Texaco Canada Ltd.

McCOLL-FRONTENAC
OIL COMPANY LIMITED

Eleventh Annual Report

for the
Year Ending
January Thirty-First
1939

McCOLL-FRONTENAC OIL COMPANY LIMITED

BOARD OF DIRECTORS

H. H. BRADBURN, Winnipeg

J. H. GUNDY, Toronto

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

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

J. M. PRITCHARD, Montreal

H. W. THORP, Montreal

J. A. WALES, 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, V.C. D.S.O., M.C., D.F.C., *Vice-President*,

T. V. ANDERSON, *Assistant Secretary-Treasurer*

K. W. HOGG, *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:—

In submitting your Company's eleventh Annual Report, your Directors are going somewhat beyond the formal presentation of the Company's Balance Sheet, Profit and Loss Statement, and Surplus Account with the usual comments thereon. In so doing, your Directors are giving expression to their belief that the Shareholders are interested in and should receive full explanations regarding the various items in the Company's financial reports and as much information as possible regarding the Company's properties, operations, and employee relationships, as well as the effect of taxation, legislation, and other matters which may have a bearing on the Company's future trend.

Your Directors are submitting herewith the Balance Sheet as at January 31st, 1939, and the Profit and Loss Statement and Surplus Account of McColl-Frontenac Oil Company Limited and its Canadian subsidiary companies for the twelve 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, both wholly owned subsidiary companies shown in your Company's Balance Sheet under the item of "Investments in and Advances to Other Subsidiary Companies." These are the only subsidiary companies in which your Company has an interest outside of the Dominion of Canada. All figures for the previous years used for comparison in this report are the figures for the Company and its Canadian subsidiary companies.

In presenting separately the Balance Sheet, Profit and Loss Statement, and Surplus Account of your Company and its Canadian subsidiaries, your Directors are returning to the practice followed prior to last year's Report, thereby enabling the Shareholders to see the value of the Company's assets in Canada and the profits obtained from the use of these assets in the refining and marketing of petroleum products in Canada. The Shareholders may also more easily make comparisons with the Company's Canadian operations in previous years. Your Directors decided, however, that complete financial statements of the subsidiary companies outside the Dominion of Canada should be submitted, so that the Shareholders might have all possible information available with respect to these companies.

Profits from operations and income from investments of your Company and its Canadian subsidiary companies amounted to $2,726,551.77, as compared with $3,478,899.67 for the previous year, and $2,445,493.00 for the year ending January 31st, 1937. Net profits available for dividends on the Preferred and Common Stocks, after deduction of bond interest, bank interest, and mortgage interest, and provision for depreciation, doubtful accounts, amortization of bond discount, income and other corporation taxes, amounts to $761,656.86, compared with $1,266,540.68 for the previous year and $764,665.10 for the year ending January 31st, 1937. After deduction of the Preferred Stock dividend of $473,224.50 there remains a balance of $288,432.36, equivalent to 37.6c per share on the 766,783 shares of Common Stock outstanding, compared with $1.03 per share for the previous year on the 766,783 shares of Common Stock outstanding, and 45c per share for the year ending January 31st, 1937, on the 660,000 shares of Common Stock outstanding.

The reduction in net profit was due to the lower prices received for your Company's products, particularly gasoline, the average price of which declined over seven-tenths of a cent per gallon as compared with the previous year. The net profit averaged less than one-half cent per gallon on the total volume of products sold and, when applied only to gasoline, amounted to less than three-quarters of a cent per gallon on the Company's total sales of gasoline. This does not represent an adequate return on the capital used in the refining, transportation, and marketing of the Company's products. It is well to bear in mind this small profit on gasoline and to compare it with the 1.44c per gallon paid as taxes by the Company and the 7c to 10c per gallon gasoline tax imposed on the motorist by the various provincial governments. The present price of gasoline as compared with previous prices and with the prices of other commodities is low: only the tax is high.

The reductions in the prices for refined products during the year could not be offset by lower costs for crude oil, since crude oil prices remained practically unchanged until the latter part of the year and the reductions in crude oil prices made in October were offset by further reductions in the prices of gasoline and other refined products. In many cases these reductions were necessary to meet the competition resulting from the sale of imported gasoline by independent jobbers, which gasoline was usually purchased at distress prices. Since the reduction in the customs import duties on gasoline in May, 1936, importations of gasoline into Canada have increased from 19,077,873 gallons in the calendar year 1936 to 71,623,855 gallons in the calendar year 1938; which indicates the necessity for your Company meeting the existing competitive price situation.

Operating, marketing, and administration expenses have been reduced during the year. Your Directors, with the consent and co-operation of the Management, have cancelled the Management Participation Plan, which has been in effect since 1930.

During the year, three quarterly Common Stock dividends of 10c per share were paid, amounting to a total of $230,034.70. On October 27th, 1938, your Directors decided to omit the Common Stock dividend because of the Company's lower profits and the desirability of reducing the Company's bank loans and building up a stronger working capital position.

