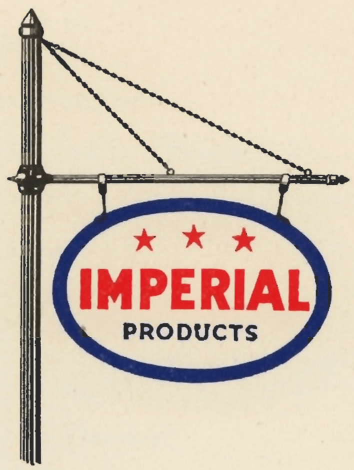

ANNUAL REPORT

IMPERIAL OIL LIMITED

for the fiscal year ended

DECEMBER 31st, 1936

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

Marketing Branches throughout Canada.

SARNIA, ONT., APRIL 13TH, 1937.

To the Shareholders of
Imperial Oil Limited:

Your directors submit herewith the balance sheet as of December 31, 1936, and statements of surplus and of profit and loss for the year 1936.

EARNINGS

As in previous years by far the greater part of your Company's earnings, 87.97%, was derived principally from investments. The balance of 12.03% was earned in Canadian refining and marketing operations.

After provision for Canadian income taxes, your Company's net earnings from Canadian Refining and Marketing operations were $3,082,241.19, or 11.43 cents per share, as compared with $2,899,578.81, or 10.75 cents per share for the year 1935.

Net earnings from transportation, from dividends paid by subsidiary companies and from miscellaneous income (after provision for Canadian income taxes) were $22,546,043.87, or 83.61 cents per share, as compared with $22,330,271.65, or 82.81 cents per share in 1935.

Your Company's total net income from all sources for 1936 (after provision of $4,247,083.20 for Canadian income taxes) was $25,628,285.06, or 95.04 cents per share. This compared with $25,229,850.46, or 93.56 cents per share for 1935.

Less than 30% of the crude oil marketed by your Company's foreign subsidiaries was imported into Canada because several of your Company's Canadian refineries are more readily and consistently accessible from oil fields in the United States. The balance of over 70% of the crude oil exports of your Company's foreign subsidiaries was sold in world markets.

CANADIAN REFINING AND MARKETING

Your directors are pleased to state that the increase in the volume of your Company's domestic business was somewhat larger than the increase in the total Canadian consumption of petroleum products, thus indicating that your Company's position was satisfactorily maintained. Due however to a substantial contraction in the margin between the prices of finished products and the costs of raw materials, and to the higher rate of sales tax, the increase in your Company's earnings from Canadian refining and marketing operations was not proportionate to the increase in the volume of its business.

WESTERN CANADA PRODUCING

The year ended with a renewed and stimulated interest in the Turner Valley. This began with the completion in June of the Turner Valley Royalties well in the south end of the Valley. This well, in which your Company has a royalty interest, had an initial daily production of approximately 850 barrels of 44 gravity crude oil and it constituted the first important discovery of crude oil in the Valley. Following this discovery, drilling in the southern area was undertaken by various interests including your Company's subsidiary, the Royalite Oil Company Limited, and at the end of the year a crude oil producing zone between three and four miles long had been proven at the south end of the west flank of the structure. Subsequently interest extended to the entire west flank of the Turner Valley structure. Through affiliates your Company controls a large amount of acreage in this zone which extends for some fifteen miles.

Your Company's exploratory activities in the Turner Valley during the year consisted of completing two wells. One of these, Royalite No. 27 in the north end of the Valley, is a gas and naphtha producer, the other, Sterling Pacific No. 3 in the south end of the Valley, is a crude oil producer and had an initial production of approximately 125 barrels daily.

Drilling was begun on two other wells, Sterling Pacific No. 4 in the south end, and Dalhousie No. 8 in the central area.

There was an increase in production by your Company's subsidiaries in the Turner Valley from 633,955 barrels during 1935 to 658,558 barrels during 1936. This increased production is attributed entirely to the output of the new absorption plant which was completed in the south end of the field during 1935. From other producers in the field your Company purchased 151,144 barrels during 1936. At the end of the year your Company's affiliates controlled 83 oil and gas wells in western Canada, of which 77 are located in the Turner Valley. Throughout the year operations were carried on in line with your Company's policy of conservation and accordingly nine of the Turner Valley wells were closed in for the entire period.

