ANNUAL REPORT

IMPERIAL OIL LIMITED

for the fiscal year ended

DECEMBER 31, 1940
IMPERIAL OIL LIMITED
HEAD OFFICE, SARNIA, ONTARIO

President
G. HARRISON SMITH

Vice-Presidents
C. A. EAMES  R. V. LE Sueur  L. C. McClosey  Henry H. Hewetson

Directors
G. HARRISON SMITH  C. A. EAMES  R. V. LE Sueur
L. C. McClosey  Henry H. Hewetson  A. E. HAIVTERSON

Comptroller
James McGrath

Secretary-Treasurer
W. J. Whiling

Transfer Office
56 Church Street, Toronto, Canada

References at:

SARNIA, ONTARIO
CALGARY, ALBERTA
REGINA, SASKATCHEWAN
NORMAN WELLS, NORTH WEST TERRITORIES

Divisional Marketing Head Offices at:

VANCOUVER, BRITISH COLUMBIA
EDMONTON, ALBERTA
REGINA, SASKATCHEWAN
WINNIPEG, MANITOBA

TORONTO, ONTARIO
MONTREAL, QUEBEC
HALIFAX, NOVA SCOTIA
ST. JOHN'S, NEWFOUNDLAND

Marketing Branches throughout Canada.

[Page One]
IMPERIAL OIL LIMITED

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 cooperated continuously with the various branches of the Government and of His Majesty’s Army 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, produced 16 per cent more crude than in 1939, whereas the total of crude oil processed by all refineries in Canada was approximately 12 per cent more than in 1939. Your Company’s extensive and flexible manufacturing, marketing and transportation facilities, and wise services, made it possible quickly and with a minimum of capital expenditure to meet the new and enlarged demands, of which the most important were for aviation gasoline and aviation oils, lubricants and marine and industrial fuel oils.

The laid down cost of crude oil and raw materials by your Company’s refineries advanced 31.000ths 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 agreement 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 $19,270,071.33, or 71.38¢ per share for 1939. These earnings accrued as follows:

<table>
<thead>
<tr>
<th>1940</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>Per Share</td>
</tr>
<tr>
<td>Canadian Refining and Marketing Operations</td>
<td>$6,029,824.99</td>
</tr>
<tr>
<td>Dividends from Subsidiary Companies and Income from Miscellaneous sources</td>
<td>10,708,891.79</td>
</tr>
<tr>
<td>Total Net Earnings (after providing for all Canadian Taxes on earnings)</td>
<td>$17,638,716.78</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>1940</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for Canadian Taxes on earnings from Canadian Refining and Marketing operations</td>
<td>$4,750,287.77</td>
</tr>
<tr>
<td>Provision for Canadian Taxes on income from other sources including income from subsidiaries</td>
<td>3,206,704.99</td>
</tr>
<tr>
<td>Total Provision for Canadian Taxes on earnings in Canada and elsewhere</td>
<td>7,962,992.76</td>
</tr>
<tr>
<td>Provision for Depreciation</td>
<td>3,940,990.87</td>
</tr>
<tr>
<td>Provision for future shrinkage of inventory values from present abnormally high costs caused by war conditions</td>
<td>1,447,089.22</td>
</tr>
<tr>
<td>Total</td>
<td>$13,371,798.89</td>
</tr>
</tbody>
</table>

The total provision for Canadian taxes on earnings represented an increase of $3,805,126.89, or 91.83 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 $7,062,991.86, referred to above, your Company paid other taxes such as sales and property taxes, etc., aggregating $5,076,949.88, or a total of $13,139,941.66. Furthermore it is collected on behalf of the various Provincial Governments, whose gasoline road taxes range from 7¢ to 10¢ per gallon, a total of $19,214,200.57.

Because of the higher costs and greater 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 $13,900,416.48, as compared with $26,901,802.53 in 1938, an increase of $6,488,614.33.

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.
ACADIAN 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 suspended 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 gasoline 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 gasoline selected octane fractions that were previously used in the production of motor gasoline and so an enlarged production of aviation gasoline and an improved quality of motor gasoline result.

 Adequate facilities for increased production of aviation gasoline have been provided at your Company's refineries. New 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 greatly 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 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 3,500,000 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 1,811,331 barrels. In addition to the production accruing to its subsidiaries, your Company purchased 4,328,183 barrels of Turner Valley crude oil and naphtha, of which 3,604,463 barrels were sold to other refineries. A further 1,502,442 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 recurrance 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 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-Hermel, 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 Mera Grande production in Venezuela, was 39,705,955 barrels as compared with 39,015,703 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 30,176,016 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.

[Page Four]
GENERAL

On June 1 your Company paid a dividend of 25¢ per share, together with a special disbursement of 125¢ 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.