The Surplus Account shows a capital surplus of $122,200.00 compared with $30,400.00 as at January 31st, 1938. This increase arose from the purchase of the Company's Preferred Stock for redemption in accordance with the provisions attaching to the Preferred Stock. The Earned Surplus balance of $2,285,636.95 is $1,360,231.82 less than shown at January 31st, 1938, even after the addition of

$58,397.66, the balance from the current year's earnings after deduction of Preferred and Common dividends. The Surplus Account gives in detail the items credited to or deducted from the Account, most of which are self-explanatory. The item pertaining to adjustment of inventory value, however, requires some explanation. Previously, the Company's inventories were valued at departmental cost which, while not in excess of market value, included certain departmental profits, as for example the difference between the actual cost and the rates charged by the Marine Department for the transportation of crude oil and refined products. Your Directors decided to eliminate all departmental profits from the Company's inventories. The amount of $328,238.08 represented the departmental profits in the Inventories for the years prior to February 1st, 1938, and, as such, was charged to Earned Surplus. The Company's inventories are now shown at cost or market value, whichever is the lower.

During the year Fixed Assets increased by a net amount of $324,382.52 after giving effect to necessary write-offs. Provision for Depreciation made during the year amounted to $982,175.83. After adjustments for necessary write-offs, the total Depreciation Reserve shows an increase of $528,856.25 and now amounts to $5,646,654.80. These write-offs from the Fixed Asset and Depreciation Reserve Accounts are due to the Company's policy of writing off any fixed asset which is considered of no further value to the Company.

Premium paid on purchase of subsidiary companies' Common Stock represents the difference between the price paid by your Company for the Capital stocks of Canadian subsidiaries and the book value of the Capital stocks of such subsidiaries.

Investments in and Advances to Subsidiary Companies outside of Canada are shown at $3,505,948.05. Of this amount $112,483.51 represents investment in and advances to the Frontenac Pipe Line Company. The balance of $3,393,464.54 represents investment in and advances to the Antilles Petroleum Company (Trinidad) Limited. Since the financial statements submitted for these companies are expressed in United States and Trinidad dollars respectively, they will, therefore, not check exactly with the amount shown under this item on your Company's Balance Sheet. Your Directors feel that, as the audited statement of the Antilles Petroleum Company (Trinidad) Limited shows it has incurred a deficit of $2,043,259.96, this undoubtedly affects the value of this item on your Company's Balance Sheet. Accordingly, they have deemed it advisable that this amount should be written off this item and a corresponding reduction made in the Paid-up Capital: all of which is provided for in a By-law passed by your Directors on May 2nd, 1939, which By-law will be submitted for your approval at a Special General Meeting of the Company to be held immediately following the Annual Meeting.

Mortgages, Loans and Other Investments, after deduction of reserves, are shown at $450,087.00, as compared with $655,159.00 for the previous year. Of this amount $450,086.00 is represented by Mortgages and Loans, while "Other Investments" are shown at $1.00. Mortgages and Loans are made to the Company's customers and the amount shown is after providing a reserve of $87,068.00.

Since your Directors consider "Other Investments" to have little or no value, the cost thereof amounting to $252,479.00 has been written down to $1.00. The total additional reserve required during the year for this purpose, amounting to $147,398.57, has been charged against Earned Surplus Account, since the investments were all made in prior years. Marketable Securities at quoted values are shown at $43,450.88 after providing a reserve of $98,031.37.

Current Assets at $6,969,485.83 are $1,384,444.55 less than the previous year, due chiefly to a reduction in Inventories of $1,166,-633.36. Current Liabilities at $1,355,100.11 are $3,668,576.50 less than the previous year, due chiefly to the elimination of the Bank Loan, which amounted to $3,400,000.00 the previous year. The ratio of Current Assets to Current Liabilities is 5.1 to 1, as compared with 1.7 to 1 the previous year.

Net Working Capital, that is the excess of Current Assets over Current Liabilities, amounts to $5,614,385.72, as compared with $3,330,253.77 for the previous year and is the largest in the history of the Company.

New Financing

In the month of July, 1938, your Directors arranged for the redemption on October 1st, 1938, of the Company's then existing 6% Bonds, and signed an underwriting agreement for the sale of a new issue of $12,500,000.00 First Mortgage and Collateral Trust Bonds, Series "A", at a price of $97.00 for each $100.00 of Bonds. Of the total issue, $1,200,000 are 3% Serial Bonds, due in the amount of $300,000 per annum on October the 1st, 1939, 1940, 1941, and 1942; $1,200,000 are 3½% Serial Bonds, due in the amount of $300,000 per annum on October the 1st, 1943, 1944, 1945, and 1946; and the balance of $10,100,000 are 4¼% Eleven-year Bonds, due October the 1st, 1949. Sinking Fund provision on the 4¼% Eleven-year Bonds will not commence until October the 1st, 1947. All Bonds are payable, both as to interest and principal, in Canadian currency. For your information, the Sinking Fund requirements on the $9,070,000 balance remaining of the former 6% Bonds were estimated to average $343,950 per annum for the ten years ending October 1st, 1948, without including the foreign exchange premiums. This would have been considerably in excess of the amount of $300,000 required annually for the serial redemption and Sinking Fund requirements of the present $12,500,000 issue. By this refinancing, your Directors not only greatly reduced the Bond interest rate but, at the same time, eliminated the foreign exchange risk of the former 6% Bonds, which were payable as to interest and principal at the option of the holder in Canadian, Sterling, and United States currencies. The cost of foreign exchange on interest only during the past eight years has amounted to $207,354.32. The additional money secured by the new issue was necessary to reduce the Company's Bank Loan, which last summer amounted to approximately $5,000,000, and to increase the Company's working capital. Your Directors estimate that the saving on the Bond and Bank interest and foreign exchange due to the new Bond issue will amount to approximately $200,000 per annum.

