

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31ST, 1942

PRODUCING



REFINING



TRANSPORTATION



MARKETING



IMPERIAL OIL LIMITED

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

•
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 10th, 1943.

*To the Shareholders
of Imperial Oil Limited:*

The annual report for 1942 is submitted herewith by your Directors.

It is not in the public interest under war conditions to make this report as informative as would otherwise be desirable, but it can, however, be stated that the policy of your Directors covering all operations has been governed by the requirements of the armed forces and essential industries. The diversion to these national uses of large quantities of petroleum supplies has resulted in the curtailment of production for other purposes and has eliminated expenditures for construction materials and labor for capital account not connected with war production. Materials and labor resulting from such economies have thus been made available to other industries engaged in war work.

This report is accompanied by the balance sheet as of December 31st, 1942, and statements of surplus and profit and loss for the year ending on that date.

E A R N I N G S

After providing for all taxes, including taxes on earnings, the total net earnings of your Company from all sources for the year 1942 were \$14,663,097.00, or 54.38¢ per share, as compared with \$16,144,069.06, or 59.87¢ per share during 1941.

An amount of \$626,170.34 was provided out of 1942 earnings as an additional reserve for future shrinkage of inventory values from present abnormally high costs caused by war conditions, bringing the total reserve for this purpose as of December 31st, 1942 to \$6,763,166.07, or 21.09% of the total crude oil and refined products inventories as of that date, valued at \$32,074,065.63.

The following summary shows in detail the 1942 net earnings previously mentioned, as compared with the results of the preceding year, from the Company's various activities:

	1942		1941	
	Earnings	Per Share	Earnings	Per Share
Canadian Refining and Marketing Operations, Transportation Department, and Canadian Producing Department (exclusive of Canadian producing subsidiaries)	\$ 8,217,412.27	30.48¢	\$ 8,806,975.68	32.66¢
Dividends from Subsidiary Companies and income from miscellaneous sources	6,445,684.73	23.90¢	7,337,093.38	27.21¢
Total Net Earnings (after providing for all Taxes on Earnings)	\$14,663,097.00	54.38¢	\$16,144,069.06	59.87¢

The provisions made for Canadian Income Taxes in arriving at the aforementioned net earnings were as follows:

	1942		1941	
	Amount	Per Share	Amount	Per Share
On earnings from Canadian Refining and Marketing Operations, Transportation Department, and Canadian Producing Department (exclusive of Canadian producing subsidiaries)	\$6,410,242.84	23.77¢	\$ 8,037,172.84	29.80¢
On Income from other sources	<u>3,108,106.02</u>	<u>11.53¢</u>	<u>3,183,989.40</u>	<u>11.81¢</u>
Total Provision for Canadian Taxes on Earnings	\$9,518,348.86	35.30¢	\$11,221,162.24	41.61¢

Sales Taxes, Property Taxes and other Taxes paid by your Company in 1942 amounted to \$8,505,833.77, in addition to the provision of \$9,518,348.86 for Canadian Taxes on 1942 earnings, making a total of \$18,024,182.63 for all 1942 Taxes, equivalent to 66.84¢ per share as compared with total net earnings of 54.38¢ per share.

CANADIAN REFINING AND MARKETING OPERATIONS

During 1942 production of aviation gasoline and aviation lubricants was increased considerably to supply the constantly expanding war requirements. At Calgary refinery a new plant under construction for production of high octane aviation alkylate blending agent neared completion on December 31st, and since that date has been put into operation, thus making available additional supplies of high octane aviation gasoline.

During the latter part of 1942 your Company incorporated a subsidiary known as St. Clair Processing Corporation Limited, to operate certain units of the new synthetic rubber plants at Sarnia, now being constructed and financed by the Crown company, Polymer Corporation Limited, as part of the Dominion Government synthetic rubber programme. This synthetic rubber development is situated directly south of and adjacent to Sarnia refinery, on property which your Company sold to Polymer Corporation Limited. Imperial Oil Limited will furnish to Polymer Corporation Limited certain quantities of selected gases, representing the major portion of the materials from which Buna S and Butyl rubbers are to be manufactured. St. Clair Processing Corporation Limited will operate the butadiene and butyl rubber polymer plants and certain auxiliary equipment for account of Polymer Corporation Limited. At the present time a staff, including technically qualified personnel, is being engaged and trained at your Company's Sarnia refinery for account of Polymer Corporation Limited, to be available when synthetic rubber polymer units are ready for operation.

