress which has been made in its operations during the past several years.

Submitted with this report are the Consolidated Balance Sheet, Statements of Earnings, Surplus, Source and Application of Funds, the notes relating to these accounts, and your Auditors' certificate.

During the year dividend payments were made at the rate of 50¢ per share on the ordinary shares and at 5¢ per share on the common shares. Dividends were also paid in accordance with the provisions of the 5% cumulative redeemable sinking fund preference shares. Redemption provisions of the preference shares continued to be met.

Revenues were higher during the year, reflecting even greater customer acceptance of SUPERTEST products and the steadily growing demand for petroleum products in Canada. Prices received by SUPERTEST for its products were relatively stable at about the same level as in the previous year.

In common with other industry, costs of doing business continued to rise appreciably. Substantially higher construction costs were



This good looking station is now at the corner of Vaughan Road and Cherrywood in Toronto. It replaces an older Supertest Service Station and can now provide motorists with the finest service and facilities in this area.

encountered in carrying out the service station building program for the year. In most other areas of operation expenses continued to rise as well, not the least of which are the ever-increasing demands of all levels of government. These range from such items as increased postage and motor vehicle license fees to higher business and realty taxes. In view of the many service station properties owned by your company, the rapid and substantial rise in municipal taxes can only be viewed with concern for the future.

Capital expenditures for marketing assets were lower than in 1967 and were directed largely toward expansion and improvement of existing facilities. Several service station properties considered obsolete in the light of changing traffic patterns, or located in heavily congested areas, were sold and the funds derived therefrom used to acquire new properties in rapidly expanding areas of major cities in Ontario and Quebec.

The costly sales promotional activities carried on by the petroleum industry in 1967

were not repeated, and resulted in a reduction in expenditures for advertising and sales promotion.

The third annual SUPERTEST Ladies' Open Golf Tournament held in Toronto at the Bayview Country Club again proved highly successful and gave many thousands of Canadians, either in person or through the medium of television, the opportunity to view the world's finest lady golfers in action. This outstanding sports event is scheduled to be held again at Bayview from July 10th to 13th.

In addition to the broad exchange privileges enjoyed by our credit card customers throughout Canada and the United States, arrangements were made whereby SUPERTEST credit cards are now honored at Skyline Hotels in Toronto, Brockville, Ottawa and Montreal.

Arrangements were concluded with The Canadian Imperial Bank of Commerce, Banque Canadienne Nationale, The Royal Bank of Canada and The Toronto-Dominion Bank, which permits holders of Chargex

credit cards issued in Toronto, Ottawa, Montreal and Quebec City to make use of Chargex at SUPERTEST service stations. This valuable service of the banks is expected to bring many new customers to SUPERTEST stations during 1969, and will soon be expanded into other cities in our marketing area.

Activities in Western Canada proceeded well throughout the year. Expenditures in the search for crude oil and natural gas were the highest in our history, and resulted in several interesting discoveries of oil and gas in Alberta and Saskatchewan. Additional land, where available, was acquired to support further drilling of these areas during 1969.

In order to enhance recoverable reserves of crude oil, several fields have been put under water flood, or negotiations to do so are presently underway with other operators in the fields involved.

In spite of the further reduction in allowances from existing fields caused by Alberta's proration regulations, production of crude oil

exceeded that of the previous year. Sales of natural gas also continue to reflect the growth of the energy markets of the continent. After depletion for the year, reserves of both gas and oil increased.

Land holdings were maintained in good standing. Acreage determined to be unproductive was surrendered and other land considered to be prospective in the Western Canada Sedimentary Basin was acquired to support future exploration activities.

Your company is participating in a heavy oil recovery project in the Cold Lake area of Alberta. Operations began late in the year and its success cannot be measured until sufficient time has elapsed to determine the manner in which the oil in place will respond to the process.

The discovery in August of very substantial oil reserves at Prudhoe Bay, Alaska, focused attention on the great potential of this huge northern coastal area. At the year-end, preparations were underway by the oil industry to drill some twenty additional wells in the

The growing market in the Toronto area will be well served by this new three bay station built at the corner of Goreway Drive and Morningstar Drive, Malton. The driveways and parking lot are very spacious and will easily accommodate the large volume of customers expected.



northern slopes of Alaska, and in the Mackenzie Delta two wells were started by major companies to begin further evaluation of the North Canadian Continental Slope. Also, the Panarctic operation formed late in 1967 organized its exploratory program in the Arctic Islands, where drilling is expected to begin during 1969.