Frontenac Pipe Line Company

In 1934 your Company caused to be incorporated in the State of

Texas, U.S.A., the Frontenac Pipe Line Company, which owns and operates a gathering system for crude oil in the East Texas Field, and also crude oil storage tanks and other equipment. This Company was created for the purpose of purchasing and gathering East Texas crude oil for sale to McColl-Frontenac Oil Company Limited. During the past four years it has purchased and gathered 4,461,327 barrels of East Texas crude oil. During the past year your Company sold to the Frontenac Pipe Line Company the Capital Stock of McColl Brothers Incorporated, which was a wholly-owned subsidiary company incorporated in the State of New York, U.S.A., in 1925 by McColl Brothers Limited. McColl Brothers Incorporated owns land, crude oil storage tanks, and loading facilities at Buffalo, N.Y., having an asset value of $45,657.72. The statements of this Company have been consolidated with those of the Frontenac Pipe Line Company. Fixed Assets are shown at $184,866.00, against which there is a depreciation reserve of $67,014.00. Advance Purchase Contracts in the amount of $111,029.73 represent pre-payments to oil producers under contract to sell and deliver their production of crude oil to the Frontenac Pipe Line Company. Your Company's capital investment in the Frontenac Pipe Line Company has not been increased from the original $50,000.00. Since incorporation, the Frontenac Pipe Line Company has, from time to time, secured money from United States banks by discounting notes of McColl-Frontenac Oil Company Limited. When such notes are under discount they constitute a contingent liability of the Frontenac Pipe Line Company, and must be so shown on the Balance Sheet.

Operating Profits of the Frontenac Pipe Line Company and subsidiary during the year amounted to $36,143.31 and, after deduction of bank and other interest, provision for depreciation, bad debts, income and other taxes, there remained a net profit for the year of $11,422.02. Earned Surplus balance as at January 31st, 1939, amounted to $12,798.01. Since incorporation, the Frontenac Pipe Line Company has paid to McColl-Frontenac Oil Company Limited interest amounting to $25,024.04 on all direct advances and also dividends amounting to $10,000.00 on the investment of $50,000.00.

Antilles Petroleum Company (Trinidad) Limited

In 1935 your Company caused to be incorporated in Trinidad, British West Indies, the Antilles Petroleum Company (Trinidad) Limited, which is a wholly-owned subsidiary company and which immediately thereafter acquired control of oil leases on 2,660 acres of land in the Brighton-Vessigny Area of Trinidad. Drilling was commenced on these leases early in 1936 and the first well drilled was a producer. Up to January 31st, 1939 there have been 67 wells completed on the Brighton-Vessigny Leases, of which 52 were producers, and 15 were dry-holes. There are also 2 wells still uncompleted. Of the original producers, 50 wells are still producing: which in addition to the 11 wells taken over by the Company from the former operators, makes a total of 61 producing wells on the Brighton-Vessigny Leases. In all, a total of 189,939 ft. has been drilled on these leases and as at January 31st, 1939, a total of 984,569 barrels of crude oil had been produced therefrom. Unfortunately, the crude oil produced was a heavy crude oil averaging about 18° A.P.I.

gravity and was not suitable for your Company's requirements. The oil has, therefore, been sold abroad as accumulated. Due to an intensive drilling programme during the year 1937, in which three drilling rigs were used, the Company was able to attain its maximum production. Serious difficulties were encountered, however, in keeping the wells on the Brighton-Vessigny Leases from sanding up and production started to decline, while production costs became greater during the latter part of that year. During the past year production continued to decline and total production amounted to only 315,441 barrels, as compared with 499,722 barrels for the previous year and 169,406 barrels for the year ending January 31st, 1937. At the present time production is at approximately 24,000 barrels per month. Practically all of the crude oil from the Brighton-Vessigny Leases was produced from relatively shallow horizons of from 1,500 to 2,000 ft. and was similar to production previously obtained by the former operators of the property. A number of attempts have been made to locate deeper sands on these leases, from which it was hoped that a lighter grade of crude oil would be obtained, but without success to date. Because of the disappointing results obtained from the existing shallow-producing wells and the failure to locate deeper producing sands, drilling has been discontinued on the Brighton-Vessigny Leases.

It was felt that, if suitable crude oil were to be obtained, other properties must be acquired, and since the purchase of the Brighton-Vessigny Leases the Antilles Company has continued to acquire control of acreage under oil leases and oil licenses. As at January 31st, 1939, a total of 41,753 acres were so held at various locations on the Island of Trinidad. In October, 1937, drilling was commenced on a lease located in the Pointe Ligoure District and, in spite of numerous technical difficulties, this well was brought into production in May, 1938, at a depth of 7,200 ft. This well produced initially at a rate of approximately 300 barrels per day and is still producing at the rate of approximately 45 barrels per day. Since the oil obtained was of 32° A.P.I. gravity and very desirable for your Company's refineries, the drilling of another well nearby was undertaken. This second well is now at a depth of approximately 8,000 ft., but is in such condition that it may have to be abandoned. Early in 1938 a well was drilled to 3,880 ft. on a lease in the Erin District, but resulted in a dry hole.

