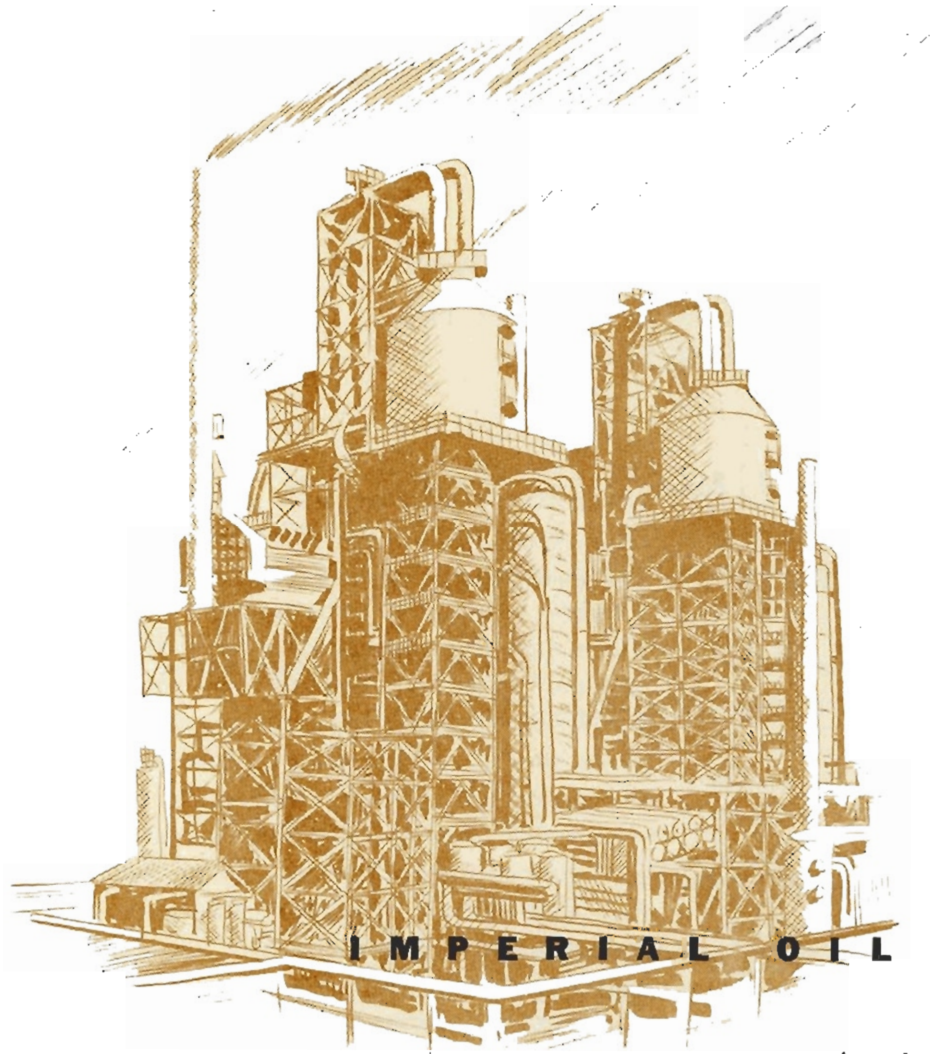
IMPERIAL OIL LIMITED Annual Report

FOR THE FISCAL YEAR ENDED DECEMBER 31ST. ★ 1945 ★

Part of the tank car loading racks,
Montreal East Refinery
(National Film Board Photo)



IMPERIAL OIL LIMITED

ANNUAL REPORT

IMPERIAL

FOR THE FISCAL YEAR ENDED DECEMBER 31ST, 1945

IMPERIAL OIL LIMITED, HEAD OFFICE, SARNIA, ONTARIO

DIRECTORS

F. W. PIERCE H. H. HEWETSON G. L. STEWART O. B. HOPKINS
J. R. WHITE A. E. HALVERSON F. C. MECHIN C. E. CARSON
F. G. HALL

OFFICERS

F. W. PIERCE, *Chairman of the Board*
H. H. HEWETSON, *President*
Vice-Presidents: G. L. STEWART O. B. HOPKINS J. R. WHITE

