

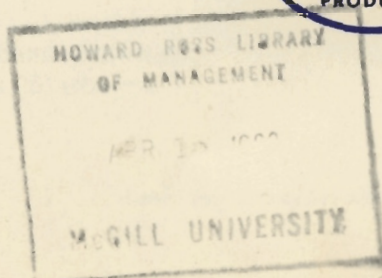


ANNUAL REPORT

IMPERIAL OIL LIMITED

for the fiscal year ended

DECEMBER 31, 1940



I M P E R I A L O I L L I M I T E D

HEAD OFFICE, SARNIA, ONTARIO

•

President

G. HARRISON SMITH

•

Vice-Presidents

C. A. EAMES R. V. LeSUEUR L. C. McCLOSKEY HENRY H. HEWETSON

•

Directors

G. HARRISON SMITH C. A. EAMES R. V. LeSUEUR
L. C. McCLOSKEY HENRY H. HEWETSON A. E. HALVERSON

•

Comptroller

JAMES McGRATH

Secretary-Treasurer

W. J. WHITLING

•

Transfer Office

56 CHURCH STREET, TORONTO, CANADA

•

Refineries at:

IOCO, BRITISH COLUMBIA	SARNIA, ONTARIO
CALGARY, ALBERTA	MONTREAL EAST, QUEBEC
REGINA, SASKATCHEWAN	IMPEROYAL, NOVA SCOTIA
NORMAN WELLS, NORTH WEST TERRITORIES	

•

Divisional Marketing Head Offices at:

VANCOUVER, BRITISH COLUMBIA	TORONTO, ONTARIO
EDMONTON, ALBERTA	MONTREAL, QUEBEC
REGINA, SASKATCHEWAN	HALIFAX, NOVA SCOTIA
WINNIPEG, MANITOBA	ST. JOHN'S, NEWFOUNDLAND

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Marketing Branches throughout Canada.

IMPERIAL OIL LIMITED

SARNIA, ONT., April 12, 1941.

*To the Shareholders
of Imperial Oil Limited:*

Your Directors submit herewith the annual report for 1940, a year in which many new and difficult problems were encountered and successfully solved. Your Company co-operated continuously with the various branches of the Government and of His Majesty's Armed Forces to supply the many emergent demands, while at the same time supplying larger markets throughout the country.

The consumption of petroleum products in Canada during 1940 was the largest ever recorded and your Company's leading position in the industry was further advanced. Its refineries, with their assured supplies of crude oil from subsidiaries and affiliated companies, processed 16 per cent. more crude than in 1939, whereas the total of crude oil processed by all refineries in Canada was approximately 13 per cent. more than in 1939. Your Company's extensive and flexible manufacturing, marketing and transportation facilities, and wide services, made it possible quickly and with a minimum of capital expenditure to meet the new and enlarged demands, of which the more important were for aviation gasolines and aviation oils, lubricants and marine and industrial fuel oils.

The laid down cost of crude oil and raw materials at your Company's refineries advanced 51/100ths of one cent per gallon during 1940, while the average price realized for products advanced only 44/100ths of one cent per gallon; but notwithstanding this, earnings from Canadian refining and marketing operations improved due to the substantially larger volume of business and continued technical progress, which resulted in lower unit costs.

A reduction in revenue from investments in subsidiary companies was principally due to the discontinuance in 1940 of a special dividend disbursement which had been paid from accumulated earned surplus by International Petroleum Company, Limited.

It is gratifying that a result of the year's operations was the substantial sum made available to the national revenue through taxes at a time when vital public expenditures are necessary.

Accompanying this report are the balance sheet as of December 31 last and the statements of surplus and of profit and loss for 1940.