In addition to drilling equipment, well equipment, pipe lines, and storage tanks, it has been necessary to provide living quarters, offices, warehouses, machine shops, and other service departments. This part of the investment, however, has been kept at a minimum. Fixed Assets, which include well equipment, pipe lines, storage tanks, buildings, etc., are shown at $1,120,113.00, against which there has been set up a depreciation reserve of $440,554.75. Cost of Oil Leases and Licenses are shown at $880,732.24, with amortization at $742,043.77. Of the total cost $720,000.00 represents the cost of the original Brighton-Vessigny Leases. Intangible Oil Well Costs are shown at $1,325,819.37, against which amortization is shown at $1,163,528.65. Current Assets of $387,174.00 exceed Current Liabilities of $53,057.00 by $352,117.00.

During the year Profit from production of crude oil and gas amounted to $79,870.19. After deduction of oil lease rentals on non-producing properties, amounting to $39,612.58, there remains a balance of $40,257.61. During the year a total of $587,491.07 was written off for Amortization of Well Costs, Amortization of Lease Costs, and Depreciation of Fixed Assets, resulting in a deficit for the year of $547,233.46. To this amount must be added the deficit balance as at January 31st, 1938, of $297,033.05, plus additional write-offs applicable to the years prior to February 1st, 1938, amounting to $1,198,993.45, bringing the total deficit balance as at January 31st, 1939, to $2,043,259.96. The adjustments applicable to the years prior to February 1st, 1938, were made for the following reasons: (a) The Company's experience during the past year has been such that it was considered advisable to write off the total cost of completed wells during the year in which they were incurred instead of following the prior years' policy of amortizing same over a period of years. (b) It was likewise considered advisable to write off certain leases instead of amortizing same over a period of years.

Undoubtedly, your Directors have been, and still are, faced with a serious problem in connection with the Antilles Petroleum Company (Trinidad) Limited. The investments in and advances to this Company since its incorporation have amounted to $3,393,464.54, Canadian currency, and have been a severe drain on your Company's cash resources and the main cause for the large Bank Loans during the past three years. In order to reduce the cash requirements, your Directors during the past year drastically curtailed the drilling and other development expenses of the Antilles Company, with the result that advances required from your Company during the year were reduced to $535,643.39, as compared with $1,546,506.67 for the previous year. While the Antilles Company's properties may prove to be valuable, further exploration drilling would require a substantial amount of money. Your Directors feel, that for the time being further advances to this Company must be so reduced as not to impair the present strong working capital position of your Company.

Company Operations

Crude Oil—During the year a total of 4,354,066 barrels of crude oil were purchased and transported to your Company's Refineries at Montreal and Toronto, including purchases from the Frontenac Pipe Line Company. Other purchases were from various companies in the United States and no one company supplied more than 24.43% of the total amount. Your Management is continuing to purchase its supplies of crude oil at the lowest possible cost to the Company.

Ocean Transportation—The Company has continued its policy of securing its ocean tanker tonnage by time charters over periods of from five to ten years. Recent time charters, however, have been made for the navigation season only, so as to relieve your Company of the necessity of re-chartering during the winter months when the St. Lawrence River is closed to navigation. Out of the seven ocean tankers presently under charter, five vessels are now diesel-engine-driven. Costs per barrel from Texas, or other Gulf Ports, to Montreal have been steadily reduced and are considered very satisfactory.

Refineries—The Company's two Refineries, located at Toronto and Montreal, have a present combined refining capacity of 23,000 barrels of crude oil per day. During the year no additional capacity was installed. Capital expenditures were made for the purpose of increasing efficiency and lowering costs and for the improvement of refined products.

Distribution—The Company owns and operates 145 tank cars and operates approximately 60 more under lease for the movement of refined products by rail. It also owns approximately 260 motor trucks and, through subsidiary companies, three lake tankers. The relatively high cost of rail movement has resulted, during the past several years, in the handling of a large quantity of refined products by lake tankers to marine terminals located on the Great Lakes and St. Lawrence River, from which further transportation is made either by rail or motor truck. Transportation costs constitute one of the most important factors in your Company's operations and every effort has been made to reduce these costs to a minimum.

Marketing—Your Company operates 178 storage warehouses and bulk plants throughout the Dominion of Canada. More than 430 Company-owned service stations, in addition to approximately 3,070 independent dealers, take care of the retail sales of your Company's products. These products are marketed under various trade names, including Cyclo-Ethyl Gasoline, Marathon Blue Gasoline, and Red Indian Motor Oils, and all retail outlets are easily identified by the well-known Red Indian service station signs. Shareholders will probably be interested in the enclosed map showing the locations of the Company's properties and distribution facilities throughout the Dominion of Canada. In accordance with a long-established policy, most of the Company-owned service stations are leased to independent operators.

Sales—During the past year the sales volume, both in gallons and dollar value, was the largest in the history of the Company and was entirely satisfactory to your Directors.

Taxation—Taxation continues to be one of the main items of expense. In order to appreciate the effect of taxation on your Company's position, it should be divided into two classes: first, the Provincial Gasoline Tax paid by the motorist; and, second, the various other taxes, such as excise, sales, corporation, etc., which the Company must absorb. The Provincial Gasoline Tax, although paid by the motorist, has now reached a point where it will undoubtedly affect consumption of gasoline and, indirectly, your Company's earning power. An amount of $4,739,495.70 was collected by the Company on behalf of the various provincial governments during the year. This amount represents, however, only approximately 75% of the total Provincial Gasoline Tax actually paid, since a considerable amount of gasoline was sold to licensed jobbers who paid the tax direct. In addition, your Company absorbed a total of $1,545,201.92, paid out in sales, excise, income, corporate, and other taxes, representing $2.02 per share on the 766,783 shares outstanding. This compares with an amount of $229,866.61 for the fiscal year ending January 31st, 1930, which represents 46c per share on the 500,000 shares then outstanding. This drastic increase in taxation, together with declining prices, has more than offset the Management's best efforts in respect to reduction of expenses, improved yields, and increased efficiency, with a consequent reduction in net earnings. Chart No. 1 shows the average service station price per gallon of gasoline in effect in nine representative cities of Canada, over the past thirteen years as compared with the average Provincial Gasoline Tax in effect during these years. It clearly shows the decline in the service station price of gasoline as compared with the increase in the Provincial Gasoline Tax. Chart No. 2 shows the amount of taxation paid by the Company, exclusive of the Provincial Gasoline Tax, calculated on the basis of the amount per share of the Common Stock outstanding during the past ten years, as compared with the earnings per share of Common Stock during the same period.

