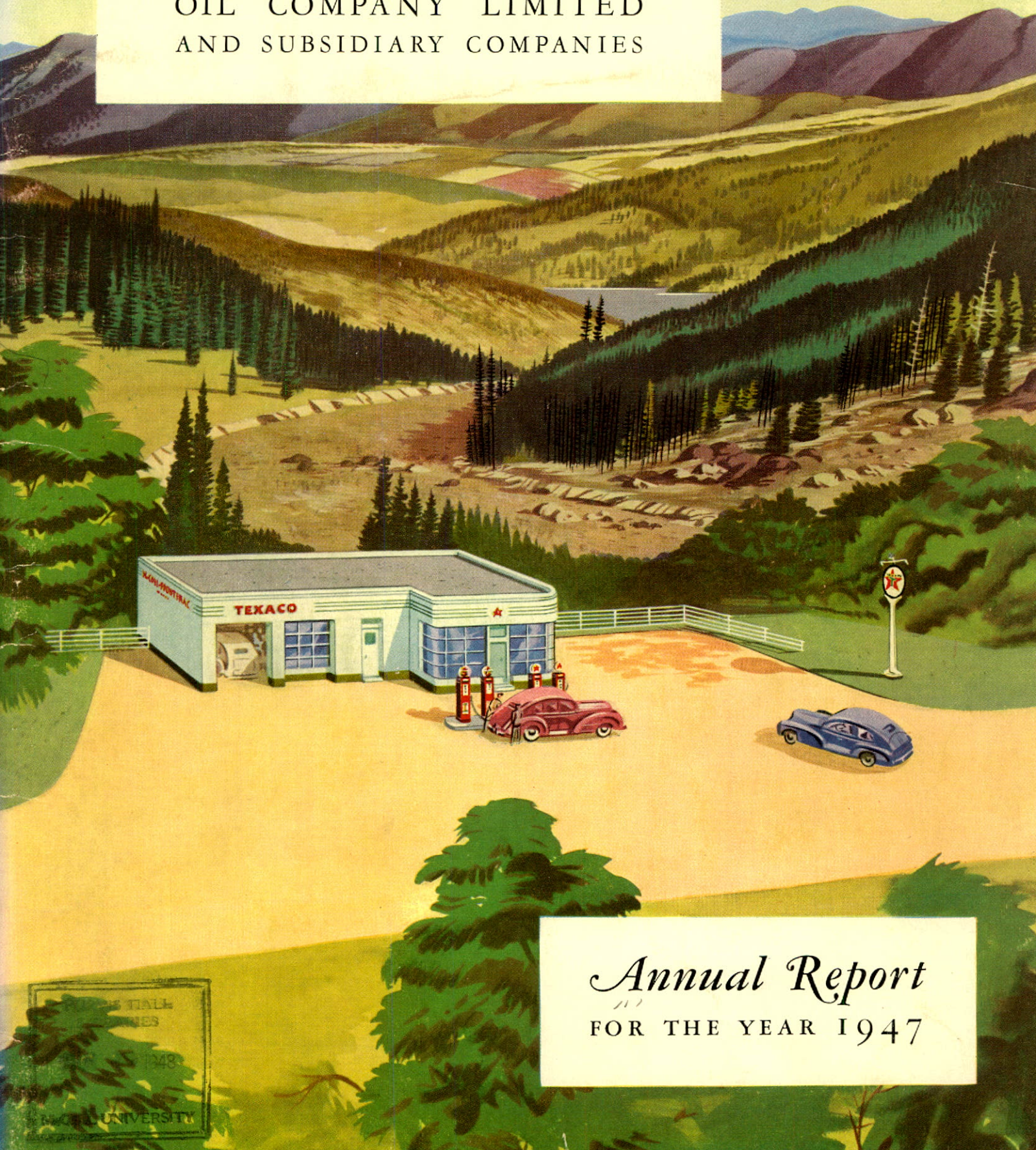


*Texaco Canada Ltd*  
**McCOLL-FRONTENAC**  
OIL COMPANY LIMITED  
AND SUBSIDIARY COMPANIES



*Annual Report*  
FOR THE YEAR 1947





Pres - direct.

