TO THE STOCKHOLDERS:

June 10, 1932.

Your directors submit herewith the consolidated balance sheet as of the 31st December, 1931, and the consolidated income account for the twelve months ending on that date.

Operating profits again declined. They totalled, before deducting Dominion Income Tax, $10,633,892.25 as compared with $11,420,708.63 in 1930. Reduced earnings were due to lower prices for products and to a further contraction in the gross volume of sales. This diminished volume reflected both the controlled industrial demand for petroleum products and the restricted consumption in large areas of Western Canada where the third successive crop failure was experienced. However, earnings do not indicate the full extent of difficulties encountered. The effect of these difficulties was offset to an important degree by a program of economy based upon further advancement of process methods.

Earnings from investments, principally outside of Canada, were $4,017,745.22 as compared with $2,305,938.69 in 1930. The aggregate of domestic and foreign earnings, after allowing for income tax, was equivalent to 68.16 cents per share, a total of $11,226,694.98 as compared with $11,616,118.81 in 1930. Inventories depreciated during the year by $7,174,038.81. Operating expenses were charged with $3,321,625.69 on account of depreciation of plant and equipment.

Ever since gasoline became a commodity in general demand a great weight of scientific effort has been devoted to the improvement of quality and this has made possible continuous refinement of internal combustion engines, resulting in greater efficiency and economy and increased usefulness. In this connection your company has worked continuously and the new Imperial 8-Star Gasoline is one of the fruits of its efforts. Similarly the new Imperial Mobile Motor Oil represents a distinct achievement by your company's Research and Development Departments and combines desirable qualities not available previously to this introduction. The ready recognition of the merits of these products was particularly gratifying in view of existing economic conditions.

Your company continued to cooperate with the agricultural interests. In spite of the higher costs entailed by serving as large and thinly populated an area as Western Canada, gasoline was made available to Prairie farmers in general at prices lower than the imported product could be laid down duty free. This was done notwithstanding distress prices in the United States. Further, your company put into effect on the Prairies during the summer andthrashing season a reduction of 5 cents per gallon in the price of hexane, which is a satisfactory fuel for the operation of farm engines. No comparable reduction in price was available for the benefit of farmers in the Western States. By this policy a low price fuel was made procurable in time of great need.

In 1930 your company undertook to increase the volume of its business by marketing Atlas Tires at its own service stations and through dealers. The success attending this effort prompted plans which were developed during 1931 for the introduction of Atlas storage batteries and other accessories for motor vehicles. In this way it has been possible, without any important extension of equipment, to afford additional services of a revenue to Imperial Oil dealers and service stations.

Although it does not fall within the period under review it is considered desirable to refer briefly to the gasoline enquiry conducted during the early months of the current year by the Select Standing Committee on Banking and Commerce of the House of Commons.

There existed in 1930 and 1931 a widespread misunderstanding of the gasoline price structure in Canada due to comparisons made between prices at Canadian points and points in the United States where tax evasion and discount selling have brought prices below the equivalent value of crude oil. In February last a motion for an investigation of gasoline prices was adopted by the House of Commons. The Banking and Commerce Committee proceeded with this enquiry in the course of which it held 27 meetings and examined 25 witnesses. The Committee was assisted by its own technical adviser and selected the firm of George A. Yoak in and Company, Charter Accountants, to examine the records of Imperial Oil Limited as to how prices are fixed. The enquiry was not restricted in any way and all your company's records were made available to the auditors. The report of the Committee, after considering all evidence, was that prices in Canada are not unreasonably high and that discrepancies between prices in Canada and at some United States points are due principally to dismantling of the United States gasoline market through tax evasion and distress selling and, to a lesser extent, to the inevitably higher costs of marketing in Canada.

It is the conviction of your directors that the report of the Banking and Commerce Committee is based upon an exhaustive investigation has done much to promote a better understanding of the gasoline price structure in this country.

As a consequence of demands made upon your company's accounting staff for the purpose of the investigation, compilation of this annual report was delayed.

MARINE DEPARTMENT

The Imperial Oil and International Petroleum fleets as at December 31st, 1931, consisted of 25 vessels of 185,015 deadweight tons. During the past year these vessels transported 20,400,250 barrels of crude oil and finished products.
PRODUCING ACTIVITIES

Western Canada:

Production activities in Western Canada were confined primarily to the Turner Valley. Twelve wells were completed. Eight of these were productive. Four were abandoned as dry holes. In common with the company's operations in other countries, development activities were restricted. As a result the total footage drilled was 29,900', as compared with 64,000' in 1929 and 40,184' in 1928. Only one well, the Lethbridge test, was drilled at December 31. In 1929, 15,000' were completed with 13 wells drilling on December 31. At the end of the year the company controlled 27 productive wells, 52 of which are in the Turner Valley. Two of the remaining 5 are at Port Norman, and the other 3 are gas wells situated at Eckerdale, Cochrane Creek, and Peace River.

Total production in the Turner Valley was 1,397,625 barrels of which Imperial Oil Limited, through its subsidiary and associated companies, contributed 47 per cent, or 641,623 barrels. Of this amount 337,648 barrels was credited to the Turner Valley and was produced from wells which in 1929 were classified as marginal or dry, and the remainder was credited to operations of the Peace River, Cochrane Creek and Eckerdale. The production in the Turner Valley was obtained from 100 wells, 56 of which were new wells, 44 of which were abandoned, and 10 were deepened or recompleted. The average daily production of the new wells was 256 barrels of which 127 barrels was produced from wells drilled for 1929.

The company supplied for consumption in Calgary 3,092,704,091 cubic feet of gas and the policy of building up a reserve supply in the Bow Island Field was continued.

