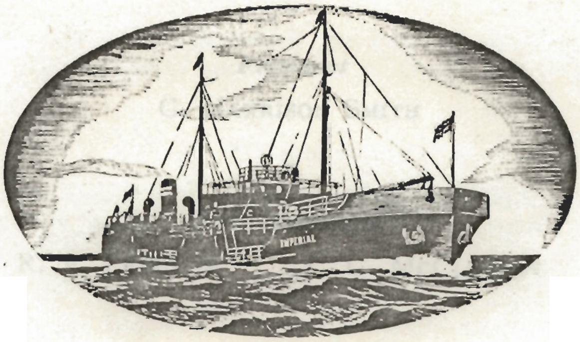

ANNUAL REPORT

IMPERIAL OIL LIMITED

for the fiscal year ended

DECEMBER 31, 1938

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
Toronto, Ontario
Montreal, Quebec
Halifax, Nova Scotia
St. John's, Newfoundland

Marketing Branches throughout Canada.

SARNIA, ONT., April 12, 1939.

To the Shareholders of
Imperial Oil Limited:

Your Directors submit herewith the balance sheet as of December 31, 1938, together with statements of surplus and of profit and loss for the year 1938.

EARNINGS

The net earnings of your Company from its Canadian refining and marketing operations were 13.76 per cent. of your Company's total net income and after provision for Canadian income taxes amounted to $3,573,260.23, equivalent to 13.25 cents per share, as compared with $3,527,132.59 or 13.08 cents per share in 1937.

The total of dividends received from subsidiary companies and of income from miscellaneous sources (after provision for Canadian income taxes) was $22,386,-319.99, equivalent to 83.02 cents per share, as compared with $22,925,024.18 or 85.02 cents per share in 1937.

The net income from all sources during 1938 (after provision of $4,103,481.39 for Canadian income taxes) totalled $25,959,580.22 or 96.27 cents per share as compared with $26,452,156.77 or 98.10 cents per share in 1937.

CANADIAN REFINING AND MARKETING OPERATIONS

Although continued progress was made by your Company in reducing its manufacturing and marketing costs, the average profit for the combined manufacturing and marketing operations in Canada approximated only one-third of one cent per gallon on the total volume of products which your Company made and sold. This did not afford an adequate return on the net capital employed.

Canadian petroleum markets were affected by unfavorable conditions in the United States petroleum industry, and while your Company increased the volume of its direct business, there was an offsetting reduction in its sales to jobbers which was due to enlarged imports from depressed price areas.

Some of the factors which entail costlier operations for the petroleum industry in Canada than in the United States are higher transportation rates, higher costs of physical equipment and greater expenses because of the smaller volume which is spread over a larger and less populous territory. Not only do plant and equipment cost on an average 30 per cent. more in Canada than in the United States, but because of the extreme regional and seasonal variations in Canadian consumption the investment in equipment and stocks for a corresponding volume of business is much greater. Consequently, even under favorable conditions, it is more difficult for your Company to earn an adequate return on its net invested capital in Canada.

All contemplated capital expenditures in Canada must, therefore, take into consideration the increasing difficulties of obtaining reasonable returns and also the increasing risks of functional obsolescence resulting from rapid technological progress. These difficulties and risks, together with the economic limitations imposed by foreign sources of product supply, must be given full weight in determining the extent to which your Company's Canadian earnings justify the use of its liquid assets for manufacturing facilities in Canada.

Plans drafted earlier in the year for certain changes, contemplated for 1939 in manufacturing equipment, were subsequently modified in line with the foregoing considerations.

Your Company carried on as in the past its program of research and engineering development.

WESTERN CANADA

Completion of 37 producing wells by various interests in the Turner Valley resulted in a substantial increase in production. Improved crop conditions on the Prairies were fortunately concurrent and afforded a larger market for the field.

The operated production of your Company's affiliates in the Turner Valley during 1938 was 2,169,560 barrels of crude oil, naphtha and absorption gasoline as compared with 1,244,338 barrels reported for 1937. In addition, your Company purchased 2,121,177 barrels as compared with 495,079 barrels purchased in 1937.

The Company's affiliates controlled or had a participating interest in 106 oil and gas wells in western Canada when the year ended. Of these, 100 are located in the Turner Valley.

Increased sales from the producing property at Norman Wells near Fort Norman, N.W.T. permitted a further reduction in the delivered price of products in the Great Bear, Slave Lake and Yellowknife areas. It is believed that the Fort Norman field will be able to supply all the oil that will be required in the Mackenzie district for many years to come.

