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FIRST ANNUAL REPORT

1954

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CANADIAN PETROFINA LIMITED

CANADIAN PETROFINA LIMITED

BOARD OF DIRECTORS

W. A. Arbuckle	W. H. Howard, C.B.E., Q.C.
Paul Bienvenu	Henri Lafond
Henri Blaise	Jules Moreau de Melen
A. F. Campo	F. E. Notebaert
J. C. H. Dussault, Q.C.	J. R. Timmins, O.B.E.
W. L. Forster, C.B.E.	L. A. Forsyth, Q.C.

Laurent Wolters

PRINCIPAL OFFICERS

W. H. Howard, C.B.E., Q.C., *Chairman of the Board*

Laurent Wolters, *President*

A. F. Campo, *Executive Vice-President*

Eugène Laurent, *Vice-President*

H. R. H. Williams, *Vice-President*

F. C. Cope, Q.C., *Secretary*

H. J. Hughes, *Treasurer*

EXECUTIVE OFFICES

1015 Beaver Hall Hill
Montreal
Canada

TRANSFER AGENTS:
Montreal Trust Company
J. P. Morgan & Co. Incorporated

AUDITORS:
Clarkson, Gordon & Co.

REGISTRARS:
The Royal Trust Company
Guaranty Trust Company of New York

T O T H E S H A R E H O L D E R S O F

CANADIAN PETROFINA LIMITED

We take pleasure in presenting the first Report of your Directors for the fiscal period ended December 31, 1954. This Report does not cover normal operations because we have been engaged throughout this period primarily with organization and construction work, which will, in the main, be completed by the second half of 1955.

The prospectus issued at the time of the public offering of the Participating Preferred Shares of your Company in October 1953 outlined our objectives. We had come to the conclusion, after an intensive study of the Canadian market and its future prospects, that there was a place for a new enterprise in the petroleum industry which had sufficient financial resources and sound experience. Nothing has since occurred to change our opinion in that regard.

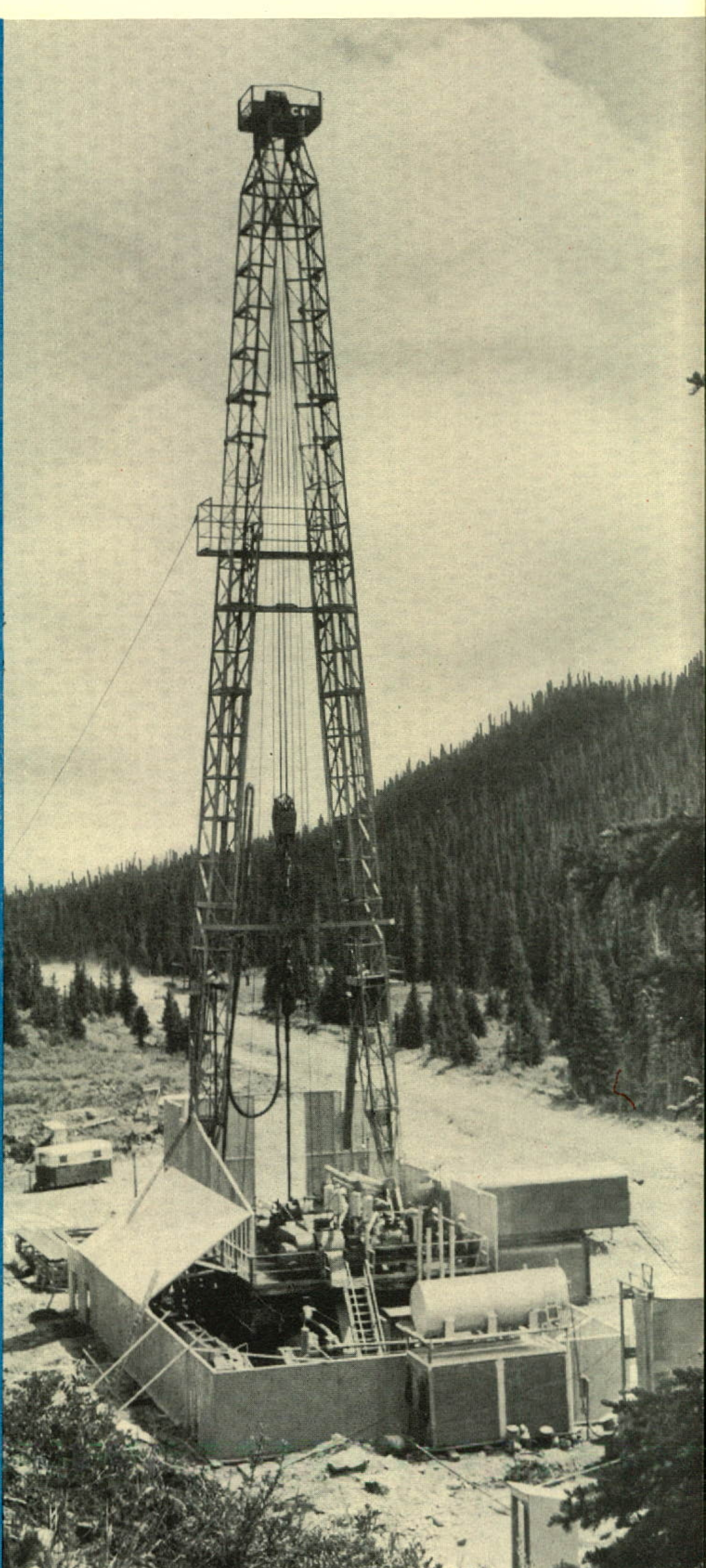
The petroleum industry in Canada continues to grow even though the general economic situation was not in 1954 as good as it had been in the previous year. In 1954, the consumption of petroleum products increased by 7% and proven crude oil reserves exceeded 2,400,000,000 barrels, the probable reserves being considerably higher. Canadian produced petroleum now furnishes 48% of the country's requirements and total domestic needs could probably be met from Canadian reserves if it were economically feasible to provide transportation of the crude oil to every Canadian refining centre. This would be attractive from certain aspects, but it would be more economical and logical to find markets for Canadian crude in the North-West and North Central parts of the United States and to continue importing the crude required for eastern Canada. Abnormally low tanker freight rates have affected the export of Alberta crude oil to the Pacific Coast, but it is not expected that this situation will continue long enough to cause a reduction in Canadian crude oil prices which would reflect unfavourably on the future exploration programme.

