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Texaco Canada ltd.

# McCOLL-FRONTENAC
# OIL COMPANY LIMITED
## AND SUBSIDIARY COMPANIES

(19th)

## ANNUAL REPORT
### FOR THE YEAR 1946

## *BOARD OF DIRECTORS*

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

J. M. PRITCHARD, *President*

| | | |
|---|---|---|
| H. H. BRADBURN | R. L. SAUNDERS | H. W. THORP |
| J. H. GUNDY, C.B.E. | E. P. TAYLOR, C.B.E. | T. C. TWYMAN |
| H. T. KLEIN | G. R. TAYLOR | L. O. P. WALSH |
| W. ZIMMERMAN, K.C. | THE HON. E. L. PATENAUDE, P.C., K.C. | |

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## *EXECUTIVE COMMITTEE*

J. M. PRITCHARD, *Chairman*

| | |
|---|---|
| J. H. GUNDY, C.B.E. | R. L. SAUNDERS |
| A. A. MAGEE, C.B.E., K.C. | T. C. TWYMAN |

L. O. P. WALSH

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## *OFFICERS*

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

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*General Counsel:*

C. H. BERESFORD HANDS

*Transfer Agents:*

MONTREAL TRUST COMPANY

*Registrar:*

ROYAL TRUST COMPANY

McCOLL-FRONTENAC OIL COMPANY LIMITED

360 ST. JAMES STREET WEST

MONTREAL

March 17th, 1947

TO THE SHAREHOLDERS:

Your directors submit the following report of the operations of your Company and its subsidiaries for the year 1946, including consolidated balance sheet as of December 31st, 1946, and consolidated statements of profit and loss and surplus account.

The year 1946 was one of progress under peacetime economy, with the Company's production, sales volume, and earnings the highest in its history. The cost of operations increased materially due to increases in wages and higher prices for materials.

*Financial*—Consolidated net profit amounted to $3,218,595.64 which, after preferred dividend, was equivalent to $3.18 per share of common stock, as compared with $1.62 per share for 1945. Net working capital of $10,418,293.73 showed a decrease of $265,313.71 as compared with the previous year. Your directors believe that excess profits taxes should be eliminated as being detrimental to the expansion of Canadian industry. During 1946 income and excess profits taxes amounted to $2.86 per common share for your Company.

During the year your Company purchased a 20% interest in the Portland-Montreal Pipe Line System. While this pipe line was constructed during the war, it has a considerable peacetime value in the transportation of crude oil to Montreal refineries especially during the winter months when navigation on the St. Lawrence River is closed. The use of this line obviates the necessity of building up large crude oil inventories during the winter months.

An item representing trademarks, processes, and goodwill which appeared on the balance sheet at a value of $831,037.66 has been written off against surplus account. At the same time there has been added to surplus an amount of $371,506.56 which represents excess reserves accumulated during past years for accounts receivable, mortgages and investments. Your directors consider that the remaining reserves for these items are entirely adequate.

*Financing*—Your directors took advantage of the low money rates which prevailed during 1946 and refinanced the Company's 6% preferred stock and 4¼% bonds.

All outstanding 6% preferred stock, amounting to $7,538,400.00 was redeemed on July 15th, 1946, at the redemption price of $105 per share, plus accrued dividend, and in place thereof 60,000 shares of a new 4% preferred stock were sold for $99.00 per share net to the Company.

On October 1st, 1946, the last of the 3½% serial bonds amounting to $300,000.00 were retired, and the entire issue of 4¼% sinking fund bonds, due 1949 and amounting to $10,100,000.00 were redeemed and replaced with an issue of $12,500,000.00 3% first mortgage bonds which were sold by the Company at a premium of ¼% or $31,250.00. The new issue consisted of $6,000,000.00 3% serial bonds maturing in equal annual instalments of $500,000.00 on October 1st, 1947 to October 1st, 1958, and $6,500,000.00 3% sinking fund bonds maturing October 1st, 1971.

This financing will result in a substantial annual saving to the Company.

*Exploration in Western Canada*—Exploratory work in Alberta was continued during 1946 and eleven wells were drilled as compared with two wells completed during the previous year.

Your Company, jointly with Union Oil of California, drilled ten exploratory wells in southeastern Alberta. This resulted in four commercially productive gas wells which have proven the existence of substantial gas reserves. An active drilling programme in this area is contemplated for the year 1947.