McCOLL-FRONTENAC OIL COMPANY LIMITED  
AND SUBSIDIARIES



*Twentieth Annual Report*

FOR THE YEAR ENDED DECEMBER 31st 1947



## BOARD OF DIRECTORS

A. A. MAGEE, C.B.E., K.C., *Chairman of the Board*

J. M. PRITCHARD, *President*

H. H. BRADBURN

R. L. SAUNDERS

H. W. THORP

J. H. GUNDY, C.B.E.

E. P. TAYLOR, C.M.G.

T. C. TWYMAN

H. T. KLEIN

G. R. TAYLOR

L. O. P. WALSH

W. ZIMMERMAN, K.C.

THE HON. E. L. PATENAUDE, P.C., K.C.

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## EXECUTIVE COMMITTEE

J. M. PRITCHARD, *Chairman*

J. H. GUNDY, C.B.E.

R. L. SAUNDERS

A. A. MAGEE, C.B.E., K.C.

T. C. TWYMAN

G. R. TAYLOR

L. O. P. WALSH

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## PRINCIPAL OFFICERS

J. M. PRITCHARD . . . . .	<i>President</i>
T. C. TWYMAN . . . . .	<i>Executive Vice-President</i>
G. R. TAYLOR . . . . .	<i>Vice-President</i>
AIR MARSHAL W. A. BISHOP, V.C., C.B., D.S.O. . . . .	<i>Vice-President</i>
T. V. ANDERSON . . . . .	<i>Treasurer and Comptroller</i>
FRED HUNT . . . . .	<i>Secretary</i>

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*General Counsel:*

C. H. BERESFORD HANDS

*Transfer Agents:*

MONTREAL TRUST COMPANY

*Registrar:*

ROYAL TRUST COMPANY

# McCOLL-FRONTENAC OIL COMPANY LIMITED

360 ST. JAMES STREET WEST  
MONTREAL

March 23rd, 1948

## TO THE SHAREHOLDERS:

Your directors present herewith the following report of the operations of the Company and its subsidiaries for the year 1947, including consolidated balance sheet as of December 31, 1947, and consolidated statement of income and surplus account for the year.

*Financial*—Consolidated net income amounted to \$2,780,630.52 which, after deducting preferred dividends, was equivalent to \$1.41 per share on 1,800,000 common shares, as compared with \$1.59 per share the previous year based on the same number of shares.

Net working capital at the close of the year was \$10,430,468.21, as compared with \$9,918,293.73 at the end of 1946.

An amount of \$609,700.85 was written off the item of premium paid on subsidiary companies' capital stock, and the Company intends to complete the write-off of this item within the next twelve years.

In November 1947 the Company applied to the Secretary of State for Canada for authority to increase the authorized common shares to 4,975,526 shares and increase issued common shares to 1,800,000 shares, by subdivision on a two for one basis. The authority was granted and the increase became effective under Supplementary Letters Patent dated November 20, 1947.

In December 1947 the Company sold in Canada \$7,500,000 principal amount of 3¼% First Mortgage Sinking Fund Bonds, 1947 Series, dated October 1, 1947 and due October 1, 1972, at a price of \$96. plus accrued interest. The net proceeds from this issue together with other corporate funds are being used to finance the cost of plant additions and modernization, including the erection of a fluid catalytic cracking unit under construction at the Company's Montreal East refinery and a new lubricant blending and grease manufacturing plant at Toronto. Presently estimated cost of these two projects is \$11,000,000, of which approximately \$4,400,000 had been spent at the end of 1947. Both plants are expected to go into operation during 1948.

To provide additional funds for the Company your directors on December 3, 1947 authorized an offering of 900,000 additional common shares to holders of common stock. In order to permit shareholders resident in the United States to subscribe for additional shares, a Registration Statement relating to the proposed offering was filed with the United States Securities and Exchange Commission, Philadelphia, Pa., under the Securities Act of 1933. The final offering was made under the Company's prospectus dated January 14, 1948 and at the time of closing subscriptions amounted to approximately 90% of the shares offered.