There are bound to be important developments in the use of natural gas in Canada. The income received from that source will provide additional capital constantly required by the industry.

The outlook for the oil industry in general is favourable, and we believe that your Company's prospects are particularly promising.

While our immediate objectives were limited to the building of a refinery in the Montreal area and to the development of a system of distribution in Eastern Canada, it was our declared policy from the start that we should expand our activities into those of a fully integrated oil company and extend our operations gradually into other areas in North America. As you will see from the detailed report of our operations, this programme is already under way and we intend to pursue it vigorously.

Although incorporated only in May, 1953—commencing operations in July of that year—our first service station being opened in October, 1953—your Company has in a short time made very remarkable progress. Completely unknown in Canada at the outset, Canadian Petrofina has already attained prestige and popularity and its service stations have attracted wide public commendation and patronage. The construction of your Company's refinery is well advanced and its distribution system covers a large area in the Provinces of Quebec and Ontario. The required facilities for the transportation of crude oil and finished products by pipe line to and from the refinery are assured. A substantial interest has been acquired in crude oil production in Western Canada. We are now making a profit on our sales, and sales volume is increasing rapidly. These are your Com-



Drilling Rig — Western Canada

Construction activity — Montreal Refinery

pany's achievements as at the end of its first financial period. The admirable initiative and spirit of your Company's officers and of its employees at every level have made these results possible. Your Directors wish to record their appreciation of this loyal and efficient service.

Before reporting on the operations of the various departments of your Company, we wish to mention two developments of importance for its future that have occurred since the end of the financial period now under review. They are:—

