Imperial Oil, Limited

To the Stockholders:

Your directors submit herewith the consolidated balance sheet as of the 31st December, 1939, and consolidated income account for the twelve months ending on that date.

Earnings from operations in Canada were $11,432,765.60 as compared with $20,503,603.48 in 1929. Earnings from investments outside of Canada were $5,938,593.56 as compared with $2,084,841.60 in 1929. Aggregate earnings, after allowance for income tax, were 73.81 cents per share, a total of $19,049,100.35 as compared with 99.43 cents per share, a total of $25,260,970.66 in 1929.

Decreased earnings reflect the world wide constiction of trade and the continued overproduction of crude oil which drastically reduced prices and depreciated the value of inventories. Although your company carried inventories only sufficient to meet current demand it was under necessity of writing them down by $4,370,471.21. In addition to this, and in accord with customary practice, an amount of $4,728,923.94 was charged to operating expense and credited to reserves for depreciation on plants and equipment.

Wages paid by your company and its subsidiaries in Canada last year totalled $16,000,000, expenditures made in Canada for supplies, including the purchase of Canadian materials and equipment, were $1,464,222.93, and to the municipal, provincial and federal treasuries $2,415,573.61, was paid in taxes. Freight charges for carriage in Canada totalled $16,362,160. The sum of money paid into circulation by your company in Canada during 1939, by its major subsidiaries then, exclusive of dividends paid to shareholders, was $24,452,783.51.

Regular dividends were paid by your company during 1939 amounting to $13,256,412.01 and, in addition, a special dividend was paid of 60 cents per share from the accumulated surplus received from foreign investments, which made a total distribution for the year of $24,519,104.81.

In spite of severe and economically unsound competition from both domestic and foreign sources, notwithstanding a curtailment of demand for petroleum products, your company was able slightly to increase its volume of business in 1939 but this was accomplished at the cost of impaired earning power as compared with the previous year. The increased volume of business was accounted for principally by larger sales of Imperial Gasoline, of Marpole Motor Oil and of Imperial Asphalt products. Production made for consumption by industry did not sell in such large volumes, thus reducing the general consumption of finished products.

It is to be noted that while the volume of products sold by your company in 1930 was less than in 1929 the lower level of prices reached in a decrease of about 35,000,000 in gross income from sales. For instance, the average wholesale price of gasoline in all Canada in 1929 was 105 cents per gallon than in 1939. It is a matter of interest that whereas the average price of 256 important commodities in 1930 was 57.2 cents per cent above the pre-war level, in 1929, the average price of gasoline was 11.4 per cent below the pre-war level. In fact, in 1937, the average wholesale price of gasoline in Canada has been well below the pre-war level and in 1939, the year of peak prices, when the average wholesale price of 256 commodities was 15.2 per cent above the pre-war price, gasoline had advanced only 91 per cent, or less than half as much.

While your company’s earnings from operations were inadequate in respect to its investments in this country, it was able to maintain its personnel at full strength, rendering certain reductions due to seasonal conditions, and to apply itself to the full advantage of the return of normal conditions. Without contributing to the general unemployment situation it effected considerable economies in operation and much of its employee was retired享受ed the full benefit of the company’s pension plan according to their length of service.

To assist in reducing commodity costs to the lowest economic level, which condition seems essential to complete business recovery, your company last year relied more than ever upon its investments in other countries and expected substantial increase in the future requirements through its own subsidiaries. It is hoped that this percentage will materialize with the agricultural interests and particularly in Western Canada where the open market demand upon the farmer by existing conditions. This was done in part by extending mutual legal credit terms to farmers, a large number of whom had continued to pay their accounts and retain the benefit of their operations. Immediate extensions to the consumer of any price benefits arising from lower market values of crude oil and reduced farm production costs.

To extend further its service to the growing public your company engaged in the general distribution and marketing of Atlas Tires to service stations and through dealers. This policy was based upon the company’s ability to increase the volume of its sales without corresponding increases in operating costs so as to be less, to a degree, than desirable because the very few additional facilities possible for substantial profits earned on fuels and lubricants. This was possible because of the increase in demand for fuels and lubricants, the availability of funds, and the success of the company’s distribution and marketing of Atlas Tires throughout Canada and Newfoundland.

This trend of Imperial Oil, Limited, was augmented by the purchase of the "Airdale," "Dialina," and "Arimada," two new six-cylinder buses, and by the "Ottawana" and "Manotick," two small six-cylinder buses, all of which were built in Great Britain for your company. The fleets of Imperial Oil, Limited, and of International Petroleum Company, Limited, now consist of 24 vehicles of 170,000 cigarettes total. The volume of crude oil and finished products they transported in 1939 amounted to 22,000,000 barrels.
SOUTH AMERICA:

The South American Republics in which Imperial Oil, Limited, operates through the International Petroleum Company, Limited, have not escaped the general industrial and financial reaction and in Peru there have also been changes of Government. The Governments of both Colombia and Peru are currently seeking all available means to cope with their respective problems. In Peru the well-known Kemmerer Commission has just completed its work of investigation and has made a series of recommendations on financial matters, a few of which have already been adopted. Colombia is now the subject of a series of reports by the Government in Colombia sound financial reforms and general legislation sponsored by the present Administration have already been put into force. The way is thus being prepared for a more rapid return to prosperity as soon as the prices of their basic products improve. A spirit of goodwill and cooperation exists between these Governments and the Company, and our operations have proceeded without noteworthy interruption. The combined production of crude oil in Colombia and Peru for the year 1930 was 99,123,624 barrels, as compared with 91,385,658 barrels during the year 1929. The reduction in output was due to curtailment owing to world conditions. The daily average crude production during 1930 from the two fields amounted to 28,328 barrels. Generally speaking, the demand for its gasoline and other petroleum products in the South American markets supplied by the Company has been quite encouraging in view of general world conditions.