Public Relations—The Oil Industry is a highly competitive one which gives a good service to the public at a very small profit. The Industry has gone to great lengths in providing its present highly efficient and convenient services for the benefit of the motorists. It must be admitted that the system is well adapted to the needs of the public and that it contributes to the support of a large number of individuals. Your Directors feel that the Shareholders and Employees of the Company can do a great deal to enlighten the public in general in regard to the function of the Oil Industry, the small profit made in the Industry in the manufacture and sale of gasoline, and the necessity of treating the Industry fairly in matters of taxation and legislation.

Employee Relations—Under the Group Life Insurance Plan, since 1931 each employee has had in effect life insurance equal to one year's salary or wage, the premiums for which are paid by the Company. In addition, each employee may take out at the same rate additional insurance of an equal amount, with the premiums payable by the employee, the maximum amount for any individual being limited to $10,000.00. Under the Group Sickness and Accident Policy, all wage-earners are entitled to take out insurance against sickness and non-occupational accident, the premium for which is divided equally between the Company and the employee. The Company has had under consideration a Pension Plan for the employees but, owing to the reduced earnings of the Company, the original plan has had to be modified and is at the present time receiving the consideration of the Directors.

General—At the last date of record your Company had a total of 3,501 Preferred Stockholders and 7,680 Common Stockholders.

Your Directors would like to thank the Shareholders for their continued support and co-operation; and, together with the Management, would appreciate any criticism or suggestion which might be helpful in improving your Company's products, service, or earnings.

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 Subsidiary Companies.

On behalf of the Board,

J. A. WALES,
President.

Montreal, May 17th, 1939.

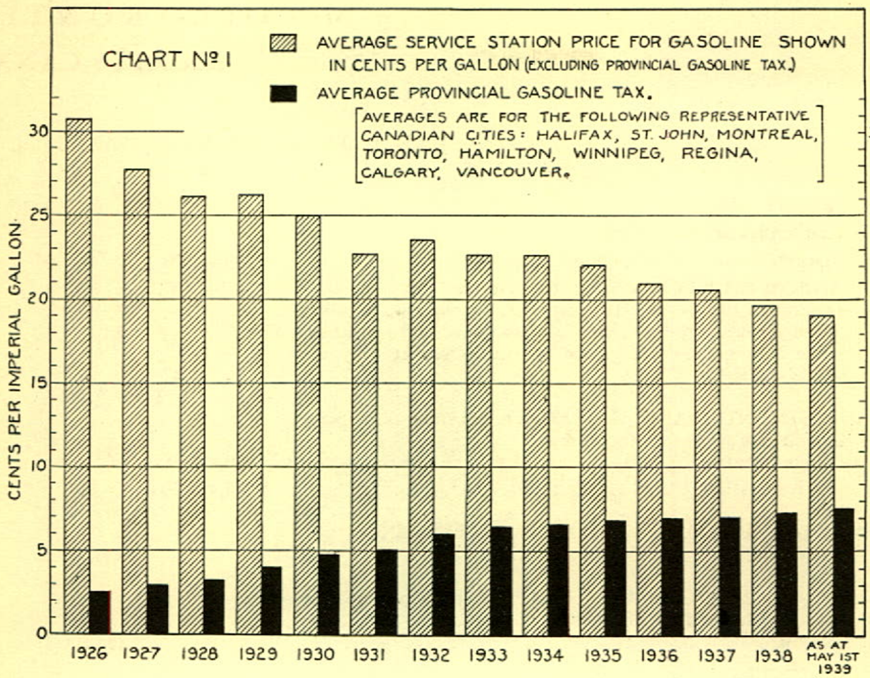
CHART Nº 1
AVERAGE SERVICE STATION PRICE FOR GASOLINE SHOWN IN CENTS PER GALLON (EXCLUDING PROVINCIAL GASOLINE TAX.)
AVERAGE PROVINCIAL GASOLINE TAX.
AVERAGES ARE FOR THE FOLLOWING REPRESENTATIVE CANADIAN CITIES: HALIFAX, ST. JOHN, MONTREAL, TORONTO, HAMILTON, WINNIPEG, REGINA, CALGARY, VANCOUVER.
CENTS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