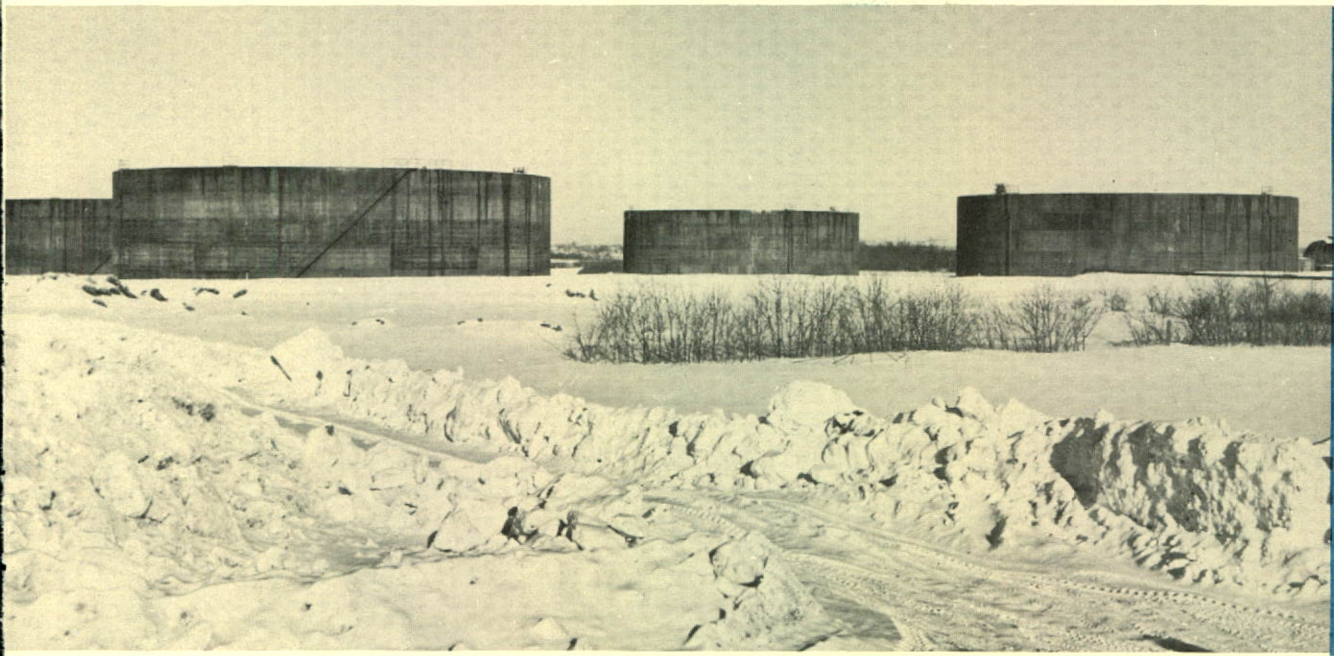
First, the initially authorized share capital of your Company of 50 million dollars has been duly increased to 100 million dollars. This increase provides facilities which will aid in the carrying out of your Company's expansion programme.

Second, an offer was made to shareholders of Calvan Consolidated Oil & Gas Company Limited to exchange shares of their company for Participating Preferred shares of your Company. The acceptance of this offer by a large majority of the Calvan shareholders enhances considerably your Company's position in relation to the production of crude oil.

The development of operations in the major departments of your Company are as follows:—

PRODUCTION

Under an agreement made with Great Plains Development Company of Canada, Limited,