In view of the developments which have taken place in the synthesis of gasoline from dry gas there may be a great potential value in the gas field which has been discovered. Your Company is studying the possibility of the erection of a plant to produce gasoline by this process.

Your Company entered a joint agreement with four other oil companies for the development of the Muskeg structure in the northern foothills. Seismic work in this area has shown the presence of a very favourable geological structure.

*Refining*—The Company's refineries at Montreal East and Toronto again increased their crude oil runs over that of the previous year. The total crude oil refined amounted to 8,309,740 barrels as compared to 7,150,448 barrels for the previous year. Crude oil purchases for the year originated in the United States, Venezuela, Colombia and Trinidad.

During the year many minor improvements were made in the Company's refineries in both equipment and operating methods, which with increased throughput, has resulted in increased economy in operations. Plant equipment has been maintained in good condition to insure continued low cost operation for 1947. Acknowledgment is due The Texas Company for many valuable suggestions, resulting in improved plant operations and improvements in product quality.

*Marine*—Two Norwegian tankers under time charter augmented by voyages of trip chartered tankers transported our crude oil from South America to Portland, Me., to be transported to Montreal by the Portland-Montreal pipe line. Another Norwegian tanker has been obtained on a time charter and negotiations are proceeding to cover our ocean tanker requirements for the year 1947.

Three lake tankers, owned and operated by subsidiary companies, together with other chartered tankers, transported crude oil from United States lake ports to the Toronto refinery and distributed refined products from both Toronto and Montreal refineries to the thirteen marine terminals operated by your Company along the St. Lawrence waterway and the Great Lakes.

*Marketing*—During the year 1945 your Company sold large quantities of motor gasolines and kerosene for export in connection with war activities, as well as large quantities of aviation gasoline for use in connection with the British Commonwealth Air Training Plan in Canada. It is pleasing to know that in 1946, despite the non-recurrence of these export demands and the termination of the British Commonwealth Air Training Plan, total sales of all petroleum products exceeded total sales in 1945. This was brought about by the large increase in domestic sales of motor gasolines due to increased civilian demand for petroleum products.

As in the case of Refinery facilities, Service Station and Bulk Station properties were well maintained both as to utility and appearance. A number of new storage tanks were erected at Bulk Stations to handle additional products to supply increased demands.

Following the policy of the Company, its Service Stations continued to be leased to lessee-dealers for operation by them as independent small businessmen. It is of interest to note that during the year approximately 123 war veterans became lessee-dealers of your Company's stations, as well as 307 who, after constructing their own Service Stations, became customers of the Company.

*Antilles Petroleum Company (Trinidad) Limited*—During the year 1946 the production of crude oil amounted to 538,893 barrels, as against 304,102 barrels for the previous year.

The increase in production, together with increased crude oil prices, gave the Trinidad subsidiary a profit for 1946 of $122,002.98 as against a loss of $319,868.25 in 1945.

Drilling operations during the year were much more successful than in previous years. Seven wells were drilled and all of them were commercially productive. An expanded drilling programme will be initiated in 1947.

*Frontenac Pipe Line Company*—This subsidiary company, incorporated in the State of Texas, is in the process of being wound up.

*Employees Relations*—Your Company's relations with its employees continue pleasant and harmonious and the Company expresses its appreciation to them for their unfailing loyalty and faithful co-operation.

*General*—At the last date of record, your Company had a total of 1,796 preferred shareholders and 5,831 common shareholders.

