ANNUAL REPORT

IMPERIAL OIL LIMITED

for the fiscal year ended

DECEMBER 31, 1937

IMPERIAL
PRODUCTS

IMPERIAL OIL LIMITED

HEAD OFFICE, SARNIA, ONTARIO

President

G. HARRISON SMITH

Vice-Presidents

C. A. EAMES R. V. LESUEUR L. C. MCCLOSKEY JOHN MCNEIL

Directors

G. HARRISON SMITH C. A. EAMES R. V. LESUEUR
L. C. MCCLOSKEY JOHN MCNEIL A. E. HALVERSON

Secretary-Treasurer

F. E. HOLBROOK

Transfer Office

56 CHURCH STREET, TORONTO, CANADA

Refineries at:

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

Divisional Marketing Head Offices at:

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

Marketing Branches throughout Canada.

SARNIA, ONT., APRIL 13, 1938.

To the Shareholders of
Imperial Oil Limited:

The balance sheet as of December 31, 1937, together with statements of surplus and of profit and loss for 1937 are submitted herewith by your directors.

EARNINGS

Net earnings from Canadian refining and marketing operations (after provision for Canadian income taxes) were again a relatively small portion of your Company's total earnings, being $3,527,132.59 or 13.33 per cent of the total, equivalent to 13.08 cents per share. This compares with 1936 earnings of $3,082,241.19 or 11.43 cents per share.

Dividends received from subsidiary companies and income from miscellaneous sources (after provision for Canadian income taxes) were $22,925,024.18 or 85.02 cents per share, as compared with $22,546,043.87 or 83.61 cents per share in 1936.

Total net income from all sources during 1937 (after provision of $4,425,990.80 for Canadian income taxes) was $26,452,156.77 or 98.10 cents per share. This compares with $25,628,285.06 or 95.04 cents per share for 1936.

CANADIAN REFINING AND MARKETING OPERATIONS

There was a further increase in the consumption of petroleum products in Canada during 1937 and your Company satisfactorily maintained its position in the enlarged market. Earnings from domestic business again reflected a narrower margin of profit and a heavy burden of taxation. In addition to income tax of $1,355,367.77 on Canadian refining and marketing operations for which provision is made in the accompanying statement of profit and loss, your Company paid in other taxes applicable to these operations the sum of $5,131,289.04 (not including road taxes which are paid by the consumer). This constituted a total tax burden of $6,486,656.81 as compared with earnings of $3,527,132.59 from Canadian refining and marketing operations.

Your Company has been a leader in petroleum research and in engineering and refinery development, and for many years has maintained efficient research and engineering departments. The benefits of these activities are reflected by continuous improvement in the quality of your Company's products, by advanced methods of operation, and by minimized expenditures for equipment which have resulted in a reduction of the amount of depreciation it was necessary to provide during 1937 as compared with 1936.

WESTERN CANADA PRODUCING

During 1937 the development of the crude oil field in the south end of Turner Valley, Alberta, advanced with increased activity. By midsummer the potential of the field had reached approximately 5,000 barrels per day and by December a Government test indicated an estimated potential daily production of 26,800 barrels. The total production of the Turner Valley field in 1937 amounted to 2,767,221 barrels of crude oil, naphtha and absorption gasoline, and of this your Company's affiliates produced 1,244,338 barrels, an increase of 585,780 barrels over their 1936 production. In addition your Company purchased 495,079 barrels from other Turner Valley producers during the year.

The rapid development of a new oil field always creates new conditions and frequently, as history proves, is accompanied by costly disturbances; to afford an outlet, transportation facilities adequate to the development have to be provided and other crudes have to be displaced from their established markets. Your Company's Calgary refinery had already discontinued purchases of Montana crude in favour of Turner Valley crude; during the year the pipe line of the Royalite Oil Company Limited, transporting oil from Turner Valley to Calgary, was increased from 5,000 barrels to 10,000 barrels and then to 13,800 barrels and is now in process of being increased to a capacity of 24,000 barrels per day: negotiations were successfully conducted by your Company with the railways for a reduced freight rate on crude oil from Calgary to Regina and from that time the Regina refinery has made commitments only for Turner Valley crude, and the market supplied by the Regina refinery has been expanded to include a large part of the Province of Manitoba hitherto served with products manufactured from Mid-Continent crude. Accordingly the year ended with the Turner Valley oil field supplying practically the entire Prairie market with the products which can be produced from Turner Valley oil.