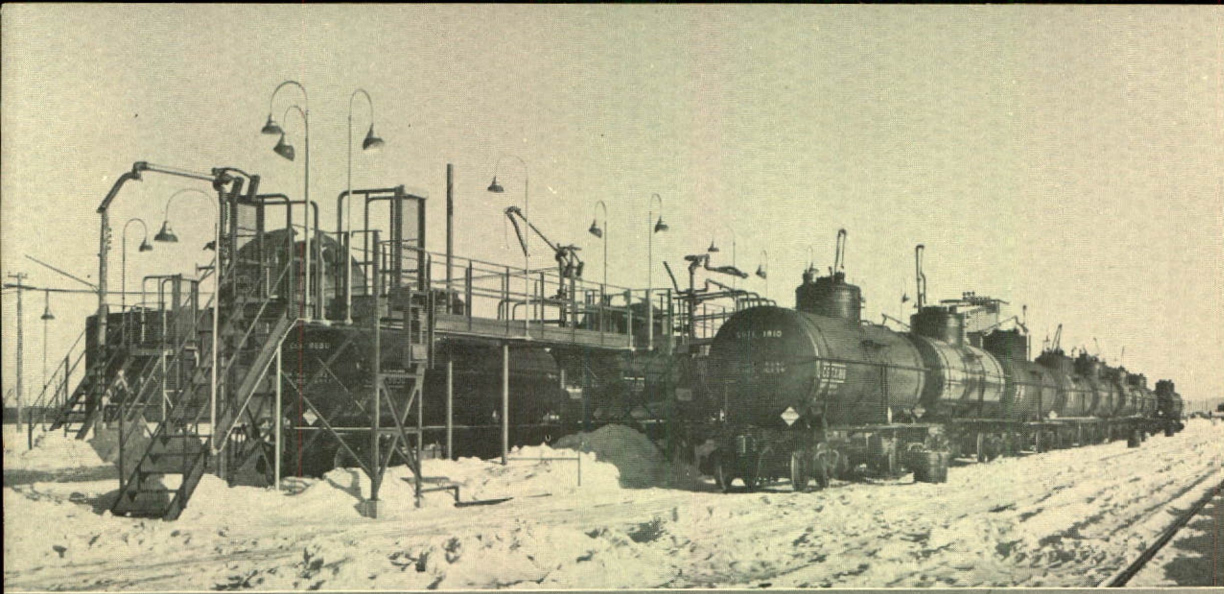
Part of Tank Farm — Montreal Refinery

your Company has acquired an interest in the 37½% Great Plains' share of such production as is developed in 16,960 acres in the Buck Lake (Pembina), Alberta, oil field. It is anticipated that more than 200 wells will be drilled on this acreage. The obligation assumed by your Company under this agreement is to pay Great Plains' share of the cost of the development programme. In return for this, we will receive one half of the production derived by the Great Plains Company from this acreage until we have obtained reimbursement of our total costs. Thereafter, your Company's share in Great Plains' production will be reduced to one third. At the end of 1954, 25 wells, all producing, had been drilled. It is not yet possible to determine the reserves of crude that this agreement will provide for your Company, but your Directors consider that they will amount to several millions of barrels.

Reserves at Pembina, added to those of Calvan, put us in a favourable position to obtain our production objectives.

