



A N N U A L R E P O R T

IMPERIAL OIL LIMITED



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APR 15 1960

FOR THE FISCAL YEAR ENDED DECEMBER 31st, 1941

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

HEAD OFFICE, SARNIA, ONTARIO

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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	

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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.

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

SARNIA, ONT., April 11th, 1942.

To the Shareholders of Imperial Oil Limited:

Your Directors submit herewith the annual report for 1941, during which year your Company's organization and equipment were employed in still larger measure than in 1940 to supply the petroleum requirements of the armed forces and of war industry. While in the national interest it is not at present advisable to describe operations in detail, it may be stated that the volume of crude oil processed and of petroleum products sold by your Company in 1941 reached an all-time peak. The increase was accounted for principally by additional requirements of aviation fuels, lubricating oils and fuel oils, all of which were needed in large quantities as the war effort developed.

The balance sheet as of December 31st, 1941, and the statements of surplus and of profit and loss for the year 1941 accompany this report.

E A R N I N G S

The net earnings of your Company for the year 1941 from all sources, after providing for all taxes on earnings, were \$16,144,069.06, or 59.87¢ per share, as compared with \$17,638,716.78, or 65.41¢ per share for 1940, notwithstanding increased volumes processed and sold during 1941.

It has proved to be more convenient to carry on the marine operations as a department of Imperial Oil Limited rather than through a separate company, and accordingly the assets and liabilities and the operating results of the Marine Department for the year 1941 are included with the figures of Imperial Oil Limited in the attached statements. The principal effects on the balance sheet arising from this change are a reduction in the investment in subsidiary companies and an increase in the capital assets and in the reserve for depreciation. In the statement of profit and loss for the year 1941 the operating results of the Marine Department are shown separately as Income from Transportation, whereas in 1940 the corresponding income was included in dividends received from subsidiary companies.

The further acceleration of the war during the year 1941 aggravated the conditions which made advisable the setting up of a reserve for future shrinkage of inventory values in the two previous years, and your Company therefore added to its inventory reserve and charged against its 1941 earnings an amount of \$3,414,896.41. This amount represents the increase in costs during the year 1941, calculated on the inventories of crude oil and refined products on hand at the close of the year. After making this provision the inventory reserve stands at \$6,136,995.73 at December 31, 1941, or 18.32% of the laid-down cost of the inventories of crude oil and refined products on hand.

In the following comparison of earnings for 1941 and 1940 the net income from transportation for 1941 has been set against the dividends received from Imperial Oil Shipping Company Limited for 1940, which also has the effect of placing the dividends from subsidiary companies on a properly comparable basis for the two years.

	1941		1940	
	Earnings	Per Share	Earnings	Per Share
Canadian Refining and Marketing Operations.....	\$ 5,237,199.70	19.42¢	\$ 6,929,824.99	25.70¢
Net Income from Transportation in 1941.....	3,569,775.98	13.24¢	1,700,000.00	6.30¢
Dividends from Imperial Oil Shipping Company Limited in 1940, out of Net Earnings of \$2,090,707.14				
Dividends from Subsidiary Companies and income from miscellaneous sources.....	7,337,093.38	27.21¢	9,008,891.79	33.41¢
Total Net Earnings (after providing for all Taxes on Earnings).....	\$16,144,069.06	59.87¢	\$17,638,716.78	65.41¢

In reviewing the Company's net earnings for 1941 and 1940 as above, the following comparison of the provisions made for Canadian taxes is of interest. Provision for Canadian Taxes on Marine Department operations, which was included in the books of Imperial Oil Shipping Company Limited in 1940, has been shown in order that the figures may be properly comparative.

