Texaco Canada Ltd.

McCOLL-FRONTENAC

OIL COMPANY LIMITED

Thirteenth Annual Report

for the

Year Ending

December Thirty-First

1940

McCOLL-FRONTENAC OIL COMPANY LIMITED

BOARD OF DIRECTORS

H. H. BRADBURN, Winnipeg

J. H. GUNDY, Toronto

A. A. MAGEE, K.C., Montreal

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

J. M. PRITCHARD, Montreal

H. W. THORP, Montreal

J. A. WALES, Montreal

L. O. P. WALSH, Montreal

W. ZIMMERMAN, K.C., Toronto

OFFICERS

J. A. WALES, *President*

J. M. PRITCHARD, *Vice-President*

H. H. BRADBURN, *Vice-President*

FRED HUNT, *Secretary-Treasurer*

J. P. ALLAN, *Assistant Secretary*

C. P. TOMLINSON, *Vice-President*

W. A. BISHOP, *Vice-President* V.C., D.S.O., M.C., D.F.C.

T. V. ANDERSON, *Comptroller*

K. W. HOGG, *Assistant Secretary*

D. F. JONES, *Assistant Secretary*

Transfer Agents:

MONTREAL TRUST COMPANY

Registrar:

ROYAL TRUST COMPANY

Auditors:

PRICE, WATERHOUSE & COMPANY

P. S. ROSS AND SONS

McColl-Frontenac Oil Company
Limited

To the Shareholders:

Your Directors have pleasure in submitting herewith your Company's thirteenth Annual Report, together with the Balance Sheet as at December 31st, 1940, and the Profit and Loss Statement and Surplus Account of McColl-Frontenac Oil Company Limited and its Canadian subsidiary companies for the eleven months period ending on that date. In addition, your Directors are submitting herewith separately the Balance Sheets, Profit and Loss Statements, and Surplus Accounts of the Frontenac Pipe Line Company and the Antilles Petroleum Company (Trinidad) Limited, which companies are both wholly owned subsidiaries and are shown in your Company's Balance Sheet under the item of "Investments in and Advances to Subsidiary Companies outside of Canada."

You will be asked at the Annual Meeting of Shareholders to approve a resolution amending By-law Number One, so as to change the end of the Company's fiscal year from January 31st to December 31st. This change was made because of the increasing amount of work involved in furnishing information on the basis of the calendar year, including the information required by the Oil Controller appointed by the Dominion Government last June. In the interests of economy, your Directors decided to discontinue keeping two sets of records and adopted the calendar year as the Company's fiscal year, this being the current practice of practically all other oil companies in Canada. The same change has been made in the fiscal year of the Company's subsidiaries. As a result, all the figures shown for the period ending December 31st, 1940, are for eleven months only and are compared with the previous fiscal period of twelve months unless otherwise stated. Your Directors have considered for some time and have finally adopted an accounting practice under which the current costs instead of the average costs are applied to sales made during the period. The Company's Statements for the eleven months period ending December 31st, 1940, have therefore been submitted on this basis.

Profits from operations and income from investments of your Company and its Canadian subsidiary companies amounted to $3,703,-930.71, as compared with $3,410,213.08 for the previous year, an increase of $293,717.63. This increase was largely due to increased sales, as the relatively small increases in the prices received for gasoline and other refined products were more than offset by higher costs, the most important of which were ocean tanker freight rates and war risk insurance, the exchange premium on United States currency, the War Exchange Tax, a higher average cost for crude oil, and generally higher operating costs including wages. After deduction of bond interest, bank interest, and mortgage interest, and provision for depreciation, doubtful accounts, and amortization of bond discount, there remained a balance of $1,837,504.54, as compared with $1,603,347.03 for the previous year, an increase of $234,157.51. Net profits available for dividends on the Preferred and Common Stocks after deduction of an inventory reserve of $150,000.00 and provision for income taxes of $630,000.00 amounted to $1,057,504.54, which, after deduction of the Preferred Stock dividend of $467,-278.50, left a balance of $590,226.04, equivalent to 65.6 cents per share on the 900,000 shares of Common Stock outstanding on December 31st, 1940, as compared with $794,487.10, equivalent to $1.053 per share for the previous year on the 754,546 shares of Common Stock then outstanding. This reduction in net profits per share as compared with last year was due almost entirely to the increase in the provision made for income and excess profits taxes, amounting to $292,396.57, equivalent to 32.5 cents per share on the 900,000 shares of Common Stock outstanding.

Due to the various interpretations which may be placed on certain sections of the recently enacted Excess Profits Tax Act, it has been extremely difficult to determine the proper amounts which should be set up as reserves for Inventories and Income Taxes, so that the amounts shown may be subject to some revision.