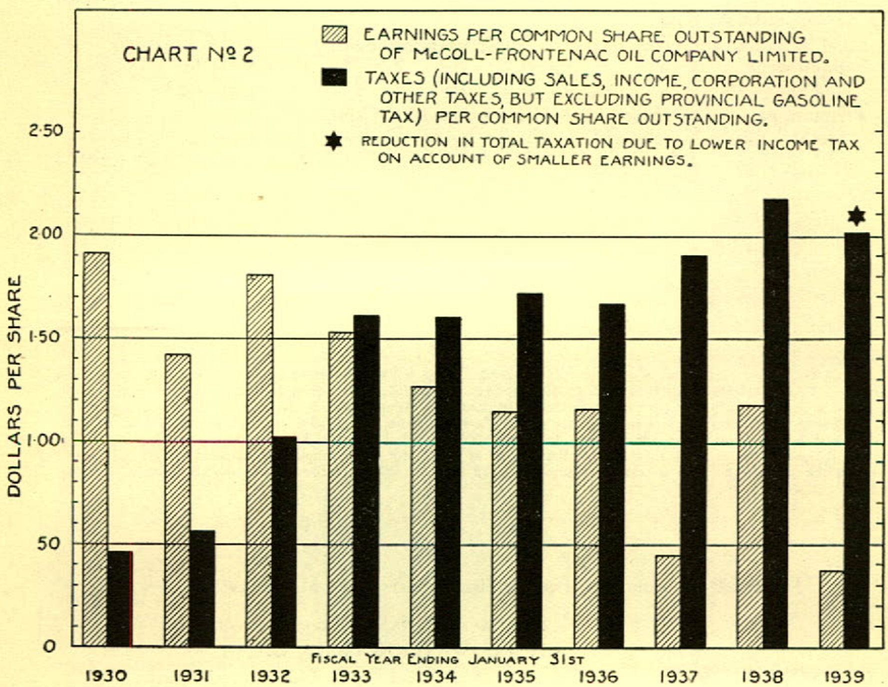
CHART Nº 2
EARNINGS PER COMMON SHARE OUTSTANDING OF McCOLL-FRONTENAC OIL COMPANY LIMITED.
TAXES (INCLUDING SALES, INCOME, CORPORATION AND OTHER TAXES, BUT EXCLUDING PROVINCIAL GASOLINE TAX) PER COMMON SHARE OUTSTANDING.
REDUCTION IN TOTAL TAXATION DUE TO LOWER INCOME TAX ON ACCOUNT OF SMALLER EARNINGS.
DOLLARS PER SHARE
0
·50
1·00
1·50
2·00
2·50
FISCAL YEAR ENDING JANUARY 31ST
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939

McCOLL-FRONTENAC
AND ITS CANADIAN

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:		
Cash on Hand and in Bank	$ 176,176.17	
Marketable Securities at quoted values	43,450.88	
Accounts and Bills Receivable, less reserves	2,330,467.37	
Inventories of raw materials, supplies, merchandise in process and finished products, etc., as determined and certified by the Management and valued at cost or market whichever was the lower	4,419,391.41	
		$ 6,969,485.83
INVESTMENT IN AND ADVANCES to Subsidiary Companies outside of Canada (see footnote):		
Investments	$ 950,497.85	
Advances	2,555,450.20	
		3,505,948.05
MORTGAGES, LOANS AND OTHER INVESTMENTS, less reserve		450,087.36
COST OF 12,237 COMMON SHARES of the Company purchased under By-Law "E" for sale to employees—balance (see footnote)		135,206.12
DEFERRED CHARGES:		
Insurance, Taxes and Other Prepaid Expenses	$ 285,829.70	
Bond Discount and Expense, less amortization	438,971.19	
		724,800.89
COST OF PROPERTIES:		
Land, Buildings and Plant, including Transportation and other Equipment	$21,955,224.38	
Trade Marks, Processes and Goodwill	831,037.66	
Premium paid on purchase of Subsidiary Companies' Capital Stock	7,478,537.48	
		30,264,799.52
		$42,050,327.77

NOTE: By-law "I" enacted by the Directors on May 2nd, 1939, will be submitted for consideration of the shareholders at a Special General Meeting to be held on May 30th, 1939, which, if approved and confirmed by Supplementary Letters Patent, will result in the reduction of the paid-up capital of the Company as represented by its Common Shares by writing off $2,043,259.96 from "Investments in and advances to Subsidiary Companies outside of Canada," being the deficit shown by the audited Balance Sheet of the Antilles Petroleum Company (Trinidad) Limited, and by elimination of $135,206.12 "Cost of 12,237 Common Shares of the Company purchased under by-law 'E' for sale to employees—balance."

By-law "I" also provides for the cancellation of 1,222 Preferred Shares redeemed and of the above 12,237 Common Shares.

Submitted with our report to the Shareholders dated May 2, 1939.

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

Montreal, May 2, 1939.

OIL COMPANY LIMITED
SUBSIDIARIES

- JANUARY 31, 1939

LIABILITIES

CURRENT LIABILITIES:			
Accounts and Notes Payable and Accrued Liabilities		$ 803,472.02	
Bond Interest Accrued		169,083.32	
Reserve for Income, Gasoline and Other Taxes		382,544.77	
			$ 1,355,100.11
BALANCE owing to Subsidiary Companies outside of Canada			239,644.66
MORTGAGES PAYABLE			245,861.25
RESERVE FOR DEPRECIATION			5,646,654.80
FIRST MORTGAGE AND COLLATERAL TRUST BONDS: (Authorized Issue—$15,000,000.00)			
3% Serial Bonds due October 1, 1939 to October 1, 1942		$ 1,200,000.00	
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	
			$12,500,000.00
PREFERRED STOCK:			9240
6% Cumulative Sinking Fund Preferred Shares of $100.00 each (Authorized Issue)	93,121 Shares		3260
Issued	79,996 Shares	$7,999,600.00	
Deduct:			
Redeemed to date 1,168 Shares			
Held for Redemption 54 Shares	1,222 Shares	122,200.00	
	78,774 Shares		$ 7,877,400.00
Redeemable at $105.00 on any dividend date on thirty days' notice.			49 38
COMMON STOCK AND SURPLUS:			
Common Shares of No Par Value— Authorized	2,500,000 Shares		
Issued	766,783 Shares	$11,777,830.00	
Capital Surplus		122,200.00	
Earned Surplus		2,285,636.95	
			$14,185,666.95
			$42,050,327.77