SUPERTEST is well represented throughout these far northern areas with varying interests in more than two million acres of land. Development, however, will doubtless be of a long term nature due to the many natural obstacles of climate and terrain and the problems of transportation which have to be overcome in such remote areas.

The people of SUPERTEST are looking forward to further progress during the current year. Such success as may be attained will, of course, be influenced by taxation and such other fiscal policies as may be introduced by Governments. To attempt to forecast results for the now current year could, therefore, be difficult and speculative. It is anticipated, however, that sales of SUPERTEST products and services will continue to grow in the

company's markets, where further improvement of marketing facilities will be undertaken and new areas developed.

In Western Canada crude oil production should continue to grow with demand and your company will, in addition to new exploratory activities, be drilling a number of development wells to more fully exploit discoveries made in 1968.

After considerable delay, deliveries of gas from Lac la Biche and Marten Hills are to begin late in 1969. In order to meet delivery schedules, work on the necessary gathering systems and plant facilities has already commenced.

Success in any enterprise results from the loyalty, initiative and dedication of people. We are happy to state that the employees, agents and dealers of SUPERTEST have displayed all of these attributes, and have thereby produced the very satisfactory results outlined in this report. To all of them, on behalf of the officers, directors and shareholders, we express our appreciation and best wishes for continued success in 1969.



Chairman of the Board



President



One of Supertest's largest stations was completed at the corner of Adelaide and Huron Streets in London. The service area has most types of diagnostic and alignment equipment and a complete range of automotive accessories is offered in the merchandise showroom.

The great contribution of experienced and loyal employees, dealers, and agents, has always been a big factor in the development and success of the Company. Some of the employees and agents are seen below at a presentation party held in their honour.



SUPERTEST PETROLEUM CORPORATION, AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31,

	ASSETS	
CURRENT ASSETS	1968	1967
Cash	\$ 1,464,608	\$ 163,138
Short-term investments at cost and approximate market value	1,000,000	2,000,000
Government of Canada bonds at cost and market value	—	50,000
Accounts receivable	8,583,184	7,535,779
Inventories of products and merchandise valued at the lower of cost and replacement cost	1,001,050	1,008,036
Special refundable tax	97,894	—
Prepaid expenses and supplies	282,659	341,053
	12,429,395	11,098,006
REFUNDABLE DEPOSITS WITH GOVERNMENTS	105,392	92,090
INVESTMENTS		
Mortgages and loans receivable	2,310,429	2,357,578
Investments, at cost	393,421	836,091
	2,703,850	3,193,669
SPECIAL REFUNDABLE TAX	14,996	159,216
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 1)	53,211,241	48,825,307
Less — Provision for depreciation, depletion and obsolescence	23,624,972	22,080,905
	29,586,269	26,744,402
OTHER		
Deferred charges	194,959	211,943
Commission on preference shares	57,248	60,433
Goodwill	100,000	200,000
	352,207	472,376
	\$45,192,109	\$41,759,759

LIMITED

1968



LIABILITIES

CURRENT LIABILITIES

Accounts, payable and accrued		
Sales and motor fuel taxes payable		
Dividends payable		
Income taxes payable		

1968	1967
\$ 9,984,747	\$ 9,150,762
1,717,884	1,507,812
223,890	225,028
707,706	734,921
<hr/>	<hr/>
12,634,227	11,618,523

LONG-TERM DEBT

Mortgages payable		
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276,867	185,826
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SHAREHOLDERS' EQUITY

CAPITAL STOCK

Preference shares having a par value of \$100 each of which 16,356 shares are 5% cumulative redeemable sinking fund preference shares (Note 2)

Authorized	28,356 shares		
Issued	16,356 shares		

1,635,600	1,726,600
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Ordinary non-voting shares of no par value

Authorized	1,375,000 shares		
Issued	688,780 shares		

5,079,750	5,079,750
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Common shares of no par value

Authorized	2,500,000 shares		
Issued	1,250,000 shares		

25,000	25,000
<hr/>	<hr/>

6,740,350	6,831,350
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RESERVE FOR CONTINGENCIES

265,000	265,000
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EARNINGS RETAINED AND USED IN THE BUSINESS

25,275,665	22,859,060
<hr/>	<hr/>

32,281,015	29,955,410
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\$45,192,109	\$41,759,759
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SIGNED ON BEHALF OF THE BOARD

James G. Thompson, *Director*

Fred L. Norwood, *Director*

SUPERTEST PETROLEUM CORPORATION, AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings for the year ended December 31, 1968