Colombia:

In Colombia 114 producing wells were completed on the De Marca Concession, 97 on the Infantas Structure, with an average initial production of 661 barrels, and 26 on the La Cira Structure, with an average initial production of 21 barrels. Drilling operations on the Colores and Magana Structures were continued during the year, resulting in the completion of Colores Well No. 2, with an initial flow of four and one-half million cubic feet of gas. A further well on the Magana Structure is being drilled. During the year only three completed wells were unproductive.

The efficiency of the drilling department is indicated by the fact that well costs during the year were further reduced as compared with those for the year 1929.

Daily average production for 1929 was 26,452 barrels, making a total of 20,515,316 barrels for the year. Of this total, 19,132,613 barrels were exported and 1,322,703 barrels were produced in the refinery at Bambocaloma to supply the demand for petroleum products in Colombia.

Sales of lubricating oils were initiated during December with gratifying results. The lubricating oil plant at the Bambocaloma Refinery is of the most modern construction and employs the vacuum process, thus assuring the Colombian market an abundant supply of high grade lubricating oils, for which there is a good demand.

Peru:

In Peru the crude oil production for the year 1930 was 92,665,318 barrels as compared with 102,311,115 for the year 1929. Of the 1929 production, 5,374,841 barrels were exported and the remainder was required by the refinery at Talara to supply the products necessary to meet the demand on the West Coast of South America and elsewhere. The casing head gas production for 1930 amounted to 39,187,769, an increase of 1,750,112 barrels over the year 1929.

During the year 142 wells were drilled, of which 115, or 81 per cent were productive. The total number of productive wells at the close of the year was 1,801, of which 14 are gas wells and 1,787 oil wells.

The new productive areas north of High Vernon and in the district of Mille were further tested with very satisfactory results, the entire new and extensive area about fourteen miles from the nearest production well has been opened up. The oil in these areas was shut in reserve for the future. At the close of the year, the Company's stock-in-production amounted to approximately 40,000 barrels per day.

WESTERN CANADA:

In the Canadian West drilling activities were confined principally to the Turner Valley and the adjoining parts of the foothills area. The footage drilled was 6,459 feet, as compared with 6,044 feet in 1929. Nineteen of the twenty wells were completed successfully, but the results in many cases were disappointing and demonstrated the wide variation in the productivity of immediately adjacent areas in that field.

A test, in which your company has a half interest, is under way near Lethbridge, Alberta, and an exploratory well has been begun near Amherst, Nova Scotia, on a large block of leases held there.

Total production in Alberta in 1930 has been estimated by the Dominion Bureau of Statistics at 2,166,611 barrels, of which Imperial Oil, Limited, through its subsidiary and associated companies, contributed 65 per cent, or 1,395,601 barrels. Of these, 1,282,051 barrels were crude naptha, 277,145 barrels were dissolved naptha, which is classed as crude oil for marketing purposes, and 22,805 barrels were crude oil. Production of crude naptha and crude oil was less than in 1929, but the largely increased production of dissolved naptha made the total production 1,395,601 barrels greater than in that year.

The company supplied for consumption in Calgary, 6,275,372,010 cubic feet of gas, as compared with 5,810,242,000 cubic feet in 1929. Deliveries of gas to the company's refinery in Calgary were approximately equal to 1929 deliveries there, and demand in general was met by producing for sale in the Turner Valley field, more than 9,000,000,000 cubic feet of gas was transported and stored in the New Field under a conservation program.

Thirteen wells were drilling as of December 31, 1930, at which time your company controlled 40 productive wells, 41 of which are in the Turner Valley. Two of the remaining five are at Fort Norman and the other three are dry gas wells situated at Erickson, Cawson, and Pears Coupe.

IMPERIAL OIL LIMITED
IMPERIAL OIL REFINERIES LIMITED
CONSOLIDATED BALANCE SHEET
DECEMBER 31ST, 1930

ASSETS

Fixed (Capital) Assets:
- Real Estate, Plants, Machinery and Equipment...
  $118,564,708.87
Others...
  $66,607.60

Purchased, Trade Marks and Licences...
  $7,565,908.32

Current Assets:
- Inventories...
  $34,770,605.82
- Bills and Accounts Receivable...
  21,144,312.68
- Cash...
  $5,609,999.44
- Securities...
  171,448.17
  Total Current Assets...
  $62,591,411.85

Other Assets:
- Stock of Other Companies, Dominion of Canada Bonds and Miscellaneous Securities and Other Assets...
  94,464,801.86

Total Assets...
  $245,159,649.87

LIABILITIES

Capital Stock:
- Authorized, 50,000,000 shares no par value...
  $72,029,161.87
- Issued and outstanding...
  26,217,646 shares; amount paid in...
  $51,977,731.70

Capital and Surplus Account...
  72,029,161.87

Deficit Accounts...
  ($4,873,512.33)

Other Liabilities:
- Including provision for depreciation, forfeited stock, various reserves, etc...
  $25,633,225.19

Capital and Surplus of Minority Interest...
  24,046.65

Surplus:
- Unappropriated and Surplus Reserve...
  100,739,601.47

Total Liabilities...
  $245,159,649.87

CONSOLIDATED INCOME STATEMENT
DECEMBER 31ST, 1930

Total Operating Profits...
  $113,421,260.63

Other Net Income:
- Rent, Interest, Dividends Received from Other Companies, etc...
  $255,830.68

Total Income—Before Dominion Income Tax...
  $113,677,091.31

Less: Dominion Income Tax (Estimated)
  1,315,541.46

Net Income—After Dominion Income Tax...
  $112,361,549.85

By Order of the Board.

C. O. STILLMAN,
President.