Balance at credit of Earned Surplus Account amounted to $3,566,-517.35, as compared with $3,181,629.07 for the previous year, an increase of $384,888.28. Net adjustments affecting prior years amounted to $125,918.26. Of this amount $30,689.07 covers the cost of the past service benefits in connection with the Company's Retirement Income Plan, details of which were given in last year's Annual Report. The balance of $95,229.19 consists chiefly of Income Tax adjustments due to increased rates of taxation and to other factors relating to prior years. Capital Surplus Account amounted to $107,000.00, as compared with $28,000.00 for the previous year, the increase of $79,000.00 representing the par value of 790 Preferred shares purchased during the year for redemption in accordance with the sinking fund provisions. The $300,000.00 of 3% Serial Bonds maturing on October 1st, 1940, were redeemed and cancelled.

During the year $1,193,659.13 was spent on Fixed Assets in addition to the Fixed Assets purchased from The Texas Company of Canada Limited. This included the balance spent on the new cracking and reforming unit at the Toronto Refinery, other Refinery improvements, and extensive marketing facilities. Fixed Assets at $23,951,477.11 include those of the B.C. Fuel Company Limited referred to later in this Report and show an increase of $1,619,013.17 after giving effect to the customary write-offs.

Provision for depreciation made during the year amounted to $1,236,322.82, as compared with $1,135,925.97 for the previous year. This brings the total depreciation reserve after write-offs to $7,006,-049.52, a net increase of $608,106.67.

Investments in Subsidiary Companies outside of Canada are shown at $950,497.85. Of this amount $50,000.00 represents the investment in the Frontenac Pipe Line Company and $900,497.85 the investment in Antilles Petroleum Company (Trinidad) Limited. Advances to these subsidiary companies of $623,573.46 is made up of $1,403.64 owing from the Frontenac Pipe Line Company and $622,169.82 owing from the Antilles Petroleum Company (Trinidad) Limited, after giving effect to By-Law "I".

Current Assets at $10,169,653.79 are $1,593,045.19 greater than the previous year, due chiefly to an increase in inventory values of $914,424.42. This amount represents some increase in the quantities of raw materials and refined products but also reflects the higher cost per unit as well. Current Liabilities at $3,616,833.80 are $1,251,-440.96 greater than for the previous year, due chiefly to an increase in accounts and notes payable of $694,681.58 and an increase in reserve for income, gasoline, and other taxes of $483,974.21.

Net Working Capital, that is the excess of Current Assets over Current Liabilities, amounts to $6,552,819.99, as compared with $6,211,215.76 for the previous year, and is the largest in the history of the Company. It is worth noting that this increase in Working Capital position has been achieved without further financing, after taking care of the heavy capital expenditures referred to above, as well as the redemption of Bonds and Preferred Stock in the amounts shown.

On February 1st, 1940, the Company took over the assets and business of The Texas Company of Canada Limited, under the arrangement referred to in the last Annual Report. The process of amalgamation has now been completed and the additional properties acquired have made a considerable contribution to the Company's position in Western Canada. During the year the Company acquired a majority interest in the stock of the B.C. Fuel Company Limited, which company had acted as the distributor in British Columbia for The Texas Company of Canada Limited. This Company is included in the Consolidated Statements and the interest of the minority shareholders, amounting to $93,100.00, is shown on the Company's Balance Sheet under the heading "Deferred Liability in respect of Minority Interest in Canadian Subsidiary Company."

Frontenac Pipe Line Company

During the year the Frontenac Pipe Line Company purchased and transported through its gathering systems 889,405.87 barrels of East Texas crude oil as compared with 941,039.18 barrels for the corresponding eleven months of 1939. The Financial Statements of this company are expressed in United States currency. Fixed Assets shown are $156,672.01, as compared with $152,000.13 for the previous year. Against this amount there is a reserve for depreciation and depletion of $81,586.53, as compared with $68,363.05 for the previous year. Advance Purchase Contracts of $42,611.14 are $8,602.70 less than for the previous year.

Profit and income from operations and investments during the year amounted to $26,256.39, as compared with $35,370.11 for the previous year, and Net Profit, after deduction of bank and other interest, provision for depreciation and depletion, and income taxes, amounted to $7,700.70, as compared with $6,034.45 for the previous year. During the year interest charges of $1,527.65 were paid to McColl-Frontenac Oil Company Limited, but no dividends were declared.

Antilles Petroleum Company (Trinidad) Limited

During the past year your Directors discontinued the drilling of new wells and greatly curtailed other expenses in the Antilles Company, so as to reduce the amount of advances required from your Company. Advances during the year amounted to only $3,267.68, as compared with $169,195.41 for the previous year and $535,643.39 for the year ending January 31st, 1939. Considering that no new wells were drilled, production was quite satisfactory, amounting to 218,844 barrels of crude oil for the year as compared with 251,619 barrels for the corresponding eleven months of 1939. At the present time, there are sixty-three producing wells and production is at the rate of approximately 18,000 barrels per month.

Although no new wells were drilled during the year, one of the drilling rigs was used for workover jobs on various wells and new production methods were studied. Gravel packing has been shown to be useful in combating one of the main problems in the Vessigny wells, which has been the production of large quantities of sand with the subsequent sanding-up of the wells. While the gravel packed wells have a much lower initial production, they produce more steadily with a small sand content in the oil and show promise of a longer life with lower production costs.