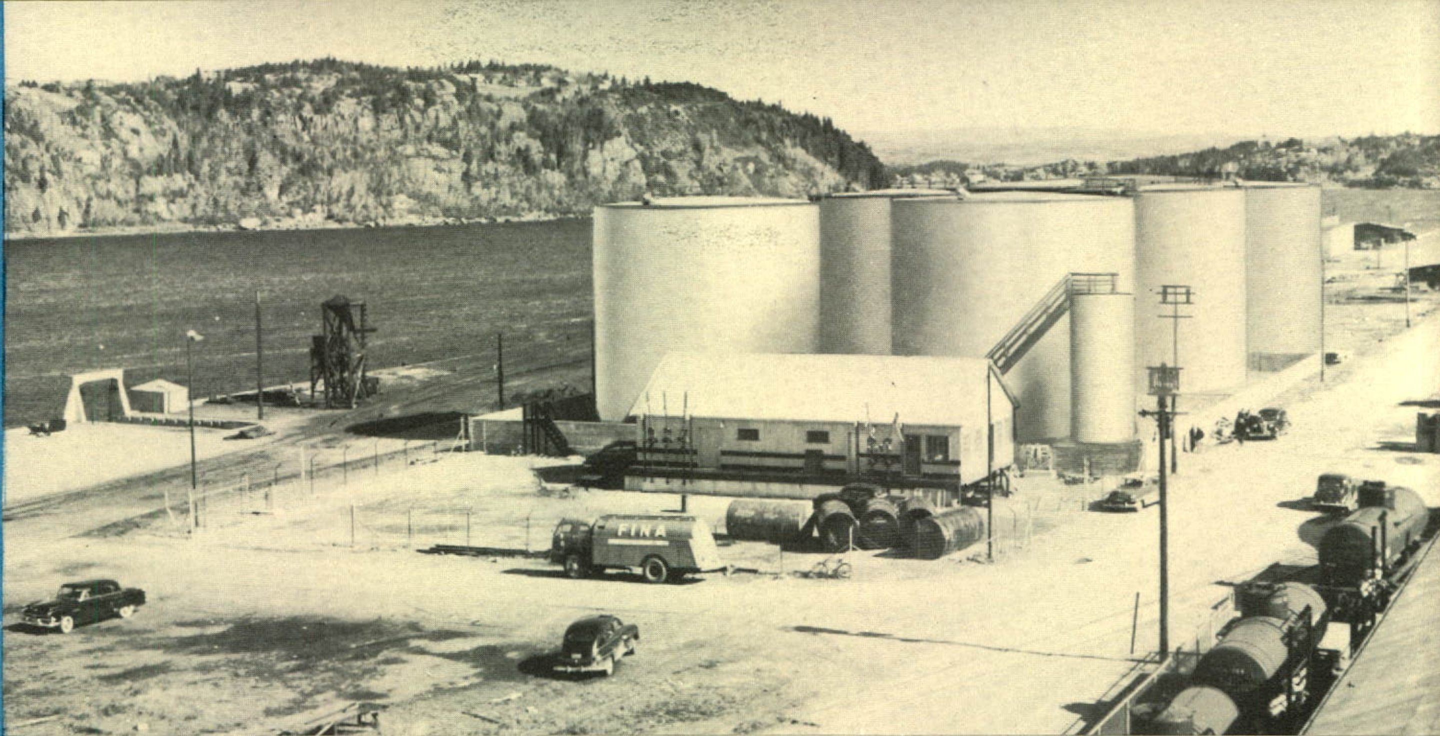
MANUFACTURING

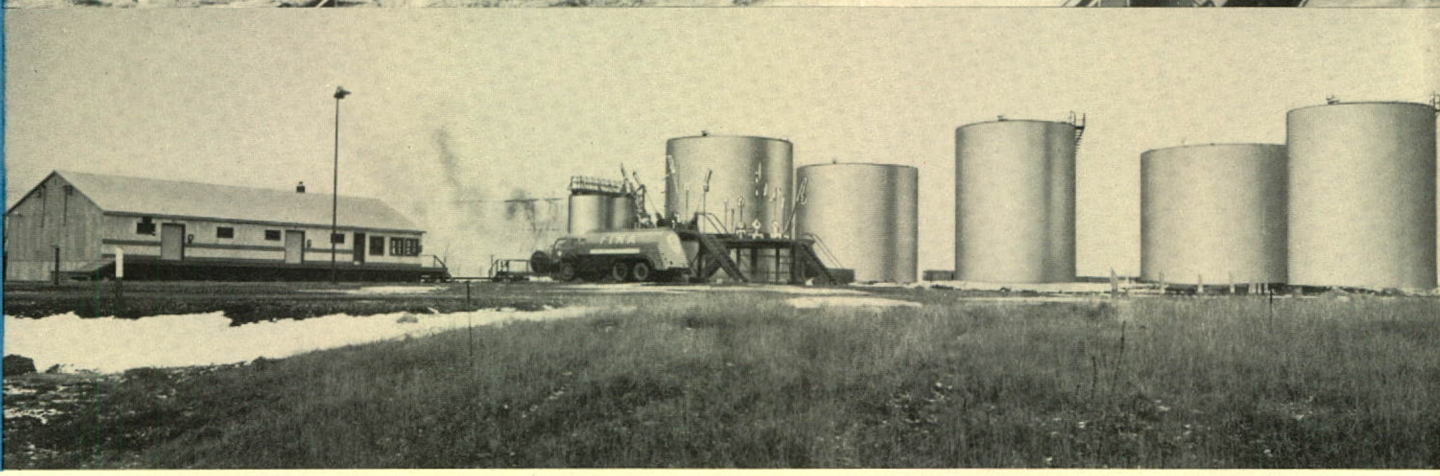
A refinery site adjacent to the St. Lawrence River, with easy access to railway and pipe lines, was purchased in the town of Pointe-aux-Trembles, which is on the northeastern part of the island of Montreal. Contracts have been made with refinery construction firms,



Tank-Car Loading Rack,
Montreal Refinery

Catalytic Cracking Tower
being erected





Above: Marine Terminal, Chicoutimi, Que. **Below: Pipe Line Terminal, Ottawa, Ont.**

the principal ones being The Canadian Kellogg Company Limited and The Lummus Company Canada Limited for the building of the refinery, which will have a capacity of 20,000 barrels of crude oil per day.

This refinery will be the most modern in Canada. It will include distillation units, catalytic cracking, catalytic reforming and polymerization processes, alkylation, desulphurization and fluid coking units, as well as all necessary auxiliary equipment.

The refinery is so designed that the highest quality products can be produced from a wide range of different grades of crude oil.

The construction of all the storage tanks has been completed and the equipment is now being used for the storage of purchased finished products.