Geological and geophysical work was continued in selected localities of the Province of Alberta and several new areas were investigated. As a result of these investigations, two wells were drilled in the Jumping Pound area about twenty miles west of Calgary. Both of these penetrated to shallow sands in which indications of crude oil had been found in earlier wells, but unfortunately neither was successful in achieving commercial production. In conjunction with the Calgary & Edmonton Corporation Limited, and Dominion Gas Service Limited, a deep test was undertaken in the High River area ten miles south-east of the Turner Valley. At the end of the year this incompleted well had reached a depth of 8,767 feet and was the deepest ever drilled in Canada.

The refinery near Fort Norman on the Mackenzie River was operated again during the summer season. Its output was larger than in any previous year and the products which it supplied were consumed principally in the mining operations in the Great Bear area.

MARINE DEPARTMENT

During December 1936 the Imperial Oil Shipping Company Limited was formed as a wholly owned subsidiary and took over the Marine Department of Imperial Oil Limited. The issued capital of the Imperial Oil Shipping Company Limited of $5,000,500 represents the net value of assets transferred from the books of Imperial Oil Limited as of December 15, 1936, as follows:

Gross book value of Capital Assets transferred	$12,069,130.18
Depreciation Reserve applying to these assets	7,248,719.61
Net value of Capital Assets transferred	4,820,410.57
Net value of Miscellaneous Assets transferred	180,089.43
Total	$ 5,000,500.00

Accordingly, the attached balance sheet of Imperial Oil Limited as of December 31, 1936, reflects the transfer of these assets to the heading of "Investment in Subsidiary Companies" in the amount of $5,000,500.

During the year the Marine fleet, including that of International Petroleum Company Limited, transported 31,743,265 barrels of crude oil and its products as compared with 29,012,696 barrels in 1935. The fleets consisted as of December 31, 1936, of 23 vessels of 156,705 deadweight tons.

SOUTH AMERICA

Reports from your company's subsidiaries indicate that during 1936, in addition to refined products manufactured for export and for the internal requirements of Colombia and Peru, crude oil to the amount of 25,248,246 barrels was exported from these two countries, of which 29.24% was brought to your Company's refineries in Canada, and 70.76% went to countries other than Canada. Your subsidiaries' refineries at Talara, Peru, and at Barranca-Bermeja, Colombia, processed 8,161,851 barrels of crude oil during 1936, an average of 22,300 barrels per day and an increase of 8.30% over 1935.

In Colombia the 1936 production of crude oil was 18,483,722 barrels, or an average of 50,502 barrels per day, compared with a total of 17,597,654 barrels, or a daily average of 48,213 barrels in 1935.

The production of natural gas gasoline in Colombia in 1936 was 617,928 barrels, as compared with 546,508 barrels in 1935.

In Peru the production of crude oil totalled 15,126,490 barrels, or a daily average of 41,329 barrels. This compares with a total of 14,756,914 barrels, or a daily average of 40,430 barrels, for the year 1935.

Production of natural gas gasoline in Peru totalled 1,105,657 barrels, as compared with 1,036,221 barrels in 1935.

GENERAL

Reference has been made above to the larger volume of your Company's domestic business during the past year. This reflected a steady improvement in general conditions. There was also a greater stability in the petroleum industry in the United States where regulation of production by the states authorities has been increasingly effective. Consequently the industry was not so adversely affected by demoralized conditions as in other years.

With the demand for petroleum and its products steadily increasing and with most interests satisfied as to the need for orderly and economic operation, the prospects are favorable for the world petroleum industry during the current year. Your directors believe that because of its personnel, equipment and organization your Company is in a position where it may reasonably hope to benefit by the improved conditions which are expected to prevail during 1937.

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, 1936, 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, 1936, 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 1936 and included as income in that year exceeded the company's proportion of the aggregate net profits of subsidiary companies for the year 1936 by $7,617,720.45 and to this extent were paid by these companies from surpluses previously earned.