The Financial Statements of this Company are expressed in Trinidad currency. Profit from production of crude oil and gas amounted to $43,587.41, as compared with $66,309.41 for the previous year. After deduction of oil lease rentals on non-producing properties amounting to $49,805.94, there remains a debit balance of $6,218.53. The same policy as regards write-offs and depreciation reserves was continued and during the year a total of $104,148.80 was written off for amortization of well costs, amortization of lease costs, and depreciation of Fixed Assets, resulting in a deficit of $110,367.33 for the year, as compared with $382,426.74 for the previous year and $547,233.46 for the year ending January 31st, 1939.

Fixed Assets, which includes drilling and oil well equipment, storage tanks, pipe lines, buildings, etc., are shown at $1,079,950.31, against which there has been set up a depreciation reserve of $588,-122.03. Cost of Oil Leases are shown at $947,091.29, with amortization of $759,502.58. Intangible Oil Well Costs are shown at $1,504,-373.29, with amortization of $1,439,986.63. Current Assets of $312,816.21 exceeded Current Liabilities of $19,554.37 by $293,-261.84. Balance of advances from McColl-Frontenac Oil Company Limited is shown at $2,625,457.47, the amount of advances since the incorporation of the Company.

Company Operations

Exploration and Development—In the latter part of 1939 the Company started a geological and exploration department for Western Canada, with headquarters at Calgary, Alberta. A number of production prospects were considered during the ensuing months and on April 22nd, 1940, an agreement was made with the Pilling Interests, Moose Securities Limited, and Moose Oils Limited, under which the Company purchased 7,220 acres of leases in the Moose Mountain area, about forty miles west of Calgary. In addition to the leases obtained from the Pilling Interests, leases on approximately 3,500 acres in the Moose Mountain area were obtained from other holders. During last summer an extensive geological survey was made on these leases and drilling was commenced on the Company's first well in this area on October 31st, 1940, the location being about two and a half miles northwest of the Moose Oil Company's Moose Mountain No. 1, which is supplying fuel gas for the drilling rig, and about three miles northwest of Moose Mountain No. 2, which is a producing oil well. At the present time the Company's first well, McColl-Frontenac Moose Mountain No. 1, is drilling at slightly over four thousand feet and has had certain showings of gas and oil, although nothing up to date to indicate commercial production. It is the present intention to test this promising structure, as it is not only in the Company's interest to do so but, in view of the crude oil shortage experienced in Western Canada last year, it is very desirable that more crude oil be available in Canada to help the foreign exchange situation.

Crude Oil—During the year a total of 5,508,500.73 barrels of crude oil were purchased for refining in your Company's refineries at

Montreal and Toronto, as compared with 4,790,989 barrels for the previous year. Of this amount 191,868 barrels of Trinidad crude oil came from the Antilles Petroleum Company (Trinidad) Limited. The balance was purchased from various companies and shipments included crude oil from the Mid-Continent, Illinois, Texas, Louisiana, Trinidad, and Colombian oil fields.

Ocean Transportation—The Company was fortunate in that none of the Norwegian flag tankers under time charter were seized or sunk by enemy action during the year, so that all five ocean tankers were available for the transportation of crude oil to the Montreal Refinery. However, adjustments in the rates of hire, together with war risk insurance and other expenses due to the war, almost doubled the pre-war transportation cost from the United States Gulf to Montreal. The time charter on one ocean tanker has expired, but the four remaining tankers are sufficient to take care of the Montreal Refinery requirements during the coming year. Since the invasion of Norway, these vessels have been managed on behalf of the owners by the Norwegian Trading and Shipping Mission of London, England, in co-operation with the British Ministry of Shipping.

Refineries—The new cracking and reforming unit at the Toronto Refinery referred to in the last Annual Report was put into operation successfully in June, so that approximately 48% of the total crude oil refined was taken care of by the Toronto Refinery. Additional storage capacity was added during the year to balance the increased refining capacity. Modern polymerization units are being added to both the Toronto and Montreal Refineries at a cost of approximately $252,000.00 and, unless unusual delays are experienced in delivery, should be in operation by this summer.

Distribution and Marketing—The Company now owns approximately 237 motor trucks and 142 tank cars and operates approximately 73 more tank cars under lease. It also owns, through subsidiary companies, three lake tankers and has four more under time charter. The Company has continued its policy of handling as large a quantity of refined products as possible by lake tankers and marine terminals in order to reduce transportation costs, which still are very important factors in your Company's operations. There are now eleven marine terminals in operation. The Company also operates 223 storage warehouses and bulk plants throughout the Dominion of Canada. It also owns approximately 602 service stations, most of which are operated by lessees. In addition, approximately 3,378 independent dealers sell your Company's products, which are marketed under the various trade names listed on the last sheet of this report.