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2179

Approved on behalf of the Board:

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

CONSOLIDATED STATEMENT OF SURPLUS
JANUARY 31, 1939

EARNED SURPLUS:			
Balance, February 1, 1938, after elimination of Net Deficit balances of $299,813.50 (as at that date) of Subsidiary Companies outside of Canada not now consolidated		$3,645,868.77	
Deduct:			
Adjustment resulting from change from departmental to actual cost basis for valuation of inventories as at February 1, 1938, as authorized by Board of Directors	$328,238.08		
Reserve for Investments	147,398.57		
Discount and Expense on Bonds retired—(Balance)	468,058.26		
Premium and Exchange on Bonds retired	375,520.16		
Miscellaneous adjustments affecting prior years	15,483.56		
		1,334,698.63	
			$2,311,170.14
Add:			
Net Profit for the year ending January 31, 1939, as per statement attached			761,656.86
			$3,072,827.00
Deduct:			
Dividends Paid—			
On Preferred Shares		$473,224.50	
On Common Shares		230,034.70	
			703,259.20
			$2,369,567.80
Deduct also			
Cost of Preferred Shares purchased for Redemption during 1938			83,930.85
Balance at Credit January 31, 1939			$2,285,636.95
CAPITAL SURPLUS:			
Balance February 1, 1938			$ 30,400.00
Add:			
Par Value of Preferred Shares purchased for redemption in 1938			91,800.00
Balance at Credit January 31, 1939			$ 122,200.00

OIL COMPANY LIMITED
SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
YEAR ENDING JANUARY 31, 1939

PROFIT FROM OPERATIONS	$2,700,627.29	
INCOME FROM INVESTMENTS	25,924.48	
		$2,726,551.77
Deduct:		
Provision for the undernoted items:		
Depreciation	$ 982,175.83	
Doubtful Accounts	75,001.91	
Amortization of Bond Discount, etc.	56,781.81	
		1,113,959.55
Deduct also:		$1,612,592.22
Bank and Other Interest	$ 179,994.61	
Bond and Mortgage Interest	560,297.59	
		740,292.20
		$ 872,300.02
Provision for Income Taxes		110,643.16
Net Profit for the year—(Transferred to Earned Surplus)		$ 761,656.86

NOTE: The year's operations have been charged with the following: Legal Fees, $22,391.65; Remuneration of Directors and Executive Officers who devote the whole of their time to the business of the Company, $143,541.65; and Fees of other Directors $6,433.33.

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 January 31, 1939, and of the consolidated statements of surplus and profit and loss for the year ended on that date. In connection therewith, 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 year.

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84
678

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 deficit of these companies at January 31, 1939, amounted to $2,030,461.95, of which $535,811.34 arose during the year under review. No provision has been made in the attached consolidated statements for this deficit.

In our opinion, based upon the examination referred to above, we report that the attached Consolidated Balance Sheet of the Company and its Canadian subsidiaries, together with the note appearing thereon, and related Statement 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, May 2nd, 1939.

ANTILLES PETROLEUM COMPANY

BALANCE SHEET AS AT

ASSETS

CURRENT ASSETS:		
Cash in Bank and on Hand	$ 8,108.13	
Accounts Receivable	3,472.72	
Inventory of Stores and Supplies	334,264.94	
Inventory of Crude Oil	41,329.08	
		$ 387,174.87
DEFERRED CHARGES:		
Prepaid and Deferred Expenses		29,940.33
OIL WELLS:		
Intangible Well Costs	$1,325,819.37	
Less: Amortization	1,163,528.65	
		162,290.72
OIL LEASES:		
Cost of Leases, and Development Cost	$ 880,732.24	
Less: Amortization	742,043.77	
		138,688.47
FIXED ASSETS:		
Plant, Buildings, Drilling and Oil Well Equipment, Storage Tanks, Pipe Lines, etc., at Cost		1,120,113.42
		$1,838,207.81
DEFICIT:		
Balance at January 31st, 1939		2,043,259.96
		$3,881,467.77

STATEMENT OF PROFIT AND LOSS AND DEFICIT ACCOUNT
YEAR ENDING JANUARY 31, 1939

Profit from Production of Crude Oil and Gas			$ 79,870.19
Deduct: Oil Lease Rentals on Non-Producing Properties			39,612.58
			$ 40,257.61
Deduct also:	Amortization of Well Costs	$ 389,458.51	
	Amortization of Lease Costs	18,070.75	
	Depreciation of Fixed Assets	179,961.81	
			587,491.07
			$ 547,233.46
Add:	Deficit, Balance at January 31st, 1938	$ 297,033.05	
	Prior Years' Adjustments	1,198,993.45	
			1,496,026.50
DEFICIT—BALANCE AT JANUARY 31, 1939			$2,043,259.96

(TRINIDAD) LIMITED

JANUARY 31, 1939

LIABILITIES

CURRENT LIABILITIES:		
Accounts Payable..	$ 26,856.09	
Royalty Payable..	8,201.70	
		$ 35,057.79
BALANCE OF ADVANCES from McColl-Frontenac Oil Co., Ltd.		2,445,855.23
RESERVE FOR DEPRECIATION............................		440,554.75
CAPITAL:		
Authorized and Issued:		
200,000 Ordinary Shares at £1 each, fully paid.............		960,000.00
		$3,881,467.77

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 January, 1939, 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 at 31st January, 1939, 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., *Auditors,*
Chartered Accountants.