*Producing and Exploration*—The gross crude oil production of the Company's subsidiary operating in Trinidad, B.W.I. amounted to 602,341 barrels in 1947 as compared with 538,893 barrels in 1946. Net production for these years was 545,355 barrels and 486,779 barrels respectively. During 1947 eight wells were completed and all of them were commercially productive except one, the status of which was doubtful at the end of the year.

In western Canada the Company continued extensive exploration activities on its prospective oil lands in the Province of Alberta. Up to the end of 1947 the Company has spent approximately \$3,000,000 on exploration in western Canada, but the only favourable result so far obtained has been the gas field mentioned in the succeeding paragraph.

In the Pakowki Lake area in southern Alberta where the Company holds interests with Union Oil of California in equal participation, it is estimated that 75,000 acres have been proven for gas production and the gas reserves are believed to be substantial. Fifteen productive wells have been completed.

In northern Alberta the Company holds interests in substantial acreage both in the Wetaskiwin-Lake St. Ann area and the Muskeg area.

In 1947 it became apparent that it would be advantageous to interest an outside party in the exploration and development work in western Canada. Accordingly, the Company has entered into an agreement with The Texas Company, providing in substance that the Company and The Texas Company or a wholly-owned subsidiary of The Texas Company will enter into a joint operating agreement, effective as of November 1, 1947, the operating details of which have not yet been finalized, for the exploration and development of the Company's entire interests in the acreage in the Province of Alberta referred to above, excepting only the Pakowki Lake area. The arrangement contemplates that in consideration of The Texas Company's undertaking to expend up to \$3,500,000 for the purpose of exploring these interests, the Company will assign to The Texas Company a 50% participation in the Company's interests other than in the Pakowki Lake area. Further provision is made for the application of the \$3,500,000 to the development of acreage which may be proved or semi-proved by commercial discovery, and for re-assignment to the Company of The Texas Company's entire interest in the event of full exploration without a commercial discovery, and without The Texas Company having expended the entire \$3,500,000. In the event of a commercial discovery, and if it is determined before expenditure of the entire \$3,500,000 that no further exploration is merited and no further development is warranted, the arrangement contemplates that The Texas Company will re-assign all undeveloped areas. In addition, the Company will be granted the right to purchase at current market prices The Texas Company's entire share of any net production. The arrangement also covers any acreage in western Canada subsequently acquired jointly by the companies, and each company will be granted the right to purchase at cost a one-half interest in any acreage in western Canada acquired separately by the other company. The Company anticipates that this arrangement will result in the exploration of its Alberta acreage without further immediate cost to the Company.

*Refining*—Refinery runs to stills in 1947 totalled 9,081,055 barrels as against 8,309,740 barrels in 1946.

As mentioned earlier in this report, the erection of a fluid catalytic cracking unit is under construction at the Montreal East refinery. It is now expected that this construction program will be substantially completed by September 1, 1948 and that, upon completion of the program the crude oil capacity of the Montreal East refinery will be approximately 40,000 barrels per day. The Company's other refinery at Toronto has a crude oil capacity of approximately 12,000 barrels per day.

The new lubricant blending and grease manufacturing plant under construction at Toronto is expected to be completed by May 1, 1948.

All refinery properties are in good operating condition and continue to be well maintained.

*Marketing*—During 1947 substantial increases occurred in the sale of gasolines, automotive and industrial oils and greases, fuel oils, and other petroleum products, thereby establishing new sales records for the Company.

On July 1, 1947 the Company inaugurated the sale of Texaco FIRE-CHIEF gasoline and TEXACO MOTOR OIL, in addition to Texaco SKY CHIEF gasoline which had previously been introduced to the Canadian market in 1940. In addition the Company erected at all its resale outlets across Canada the Texaco sign (RED STAR—GREEN "T") and changed the colour scheme of all the outlets dispensing the Company's gasolines to green and white, thus making uniform the colour scheme and identification with similar stations dispensing Texaco gasolines in the United States. It is believed that the similarity in these stations and the adoption of these brands will be beneficial to your Company in attracting many of the American tourists who visit Canada annually.