Sales—During the year the Company introduced with great success Sky Chief Gasoline, its new premium grade, and Red Indian Gasoline, its new standard grade. These gasolines not only have a higher octane rating than those previously sold but better volatility, giving quicker pickup and smoother running qualities. The public response was both prompt and gratifying. Increase in sales of all products was very satisfactory, total sales being by far the largest in the history of the Company.

Taxation—While it is agreed that the tremendous war effort to which the Dominion is committed in the cause of justice and freedom must of necessity require increases in taxation, nevertheless certain desirable factors of taxation should be considered when making these increases. Firstly, that the tax should not be so excessive as to defeat its end, that is, the production of additional tax revenue: secondly, that it should not be so discriminatory as to penalize unfairly one taxpayer or group of taxpayers as compared with another; and, thirdly, that it should not bear so heavily as to endanger the existence of the taxpayer itself; which, after all, is the source of the revenue. It is hoped that the various taxing authorities will bear in mind that the Oil Industry has borne more than its share of taxes during peace times. It is also hoped that the various taxing authorities will endeavour to reduce ordinary expenditures to a minimum, so that the full force of all additional taxation as well as savings on ordinary account will be directed towards the one major object at present, which is the winning of the war. There have been no increases during the year in the Provincial Gasoline Tax. This tax now varies from seven cents to ten cents per gallon in the different Provinces, thereby greatly exceeding the similar tax imposed on gasoline in the neighbouring States to the south, and it would appear that it has reached its effective limit as a revenue producer. This Company alone, on behalf of the various Provincial governments, collected an amount of $6,482,714.96 during the year, as compared with $5,841,351.22 for the eleven corresponding months of the previous year; and this amount represented only approximately 75% of the total Provincial Gasoline Tax on the Company's sales, since a considerable amount of gasoline was sold to licensed jobbers who paid the tax direct.

Chart No. 1 on Page 11 shows the increase in the Provincial Gasoline Tax during the past fifteen years and also the steady decline in the average service station price per gallon of gasoline in effect in nine representative cities across Canada. From this chart it will be seen that the price of gasoline is low, only the tax is high. In addition to the Provincial Gasoline Taxes paid during the year by the motorist, the Company's liability for various other taxes amounted to $2,632,440.42, as compared with an amount of $229,-

866.61 for the fiscal year ending January 31st, 1930. The difference, amounting to $2,402,573.81, shows the enormous increase of taxation imposed on your Company during the interval of eleven years. Taxes incurred during the year represented $2.92 per share on the 900,000 shares outstanding, as compared with only $0.46 per share for the year ending January 31st, 1930 on the 500,000 shares then outstanding; and were equivalent to 2.19c per gallon on the total gasoline sold, as compared with only $0.48c per gallon on the total gasoline sold in the year ending January 31st, 1930.

Chart No. 2 on Page 11 shows the amount of taxes paid by the Company, excluding the Provincial Gasoline Tax, calculated on the basis of the amount per share on the Common stock outstanding during the past twelve years, as compared with the earnings per share on the Common stock during the same period, both before and after the deduction of the taxes.

Public Relations—The war has demonstrated to the general public the importance of oil and the extent to which all industry, as well as every branch of the armed forces, depends for its operation and efficiency on oil supplies. This has had the effect of focussing the attention of every individual upon his own country's ability to supply its own requirements. The general industrial speedup, particularly that connected with the Defence programme, has created a demand for greater quantities of refined oil products as well as new types.

At no time in the history of the Oil Industry in Canada have the oil companies been more deserving of greater credit than during the past year. The Industry has not only taken care of the increased industrial demand, but has also kept ahead of all demands made by the Army and Navy Services for their extensive requirements, as well as by the Commonwealth Air Training Plan for aviation gasoline. The Canadian oil refining companies have co-operated with the Department of Munitions and Supply, not only to supply all the aviation gasoline required, but also to store in their own storage tanks and at their own expense the large reserve quantities considered necessary by the Royal Canadian Air Force.

With respect to the general public, there has been no shortage of gasoline or other refined products, the quality of which has again been improved. The slight increases in prices which have taken place have not been sufficient to cover the additional costs due to the war. Unfortunately, the Canadian production of crude oil is almost all located in Western Canada and takes care of only approximately 20% of the Country's requirements of refined products. To make the balance, crude oil must be imported into Canada and paid for chiefly in United States currency. Canada is fortunate at this time in having a well organized Oil Industry with sufficient refining capacity to supply practically all of the Dominion's increased requirements of refined products. This has resulted in a very substantial saving in United States currency through the importation of crude oil instead of the more costly refined products.

Employee Relations—The Company has now in effect for its employees Group Sickness, Accident, and Life Insurance Plans, as well as the Retirement Income Plan described in last year's Annual Report. During the year it became evident that living costs were increasing and that the additional demand for labour was resulting in generally higher wages. Your Directors, therefore, approved a plan effective from last September to compensate the employees for the increased cost of living by adding a percentage to the normal wage or salary, which percentage will be varied from time to time in accordance with the decision of the Directors. This plan has been well received by the Company's employees.