On behalf of the Board,

J. M. PRITCHARD,

*President.*

McCOLL-FRONTENAC

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## CONSOLIDATED BALANCE

ASSETS

| | | |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash on hand and in bank | $ 1,924,564.50 | |
| Dominion of Canada bonds, at par value | 1,770,000.00 | |
| Accounts and bills receivable, less reserve | 3,955,074.62 | |
| Inventories— | | |
| Crude and refined oil products and merchandise as determined and certified by the management and valued at the lower of cost or market | 7,183,351.39 | |
| Materials and supplies, at or below cost | 890,027.23 | |
| | | $15,723,017.74 |
| MORTGAGES AND OTHER INVESTMENTS, less reserve | | 1,929,903.19 |
| REFUNDABLE PORTION OF EXCESS PROFITS TAX (estimated) | | 589,812.00 |
| **DEFERRED CHARGES:** | | |
| Insurance, taxes and other prepaid expenses | $ 239,640.34 | |
| Deferred exploration expenditures | 203,933.91 | |
| | | 443,574.25 |
| **COST OF PROPERTIES:** | | |
| Land, buildings, plant, transportation and other equipment in Canada | $26,597,936.92 | |
| Buildings, plant and equipment in Trinidad, B.W.I., including unamortized oil well and lease cost of $333,382.36 | 1,583,189.17 | |
| Premium paid on subsidiary companies' capital stock | 7,552,180.06 | |
| | | 35,733,306.15 |
| | | $54,419,613.33 |

Approved on behalf of the Board:

A. A. MAGEE, Director.

J. M. PRITCHARD, Director.

SHEET-DECEMBER 31, 1946

LIABILITIES

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities | $ 2,661,166.78 | |
| Preferred dividend payable | 60,000.00 | |
| Bond interest accrued | 93,750.00 | |
| Gasoline and other taxes | 1,025,087.53 | |
| Income and excess profits taxes | 1,464,719.70 | |
| | | $ 5,304,724.01 |
| RESERVE FOR FUTURE DEPRECIATION IN INVENTORY VALUES | | 592,000.00 |
| RESERVES FOR DEPRECIATION: | | |
| Buildings, plant and equipment—in Canada | $14,592,967.40 | |
| —outside Canada | 526,429.81 | |
| | | 15,119,397.21 |
| FIRST MORTGAGE BONDS, 1946 SERIES: | | |
| (Authorized issue—$20,000,000.00) | | |
| 3% Serial bonds due October 1, 1947-1958 | $ 6,000,000.00 | |
| 3% Sinking fund bonds due October 1, 1971 | 6,500,000.00 | |
| | | 12,500,000.00 |
| PREFERRED STOCK: | | |
| 4% Cumulative redeemable preferred shares $100.00 each— | | |
| Authorized ... 100,000 shares | | |
| Issued during the year for cash ... 60,000 shares | | 6,000,000.00 |
| (Redeemable at $102.50 on 30 days' notice.) | | |
| COMMON STOCK AND SURPLUS: | | |
| Common shares of no par value— | | |
| Authorized ... 2,487,763 shares | | |
| Issued ... 900,000 shares | $11,053,903.92 | |
| Earned surplus— Balance per statement attached | 3,849,588.19 | |
| | | 14,903,492.11 |
| | | $54,419,613.33 |

Submitted with our Report to the Shareholders dated February 25, 1947.

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

# McCOLL-FRONTENAC OIL COMPANY LIMITED
## AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF PROFIT AND LOSS
### FOR THE YEAR ENDING DECEMBER 31, 1946

| | | | |
|---|---|---|---|
| **OPERATIONS IN CANADA:** | | | |
| Profit from operations | | $ 6,871,749.58 | |
| Income from investments | $ 147,843.37 | | |
| Net profit from sale of investments and other assets | 276,579.83 | 424,423.20 | $ 7,296,172.78 |
| *Deduct:* | | | |
| Depreciation | | $ 1,007,986.97 | |
| Contribution to officers and employees' retirement income plan (including $49,516.14 for past services) | | 163,598.21 | |
| Amortization of bond discount to date of redemption | | 26,132.12 | |
| Bond, mortgage and bank interest | | 425,605.00 | 1,623,322.30 |
| | | | $ 5,672,850.48 |
| *Deduct also:* | | | |
| Provision for income and excess profits taxes | | | 2,575,000.00 |
| Net profit from operations in Canada | | | $ 3,097,850.48 |
| **OPERATIONS OUTSIDE CANADA:** | | | |
| Profit from operations in Trinidad | | $ 444,411.92 | |
| *Deduct:* | | | |
| Oil lease rentals on non-producing properties | $ 49,762.97 | | |
| Amortization of lease and oil well cost | 180,711.40 | | |
| Depreciation of fixed assets | 65,134.57 | | |
| Loss in the United States | 1,257.82 | 296,866.76 | |
| | | $ 147,545.16 | |
| *Deduct also:* | | | |
| Provision for Trinidad income tax | | 26,800.00 | |
| Net profit from operations outside Canada | | | 120,745.16 |
| Consolidated net profit for the year (transferred to earned surplus) | | | $ 3,218,595.64 |

NOTE—The year's operations have been charged with the following: legal fees, $10,598.31; remuneration of executive officers, including all salaried directors of the company, $156,250.00; and fees and remuneration of other directors, $19,057.00.