Marketing operations have been increasingly tied in with wartime requirements. Government rationing of gasoline became effective during the year on account of the critical supply situation and defence demands for essential products. Motor gasoline saved by rationing measures was responsible for making available greater amounts of aviation gasoline, and of diesel fuels and bunker fuel oils to supply the increased demands for naval and marine requirements and war industries. Whole-hearted co-operation has been given to various programmes of war prosecution and economy in connection with the distribution of petroleum products such as curtailment of truck miles to conserve rubber, manpower and equipment.

CANADIAN PRODUCTION

During 1942, the total production in Canada of crude oil, separator naphtha and absorption plant product accruing to your Company and its subsidiaries was 2,810,102 barrels as compared with 2,560,821 barrels during 1941. This production was obtained mainly from the Turner Valley field in Alberta and the Fort Norman field in the Northwest Territories. In addition to its own production, your Company purchased during 1942 a total of 4,354,453 barrels of Canadian crude oil.

Your Company and its subsidiaries drilled 14 producing wells in Turner Valley during the year and at the end of 1942 had a participating interest in 77 limestone crude oil wells and 83 shallow crude and gas wells in the Turner Valley field. They also greatly increased their exploratory activities in Canada, in addition to the development of proven properties in the Turner Valley and Fort Norman fields. A total of 19 exploratory wells were completed during the year, the major portion of which were in the Province of Alberta. At the end of the year, exploratory drilling operations were in progress on five other wells.

SOUTH AMERICA

The production of your Company's subsidiaries in South America, including the interest in Mene Grande's production in Venezuela, was less than in 1941, but potential production has been maintained and reserves have been increased.

GENERAL

The statement of surplus account shows a deduction of \$542,767.77 for expenditures prior to January 1st, 1942 on exploration of properties in Canada found to be non-productive of oil. After giving effect to this surplus adjustment, together with net earnings and dividends paid, the surplus account was increased during the year from \$53,383,418.48 to \$54,021,208.71.

A dividend of 25¢ per share was paid by your Company on June 1st, 1942 and a further dividend of 25¢ per share was paid on December 1st, 1942, making an aggregate of 50¢ per share during the year.

In expressing your Company's appreciation to the personnel for their loyal support, your Directors wish to refer particularly to those in the armed services and to make special mention of the splendid response the employees of the Company have made to the national campaign for the purchase of war bonds and war savings certificates, and the participation of the non-enlisted employees in the many war service activities.

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, 1942, and the related statements of profit and loss and surplus for the fiscal year then ended, and have obtained all the information and explanations which we required. Whilst we did not make a detailed audit of the transactions for the year, our examination was carried out in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and of other supporting evidence and such other procedures as we considered necessary.

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, 1942, 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 1942 exceeded the dividends received in 1942 by \$745,965.26, 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, 1942. The earnings of the year 1942 have been charged with an amount of \$626,170.34 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, 1942, 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, 1943.

I M P E R I A L

BALANCE SHEETASSETSCURRENT ASSETS:

Cash on hand and in banks	\$13,173,147.06
Dominion of Canada and other bonds valued on the basis of market quotations which was less than cost—plus accrued interest	5,276,868.95
Trade accounts and bills receivable (less reserves)	22,386,825.05
Other accounts receivable, including accrued interest on miscellaneous investments	10,500,486.39
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)	\$32,074,065.63
Materials and supplies (at cost)	4,108,200.15
	<u>36,182,265.78</u>

\$87,519,593.23

DEFERRED ACCOUNTS RECEIVABLE, MORTGAGES AND MISCELLANEOUSLOANS AND ADVANCES (LESS RESERVES):

4,183,643.86

MISCELLANEOUS INVESTMENTS:

Bonds and debentures of other companies	\$3,913,573.68
Shares of other companies (quoted market value \$451,000.00) ...	386,411.98
Shares of other companies (no quoted market value)	<u>172,720.25</u>

4,472,705.91

INVESTMENT IN SUBSIDIARY COMPANIES:

Investment in shares (less reserves)	\$42,080,848.00
Indebtedness of subsidiary companies	<u>3,476,494.81</u>