It is estimated that the cost of the refinery will be over 28 million dollars, the excess over initial estimates being due to the inclusion of added processing units.

It is anticipated that refinery operations will begin during the summer of 1955.

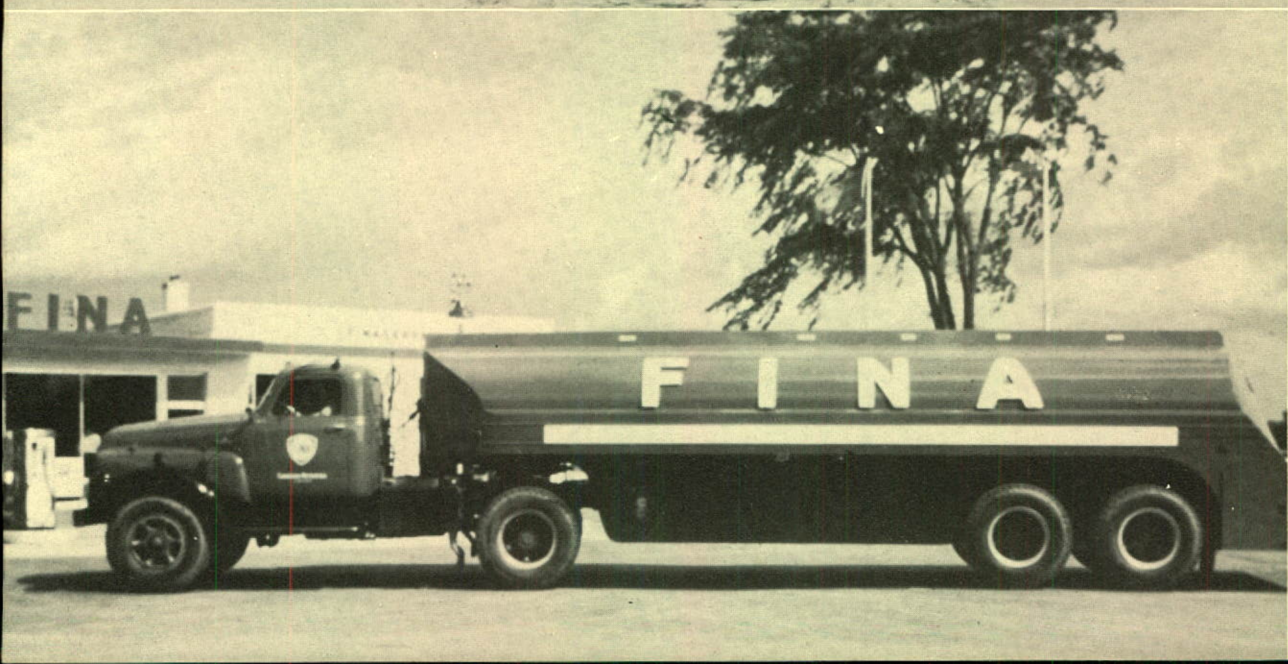
TRANSPORTATION

During the period under review, your Company entered into an agreement to purchase during 1955 a 10% share interest in the Portland and Montreal Pipe Line Companies. As a result, your Company will avoid the necessity of accumulating particularly heavy crude oil stocks upon the closing of navigation on the St. Lawrence River for each winter season and will be able to set up a more regular transportation programme by ocean tanker.

Negotiations have been concluded with the Trans-Northern Pipe Line Company to provide transportation for finished products from your Company's refinery to our terminals between Ottawa and Hamilton.

Our parent company, Petrofina, has undertaken to provide, for a long period and on favourable terms, transportation by sea to Portland, Maine, and Montreal for the

Modern Tank Wagon Loading Rack, Montreal Bulk Plant



4,000-gallon Semi-Trailer Tank Wagon

crude oil which your Company will need for processing at its refinery.

MARKETING

Terminals and bulk plants for the distribution of your Company's finished products have been established at strategic locations in Quebec and eastern Ontario. Wherever possible, the locations have been chosen with a view to facilitating the supply of products to these plants by water or pipe line. The possession of these facilities has enabled your Company to set up quickly a comprehensive network of retail outlets in desirable areas which can be supplied with products on a most economical basis.

By December 31, 1954, there were 400 outlets (including those under construction) carrying the "Fina" trade mark.