Freights are billed from the transportation department to the refining and marketing departments at competitive market rates for such freights, and as a result there is an inter-departmental profit of approximately $347,000.00 included in the inventory valuation in the attached balance sheet.

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, 1936, 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, 1937.

I M P E R I A L

BALANCE SHEET

ASSETS

Current Assets:			
Cash on hand and in banks		$13,862,431.59	
Dominion of Canada bonds and other marketable securities, at cost, including accrued interest (Market value $24,127,027.50)		23,749,602.93	
Trade accounts and bills receivable (less reserves)		10,895,624.04	
Other accounts receivable, including accrued interest on miscellaneous investments		1,268,803.67	
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 market)	$26,197,393.80		
Materials and supplies (at cost)	1,714,507.09	27,911,900.89	$77,688,363.12
Deferred Accounts Receivable, Mortgages and Miscellaneous Loans and Advances (less reserves):			3,840,496.38
Miscellaneous Investments:			
Bonds and debentures of other companies		$10,746,810 08	
Shares of other companies		267,636.25	11,014,446.33
Investment in subsidiary companies:			
Investment in shares (less reserves)		$44,074,373.92	
Indebtedness of subsidiary companies		4,112,056.63	48,186,430.55
Deferred and Prepaid Charges:			161,946.85
Goodwill, Patents Copyrights, Trade Marks and Licences:			228.00
Capital Assets:			
Land, buildings, plant, transportation and other equipment (at cost)		$108,182,508.62	
Less—Reserve for depreciation		65,154,515.41	
			43,027,993.21
			$183,919,904 44

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.

DECEMBER 31, 1936

LIABILITIES

Current Liabilities:		
Accounts payable	$1,619,584.18	
Amounts owing to subsidiary companies	860,594.15	
Reserve for income taxes and other accrued taxes in Canada	4,119,994.90	
		$ 6,600,173.23
Reserves:		
For fire, marine and other insurance	$9,802,620.38	
For employees' annuities	8,408,936.19	
		18,211,556.57
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	65,869,022.02	
		159,108,174.64
		$183,919,904.44

Approved on behalf of the Board:

R. V. LeSueur, *Director*

L. C. McCloskey, *Director*

Note (2)—At December 31, 1936, the Company had outstanding contractual and contingent liabilities aggregating $3,442,663.62.

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

STATEMENT OF SURPLUS
FOR THE YEAR ENDING DECEMBER 31, 1936

PARTICULARS	EARNED SURPLUS	CAPITAL SURPLUS	TOTAL
Balances at January 1, 1936	$73,947,084.46	$15,264,192.26	$89,211,276.72
Add—			
Net Profit for the year ending December 31, 1936	25,628,285.06	—	25,628,285.06
	$99,575,369.52	$15,264,192.26	$114,839,561.78
Deduct—			
Dividends paid	33,706,347.50	—	33,706,347.50
Balances at December 31, 1936, carried to Balance Sheet	$65,869,022.02	$15,264,192.26	$81,133,214.28

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDING DECEMBER 31, 1936

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......	**$9,828,390.33**			
***Less*—Provision for depreciation........**	**6,104,520.00**			
		$3,723,870.33	**$ 641,629.14**	**$3,082,241.19**
FROM TRANSPORTATION, after providing for all administrative and general expenses.........	$2,422,585.58			
Less—Provision for depreciation...........	745,758.73	1,676,826.85	273,526.33	1,403,300.52
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 1936..........		22,182,022.52	3,166,566.47	19,015,456.05
Interest on investments in bonds, loans, mortgages, etc., and other miscellaneous revenue, including rentals after deducting $38,090.51 for depreciation..............................		1,311,137.12	165,361.26	1,145,775.86
Profit on sale of investment securities......................		981,511.44	—	981,511.44
		$29,875,368.26	$ 4,247,083.20	
NET PROFIT FOR THE YEAR, CARRIED TO EARNED SURPLUS..................................				$25,628,285.06

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 $216,522.36; in addition, solicitors' fees totalling $2,330.64, were charged to Capital Assets during the year 1936.

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 1936 by $7,617,720.45.