For the past several years, through a working arrangement with The Texas Company, a program has been under way in the matter of producing in the Company's plants lubricating oils and greases under the Texaco brand names and to the specifications of The Texas Company. It is felt that because of The Texas Company's many years of experience, its vast sale of lubricants to industry, and its extensive research facilities, the sale of these Texaco branded products will be of benefit to Canadian industry and your Company.

*General*—At the close of 1947 your Company had a total of 1,752 preferred and 5,622 common shareholders.

To the shareholders your directors wish to express their appreciation of helpful suggestions and continued support, and to the officers and employees their thanks for faithful and efficient service.

On behalf of the Board,

J. M. PRITCHARD,  
*President.*



## AUDITORS' REPORT

TO THE SHAREHOLDERS OF  
MCCOLL-FRONTENAC OIL COMPANY LIMITED:

We have made an examination of the consolidated balance sheet of McColl-Frontenac Oil Company Limited and its subsidiary companies as at December 31, 1947 and of the related statements of surplus and of income for the year ended on that date. Our examination, which was made in accordance with generally accepted auditing standards applicable in the circumstances, included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary, and we obtained all the information and explanations we have required. The financial statements of the subsidiary company in Trinidad, B.W.I. have been examined by other chartered accountants and have been accepted by us for inclusion in the consolidated statements.

In our opinion, based upon such examination, the attached consolidated balance sheet of the Company and its subsidiaries and related consolidated statements of surplus and of income, when read in conjunction with the accompanying notes, are properly drawn up so as to show a true and correct view of the state of the combined affairs of the companies at December 31, 1947 and the results of the combined operations for the year then ended according to the best of our information and the explanations given to us and as shown by the books of the companies.

P. S. ROSS & SONS,  
PRICE, WATERHOUSE & CO.,  
*Chartered Accountants.*

MONTREAL, P.Q.  
February 27, 1948.

McCOLL-FRONTENAC  
AND SUBS  

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CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:

Cash .....	\$ 2,291,497.36
Dominion of Canada bonds, at cost (market value \$52,500.00) .....	50,000.00
Accounts receivable, less reserve of \$200,000.00 .....	5,595,779.22

INVENTORIES—

Crude and refined oil products and merchandise as determined and certified by the management and valued on monthly average cost basis, which in the aggregate was lower than market .....	\$11,268,538.76	
Materials and supplies, at or below cost .....	1,423,613.70	12,692,152.46

Total current assets .....	\$20,629,429.04
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LONG TERM RECEIVABLES AND OTHER INVESTMENTS:

Long term receivables, secured by mortgages, agreements of sale, etc. . . . .	\$ 2,150,257.16	
Other investments .....	660,625.27	
	\$ 2,810,882.43	
Less: Reserve for possible losses .....	100,000.00	2,710,882.43

REFUNDABLE PORTION OF DOMINION EXCESS PROFITS TAX (estimated) .....	589,812.00
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DEFERRED CHARGES:

Insurance, taxes and other prepaid expenses .....	\$ 317,588.75	
Unamortized bond discount and expense .....	319,955.13	
Drilling cost on incomplete wells .....	420,441.36	1,057,985.24

PROPERTY, PLANT AND EQUIPMENT, at cost:

Leases, wells and equipment .....	\$ 3,940,576.89	
Refineries and facilities .....	14,563,016.37	
Lake tankers .....	996,027.29	
Sales stations, facilities and equipment .....	18,099,863.70	
Miscellaneous .....	195,709.49	
	\$37,795,193.74	
Less: Reserve for depreciation, depletion and amortization .....	18,089,199.05	19,705,994.69

INTANGIBLE ASSETS:

Premium paid on subsidiary companies' capital stock, less amounts written off (see Note 2) .....	6,942,479.21
	<u>\$51,636,582.61</u>

The accompanying notes to consolidated financial statements should

Approved on behalf of the Board,  
A. A. MAGEE, *Director*.  
J. M. PRITCHARD, *Director*.