General—At the last date of record, your Company had a total of 3,456 Preferred shareholders and 7,061 Common shareholders.

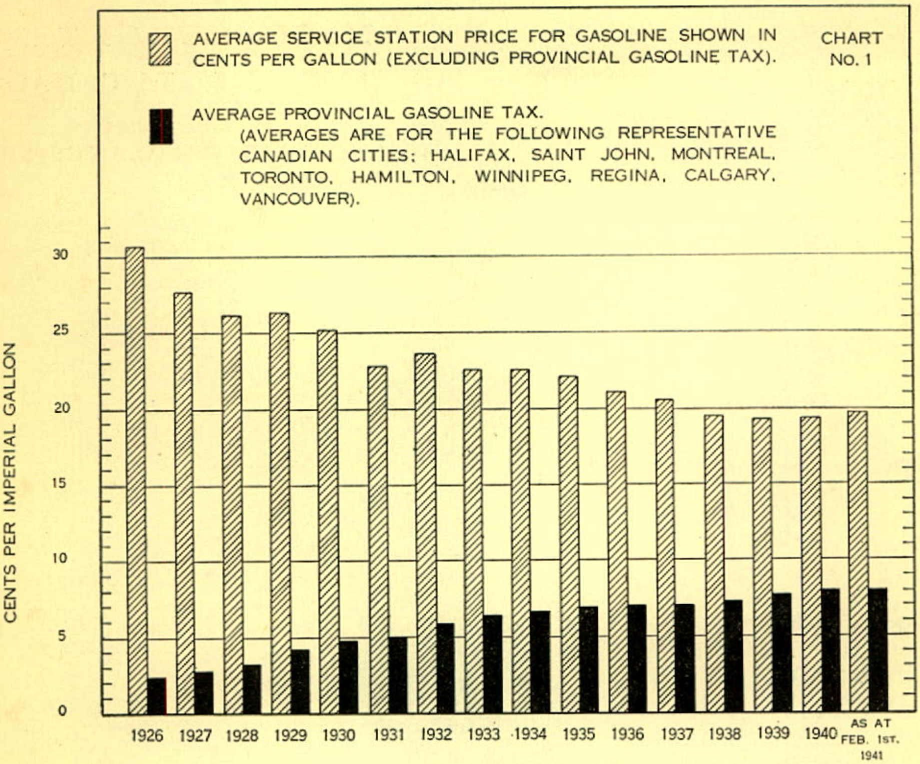
Your Directors again desire to express their appreciation of the faithful and efficient service rendered by the officers and employees of your Company and its subsidiaries.

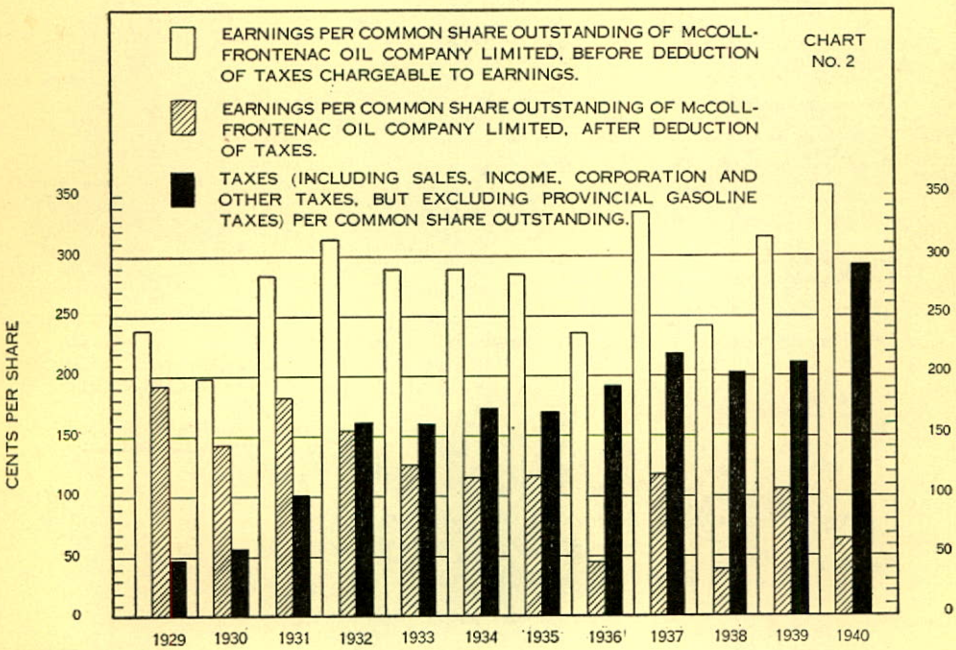
On behalf of the Board,

J. A. WALES,

President.

Montreal, February 28th, 1941.