Special attention has been given to the appearance of our service stations, to the

Modern, attractive, functional Fina Service Station

service provided to your Company's customers and to the quality of the products marketed.

A credit card system developed by your Company has met with wide public approval, and reciprocal credit card agreements have been made with two large American oil companies in order that tourists entering Canada from the United States will be encouraged to purchase our products.

FINANCE

The operations of your Company for the period ended December 31, 1954, resulted in a net profit of $113,598. Earnings, although satisfactory when consideration is given to the fact that they were made during the initial period of the Company's existence, were adversely affected by a prolonged plumbers' strike which, delaying completion of the refinery storage tanks, resulted in an increase in the cost of products imported and stored for distribution during the past winter months.

The notes accompanying the Balance Sheet give explanations about certain items appearing therein and in the Income and Surplus statements.

Our parent Company, Petrofina, has assured your Company of any financial aid it may need in the future and, in that connection, subscribed in November 1954, for $15,000,000 of your Company's Ordinary Shares. To date, $5,000,000 has been called on this subscription and paid by Petrofina.

In view of the foregoing and of its achievements to date, the credit standing of

Wide, easy access

your Company is high and it is the opinion of your Directors that its financial position is sound and its prospects excellent.

Changes in Board of Directors

On March 18th last, Mr. Jansen Noyes, senior partner of the firm of Hemphill, Noyes & Co., investment bankers, New York City, was elected to your Board.

It is with deep regret that your Directors record the death, on March 14th last, of Mr. J. C. H. Dussault, Q.C., a valued member of the Board.

On behalf of the Board,

President.

Montreal, April 12, 1955.

NOTE

In order that you may have a more complete picture of the present situation, we enclose a copy of the latest Annual Report of the Directors of Calvan Consolidated Oil & Gas Company Limited.

CANADIAN PETROFINA LIMIT

AND ITS SUBSIDIARI

CONSOLIDATED BALANCE SHE

ASSETS

CURRENT ASSETS:		
Cash	$ 3,567,945	
Due from subscribers (Note 1)	5,000,000	
Short term securities—at cost which approximates market	99,328	
Accounts receivable, less allowance for doubtful accounts	1,812,337	
Inventories, as determined and certified by the management and valued at the lower of cost or market—		
Oil products and other merchandise	4,163,632	
Materials and supplies	314,738	
Prepaid expenses	124,775	
Total current assets		$15,082,755
INVESTMENT AND ADVANCES:		
Exploration and production deposits	$ 322,769	
Mortgages and other advances	110,322	
		433,091
PROPERTIES, PLANT AND EQUIPMENT:		
Producing, refining and marketing facilities—at cost	$20,314,125	
Less accumulated depreciation	430,361	
		19,883,764
DEFERRED CHARGES:		
Commissions and expenses on capital stock	$ 827,912	
Organization expenses	31,101	
Other	411,329	
		1,270,342
Premium paid on acquisition of wholly-owned subsidiaries		689,072
		$37,359,024

TO THE SHAREHOLDERS OF CANADIAN PETROFINA LIMITED

We have examined the consolidated balance sheet of Canadian Petrofina Limited and its subsidiaries as at December 31, 1954 and the related consolidated statements of profit and loss and earned surplus from the inception, May 1, 1953, to December 31, 1953 and for the year ended December 31, 1954, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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ET • DECEMBER 31, 1954

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:		
Drafts payable to banks	$ 3,498,885	
Accounts payable	2,656,055	
Other accruals	330,986	
Total current liabilities		$ 6,485,926
CAPITAL STOCK AND SURPLUS (NOTES 1, 2 AND 3):		
6% non-cumulative participating preferred shares of $10.00 par value— Authorized: 4,000,000 shares Issued and outstanding: 2,075,950 shares	$20,759,500	
Ordinary shares of $1.00 par value— Authorized: 10,000,000 shares Issued and outstanding: 10,000,000 shares	10,000,000	
Earned surplus	113,598	
		30,873,098
		$37,359,024

Commitments (Note 4)

Approved on behalf of the Board:
L. WOLTERS, Director.
A. F. CAMPO, Director.

In our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Canadian Petrofina Limited and its subsidiaries at December 31, 1954 and the results of operations for the period from May 1, 1953 to December 31, 1954, according to the best of our information and the explanations given to us and as shown by the books of the companies.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Montreal, Canada, March 14, 1955.