EARNINGS

After providing for all Canadian taxes on earnings, the net earnings of your Company from all sources in 1940 were \$17,638,716.78, or 65.41¢ per share, as compared with \$19,250,071.33, or 71.38¢ per share for 1939. These earnings accrued as follows:

	1940		1939	
	Earnings	Per Share	Earnings	Per Share
Canadian Refining and Marketing Operations.....	\$ 6,929,824.99	25.70¢	\$ 5,192,042.17	19.25¢
Dividends from Subsidiary Companies and income from Miscellaneous sources.....	10,708,891.79	39.71¢	14,058,029.16	52.13¢
Total Net Earnings (after providing for all Canadian Taxes on earnings).....	\$17,638,716.78	65.41¢	\$19,250,071.33	71.38¢

In reviewing the Company's net earnings for 1940, the following comparative figures for last year and for 1939 are of interest:

	1940		1939	
	Amount	Per Share	Amount	Per Share
Provision for Canadian Taxes on earnings from Canadian Refining and Marketing operations.....	\$ 4,756,287.77	17.64¢	\$ 2,076,201.21	7.70¢
Provision for Canadian Taxes on income from other sources including income from subsidiaries.....	3,206,704.09	11.89¢	2,081,363.85	7.72¢
Total Provision for Canadian Taxes on earnings in Canada and elsewhere.....	7,962,991.86	29.53¢	4,157,565.06	15.42¢
Provision for Depreciation...	3,940,990.87	14.62¢	3,875,367.78	14.37¢
Provision for future shrinkage of inventory values from present abnormally high costs caused by war conditions.....	1,467,989.22	5.44¢	1,254,110.10	4.65¢
Total.....	\$13,371,971.95	49.59¢	\$ 9,287,042.94	34.44¢

The total provision for Canadian taxes on 1940 earnings represented an increase of \$3,805,426.80, or 91.53 per cent. more than in 1939. These figures reveal in part the enormous burden of taxes on income which industry must bear in support of the vigorous war effort.

In addition to the taxes on earnings of \$7,962,991.86, referred to above, your Company paid other taxes such as sales and property taxes, etc., aggregating \$5,626,949.80, or a total of \$13,589,941.66. Furthermore it collected on behalf of the various Provincial Governments, whose gasoline road taxes range from 7¢ to 10¢ per gallon, a total of \$19,214,260.57.

Because of the higher costs and larger stocks of raw materials and finished products which must be carried under prevailing conditions, considerably more capital is required in the operation of the business. Inventories at the end of 1940 were \$33,390,416.48, as compared with \$26,901,802.05 in 1938, an increase of \$6,488,614.43.

In line with the policy adopted in 1939 as described in your Directors' report for that year, a reserve was set up against war-inflated costs reflected in inventory values. The total of this reserve as of December 31 last was \$2,722,099.32.

CANADIAN REFINING AND MARKETING OPERATIONS

Extensive research has been an important factor in your Company's operations for many years. Its purpose has been to improve and make more efficient existing processes, to evolve new processes which would result in maximum production and efficiency with minimum capital outlay and to reduce operating costs, while at the same time continuously improving quality and developing new products.

During 1940 a new process "high temperature suspensoid catalytic cracking", for the production of high octane gasoline was put in operation at Sarnia Refinery. It is a development of your Company's research department. In addition to effecting a great improvement in octane quality of motor gasolines it involves fundamental features which will be of value in further developments now being studied. This result has been obtained without heavy capital expenditures. In addition the process releases for use in the production of aviation gasolines selected octane fractions that were previously used in the production of motor gasolines and so an enlarged production of aviation gasolines and an improved quality of motor gasolines result.

Adequate facilities for increased production of aviation gasolines have been provided at your Company's refineries from coast to coast and large quantities of aviation fuels have been accumulated.

During the latter part of 1940, steps were taken to enlarge the capacity for manufacturing lubricating oils and will permit more than 100 per cent. increase in production. At the date of this report the work has been completed. This additional capacity includes facilities to meet expected increased requirements for high grade aviation lubricating oils.

Your eastern refineries adequately met greatly increased demands for fuel oils for marine service and manufacturing industry. There were also largely increased requirements for industrial lubricants in the production of which your Company has always specialized. While the increased demand for light and heavy fuel oils arose principally in eastern markets, gasoline and naphtha product sales increased throughout the country.

There was further improvement in your Company's marketing plant and marketing facilities, and further economies were effected in operations and distribution. The establishment of new retail outlets, plant and equipment is now subject to approval by the Oil Controller in line with restrictive wartime measures. Large installations of existing refinery and marketing tankage were made available for war purposes, and new tankage was installed at various points in Canada and Newfoundland where immediate requirements and continuing use warranted.