AVERAGE SERVICE STATION PRICE FOR GASOLINE SHOWN IN CENTS PER GALLON (EXCLUDING PROVINCIAL GASOLINE TAX).
CHART No. 1
AVERAGE PROVINCIAL GASOLINE TAX.
(AVERAGES ARE FOR THE FOLLOWING REPRESENTATIVE CANADIAN CITIES: HALIFAX, SAINT JOHN, MONTREAL, TORONTO, HAMILTON, WINNIPEG, REGINA, CALGARY, VANCOUVER).
CENTS PER IMPERIAL GALLON
0
5
10
15
20
25
30
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939
1940
AS AT FEB. 1ST. 1941


EARNINGS PER COMMON SHARE OUTSTANDING OF McCOLL-FRONTENAC OIL COMPANY LIMITED, BEFORE DEDUCTION OF TAXES CHARGEABLE TO EARNINGS.
CHART No. 2
EARNINGS PER COMMON SHARE OUTSTANDING OF McCOLL-FRONTENAC OIL COMPANY LIMITED, AFTER DEDUCTION OF TAXES.
TAXES (INCLUDING SALES, INCOME, CORPORATION AND OTHER TAXES, BUT EXCLUDING PROVINCIAL GASOLINE TAXES) PER COMMON SHARE OUTSTANDING.
CENTS PER SHARE
0
50
100
150
200
250
300
350
1929
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939
1940

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:			
Cash on Hand and in Bank		$ 364,130.90	
Dominion and Provincial Bonds, at par		45,000.00	
Other Bonds and stocks, at quoted values		7,057.29	
Accounts and Bills Receivable, less reserves		3,075,876.60	
Inventories:			
Raw Materials, Finished and in Process Products, etc., as determined and certified by the Management and valued as to stocks which were on hand as at February 1, 1940, at average cost on that date and as to the balance of stocks on hand at current cost, all of which is below market	$6,102,401.75		
Stores, Containers and Supplies at or below cost	575,187.25		
		6,677,589.00	
			$10,169,653.79
INVESTMENTS IN AND ADVANCES TO SUBSIDIARY COMPANIES OUTSIDE OF CANADA:			
Investments, at book value		$ 950,497.85	
Advances		623,573.46	
			1,574,071.31
MORTGAGES, LOANS AND OTHER INVESTMENTS, less Reserve			727,318.80
DEFERRED CHARGES:			
Insurance, Taxes and Other Prepaid Expenses		257,395.39	
Alberta Oil Leases and Development Expenses		136,006.00	
Bond Discount and Expense, less Amortization		331,821.32	
			725,222.71
COST OF PROPERTIES:			
Land, Buildings and Plant, including Transportation and Other Equipment		$23,951,477.11	
Trade Marks, Processes and Goodwill		831,037.66	
Premium on purchase of Subsidiary Companies' Capital Stock		7,552,180.06	
			32,334,694.83
			$45,530,961.44

Approved on behalf of the Board:

J. A. WALES, Director.
J. M. PRITCHARD, Director.

OIL COMPANY LIMITED
SUBSIDIARIES

- DECEMBER 31, 1940

LIABILITIES

CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities			$ 2,225,142.80	
Preferred Dividend Payable			116,556.00	
Bond Interest Accrued			122,312.49	
Reserve for Income, Gasoline and Other Taxes			1,152,822.51	
				$ 3,616,833.80
DEFERRED LIABILITY in respect of minority interest in Canadian Subsidiary Company				93,100.00
MORTGAGES PAYABLE				267,156.85
RESERVE FOR DEPRECIATION				7,006,049.52
RESERVE FOR FUTURE DEPRECIATION IN INVENTORY VALUES				150,000.00
FIRST MORTGAGE AND COLLATERAL TRUST BONDS: (Authorized Issue $14,400,000.00)				
3% Serial Bonds due October 1, 1941, and October 1, 1942			$ 600,000.00	
3½% Serial Bonds due October 1, 1943 to October 1, 1946			1,200,000.00	
4¼% Sinking Fund Bonds due October 1, 1949			10,100,000.00	
				11,900,000.00
PREFERRED STOCK:				
6% Cumulative Sinking Fund Preferred Shares of $100.00 each (Authorized Issue 91,899 shares)				
Outstanding January 31, 1939		78,774 shares	$ 7,877,400.00	
Less: Redeemed		1,070 "	107,000.00	
		77,704 shares		7,770,400.00
COMMON STOCK AND SURPLUS:				
Common Shares of No Par Value— Authorized	2,487,763 shares			
Outstanding January 31, 1940	754,546 "	$9,599,363.92		
Issued during year:				
For cash	553 "	5,530.00		
For acquisition of Business and Assets	144,901 "	1,449,010.00		
	900,000 shares		11,053,903.92	
Capital Surplus			107,000.00	
Earned Surplus			3,566,517.35	
				14,727,421.27
				$45,530,961.44

Submitted with our Report to the Shareholders, dated February 18, 1941:

P. S. ROSS & SONS.

PRICE, WATERHOUSE & CO.