Although these results were obtained during the course of the year, the price of Turner Valley crude remains at a figure which is conducive to the steady development of the field and at the same time the consumers in the Prairie Provinces have benefited by substantial decreases in the prices of petroleum products.

At the end of the year your Company's affiliates controlled or had a participating interest in 98 oil and gas wells in Western Canada. Of these 92 are located in the Turner Valley.

Exploratory work was continued in selected areas in the Province of Alberta. The deep test undertaken in conjunction with the Calgary and Edmonton Corporation and the Dominion Gas Service Limited in the High River district, 10 miles south-east of Turner Valley, was abandoned at a depth of 8,988 feet without securing commercial production.

Mining developments in the Great Bear Lake and Slave Lake areas gave added importance to the operations on the producing property near Fort Norman on the lower Mackenzie River. Facilities for transporting products from the small refinery near Fort Norman were improved by the construction of a short pipe line past the rapids on Bear River and by the provision of additional boats and barges for service in the Mackenzie River district.

SOUTH AMERICA

Exports of crude oil produced by your Company's subsidiaries in Colombia and Peru totalled 26,731,438 barrels or 5.87 per cent more than in 1936 when exports aggregated 25,248,246 barrels. Of these 1937 exports 22.62 per cent was shipped to Canada and the balance moved into world trade. Crude oil processed by your Company's subsidiaries at their refineries at Talara, Peru, and Barranca-Bermeja, Colombia, totalled 8,457,806 barrels as compared with 8,161,851 barrels in 1936. The average daily run to stills was 16,661 barrels at Talara and 6,511 barrels at Barranca-Bermeja, a combined daily average of 23,172 barrels as compared with 22,300 barrels in 1936.

The production of natural gas gasoline in Peru was 1,083,824 barrels and in Colombia 652,519 barrels. In 1936 this production was 1,105,657 barrels in Peru and 617,928 barrels in Colombia, a total of 1,723,585 barrels for that year as compared with a total of 1,736,343 barrels in 1937.

Crude oil production by your Company's subsidiaries in Colombia and Peru totalled 34,777,212 barrels during 1937, this being 3.47 per cent more than was produced by these companies in 1936. Colombian production increased from 18,483,722 barrels in 1936 to 20,054,458 barrels in 1937; in Peru there was a small reduction in the quantity produced which was 14,722,754 barrels as compared with 15,126,490 barrels in 1936.

IMPERIAL OIL SHIPPING COMPANY

The marine fleets of the Imperial Oil Shipping Company Limited, and of International Petroleum Company Limited, together transported 34,319,157 barrels of crude oil and products during 1937. This compares with 31,743,265 barrels carried in 1936. As of December 31, 1937, the fleets consisted of 23 vessels of 156,705 deadweight tons.

GENERAL

Naturally the petroleum industry in Canada is very sensitive to conditions in the United States where, as a result of the business recession which began in the late summer, substantial stocks of petroleum products were offering at the end of the year at prices inadequate in relation to costs. Hope was derived from constructive efforts by many branches of the industry to adjust the production of crude and refinery runs to market needs. The success of these efforts will be largely influenced by the trend of business conditions which was not clearly defined when the year ended.

Your directors believe that the personnel, resources and equipment of your Company justify an attitude of confidence during the current year.

By order of the Board,

G. Harrison Smith,
President.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of
Imperial Oil Limited:

We have made an examination of the balance sheet of Imperial Oil Limited as at December 31, 1937, and of the statements of profit and loss and surplus for the year ending on that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence, and 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, but we did not make 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, 1937, 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 1937 and included as income in that year exceeded the company's proportion of the aggregate net profits of subsidiary companies for the year 1937 by $4,576,400.23 and to this extent were paid by these companies from surpluses previously earned.

The inventories of crude oil and refined products are valued on the attached balance sheet on the basis of cost of crude oil, which was approximately $650,000.00 higher than replacement value as at December 31, 1937; the net profit shown for the year 1937 is therefore greater by this amount than it would have been had the inventories been valued on the basis of cost or replacement, whichever was lower.

In our opinion, based upon such examination, and subject to the remarks above, the attached balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at December 31, 1937, 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.,
March 31, 1938.