	1941		1940	
	Amount	Per Share	Amount	Per Share
Provision for Canadian Taxes on earnings from Canadian Refining and Marketing Operations.....	\$ 5,604,358.69	20.78¢	\$ 4,756,287.77	17.64¢
Provision for Canadian Taxes on earnings from Transportation (Marine Department)—included in accounts of Imperial Oil Shipping Company Limited in 1940.....	2,432,814.15	9.02¢	1,087,654.00	4.03¢
Provision for Canadian Taxes on Income from other sources.....	3,183,989.40	11.81¢	3,206,704.09	11.89¢
Total Provision for Canadian Taxes on Earnings.....	11,221,162.24	41.61¢	9,050,645.86	33.56¢

CANADIAN REFINING AND MARKETING OPERATIONS

For many years your Company has followed a programme of progressive standardization in manufacturing methods and in the purchase of materials for capital construction and maintenance. The benefits of this policy have become especially noticeable at this time when conversion of industrial production to wartime requirements is becoming increasingly pronounced with a consequent limitation in the variety of materials available. The results obtained by your Research Department and their application have been very important and have made it possible to change operating procedure quickly to meet wartime necessities.

The marketing operations of your Company have been integrated closely to defence and war requirements and at the same time current domestic requirements have been cared for adequately and efficiently, notwithstanding the increased volume handled.

By reason of their wide scope and high flexibility, the marketing and manufacturing facilities of your Company make it possible to meet quickly the many and far reaching changes required by wartime demands.

CANADIAN PRODUCTION

In the Turner Valley field the total production for the year 1941 amounted to 9,830,343 barrels, an increase of 1,377,816 barrels over the 1940 production. This increase in production was largely due to two factors—an emergency production quota over and above the normal efficiency production quota which was inaugurated to assist in meeting war demands, and second, the arrangement made between the Oil Controller and the refiners for increased storage facilities which enabled a higher rate of withdrawal and increased accumulation of stored crude during the seasons of low consumption, such increased accumulation being available for use during the sowing and harvesting seasons in Western Canada—the periods of peak consumption. The total operated production of your Company through its subsidiaries was 3,051,630 barrels for the year 1941 as compared with 2,789,979 barrels for 1940.

There were 43 producing wells drilled in Turner Valley during 1941 and your Company, through its subsidiaries, had a participating interest in 18 of these and, at the end of the year, a participating interest in a total of 62 crude oil wells and 82 gas wells in the Turner Valley field.

In addition to the development of its interests in the Turner Valley and Fort Norman fields, your Company, through its subsidiaries, continued an extensive exploration programme in eastern and western Canada.

SOUTH AMERICA

The operations of your Company's subsidiaries in South America, particularly in Venezuela and in Peru, were considered successful during the past year. In

Peru, as a consequence of recent exploratory drilling, new reserves were discovered and at the beginning of 1942 the total reserves were higher than a year ago. The total production of these subsidiaries in South America, including the interest in Mene Grande's production in Venezuela, was 41,800,632 barrels in 1941 as compared with 39,705,055 barrels in 1940.

G E N E R A L

Your Directors feel that under present conditions a conservative policy is the proper one and that provision should be made to meet the emergencies post-war conditions may bring about. The sum of \$3,414,896.41, as previously mentioned, was therefore added to the reserve set up against future shrinkage of inventory values and out of the total net earnings of \$16,144,069.06 for the year, \$13,482,539.00 was paid out in dividends and the balance of \$2,661,530.06 was added to earned surplus.

The loyal co-operation of the personnel in meeting the many problems arising during the past year is very highly appreciated by the Directors.

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, 1941, 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, we report that in the case of such subsidiary companies as incurred losses up to December 31, 1941, 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; the Company's proportion of the aggregate net profits of such subsidiary companies for the year 1941 exceeded the dividends received in 1941 by \$2,306,833.03, after deducting from such excess the income taxes (at present rates) which would be payable by Imperial Oil Limited on distribution.

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 approximately the same as replacement value at December 31, 1941. The earnings of the year 1941 have been charged with an amount of \$3,414,896.41 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, 1941, 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 6, 1942.