# OIL COMPANY LIMITED

## IDIARIES

SHEET—DECEMBER 31, 1947

### LIABILITIES

#### CURRENT LIABILITIES:

Accounts payable and accrued liabilities . . . . .	\$ 6,985,082.71
Dominion sales and Provincial motor fuel taxes . . . . .	1,145,485.05
Provision for income and excess profits taxes (see Note 3) . . . . .	1,357,455.57
Bond interest accrued . . . . .	150,937.50
3% First mortgage serial bonds, 1946 series, due October 1, 1948 . . . . .	500,000.00
Preferred dividend payable . . . . .	60,000.00
Total current liabilities . . . . .	<u>\$10,198,960.83</u>

#### FIRST MORTGAGE BONDS:

Authorized and issued . . . . .	\$20,000,000.00	
Less: Redeemed and cancelled . . . . .	<u>500,000.00</u>	
Balance outstanding . . . . .	<u>\$19,500,000.00</u>	
3% Serial bonds, 1946 series, due October 1, 1949-1958 . . . . .	\$ 5,000,000.00	
3% Sinking fund bonds, 1946 series, due October 1, 1971 . . . . .	6,500,000.00	
3¼% Sinking fund bonds, 1947 series, due October 1, 1972 . . . . .	<u>7,500,000.00</u>	19,000,000.00

#### PREFERRED STOCK:

4% Cumulative redeemable preferred shares of \$100.00 par value (Redeemable at \$102.50 on thirty days' notice).	
Authorized 100,000 shares	
Issued 60,000 shares . . . . .	6,000,000.00

#### COMMON STOCK AND SURPLUS:

Common shares of no par value (see Note 4)	
Authorized 4,975,526 shares	
Issued 1,800,000 shares . . . . .	\$11,053,903.92
Earned surplus—as per statement attached . . . . .	<u>5,383,717.86</u>
	16,437,621.78

\$51,636,582.61

be read in conjunction with the above consolidated balance sheet.

Submitted with our Report to the Shareholders dated February 27, 1948.

P. S. ROSS & SONS,  
PRICE, WATERHOUSE & CO.,  
*Chartered Accountants.*

McCOLL-FRONTENAC OIL COMPANY LIMITED  
AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME ACCOUNT

For the Year Ended December 31, 1947

GROSS OPERATING INCOME:

Net sales.....	\$55,177,079.32	
Miscellaneous.....	425,908.02	\$55,602,987.34

OPERATING CHARGES:

*Costs, operating, selling and general expenses.....	\$45,683,316.25	
Taxes (other than taxes on income).....	3,045,928.63	
Intangible development costs.....	717,219.26	
Depreciation.....	1,433,951.62	50,880,415.76
Income from operations.....		\$ 4,722,571.58

NON-OPERATING INCOME (NET):

Income from investments.....	\$ 134,724.68	
Net profits on sale of capital assets.....	541,029.69	
Net profits on sale of Dominion of Canada bonds.....	84,015.00	
Foreign exchange losses (see Note 1).....	(256,545.33)	
Miscellaneous income (net).....	18,879.15	522,103.19
		\$ 5,244,674.77

INTEREST CHARGES:

Bond interest.....	\$ 386,776.57	
Other interest charges.....	67,035.89	
Amortization of bond discount and expense.....	3,231.79	457,044.25
		\$ 4,787,630.52

PROVISION FOR INCOME AND EXCESS PROFITS TAXES.....	2,007,000.00
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NET PROFIT CARRIED TO EARNED SURPLUS ACCOUNT	<u>\$ 2,780,630.52</u>
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( ) Indicates deduction.

\*The year's operating charges include: counsel and solicitors' fees \$40,862.02; directors' fees \$19,979.00; and remuneration of executive officers \$149,300.00.

The accompanying notes to consolidated financial statements should be read in conjunction with the above consolidated income account.