SOUTH AMERICA

During 1938 your Company's subsidiaries in Colombia and Peru exported 25,287,994 barrels of crude oil, as compared with 26,731,438 barrels exported in 1937. The Canadian refining operations absorbed 28½ per cent. of these exports. Your Company's subsidiaries processed at their refineries at Talara, Peru, and Barranca-Bermeja, Colombia, 9,125,328 barrels, as compared with 8,457,806 barrels processed at these refineries in 1937.

Production of natural gasoline in Peru declined from 1,083,824 barrels in 1937 to 998,934 barrels in 1938. In Colombia it increased from 652,519 barrels in 1937 to 720,023 barrels in 1938.

Production of crude oil in Peru totalled 13,137,988 barrels as compared with 14,722,754 barrels produced in 1937. In Colombia the crude oil production totalled 21,305,740 barrels as compared with 20,054,458 barrels in 1937.

The International Petroleum Company Limited entered into an agreement with Mene Grande Oil Company C.A. whereby it acquired a half interest in all that Company's Venezuelan oil production as from December 15, 1937. Subsequently half of this interest was sold to N. V. Nederlandsche Olie Maatschappij effective as of the date of the Mene Grande purchase. The Mene Grande Oil Company operates in both western and eastern Venezuela. During 1938 International's 25 per cent. interest in the Mene Grande production represented 5,833,610 barrels. Substantially all this oil was produced in the Maracaibo Basin, western Venezuela. The Mene Grande Company has extensive holdings in proven and prospective areas in eastern Venezuela, and during the year extensive explorations were sufficiently successful to warrant the construction of a pipe line to Guanta, a deep sea terminal on the north coast approximately one hundred miles from the center of production.

Construction of this pipe line, which is 16 inches in diameter, and which with the one pumping station presently planned will have a daily capacity of approximately 100,000 barrels, is now in progress and completion is expected by early September. A thirty-mile 10-inch pipe line terminating at Boca de Urocoa in the eastern part of the Orinoco Basin (eastern Venezuela) was constructed to handle the production of that area.

IMPERIAL OIL SHIPPING COMPANY LIMITED

Two new Diesel-driven sister ships, the "Petrolite" built at Sorel, Que., and the "Imperial" built at Collingwood, Ont., were added to the fleet of the Imperial Oil Shipping Company Limited last year. Both are of all welded construction. Their design embraces many new features, the most interesting of which are the electro-magnetic clutches and reduction gear drives which, in these vessels, are for the first time incorporated in ships built in the western hemisphere.

As of December 31 last, the fleet of the Imperial Oil Shipping Company Limited consisted of 25 vessels of 160,785 deadweight tons. During the year the combined fleets of the Imperial Oil Shipping Company Limited and the International Petroleum Company Limited transported 35,344,874 barrels of crude oil and products. This compared with 34,319,157 barrels transported by these fleets during 1937.

GENERAL

Affecting as it does so wide a range of people, your Company's progress has an important bearing on Canadian economic conditions. The Company provides extensive employment, consumes large quantities of Canadian products, altogether apart from crude oil, and pays dividends directly to approximately 50,000 shareholders in Canada. Many thousands of other Canadians indirectly benefit as policy holders in insurance companies, as shareholders in investment trusts and through various charitable, business and other public and private institutions in Canada which hold stock in Imperial Oil Limited. Notwithstanding statements that a preponderant part of the earnings of your Company is paid to non-resident shareholders, the fact is that more income accrues to Canadian shareholders from your Company's diversified activities outside of Canada than accrues to non-resident shareholders from the operations of your Company and its subsidiaries in Canada. The National economy benefits very materially by these additional funds so widely distributed each year among the Canadian people.

In respect of Canadian refining and marketing only (and not including import taxes and taxes paid by subsidiaries) your Company's charges in 1938 for Federal and Provincial income taxes, sales taxes and Provincial corporate, municipal and school taxes were $5,878,425.63. This compared with net earnings of $3,573,260.23 from your Company's Canadian refining and marketing operations. In addition your Company collected from the consumer, on behalf of the nine Provincial governments, gasoline taxes totalling $11,689,772.47.

The increasing interference with the free conduct of business and the excessive diversion of income to public treasuries, which restrict capital available for productive purposes, are factors which inevitably must seriously affect the business of your Company as well as of other companies.

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, 1938, 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, 1938, 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 1938 and included as income in that year exceeded the company's proportion of the aggregate net profits of subsidiary companies for the year 1938 by $6,430,583.55 and to this extent were paid by these companies from surpluses previously earned.