A U D I T O R S ’ R E P O R T T O T H E S H A R E H O L D E R S

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 $1,467,889.22 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.
ASSETS

CURRENT ASSETS:
Cash on hand and in banks .................. $ 6,063,480.57
Demand 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) .................. 15,694,973.33
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) .................. 3,016,602.40
$33,390,366.48

DEFERRED ACCOUNTS RECEIVABLE, MORTGAGES AND MISCELLANEOUS:
Less and Advances (less reserves) .................. 3,909,007.99

MISCELLANEOUS INVESTMENTS:
Bonds and debentures of other companies .................. 83,477,164.88
Shares of other companies .................. 1,135,001.23
$84,612,166.11

INVESTMENT IN SUBSIDIARY COMPANIES:
Investment in shares (less reserves) .................. $49,878,331.62
Indebtedness of subsidiary companies .................. 7,264,701.24
57,143,032.86

DEFERRED AND PREPAID CHARGES:
Goodwill, patents, copyrights, trade marks and licenses .................. 204,206.64

CAPITAL ASSETS:
Land, buildings, plant, transportation and other equipment (at cost) .................. $115,920,338.48
Less—Reserve for depreciation .................. 73,785,088.01
41,245,450.47

$171,575,317.12

NOTE (1)—The figure at which the investment in shares of subsidiary companies is carried in the above balance sheet (other

giving effect to revaluations shown under Capital Surplus) is less than the aggregate of the cost (less plus

proportion of the undistributed earnings of such subsidiary companies since acquisition applicable to such shares.

LIABILITIES

CURRENT LIABILITIES:
Accounts payable .................. $ 6,059,752.14
Amounts owing to subsidiary companies .................. 4,265,552.44
Reserve for taxes on earnings and other accrued taxes in Canada .................. 8,833,550.84
$19,319,255.42

RESERVES:
For life, marine and other insurance .................. $ 9,802,620.38
For employees' annuities .................. 11,032,492.22
For future shrinkage of inventory values from present abnormally high costs caused by war conditions .................. 2,722,099.32
23,557,212.92

CAPITAL AND SURPLUS:
Capital Stock:
Authorized—32,000,000 shares of no par value
Issued and outstanding—26,968,078 shares .................. $77,974,900.06
Capital Surplus:
Arising from revaluations (in 1915 and 1920) of investment in subsidiary company .................. 15,204,152.26
Earned Surplus, as per statement attached .................. 35,457,696.16
$128,695,848.28

Approved on behalf of the Board:

C. A. Easby, Director
L. C. McCloskey, Director

$171,575,317.12

NOTE (2)—At December 31, 1940, the Company had outstanding contractual and contingent liabilities aggregating

$2,351,601.00
NOTE (3)—The auditors' report to the shareholders appears on page seven hereof.

[Page Nine]
# Imperial Oil Limited

## Statement of Surplus

**For the Year Ending December 31, 1940**

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>EARNED SURPLUS</th>
<th>CAPITAL SURPLUS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balances at January 1, 1940</strong></td>
<td>$34,672,153.14</td>
<td>$15,264,192.26</td>
<td>$49,936,345.40</td>
</tr>
<tr>
<td><strong>Add</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit for the year ending</td>
<td>$17,638,716.78</td>
<td></td>
<td>$17,638,716.78</td>
</tr>
<tr>
<td><strong>Deduct</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>16,831,173.76</td>
<td></td>
<td>16,831,173.76</td>
</tr>
<tr>
<td><strong>Balances at December 31, 1940</strong></td>
<td>$35,457,696.16</td>
<td>$15,264,192.26</td>
<td>$50,721,888.42</td>
</tr>
</tbody>
</table>

## Statement of Profit and Loss

**For the Year Ending December 31, 1940**

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>BEFORE PROVIDING FOR CANADIAN TAXES ON EARNINGS</th>
<th>AFTER PROVIDING FOR CANADIAN TAXES ON EARNINGS</th>
<th>NET INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td><strong>11,685,112.76</strong></td>
<td><strong>4,736,297.77</strong></td>
<td><strong>6,948,815.99</strong></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends from subsidiary companies, including dividends from subsidiaries whose activities are carried on outside of Canada, less losses of subsidiary companies for the year 1940</td>
<td>13,774,074.64</td>
<td>3,022,844.95</td>
<td>10,751,229.69</td>
</tr>
<tr>
<td>Interest applied to treasury reserves, etc., less interest on bonds, loans, and mortgages, and other miscellaneous revenue</td>
<td>179,472.66</td>
<td>181,859.14</td>
<td>868,331.80</td>
</tr>
<tr>
<td>Net profit realized on investment securities and credits arising from adjustment of reserves against Dominion of Canada and other bonds or land to the basis of market quotations as at December 31, 1940</td>
<td>320,993.30</td>
<td>320,993.30</td>
<td></td>
</tr>
<tr>
<td><strong>Net Profit for the Year, Carried to Earnings</strong></td>
<td><strong>25,001,708.64</strong></td>
<td><strong>2,962,991.86</strong></td>
<td><strong>17,638,716.78</strong></td>
</tr>
</tbody>
</table>

**Notes:**
1. The total amount disbursed in the above statement in respect of counsel and subsidiary fees and salaries of executive officers, including all salaries, directors, $1,353,464.41, in addition, auditors' fees totaling $1,100.00 have been charged to Capital Assets during the year 1940.
2. Dividends received from subsidiary companies, included in the above statement, exceeded the Company's proportion of the aggregate net profit of subsidiary companies for the year 1940 by $1,278,752.37.