In December of 1940 cargoes of South American crude began to move to Marcus Hook, Pennsylvania, whence the oil travels a distance of 671 miles by pipeline to the Company's Sarnia Refinery. This operation will afford your subsidiaries an outlet for approximately 3,650,000 barrels of crude annually.

CANADIAN PRODUCTION

The total production in the Turner Valley for the year 1940 amounted to 8,452,527 barrels as compared with 7,556,029 barrels in 1939. The total operated production of your Company's subsidiaries was 2,789,979 barrels and the net

accruing to these subsidiaries was 1,841,333 barrels. In addition to the production accruing to its subsidiaries, your Company purchased 4,528,185 barrels of Turner Valley crude oil and naphtha, of which 1,364,465 barrels were sold to other refineries. A further 1,652,442 barrels were handled for the account of other interests.

Last year there were abnormal harvest requirements for petroleum products in western Canada. The total production of Turner Valley oil during the summer and fall fell short of the market needs. However, because of your Company's policy of financing drilling by other interests in return for the right to acquire the resultant production, and because of other contractual arrangements, your Company was able to continue the operation of its own refineries at Calgary and Regina on Turner Valley crude oil and also to release some oil for other refineries.

It is believed that recurrence of a shortage of Turner Valley oil for the Prairies has been as fully as possible provided against by the Oil Controller for Canada, who arranged for increased storage facilities which will be filled during seasons of low consumption, thus averting extreme fluctuations in production. This, it is expected, will result not only in a larger production of oil over the year but in a more efficient and economic operation with consequently longer life and greater ultimate recovery from the field.

Thirty-six producing wells were completed in Turner Valley during 1940 and your Company's subsidiaries had a participating interest in 13 of these. When the year ended your Company's subsidiaries and affiliates owned or had a participating interest in 44 crude oil wells and 82 gas wells in the Turner Valley.

At Norman Wells, near Fort Norman, another producing well was completed during 1940 and although markets were adversely affected by war conditions, your Company continued its efforts to serve the public interest by the maintenance of low fuel prices in this territory.

In addition to the development of its interests in the Turner Valley and Fort Norman fields, your Company's subsidiaries carried on an extensive exploratory programme in eastern and western Canada, including the testing in co-operation with other interests of the Blood Indian Reserve in southern Alberta and the exploration by geological and geophysical methods of a very extensive area in southern Saskatchewan.

SOUTH AMERICA

During the year your Company's subsidiaries in South America exported 31,327,311 barrels of crude oil as compared with 27,760,745 barrels in 1939. In the refineries at Talara, Peru, and Barranca-Bermeja, Colombia, 9,048,468 barrels of crude oil were processed as compared with 9,491,810 barrels during 1939. The total of your Company's subsidiaries' production in South America, including the interest in the Mene Grande production in Venezuela, was 39,705,055 barrels as compared with 39,016,703 barrels in 1939.

IMPERIAL OIL SHIPPING COMPANY LIMITED

As of December 31, 1940 the fleet of the Imperial Oil Shipping Company Limited comprised 23 vessels of 159,152 deadweight tons. During the year the fleet transported 38,376,016 barrels of crude oil and products as compared with 37,688,198 barrels in 1939. The operations of the fleet have been of direct service in the prosecution of the war.

GENERAL

On June 1 your Company paid a dividend of 25¢ per share, together with a special disbursement of 12½¢ per share. On December 1 payment was made of a dividend of 25¢ per share but the special disbursement was suspended. Accordingly the total earned surplus as of December 31, 1940 was slightly increased.

Important to the Canadian petroleum industry and of interest to all who wish to understand its operations was the report brought down in April by the Royal Commission appointed by the Government of the Province of Alberta to investigate the oil industry in that Province. The inquiry extended over a period of more than one year and was of the most exhaustive nature ever conducted in Canada. The Commission report that the field price of crude oil in Turner Valley is in line with world prices; that the refining and distributing branches of the industry are efficient and render adequate service without undue charges; that prices are fair and reasonable and that there are no defects in the industry or in its operations to warrant Government intervention.

Your Directors recognize the loyal co-operation of the personnel at all times and particularly appreciate the diligence with which emergency tasks arising out of existing conditions have been performed. In nearly all of your Company's departments there is a 100 per cent. participation by employees in the purchase of War Savings Certificates. Employees who are subscribers to the Thrift Plan are enabled to make larger investments in these Certificates because of the Company's contributions to the Thrift Plan.