I M P E R I A L

BALANCE SHEETA S S E T SCURRENT ASSETS:

Cash on hand and in banks	\$18,252,715.83	
Dominion of Canada and other bonds valued on the basis of market quotations which was less than cost—plus accrued interest	5,646,278.88	
Trade accounts and bills receivable (less reserves)	17,250,969.24	
Other accounts receivable, including accrued interest on miscellaneous investments	1,509,977.24	
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 approximately the same as replacement value)	\$33,490,141.03	
Materials and supplies (at cost)	3,818,730.74	37,308,871.77
		\$79,968,812.96

DEFERRED ACCOUNTS RECEIVABLE, MORTGAGES AND MISCELLANEOUS

<u>LOANS AND ADVANCES (LESS RESERVES) :</u>	4,251,273.85
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MISCELLANEOUS INVESTMENTS:

Bonds and debentures of other companies	\$4,173,447.11	
Shares of other companies	220,573.25	
		4,394,020.36

INVESTMENT IN SUBSIDIARY COMPANIES:

Investment in shares (less reserves)	\$41,431,660.37	
Indebtedness of subsidiary companies	7,542,600.45	
		48,974,260.82

<u>DEFERRED AND PREPAID CHARGES:</u>	602,978.52
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<u>GOODWILL, PATENTS, COPYRIGHTS, TRADE MARKS AND LICENCES:</u>	284.00
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CAPITAL ASSETS:

Land, buildings, plant, transportation and other equipment (at cost)	\$128,721,606.74	
Less—Reserve for depreciation	85,617,871.53	
		43,103,735.21
		<u>\$181,295,365.72</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, 1941

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$10,065,677.60	
Amounts owing to subsidiary companies	3,692,149.21	
Reserve for taxes on earnings and other accrued taxes in Canada	9,443,606.54	
		\$23,201,433.35

RESERVES:

For fire, marine and other insurance	\$10,941,227.13	
For employees' annuities	9,657,330.67	
For future shrinkage of inventory values from present abnormally high costs caused by war conditions	6,136,995.73	
		26,735,553.53

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	38,119,226.22	
		131,358,378.84

Approved on behalf of the Board:

R. V. LESUEUR, *Director*

L. C. McCLOSKEY, *Director*

\$181,295,365.72

NOTE (2)—At December 31, 1941, the Company had outstanding contingent liabilities aggregating \$2,307,244.87.

NOTE (3)—The auditors' report to the shareholders appears on page five 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, 1941

<u>PARTICULARS</u>	<u>EARNED SURPLUS</u>	<u>CAPITAL SURPLUS</u>	<u>TOTAL</u>
Balances at January 1, 1941	\$35,457,696.16	\$15,264,192.26	\$50,721,888.42
<i>Add—</i>			
Net Profit for the year ending December 31, 1941	16,144,069.06	—————	16,144,069.06
	51,601,765.22	15,264,192.26	66,865,957.48
<i>Deduct—</i>			
Dividends paid	13,482,539.00	—————	13,482,539.00
Balances at December 31, 1941, carried to Balance Sheet	<u>\$38,119,226.22</u>	<u>\$15,264,192.26</u>	<u>\$53,383,418.48</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, 1941

<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 \$3,414,896.41 for future shrink- age of inventory values from present abnormally high costs caused by war conditions	\$14,919,959.69		
Less—Provision for depre- ciation	4,078,401.30		
	\$10,841,558.39	\$ 5,604,358.69	\$ 5,237,199.70
FROM TRANSPORTATION (MARINE DEPARTMENT) after providing for all administrative and general ex- penses	\$6,584,676.06		
Less—Provision for depre- ciation	582,085.93		
	6,002,590.13	2,432,814.15	3,569,775.98
OTHER INCOME:			
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 1941	10,325,336.99	3,195,572.01	7,129,764.98
Interest applied to annuity reserves, etc., less in- terest on bonds, loans, and mortgages, and other miscellaneous revenue.	134,301.11	11,582.61	122,718.50
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, 1941	330,046.90	—	330,046.90
	<u>\$27,365,231.30</u>	<u>\$11,221,162.24</u>	
NET PROFIT FOR THE YEAR, CARRIED TO EARNED SURPLUS			<u>\$16,144,069.06</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 \$269,187.01; in addition, solicitors' fees, totalling \$1,774.29 were charged to Capital Assets during the year 1941.

NOTE (2)—The Company's proportion of the aggregate net profits of subsidiary companies for the year 1941 exceeded the dividends received from subsidiary companies, included in the above statement, by \$2,306,833.03, after deducting from such excess the income taxes (at present rates) which would be payable by Imperial Oil Limited on distribution.