	1968	1967
REVENUE		
Gross operating revenue	\$57,523,355	\$54,143,438
Income from investments	384,335	418,552
	57,907,690	54,561,990
EARNINGS BEFORE PROVISION FOR DEPRECIATION AND DEPLETION	6,395,124	5,340,741
PROVISION FOR DEPRECIATION AND DEPLETION	2,385,298	2,230,982
	4,009,826	3,109,759
NET EARNINGS BEFORE PROVISION FOR INCOME TAXES PROVISION FOR INCOME TAXES	1,535,930	1,498,148
	2,473,896	1,611,611
NET EARNINGS	2,473,896	1,611,611
GOODWILL WRITTEN OFF	100,000	100,000
	\$ 2,373,896	\$ 1,511,611
TRANSFERRED TO EARNINGS RETAINED AND USED IN THE BUSINESS	\$ 2,373,896	\$ 1,511,611

Consolidated Statement of Earnings Retained and Used in the Business for the year ended December 31, 1968

	1968	1967
BALANCE AT BEGINNING OF YEAR	\$22,859,060	\$21,842,643
Net earnings for the year	2,373,896	1,511,611
Gain (loss) on disposals	533,801	(1,786)
	25,766,757	23,352,468
Dividends declared		
Preference shares	84,202	86,518
Ordinary shares	344,390	344,390
Common shares	62,500	62,500
	491,092	493,408
BALANCE AT END OF YEAR	\$25,275,665	\$22,859,060

LIMITED

Consolidated Statement of Source and Application of Funds for the year ended December 31, 1968

	1968	1967
SOURCE OF FUNDS		
<i>From operations</i>		
Net earnings for the year	\$ 2,473,896	\$ 1,611,611
Non-cash charge for Depreciation and depletion	2,385,298	2,230,982
	<hr/>	<hr/>
Proceeds from disposal of fixed assets	4,859,194	3,842,593
Decrease in investments	1,152,701	631,164
Special refundable tax	489,819	103,744
Other items	144,220	—
	131,783	113,091
	<hr/>	<hr/>
	6,777,717	4,690,592
	<hr/>	<hr/>
APPLICATION OF FUNDS		
Acquisition of fixed assets	5,879,940	6,042,894
Dividends declared	491,092	493,408
Special refundable tax	—	52,850
Redemption of preference shares	91,000	9,100
	<hr/>	<hr/>
	6,462,032	6,598,252
	<hr/>	<hr/>
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 315,685	\$(1,907,660)

Notes to Consolidated Financial Statements December 31, 1968

1. POLICIES GOVERNING DEPRECIATION AND DEPLETION

Producing properties

The companies follow the practice of charging exploration expenses and the carrying costs applicable to non-producing properties to income as incurred. Property acquisition costs are capitalized and charged to income if the property is subsequently surrendered. The costs of productive wells are capitalized and the costs of non-productive wells are charged to income when the wells are determined to be dry. The cost of producing properties and producing development costs are amortized on a unit of production method based upon estimated recoverable reserves of oil and gas as determined by company engineers.

Other plant and equipment

Depreciation of physical assets is charged to earnings at unreduced rates allowed by the Income Tax Act which are considered adequate to extinguish the cost at the end of their estimated useful life.

- The 5% cumulative redeemable sinking fund preference shares are callable at \$103 each except when redeemed for sinking fund purposes when the price is \$100 per share.
- The company paid \$236,663 to directors and senior officers during the year.

4. INCOME TAXES

The companies record in their accounts depreciation and other deductions in excess of the related amounts claimed for income tax purposes and no recognition is made in the accounts for the deferred income tax benefits.

With respect to drilling, exploration and lease acquisition costs, the companies have claimed amounts which, in the aggregate, exceed the related depletion provision and other expenses included in determining the net earnings and no provision has been made for deferred income taxes. While this procedure conforms with general practice in the oil and gas industry, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the provision for income taxes would be based on the earnings reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported earnings, additional income taxes of \$472,772 would have been provided in 1968 and net earnings would have been reduced accordingly. In 1967 income taxes would have been reduced by \$111,643 and net earnings increased accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$940,000 at December 31, 1968.

AUDITORS' REPORT

To The Shareholders

Supertest Petroleum Corporation, Limited

We have examined the accompanying consolidated financial statements of Supertest Petroleum Corporation, Limited and its subsidiary companies for the year ended December 31, 1968 comprising the consolidated balance sheet as at that date and the consolidated statements of earnings, earnings retained and used in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

London, Ontario
February 28, 1969.



More than 100 farm agents deliver Supertest Petroleum products year round to farms in Ontario and Quebec.



Canada's All Canadian Company