During the year it became evident that the rock pressures in the more closely drilled regions in the field were breaking down and that the gas volumes which were being produced were insufficient to carry the increased production of the new wells. This information was used by the company to guide its drilling operations in the Turner Valley and other fields.

In June the Alberta Government initiated a program of gas conservation and on July 1st, the company commenced operating under a 40 per cent, prorate of potential gas volume. On July 31st, the system was changed to a 20 per cent, prorate line prorate of naphtha, and operations continued on this basis for the balance of the year. The Government has recently passed an Act whereby conservation in Turner Valley will be further encouraged.

Eastern Canada:

Exploratory work in Nova Scotia was completed. The South Shore well drilled in Pictou County in 1929 was abandoned at a depth of 1,996' when unfavorable formations were encountered. A second test well in Nova Scotia was located in the Amherst Basin and drilled to a depth of 4,025'. It was abandoned after having penetrated a great thickness of salt, gypsum and anhydrite. Although no oil was found the drilling led to the discovery of a thick deposit of salt which may be of considerable value in the future.

South America:

Production in Colombia and Peru was 25,912,809 barrels as compared with 33,112,877 barrels in 1929. The daily crude oil output from the two countries amounted to 74,894 barrels as compared with 82,581 barrels for 1929. With the exception of orio, expansion and development activity, it has been possible for the company to exert the entire resources of the producing organization to the task of recovering oil in the most economic and scientific manner known to the industry today.

Colombia:

Drilling operations on the De Museo concession were considerably curtailed and production was below that of recent years. Forty-four producing wells were completed; 26 on the Ituango structure with an average initial production of 314 barrels daily, and 18 on the La Cira structure with an average initial production of 729 barrels. There were 23 non-productive wells, two of which were outside the proving limits of the productive areas and one on the Maguare structure.

Daily average production was 49,065 barrels, making a total of 12,817,900 barrels compared with a daily average of 53,763 barrels and a total of 39,055,912 barrels for 1929. During the past year 1,360,992 barrels were produced at the Barranca Hermosa Refinery. Operations in the field were continued at a normal rate until the middle of April. At this date the production in operation was reduced and production was initiated. Reductions in production were known as one of the abject scientists engaged in oil refining industry.

With the efforts of the organization diverted from expansion and development, its energy has been concentrated on improving methods of operation. The outstanding accomplishment is that the surplus gas is now returned to the wells in large volumes for the beneficial purpose of conservation and the recovery of recoverable oil. This has reduced the amount of drilling required to maintain the output. Thirty wells were deepened and converted substantially to the production of the field. This work involved little expense in labor and materials and yielded a net recovery of 130,000,000 barrels of oil that has been produced.

Improvements and extensions have been made throughout the marketing department to meet the growing domestic demand for petroleum products which will result from developments of the Colombian national highway and railway systems. The Company's best selling Colombian customers in the districts accessible from the Magdalena River now consume nine thousand and thirty-two barrels.

Peru:

Crude oil production in Peru was considerably curtailed; 7,071,316 barrels were produced representing a decrease of 25,000,000 barrels from the 1929 total. The average daily production was 24,678 barrels compared with 23,761 barrels for 1929. Crude-oil production amounted to 7,071,316 barrels compared with 23,761,316 barrels for 1929. Oiling-brand production amounted to 27,202,960,000 gallons compared with 28,140,838,000 gallons for 1929. The total shipments of crude oil to North and South America, Canada and Europe amounted to 3,490,010 barrels. Refined products, which are shipped principally to South and Central America and Europe, totalled 2,000,010 barrels. No refined products were shipped to the United States and exports of crude oil to that country were 145,000 barrels or 2.85% of all shipments.

Under a curtailed drilling program 29 new wells, of which 25 were productive, were completed. The total footage drilled was 93,860 compared with 126,230 in the previous year; the average number of strings of tools in operation was 162 as against 112 during 1929. At December 31, 1931, there were 315 producing wells in the field, 28 of which were operated in the province of Tumaco.

Further improvements were carried out in field producing methods. Gas handling facilities for gasoline extraction and regeneration were increased and it is expected that the output of gasoline from natural gas will be larger during 1931. As a result of regeneration operations, an increase in the ultimate amount of oil recoverable per acre was definitely established. Work was carried on in reconditioning the older wells and those in which production had ceased to be profitable were abandoned.

Labor troubles were experienced in the early part of the year. In February the field was shut down for 20 days and again from May 25th to June 20th. Various factors contributed to the general unrest in the country. Little difficulty was experienced in keeping order in our properties and the Company received every assistance from the authorities in safeguarding the property.

With deep sorrow your directors record the death on June 23rd, 1931, of Mr. Charles E. Ewing, director in charge of manufacturing. Mr. Ewing was universally known as one of the ablest scientists engaged in the oil refining industry. Combined with his extensive knowledge and executive ability was a personal charm which made even the severest of tasks bearable by his associates in the company.

By Order of the Board,

C. O. STILLMAN,
President,

IMPERIAL OIL LIMITED ·· IMPERIAL OIL REFINERIES, LIMITED

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1931

ASSETS

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<td>Definite and Prepaid Premiums</td>
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<td>Deferred and Prepaid Charges</td>
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<td>TOTAL ASSETS</td>
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CONSOLIDATED INCOME STATEMENT

DECEMBER 31, 1931

CONSOLIDATED OPERATING PROFITS |

OIl OTHER NET INCOME |

Operating Income |

Investment, Dividends Received from Other Companies, etc. |

TOTAL INCOME—Before Dominion Income Tax |

Less: Dominion Income Tax (Estimated) |

NET INCOME—After Dominion Income Tax (Estimated) |

$73,455,860.23 |

$4,573,572.62 |

$78,029,432.85 |

$3,957,750.67 |

$74,071,682.18 |