TRINIDAD, 28th April, 1939.

Approved on behalf of the Board.

D. F. JONES, Director.
P. E. TAAFFE O'CONNOR, Director.

FRONTENAC PIPE LINE
AND SUBSIDIARY COMPANY, McCOLL

CONSOLIDATED BALANCE SHEET

(Expressed in United

ASSETS

CURRENT ASSETS:		
Cash in Banks and on Hand	$ 13,627.73	
Accounts and Notes Receivable (less Reserve)	2,714.03	
Inventories of Crude Oil and Supplies	9,651.33	
		$ 25,993.09
DEFERRED CHARGES		989.43
FIXED ASSETS:		
Land, Pipe Line Systems, Storage Tanks, Buildings, Equipment, etc.—at Cost		184,866.56
ADVANCE PURCHASE CONTRACTS:		
Net Cash Outlay, payment contingent upon oil production (valuations not appraised)		111,029.73
TOTAL		$ 322,878.81

STATEMENT OF PROFIT AND LOSS AND SURPLUS
YEAR ENDED JANUARY 31, 1939

Profit and Income from Operations and Investments, before Depreciation	$ 36,143.31	
Deduct: Bank and Other Interest	6,849.41	
		$ 29,293.90
Deduct also—Provision for:		
Depreciation	$ 15,079.18	
Bad Debts	1,200.00	
Income Tax	1,592.70	
		17,871.88
Net Income for the Period		$ 11,422.02
Balance of Surplus, Beginning of Period		1,375.99
EARNED SURPLUS BALANCE, January 31, 1939		$ 12,798.01

COMPANY (TEXAS)
BROTHERS, INC., (NEW YORK)

- JANUARY 31, 1939

States Currency)

LIABILITIES

CURRENT LIABILITIES:		
Crude Oil Accounts Payable	$ 139,164.06	
Other Accounts Payable	3,209.93	
Provision for Income and Other Taxes	2,254.34	
Miscellaneous Accrued Liabilities	598.76	
		$ 145,227.09
McCOLL-FRONTENAC OIL CO. LTD.		47,838.85
RESERVE FOR DEPRECIATION		67,014.86
CAPITAL STOCK AND SURPLUS:		
Common Stock—Authorized, Issued and Outstanding, 500 Shares of $100.00 Par Value	$ 50,000.00	
Earned Surplus	12,798.01	
		62,798.01
TOTAL		$ 322,878.81

NOTE: Contingent liability of $225,000.00 on discounted notes receivable from McColl-Frontenac Oil Co., Ltd.

AUDITORS' CERTIFICATE

We have made an examination of the books and accounts of the Frontenac Pipe Line Company and have been furnished with a certified audited statement of the financial condition of its subsidiary, McColl Brothers, Inc. We obtained information and explanations from officers and employees as required during our examination of the accounts; we did not make a detailed audit of the transactions. In our opinion, based upon such examination and the audited statement which was furnished us, the accompanying consolidated balance sheet and related statement of profit and loss and surplus fairly present the combined financial position of the company and its subsidiary at January 31, 1939, and the results of the operations for the period.

ARTHUR SQUYRES & CO.,
Certified Public Accountants.

Tyler, Texas, March 23, 1939.

McColl-Frontenac Automotive Products

GASOLINES

Cyclo-Ethyl Motor Fuel
Marathon Blue Gasoline

RED INDIAN LUBRICANTS

Red Indian Motor Oils
Aviation Oil for Motor Cars
Hytak—The successor to grease
High Pressure Grease
Wheel Bearing Grease
Universal Joint Grease
Water Pump Grease
Steering Gear Lubricant
Cup Greases
Covered Spring Grease
Extreme Pressure Lubricants
Hypoid Lubricants
Ford Spring Lubricants
Brake Fluid
Protexall Anti-freeze

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INDUSTRY . . . MINES . . . MARINE . . .

A complete lubrication service for industry is provided by a special department of the Company, with Marathon Industrial Lubricants for all types of machinery, transportation and power.

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For the convenience of motorists throughout the country your Company provides a retail credit service by issuing Credit Cards. Purchases of gasolines, oils and lubrication service can be made on monthly credit by showing this Credit Card at any service station or dealer displaying the identification sign as shown below.

The use of this Credit Card obviates the need of carrying the needed cash for car operation on trips from your own neighborhood and also assists in identifying you in parts of the country in which you are not known.

In addition this Credit Card is also honored at over 45,000 Texaco dealers in *all* of the 48 States of the Union to the South of our border, which is an added convenience when travelling in that country on pleasure or on business.

By the use of a McColl-Frontenac Credit Card you will also have a clear-cut monthly record of the operating costs of your motor vehicle without personally having to worry about the detail of such a record.

Ask your neighborhood service station or dealer to secure a McColl-Frontenac Credit Card—for your convenience and pleasure.

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