Your Company's present policy is to pay to employees who are serving in His Majesty's Armed Forces the difference between service pay and allowances and the pay they were receiving at time of enlistment. They may continue, if desired, their participation in the Thrift Plan and other benefits, and their service status is maintained.

By order of the Board,

G. HARRISON SMITH,

President.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders

of Imperial Oil Limited:

We have examined the balance sheet of Imperial Oil Limited as at December 31, 1940, and the statements of profit and loss and surplus for the fiscal year then ended. In connection therewith, we have examined or tested the accounting records of the Company and other supporting evidence, and obtained all the information and explanations which we required; we have also reviewed the system of internal control and the accounting procedures of the Company, but we have not made a detailed audit of the transactions.

In accordance with section 114 of the Companies Act, 1934, we report that in the case of such subsidiary companies as incurred losses up to December 31, 1940, the parent Company's proportion of such losses has been fully provided for in the books of Imperial Oil Limited and in the attached balance sheet. In the case of all other subsidiary companies, profits have only been taken credit for in the accounts of Imperial Oil Limited, and in the attached balance sheet, to the extent of dividends received by the parent Company from such subsidiary companies; such dividends received in 1940 and included as income in that year exceeded the Company's proportion of the aggregate net profits of subsidiary companies for the year 1940 by \$1,278,752.37 and to this extent were paid by these companies from surpluses previously earned.

In accordance with the Company's established practice, the inventories of crude oil and refined products have been valued in the attached balance sheet on the basis of cost of crude oil, which was lower than replacement value at December 31, 1940. The earnings of the year 1940 have been charged with an amount of \$1,467,989.22 which has been set up as an addition to the reserve for future shrinkage of inventory values from present abnormally high costs caused by war conditions.

We report that, in our opinion, the attached balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of Imperial Oil Limited as at December 31, 1940, according to the best of our information and the explanations given to us, and as shown by the books of the Company.

PRICE, WATERHOUSE & CO.

Chartered Accountants

Toronto, Ont.

April 3, 1941.

I M P E R I A

BALANCE SHEETA S S E T SCURRENT ASSETS:

Cash on hand and in banks	\$ 6,063,480.57	
Dominion of Canada and other bonds valued on the basis of market quotations which was less than cost—plus accrued interest	9,665,077.45	
Trade accounts and bills receivable (less reserves)	15,091,975.55	
Other accounts receivable, including accrued interest on miscellaneous investments	170,230.28	
Inventories, determined and certified as to quantities and condition by responsible officers of the company:		
Crude oil and refined products (on basis of cost of crude oil, which was lower than replacement value)	\$30,373,764.08	
Materials and supplies (at cost)	3,016,652.40	33,390,416.48
		<u>\$64,381,180.33</u>

DEFERRED ACCOUNTS RECEIVABLE, MORTGAGES AND MISCELLANEOUS

<u>LOANS AND ADVANCES (LESS RESERVES):</u>	3,901,607.99
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MISCELLANEOUS INVESTMENTS:

Bonds and debentures of other companies	\$3,477,164.58	
Shares of other companies	1,135,101.25	
		<u>4,612,265.83</u>

INVESTMENT IN SUBSIDIARY COMPANIES:

Investment in shares (less reserves)	\$49,878,531.62	
Indebtedness of subsidiary companies	7,351,791.24	
		<u>57,230,322.86</u>

<u>DEFERRED AND PREPAID CHARGES:</u>	204,246.64
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<u>GOODWILL, PATENTS, COPYRIGHTS, TRADE MARKS AND LICENCES:</u>	243.00
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CAPITAL ASSETS:

Land, buildings, plant, transportation and other equipment (at cost)	\$115,029,338.48	
Less—Reserve for depreciation	73,785,888.01	
		<u>41,243,450.47</u>
		<u><u>\$171,573,317.12</u></u>

NOTE (1)—The figure at which the investment in shares of subsidiary companies is carried in the above balance sheet (after giving effect to revaluations shown under Capital Surplus) is less than the aggregate of the cost thereof plus the proportion of the undistributed earnings of such subsidiary companies since acquisition applicable to such shares.