CONSOLIDATED STATEMENT OF SURPLUS
DECEMBER 31, 1940

EARNED SURPLUS:	
Balance, February 1, 1940	$3,181,629.07
Deduct:	
Adjustments affecting prior years, net	125,918.26
	$3,055,710.81
Net Profit for the eleven months ending December 31, 1940, as per statement attached	1,057,504.54
	$4,113,215.35
Deduct:	
Dividend on Preferred Shares	467,278.50
	$3,645,936.85
Deduct also:	
Cost of Preferred Shares purchased for Redemption during 1940	79,419.50
Balance at Credit, December 31, 1940	$3,566,517.35
CAPITAL SURPLUS:	
Balance, February 1, 1940, representing the par value of Preferred Shares purchased for Redemption during 1939	$ 28,000.00
Par Value of Preferred Shares purchased for Redemption during 1940	79,000.00
Balance at Credit, December 31, 1940	$ 107,000.00

OIL COMPANY LIMITED
SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
ELEVEN MONTHS ENDING DECEMBER 31, 1940

Profit from Operations	$3,675,558.93	
Income from Investments	28,371.78	
		$3,703,930.71
Deduct:		
Provision for the undernoted items:		
Depreciation	$1,236,322.82	
Doubtful Accounts	115,000.00	
Amortization of Bond Discount	47,003.30	
		1,398,326.12
		$2,305,604.59
Deduct also:		
Bank Interest	$ 616.69	
Bond and Mortgage Interest	467,483.36	
		468,100.05
		$1,837,504.54
Deduct also:		
Reserve for future depreciation in Inventory Values	$ 150,000.00	
Provision for Income and Excess Profit Taxes	630,000.00	
		780,000.00
Net Profit for the year—(Transferred to Earned Surplus)		$1,057,504.54

NOTE—The year's operations have been charged with the following: Legal Fees, $16,128.07; Remuneration of Executive Officers who devote the whole of their time to the business, including those who are also directors of the Company, $149,150.00; and Fees of other directors, $9,250.00.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have made an examination of the Consolidated Balance Sheet of McColl-Frontenac Oil Company Limited and its Canadian Subsidiary Companies as at December 31, 1940, and of the Consolidated Statements of Surplus and Profit and loss for the eleven months' period ended on that date, having been furnished with the audited financial statements of one of the subsidiary companies whose accounts have not been examined by us. In connection with our examination, while we did not make a detailed audit of the transactions, we examined or tested accounting records and other supporting evidence of the companies and obtained all the information and explanations which we required. We also made a general review of the accounting methods and of the operating and income accounts for the period which show that the Company has adopted the accounting policy of applying current costs instead of average costs, as formerly, to sales made during the period.

The Assets and Liabilities of the subsidiary companies outside of Canada are not included in the attached Consolidated Balance Sheet and, in accordance with Section 114 of the Companies Act 1934, we report that the Net Accumulated Surplus of the Frontenac Pipe Line Company, as shown by the audited Balance Sheet as at December 31, 1940, amounted to $23,347.73, U.S. currency of which $7,700.70, U.S. currency arose during the period under review, and the Net Accumulated Deficit of the Antilles Petroleum Company (Trinidad) Limited, as shown by the audited Balance Sheet as at December 31, 1940, amounted to $2,536,054.03, Trinidad currency, of which $110,367.33, Trinidad currency, arose during the period under review. Under the terms of By-Law "I," provision to the extent of $2,043,259.96, Canadian currency, for the above Deficit has already been reflected in the 1939 accounting period.

In our opinion, based upon the examination referred to above, we report that, subject to final determination of the Companies' liability for Income and Excess Profits taxes, the attached Consolidated Balance Sheet of the Company and its Canadian Subsidiaries and related Statements of Surplus and Profit and Loss are properly drawn up so as to show a true and correct view of the state of the combined affairs of the Companies consolidated herein, 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, February 18, 1941.

ANTILLES PETROLEUM COMPANY

BALANCE SHEET AS AT

ASSETS

CURRENT ASSETS:		
Cash in Bank and on Hand	$ 3,984.20	
Accounts Receivable	6,776.25	
Inventory of Stores and Supplies at Cost	265,099.76	
Inventory of Crude Oil, as certified by the Management	36,956.00	
		$ 312,816.21
DEFERRED CHARGES:		
Prepaid and Deferred Expense		12,337.95
OIL WELLS:		
Intangible Well Costs	$1,504,373.29	
Less: Amortization	1,439,986.63	
		64,386.66
OIL LEASES:		
Cost of Leases, and Development Cost	947,091.29	
Less: Amortization	759,502.58	
		187,588.71
FIXED ASSETS:		
Plant, Buildings, Drilling and Oil Well Equipment, Storage Tanks, Pipe Lines, etc., at Cost		1,079,950.31
		$1,657,079.84
DEFICIT:		
Balance at December 31st, 1940		2,536,054.03
		$4,193,133.87