# McCOLL-FRONTENAC OIL COMPANY LIMITED

## AND SUBSIDIARIES

### STATEMENT OF CONSOLIDATED EARNED SURPLUS ACCOUNT

For the Year Ended December 31, 1947

EARNED SURPLUS, December 31, 1946, including \$589,812.00 estimated refundable portion of excess profits tax.....		\$3,849,588.19
 SURPLUS CREDITS:		
Balance of reserve for future depreciation in inventory values, less excess profits tax thereon of \$88,800.00 (see Note 3).....		503,200.00
		<u>\$4,352,788.19</u>
 SURPLUS CHARGES:		
Amount written off premium paid on subsidiary companies' capital stock (see Note 2) .....		609,700.85
		<u>\$3,743,087.34</u>
 NET PROFIT FOR THE YEAR ENDED DECEMBER 31, 1947.....		2,780,630.52 X
		<u>\$6,523,717.86</u>
 DEDUCT: Dividends declared in 1947 on—preferred stock.....	\$240,000.00	
—common stock.....	900,000.00	1,140,000.00
		<u>1,140,000.00</u>
 EARNED SURPLUS, December 31, 1947, including \$589,812.00 estimated refundable portion of excess profits tax.....		<u><u>\$5,383,717.86</u></u>

The accompanying notes to consolidated financial statements should be read in conjunction with the above consolidated earned surplus account.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1:

The accounts of subsidiaries outside Canada have been converted into Canadian dollars as follows: current assets, current liabilities, deferred charges, and income accounts (except provision for depreciation, depletion and amortization), at rates of exchange in effect at the close of the year; property, plant and equipment accounts have been converted on the basis of Canadian dollar cost, and provision for depreciation, depletion and amortization has been charged on the same basis. This conversion basis for property, plant and equipment and related reserves was inaugurated during 1947 and in giving effect thereto income account was charged with a foreign exchange loss of \$179,816.82.

The only significant and operating subsidiary outside Canada is located in Trinidad, B.W.I.

### NOTE 2:

It is the Company's intention to write off the balance of premium paid on subsidiary companies' capital stock within the next twelve years.

### NOTE 3:

As the Excess Profits Tax Act expired at the close of 1947, the balance of "reserve for future depreciation in inventory values" less excess profits tax thereon has been transferred to earned surplus. However, as required by the said Act, reference is hereby made to the fact that the Company has claimed as deductions "reserve for future depreciation in inventory values" in computing its taxable income. Provision has been made for the maximum tax liability which may arise from claiming such deductions from taxable income.

### NOTE 4:

Pursuant to Supplementary Letters Patent issued by the Secretary of State for Canada under date of November 20, 1947, authorized common shares were increased to 4,975,526 shares, and issued common shares were increased to 1,800,000 shares by subdivision on a two for one basis.

Under a prospectus dated January 14, 1948 the Company offered to holders of its outstanding common shares of record at the close of business on January 21, 1948, the right to subscribe at \$10.00 per share, Canadian or United States funds, for an aggregate of 900,000 common shares, being at the rate of one additional share for each two shares then held, with the right to subscribe expiring at the close of business on February 18, 1948.

### NOTE 5:

On December 31, 1947 the Company was contingently liable to The Royal Bank of Canada for an amount of \$4,899,671.53, representing the balance as of that date of \$7,500,000.00 principal amount of 3¼% First Mortgage Sinking Fund Bonds, 1947 Series, plus accrued interest, deposited by the Company on December 8, 1947 with the Bond Trustee pending withdrawal on basis of certified property additions. Such balance was subsequently placed on deposit in the Company's account with The Royal Bank of Canada against the bank's undertaking to repay to Trustee, on demand, in accordance with the provisions of the Trust Deeds. The contingent liability will be reduced as the Company pledges additional property under the Trust Deeds and is expected to be eliminated during 1948.







## The best friend a car ever had

**Y**OUR MCCOLL-FRONTENAC DEALER stakes his career on one thing — his ability to keep his customers' cars running at their best.

In recent years his work has been more than a service of convenience . . . it has helped conserve an important national asset, our automotive transportation.

In the war years when few new cars were available he worked to keep the old ones running. It is noteworthy that during this

period a far greater number of cars was maintained on the road than any expert had dared to predict.

Today with new cars still scarce, this work goes on. Thanks to good McColl-Frontenac Dealer care many an old car is defying the law of averages and rolling along the road giving good service . . . along with the shiny new ones coming off the assembly lines in ever greater quantities.