OIL LIMITED

DECEMBER 31, 1940

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 6,059,752.14	
Amounts owing to subsidiary companies	4,365,952.44	
Reserve for taxes on earnings and other accrued taxes in Canada.	8,893,550.84	
		<u>\$19,319,255.42</u>

RESERVES:

For fire, marine and other insurance	\$ 9,802,620.38	
For employees' annuities	11,032,493.22	
For future shrinkage of inventory values from present abnormally high costs caused by war conditions	2,722,099.32	
		<u>23,557,212.92</u>

CAPITAL AND SURPLUS:

Capital Stock:		
Authorized—32,000,000 shares of no par value		
Issued and outstanding—26,965,078 shares	\$77,974,960.36	
Capital Surplus:		
Arising from revaluations (in 1915 and 1920) of investment in subsidiary company	15,264,192.26	
Earned Surplus, as per statement attached	35,457,696.16	
		<u>128,696,848.78</u>

Approved on behalf of the Board:

C. A. EAMES, *Director*

L. C. McCLOSKEY, *Director*

\$171,573,317.12

NOTE (2)—At December 31, 1940, the Company had outstanding contractual and contingent liabilities aggregating \$2,553,969.09.

NOTE (3)—The auditors' report to the shareholders appears on page seven hereof.

I M P E R I A L O I L L I M I T E D

STATEMENT OF SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1940

<u>PARTICULARS</u>	<u>EARNED SURPLUS</u>	<u>CAPITAL SURPLUS</u>	<u>TOTAL</u>
Balances at January 1, 1940	\$34,672,153.14	\$15,264,192.26	\$49,936,345.40
<i>Add—</i>			
Net Profit for the year ending December 31, 1940	17,638,716.78	————	17,638,716.78
	<u>52,310,869.92</u>	<u>15,264,192.26</u>	<u>67,575,062.18</u>
<i>Deduct—</i>			
Dividends paid	16,853,173.76	————	16,853,173.76
Balances at December 31, 1940, carried to Balance Sheet	<u>\$35,457,696.16</u>	<u>\$15,264,192.26</u>	<u>\$50,721,888.42</u>

I M P E R I A L O I L L I M I T E D

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDING DECEMBER 31, 1940

<u>PARTICULARS OF INCOME</u>	<u>BEFORE PROVIDING FOR CANADIAN TAXES ON EARNINGS</u>	<u>PROVISION FOR CANADIAN TAXES ON EARNINGS</u>	<u>NET INCOME AFTER PROVIDING FOR ALL TAXES ON EARNINGS</u>
FROM CANADIAN REFINING AND MARKETING OPERATIONS after providing for all selling, adminis- trative and general expenses, and after setting up a reserve of \$1,467,989.22 for future shrink- age of inventory values from present abnormally high costs caused by war conditions	\$15,627,103.63		
Less—Provision for depre- ciation	3,940,990.87		
	\$11,686,112.76	\$ 4,756,287.77	\$ 6,929,824.99
<u>OTHER INCOME:</u>			
Dividends from subsidiary companies, including dividends from subsidiaries whose activities are carried on outside of Canada, less losses of sub- sidiary companies for the year 1940	13,774,074.64	3,022,844.95	10,751,229.69
Interest applied to annuity reserves, etc., less in- terest on bonds, loans, and mortgages, and other miscellaneous revenue	179,472.06	183,859.14	363,331.20
Net profit realized on investment securities and credits arising from adjustment of reserves against Dominion of Canada and other bonds on hand to the basis of market quotations as at December 31, 1940	320,993.30	—	320,993.30
	<u>\$25,601,708.64</u>	<u>\$7,962,991.86</u>	
<u>NET PROFIT FOR THE YEAR, CARRIED TO EARNED SURPLUS</u>			<u>\$17,638,716.78</u>

NOTE (1)—The total amount deducted in the above statement in respect of counsel and solicitors' fees and salaries of executive officers, including all salaried directors, is \$277,620.43; in addition, solicitors' fees, totalling \$2,590.66 were charged to Capital Assets during the year 1940.

NOTE (2)—Dividends received from subsidiary companies, included in the above statement, exceeded the Company's proportion of the aggregate net profits of subsidiary companies for the year 1940 by \$1,278,752.37.