45,557,342.81

DEFERRED AND PREPAID CHARGES:

830,095.68

GOODWILL, PATENTS, COPYRIGHTS, TRADE MARKS AND LICENCES:

277.00

CAPITAL ASSETS:

Land, buildings, plant, transportation and other equipment (at cost)	\$129,063,737.39
Less—Reserve for depreciation	<u>84,236,940.56</u>

44,826,796.83

\$187,390,455.32

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, 1942

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$17,230,781.33	
Amounts owing to subsidiary companies	3,894,769.66	
Reserve for taxes on earnings and other accrued taxes in Canada	\$10,603,033.21	
Less—Amount paid on account of 1942 taxes on earnings	4,792,500.00	5,810,533.21
		\$26,936,084.20

RESERVES:

For fire, marine and other insurance	\$13,948,646.38	
For employees' annuities	7,746,389.60	
For future shrinkage of inventory values from present abnormally high costs caused by war conditions	6,763,166.07	28,458,202.05

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	38,757,016.45	131,996,169.07

Approved on behalf of the Board:

R. V. LeSUEUR, *Director*

L. C. McCLOSKEY, *Director*

\$187,390,455.32

NOTE (2)—At December 31, 1942, the Company had outstanding contingent liabilities aggregating \$2,307,000.00.

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, 1942

<u>PARTICULARS</u>	<u>EARNED SURPLUS</u>	<u>CAPITAL SURPLUS</u>	<u>TOTAL</u>
Balances at January 1, 1942	\$38,119,226.22	\$15,264,192.26	\$53,383,418.48
<i>Deduct—</i>			
Expenditures prior to January 1, 1942, on ex- ploration of properties in Canada found to be non-productive of oil	542,767.77	—————	542,767.77
	37,576,458.45	15,264,192.26	52,840,650.71
<i>Add—</i>			
Net Profit for the year ending December 31, 1942	14,663,097.00	—————	14,663,097.00
	52,239,555.45	15,264,192.26	67,503,747.71
<i>Deduct—</i>			
Dividends paid	13,482,539.00	—————	13,482,539.00
Balances at December 31, 1942, carried to Balance Sheet	<u>\$38,757,016.45</u>	<u>\$15,264,192.26</u>	<u>\$54,021,208.71</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, 1942

PARTICULARS OF INCOME	BEFORE PROVIDING FOR CANADIAN TAXES ON EARNINGS	PROVISION FOR CANADIAN TAXES ON EARNINGS	NET INCOME AFTER PROVIDING FOR ALL TAXES
FROM CANADIAN REFINING AND MARKETING OPERATIONS, TRANS- PORTATION DEPARTMENT, AND CANADIAN PRODUCING DEPART- MENT (EXCLUSIVE OF CANADIAN PRODUCING SUBSIDIARIES), after providing for all selling, adminis- trative and general expenses, and after setting up a reserve of \$626,170.34 for future shrinkage of inventory values from present abnormally high costs caused by war conditions			\$19,495,731.57
Less — Provision for depre- ciation	4,868,076.46	\$14,627,655.11	\$6,410,242.84
			\$8,217,412.27
OTHER INCOME:			
Dividends from subsidiary companies, including dividends from subsidiaries whose activities are carried on outside of Canada	9,784,699.20	3,142,145.52	6,642,553.68
Interest applied to annuity reserves, etc., less in- terest on bonds, loans, and mortgages, and other miscellaneous revenue	172,701.75	34,039.50	138,662.25
Net loss on investment securities after adjusting reserves against Dominion of Canada and other bonds on hand to the basis of market quotations as at December 31, 1942	58,206.70		58,206.70
	<u>\$24,181,445.86</u>	<u>\$ 9,518,348.86</u>	
NET PROFIT FOR THE YEAR, CARRIED TO EARNED SURPLUS			<u>\$14,663,097.00</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 \$260,916.35; in addition, solicitors' fees, totalling \$1,020.69 were charged to Capital Assets during the year 1942.

NOTE (2)—The Company's proportion of the aggregate net profits of subsidiary companies for the year 1942 exceeded the dividends received from subsidiary companies, included in the above statement, by \$745,965.26, after deducting from such excess the income taxes (at present rates) which would be payable by Imperial Oil Limited on distribution.