BALANCE SHEET

ASSETS

Current Assets:			
Cash on hand and in banks		$ 6,698,949.82	
Dominion of Canada and other bonds valued on the basis of market quotations which was less than cost—plus accrued interest		24,642,921.58	
Trade accounts and bills receivable (less reserves)		11,050,002.50	
Other accounts receivable, including accrued interest on miscellaneous investments		232,735.49	
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 $650,000.00 higher than replacement value)	$28,378,367.23		
Materials and supplies (at cost)	1,849,248.90	30,227,616.13	
			$72,852,225.52
Deferred Accounts Receivable, Mortgages and Miscellaneous Loans and Advances (less reserves):			3,746,969.44
Miscellaneous Investments:			
Bonds and debentures of other companies		$10,449,616.58	
Shares of other companies		691,470.25	
			11,141,086.83
Investment in subsidiary companies:			
Investment in shares (less reserves)		$44,553,122.05	
Indebtedness of subsidiary companies		6,498,536.75	
			51,051,658.80
Deferred and Prepaid Charges:			223,327.43
Goodwill, Patents, Copyrights, Trade Marks and Licences:			233.00
Capital Assets:			
Land, buildings, plant, transportation and other equipment (at cost)		$106,626,225.80	
Less—Reserve for depreciation		66,817,794.96	
			39,808,430.84
			$178,823,931.86

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 substantially 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, 1937

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	$ 2,971,259.81	
Amounts owing to subsidiary companies	1,015,693.85	
Reserve for income taxes and other accrued taxes in Canada	4,625,881.47	
		$ 8,612,835.13
RESERVES:		
For fire, marine and other insurance	$ 9,802,620.38	
For employees' annuities	8,554,492.44	
		18,357,112.82
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	58,614,831.29	
		151,853,983.91

Approved on behalf of the Board:

R. V. LeSueur, *Director*

L. C. McCloskey, *Director*

		$178,823,931.86

Note (2)—At December 31, 1937, the Company had outstanding contractual and contingent liabilities aggregating $2,026,295.16.

Note (3)—The auditors' report to the shareholders appears on page 7 hereof.

IMPERIAL OIL LIMITED

STATEMENT OF SURPLUS
FOR THE YEAR ENDING DECEMBER 31, 1937

PARTICULARS	EARNED SURPLUS	CAPITAL SURPLUS	TOTAL
Balances at January 1, 1937	$65,869,022.02	$15,264,192.26	$81,133,214.28
Add—			
NET PROFIT FOR THE YEAR ENDING DECEMBER 31, 1937	26,452,156.77	—	26,452,156.77
	92,321,178.79	15,264,192.26	107,585,371.05
Deduct—			
DIVIDENDS PAID	33,706,347.50	—	33,706,347.50
BALANCES AT DECEMBER 31, 1937, CARRIED TO BALANCE SHEET	$58,614,831.29	$15,264,192.26	$73,879,023.55

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, 1937

PARTICULARS OF INCOME		BEFORE PROVIDING FOR CANADIAN INCOME TAXES	PROVISION FOR CANADIAN INCOME TAXES	NET INCOME AFTER PROVIDING FOR ALL INCOME TAXES
FROM CANADIAN REFINING AND MARKETING OPERATIONS, after providing for all selling, administrative and general expenses	**$9,427,017.10**			
***Less*—Provision for depreciation**	**4,544,516.74**			
		$4,882,500.36	**$1,355,367.77**	**$3,527,132.59**
FROM TANK CAR DEPARTMENT, after providing for all administrative and general expenses	19,711.14			
Less—Provision for depreciation	235,379.68			
Net Loss from Tank Car Department		*216,668.54*	—	*216,668.54*
		4,666,831.82	1,355,367.77	3,311,464.05
OTHER INCOME:				
Dividends from subsidiary companies, including dividends from subsidiaries whose activities are carried on outside of Canada, less losses of subsidiary companies for the year 1937		25,286,701.01	2,956,247.16	22,330,453.85
Interest on investments in bonds, loans, mortgages, etc., and other miscellaneous revenue		1,174,610.96	114,375.87	1,060,235.09
		31,128,143.79	4,425,990.80	26,702,152.99
Net loss on investment securities, including provision to write down Dominion of Canada and other bonds to basis of market quotations at December 31, 1937		*249,996.22*	—	*249,996.22*
		$30,878,147.57	$ 4,425,990.80	
NET PROFIT FOR THE YEAR, CARRIED TO EARNED SURPLUS				$26,452,156.77

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 $200,285.58; in addition, solicitors' fees totalling $2,749.76 were charged to Capital Assets during the year 1937.

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 1937 by $4,576,400.23.