# McCOLL-FRONTENAC OIL COMPANY LIMITED
## AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF EARNED SURPLUS
### DECEMBER 31, 1946

| | | |
|---|---|---|
| Balance at credit, January 1, 1946, including refundable portion of excess profits tax of $589,812.00 | | $2,335,693.97 |
| *Add:* | | |
| Excess reserves for accounts receivable, mortgages and investments | | 371,506.56 |
| | | $2,707,200.53 |
| *Deduct:* | | |
| Trademarks, processes and goodwill written off | $831,037.66 | |
| Cost of 6% preferred shares purchased for redemption to July 15, 1946. | 76,556.50 | |
| | | 907,594.16 |
| | | $1,799,606.37 |
| *Deduct also:* | | |
| Premium on the redemption of 6% preferred shares on July 15, 1946 | $376,920.00 | |
| Commission on sale of new 4% preferred shares | 60,000.00 | |
| Redemption premium on 4¼% bonds | 101,000.00 | |
| Unamortized bond discount | 101,680.65 | |
| Other refinancing costs | 93,070.17 | |
| | $732,670.82 | |
| *Less:* | | |
| Premium received on new 3% bond issue | 31,250.00 | |
| | | 701,420.82 |
| | | $1,098,185.55 |
| *Add:* | | |
| Net profit for the year ending December 31, 1946, as per statement attached | | 3,218,595.64 |
| | | $4,316,781.19 |
| *Deduct:* | | |
| Dividends on—6% preferred shares | $245,193.00 | |
| —4% preferred shares | 111,000.00 | |
| —common shares | 450,000.00 | |
| | | 806,193.00 |
| | | $3,510,588.19 |
| *Add:* | | |
| Amount released from capital surplus in respect of 6% preferred shares cancelled under Supplementary Letters Patent dated July 15, 1946 | | 339,000.00 |
| Balance at credit, December 31, 1946, including refundable portion of excess profits tax of $589,812.00 (See footnote) | | $3,849,588.19 |

NOTE—Under the provisions of Sec. 61 of The Companies Act, 1934, $1,538,400.00 being the par value of 6% preferred shares redeemed in excess of the par value of 4% preferred shares issued on July 15, 1946, is not available for distribution until the capital of the company is reduced by that amount. By-law "R" enacted by the Board of Directors on January 8, 1947, subject to confirmation at a special meeting of shareholders on April 2, 1947, and by Supplementary Letters Patent, provides for the necessary reduction in the capital of the company.

# McCOLL-FRONTENAC OIL COMPANY LIMITED
## AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CAPITAL SURPLUS
### DECEMBER 31, 1946

| | |
|---|---|
| Balance at credit, January 1, 1946, representing the par value of 6% preferred shares purchased for redemption since February 1, 1939 | $266,400.00 |
| Par value of 6% preferred shares purchased for redemption to July 15, 1946 | 72,600.00 |
| | $339,000.00 |
| *Deduct:* | |
| Transfer to earned surplus in respect of 6% preferred shares cancelled under Supplementary Letters Patent | 339,000.00 |
| Balance, December 31, 1946 | — |

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### AUDITORS' REPORT TO THE SHAREHOLDERS:

We have made an examination of the Consolidated Balance Sheet of McColl-Frontenac Oil Company Limited and its Subsidiary Companies as at December 31, 1946, and of the related Statements of Surplus and of Profit and Loss for the year ended on that date, having been furnished with the audited Financial Statements of three 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 for the year, we examined or tested accounting records and other supporting evidence of the Companies and have 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.

Based upon the examination referred to above, we report that, in our opinion, the attached Consolidated Balance Sheet of the Company and its Subsidiaries and related Statements of Surplus and of 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, according to the best of our information and the explanations given to us and as shown by the books of the Companies examined by us and by the audited Financial Statements of the above mentioned Subsidiaries.

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

MONTREAL, February 25, 1947.

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