CANADIAN PETROFINA LIMITED

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS

FROM THE INCEPTION, MAY 1, 1953, TO DECEMBER 31, 1953
AND FOR THE YEAR ENDED DECEMBER 31, 1954

	May 1, 1953 to December 31, 1953	Year ended December 31, 1954
Gross income:		
Operating income	$317,458	$7,453,919
Interest on temporary investments and other income	122,955	410,838
	$440,413	$7,864,757
Operating charges:		
Costs, operating, selling and general expenses	$471,458	$7,543,011
Taxes, other than income taxes	1,964	52,469
Depreciation	12,247	106,194
	$485,669	$7,701,674
Net income (loss) before provision for taxes on income	$(45,256)	$ 163,083
Provision for taxes on income of subsidiary (Note 6)	4,229	—
Net income (loss) for period (Note 5)	$(49,485)	$ 163,083
Deficit December 31, 1953		49,485
Earned surplus December 31, 1954		$ 113,598

CANADIAN PETROFINA LIMITED

AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. CAPITAL STOCK

Under supplementary letters patent dated January 18, 1955 the authorized capital of the Company was increased to 8,000,000 6% non-cumulative participating preferred shares of $10.00 par value each and to 20,000,000 ordinary shares of $1.00 par value each.

On January 5, 1955 the amount due from subscribers as shown on the balance sheet was paid in full.

On November 5, 1954 10,000,000 ordinary shares were allotted to Compagnie Financière Belge des Pétroles, Société Anonyme (parent company), such allotment being subject to the necessary increase in the authorized capital and also subject to the making of the call for the subscription price thereof, which call has not yet been made.

2. CALVAN EXCHANGE OFFER

It is indicated that the holders of approximately 80% of the capital stock of Calvan Consolidated Oil & Gas Company Limited have accepted the offer made to them in January 1955 to exchange their shares for participating preferred shares of the Company. On this basis, the Company has issued or will issue 1,354,554 participating preferred shares with an aggregate par value of $13,545,540 to be recorded as the cost of Calvan shares acquired and the Company's equity in Calvan's net assets, as shown by its balance sheet at December 31, 1954, will amount to $9,717,900. The foregoing, however, takes no account of the value of Calvan's proven and developed oil reserves, nor of the value of its gas reserves, nor of the present market value of its large undeveloped acreage. On the basis of an appraisal as of June 30, 1954 of such properties, the Company's equity in Calvan has a value very substantially in excess of $13,545,540, the value at which the shares of Calvan will be recorded.

3. STOCK OPTIONS

Options to purchase at par 49,050 participating preferred shares, $10 par value per share, were outstanding at December 31, 1954. The expiry dates of these options are as follows:—

September 18, 1956	10,000 shares
December 31, 1956	19,050 shares
September 18, 1958	20,000 shares

In addition, since December 31, 1954 options have been granted to purchase 200,000 participating preferred shares at $19 per share, exercisable before March 1, 1958.

4. COMMITMENTS

At December 31, 1954 there were planned expenditures, including commitments, for purchase or construction of capital assets amounting to approximately $20,500,000. Annual rents under long-term leases expiring more than three years after the balance sheet date amount to approximately $523,400.

5. EARNINGS

Certain marketing facilities sold at cost and leased back during 1954 were in operation for varying periods prior to sale. As the cost of the facilities in question was recovered, no provision has been made for depreciation during the period that they were owned by the Company and in operation. The rent that would have been payable, if the facilities, immediately upon being put into service, had been sold and leased back, is estimated to exceed the rent actually payable and recorded in the accounts by $2,400 for the initial period ended December 31, 1953 and by $139,400 for the year ended December 31, 1954.

Fees and remuneration of directors, executive officers and legal fees charged to operations were as follows:

	May 1, 1953 to December 31, 1953	Year ended December 31, 1954
Directors' fees	$13,050	$34,285
Remuneration of executive officers and legal fees	18,042	47,857

6. INCOME TAXES

No provision for taxes on income is necessary for the year ended December 31, 1954, because of the loss carry-forward from 1953 and because the Company intends to claim for tax purposes capital cost allowances in excess of depreciation recorded in the accounts. The provision for taxes on income that would have been necessary if the Company intended to claim capital cost allowance only to the extent of depreciation recorded in the accounts, would have amounted to approximately $86,000.


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