STATEMENT OF PROFIT AND LOSS AND DEFICIT ACCOUNT
ELEVEN MONTHS ENDING 31st DECEMBER, 1940

Profit from Production of Crude Oil and Gas		$ 43,587.41
Deduct: Oil Lease Rentals on Non-Producing Properties		49,805.94
		$ 6,218.53
Deduct also: Amortization of Well Costs	$ 9,804.89	
Amortization of Lease Costs	9,624.00	
Depreciation of Fixed Assets	84,719.91	
		104,148.80
		$ 110,367.33
Add: Deficit Balance at January 31st, 1940		2,425,686.70
DEFICIT: Balance at 31st December, 1940		$2,536,054.03

(TRINIDAD) LIMITED

31ST DECEMBER, 1940

LIABILITIES

CURRENT LIABILITIES:		
Accounts Payable	$ 17,992.37	
Royalty Payable	1,562.00	
		19,554.37
BALANCE OF ADVANCES from McColl-Frontenac Oil Co., Ltd		2,625,457.47
RESERVE FOR DEPRECIATION		588,122.03
CAPITAL:		
Authorized and Issued:		
200,000 Ordinary Shares at £1 each, fully paid		960,000.00
		$4,193,133.87

NOTE—The above Balance Sheet is expressed in Trinidad Dollars, which are fixed to the Pound Sterling at $4.80 to the Pound.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have made an examination of the Books and Accounts of Antilles Petroleum Company (Trinidad) Limited to 31st December, 1940, and have obtained all the information and explanations which we have required. In our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December, 1940, according to the best of our information and the explanations given to us, and as shown by the Books of the Company.

FITZPATRICK, GRAHAM & CO.,
Chartered Accountants.

TRINIDAD, 22nd January, 1941.

Approved on behalf of the Board.

T. W. G. THOMSON, Director.

P. E. TAAFFE O'CONNOR, Director.

FRONTENAC PIPE LINE

BALANCE SHEET

(Expressed in United

ASSETS

CURRENT ASSETS:		
Cash in Banks and on Hand	$ 13,287.86	
Accounts Receivable (Less Reserve)	86,718.28	
Inventories of Crude Oil and Supplies	11,074.55	
		$ 111,080.69
ADVANCE PURCHASE CONTRACTS:		
Net Cash Outlay, payment contingent upon oil production (valuations not appraised)		42,611.14
DEFERRED CHARGES		338.13
FIXED ASSETS:		
Pipe Line Systems, Equipment, etc.—At Cost	139,435.24	
Other Oil Properties—At Cost	17,236.77	
		156,672.01
TOTAL		$ 310,701.97

STATEMENT OF PROFIT AND LOSS AND SURPLUS
ELEVEN MONTHS ENDED DECEMBER 31, 1940

Profit and Income from Operations and Investments, before Depreciation, Depletion and Other Deductions	$ 26,256.39
Deduct: Depreciation and Depletion	14,761.69
	$ 11,494.70
Deduct also: Bank and Other Interest	2,392.57
	$ 9,102.13
Provision for Income Tax	1.401.43
Net Income for Period	7,700.70
Balance of Surplus, Beginning of Period	15,647.03
Earned Surplus Balance, December 31, 1940	$ 23,347.73

COMPANY (TEXAS)

DECEMBER 31, 1940

States Currency)

LIABILITIES

CURRENT LIABILITIES:		
Crude Oil Accounts Payable	$ 149,537.53	
Other Accounts Payable	1,774.86	
Provision for Income and Other Taxes	1,815.77	
Miscellaneous Accrued Liabilities	876.39	
		$ 154,004.55
McCOLL-FRONTENAC OIL CO., LTD.		1,763.16
RESERVES FOR DEPRECIATION AND DEPLETION		81,586.53
CAPITAL STOCK AND SURPLUS:		
Common Stock—Authorized, Issued and Outstanding, 500 Shares of $100.00 Par Value	50,000.00	
Earned Surplus	23,347.73	
		73,347.73
TOTAL		$ 310,701.97

AUDITORS' CERTIFICATE

We have examined the balance sheet of the Frontenac Pipe Line Company as of December 31, 1940, and the statement of profit and loss and surplus for the accounting period from February 1, 1940 to December 31, 1940, and without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related statement of profit and loss and surplus present fairly the position of the Frontenac Pipe Line Company at December 31, 1940, and the results of its operations for the eleven-month period, in conformity with generally accepted accounting principles applied on a basis consistent with the preceding year.

ARTHUR SQUYRES & CO.,
Certified Public Accountants.

TYLER, TEXAS, January 29, 1941.

Remember

THIS IS *YOUR* COMPANY!

WHATEVER activities occupy the major part of your time, your investment in shares of McCOLL-FRONTENAC OIL COMPANY LIMITED gives you a vital interest in the Company and its progress.

If, in the course of business or social activities, an opportunity is presented to influence the choice of fuels or lubricants for any purpose, it is to your best interests to suggest that the petroleum products of McCOLL-FRONTENAC OIL COMPANY be given a trial.

Your nominations for the Company's Credit Cards will be of greatest value to us and to your friends as these Credit Cards are honoured at 50,000 retail gasoline outlets in all the Provinces of Canada and in all the States of the United States where the Red Indian and Texaco Star signs are displayed.

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