In accordance with the company's established practice, the opening and closing inventories of crude oil and refined products for the year 1938 have been valued on the basis of cost of crude oil; had both of these inventories been valued on the basis of cost or replacement value of crude oil, whichever was lower, the net profit for the year ending December 31, 1938 would have been approximately $445,000.00 less than the amount shown on the attached statement.

In our opinion, based upon our 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, 1938, 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, 1939.

BALANCE SHEE[T]

ASSETS

Current Assets:			
Cash on hand and in banks		$14,140,047.69	
Dominion of Canada and other bonds valued on the basis of market quotations which was less than cost—plus accrued interest		17,274,270.59	
Trade accounts and bills receivable (less reserves)		10,305,342.28	
Other accounts receivable, including accrued interest on miscellaneous investments		144,403.36	
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 $1,200,000.00 higher than replacement value)	$25,270,497.11		
Materials and supplies (at cost)	1,631,304.94	26,901,802.05	
			$68,765,865.97
Deferred Accounts Receivable, Mortgages and Miscellaneous Loans and Advances (less reserves):			3,035,449.12
Miscellaneous Investments:			
Bonds and debentures of other companies		$2,329,489.52	
Shares of other companies		1,195,473.25	
			3,524,962.77
Investment in subsidiary companies:			
Investment in shares (less reserves)		$44,873,430.19	
Indebtedness of subsidiary companies		7,788,584.13	
			52,662,014.32
Deferred and Prepaid Charges:			205,824.18
Goodwill, Patents, Copyrights, Trade Marks and Licences:			233.00
Capital Assets:			
Land, buildings, plant, transportation and other equipment (at cost)		$109,135,625.36	
Less—Reserve for depreciation		68,882,256.71	
			40,253,368.65
			$168,447,718.01

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.

ECEMBER 31, 1938

LIABILITIES

Current Liabilities:		
Accounts payable	$3,149,091.54	
Amounts owing to subsidiary companies	897,917.95	
Reserve for income taxes and other accrued taxes in Canada	4,705,359.06	
		$8,752,368.55
Reserves:		
For fire, marine and other insurance	$ 9,802,620.38	
For employees' annuities	10,715,028.60	
		20,517,648.98
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	45,938,547.86	
		139,177,700.48
		$168,447,718.01

Approved on behalf of the Board:

R. V. LeSueur, *Director*

L. C. McCloskey, *Director*

Note (2)—At December 31, 1938, the Company had outstanding contractual and contingent liabilities aggregating $1,634,750.40.

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

STATEMENT OF SURPLUS
FOR THE YEAR ENDING DECEMBER 31, 1938

PARTICULARS	EARNED SURPLUS	CAPITAL SURPLUS	TOTAL
Balances at January 1, 1938	$58,614,831.29	$15,264,192.26	$73,879,023.55
Deduct—			
Adjustments affecting previous financial periods in respect of reserves for employees' annuities, income taxes, and reserves for Western farmers' accounts.	4,929,516.15	—	4,929,516.15
	53,685,315.14	15,264,192.26	68,949,507.40
Add—			
Net Profit for the year ending December 31, 1938	25,959,580.22	—	25,959,580.22
	79,644,895.36	15,264,192.26	94,909,087.62
Deduct—			
Dividends paid	33,706,347.50	—	33,706,347.50
Balances at December 31, 1938, carried to Balance Sheet	$45,938,547.86	$15,264,192.26	$61,202,740.12

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDING DECEMBER 31, 1938

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	$8,424,549.13			
Less—Provision for depreciation	4,026,427.98	$ 4,398,121.15	$ 824,860.92	$ 3,573,260.23
FROM TANK CAR DEPARTMENT, after providing for all administrative and general expenses	*24,418.20*			
Add—Provision for depreciation	*182,808.99*			
Net Loss from Tank Car Department		*207,227.19*	—	*207,227.19*
		4,190,893.96	824,860.92	3,366,033.04
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 1938		24,413,995.72	3,202,574.22	21,211,421.50
Interest on investments in bonds, loans, mortgages, etc., and other miscellaneous revenue		661,417.74	76,046.25	585,371.49
Net profit on investment securities, including the write-up of Dominion of Canada and other bonds on hand to the basis of market quotations as at December 31, 1938, which was less than cost		796,754.19	—	796,754.19
		$30,063,061.61	$ 4,103,481.39	
NET PROFIT FOR THE YEAR, CARRIED TO EARNED SURPLUS				$25,959,580.22

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 $218,968.73; in addition, solicitors' fees, totalling $5,303.19 were charged to Capital Assets during the year 1938.

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 1938 by $6,430,583.55.