JAMES McGRATH, *Comptroller* J. A. NEW, *General Counsel*
C. D. CRICHTON, *General Secretary*

Transfer Office:
56 CHURCH STREET, TORONTO, CANADA

CRUDE OIL RESOURCES

Crude Oil Reserves of Company and Subsidiary Companies in:
CANADA • COLOMBIA, S.A. • PERU, S.A. • VENEZUELA, S.A.

REFINERIES

IOCO, BRITISH COLUMBIA SARNIA, ONTARIO
CALGARY, ALBERTA MONTREAL EAST, QUEBEC
REGINA, SASKATCHEWAN IMPEROYAL, NOVA SCOTIA
NORMAN WELLS, NORTHWEST TERRITORIES

MARKETING DIVISIONS

Divisional Marketing Head Offices in Canada and Newfoundland at:
VANCOUVER, BRITISH COLUMBIA TORONTO, ONTARIO
EDMONTON, ALBERTA MONTREAL, QUEBEC
REGINA, SASKATCHEWAN HALIFAX, NOVA SCOTIA
WINNIPEG, MANITOBA ST. JOHN'S, NEWFOUNDLAND

MARKETING BRANCHES THROUGHOUT CANADA AND NEWFOUNDLAND

ANNUAL REPORT

1945

TO THE SHAREHOLDERS OF

IMPERIAL OIL LIMITED

For the first time in six years the annual report includes a period during which Canada was not engaged in active warfare. Throughout the war the Canadian petroleum industry acquitted itself with great credit and ample evidence was afforded that large facilities for refining and distribution of petroleum were necessary in Canada for a war effort on the scale that Canada undertook. In more than five years no war activity or essential civilian service was interrupted by lack of petroleum products. Furthermore, in Canada all needs for products were met very largely by the already existing plants and equipment and consequently there was little diversion of manpower and materials for construction purposes. To achieve this called for longer hours for labour and for ingenuity and devotion to their tasks by employees of all ranks.

The record is one that warrants pride, but we cannot afford to relax because the transition period into which we have entered is one of great challenge and difficulty.

The immediate task facing a Canadian industry such as Imperial Oil is to do all it can to promote prosperity and social welfare in this country; in that way—and only in that way—can it advance the best interests of its shareholders, its workers and its customers. To carry out this task requires further improvement in product quality with correspondingly increased value to the consumer; large expenditures to replace war-worn plants which as well as improving quality will enlarge employment, and determination to re-absorb and give all possible assistance in their adjustment to veterans returning from the armed forces.

Reference was made in last year's report to your Company's plans for rehabilitation of equipment, replacement of plants and construction of the most modern units to meet anticipated demands for increased quantities of specialized products and to provide notable improvement in quality of fuels and lubricants. As part of this program, your Company last year completed plans for construction which will begin shortly at Montreal East refinery of the first catalytic cracking unit to be built in Canada. This will incorporate the fluid catalyst method of cracking, a method that was employed to produce a large part of the United Nations' war supplies of 100-octane gasoline. In addition to producing better motor fuels, catalytic cracking also yields a higher percentage of high-grade product and can be used to produce bases for the production of synthetic materials. As a further step in modernization a 4200-barrel-per-day catalytic polymerization plant will be installed. This plant will convert gaseous or volatile fractions into low vapour pressure high octane gasoline, resulting in larger yields and still further quality improvement.

As the year ended plans were near completion for construction of a catalytic polymerization plant at Sarnia refinery and for

A "roughneck" on a portable drilling rig

equipment to increase wax production and to make waxes of a quality not previously made there. Construction of a large addition to your Company's research laboratories at Sarnia has also been authorized and this will facilitate carrying on research activities even more extensive than have been conducted in the past and which have contributed a great deal to the advancement of the science of petroleum refining.

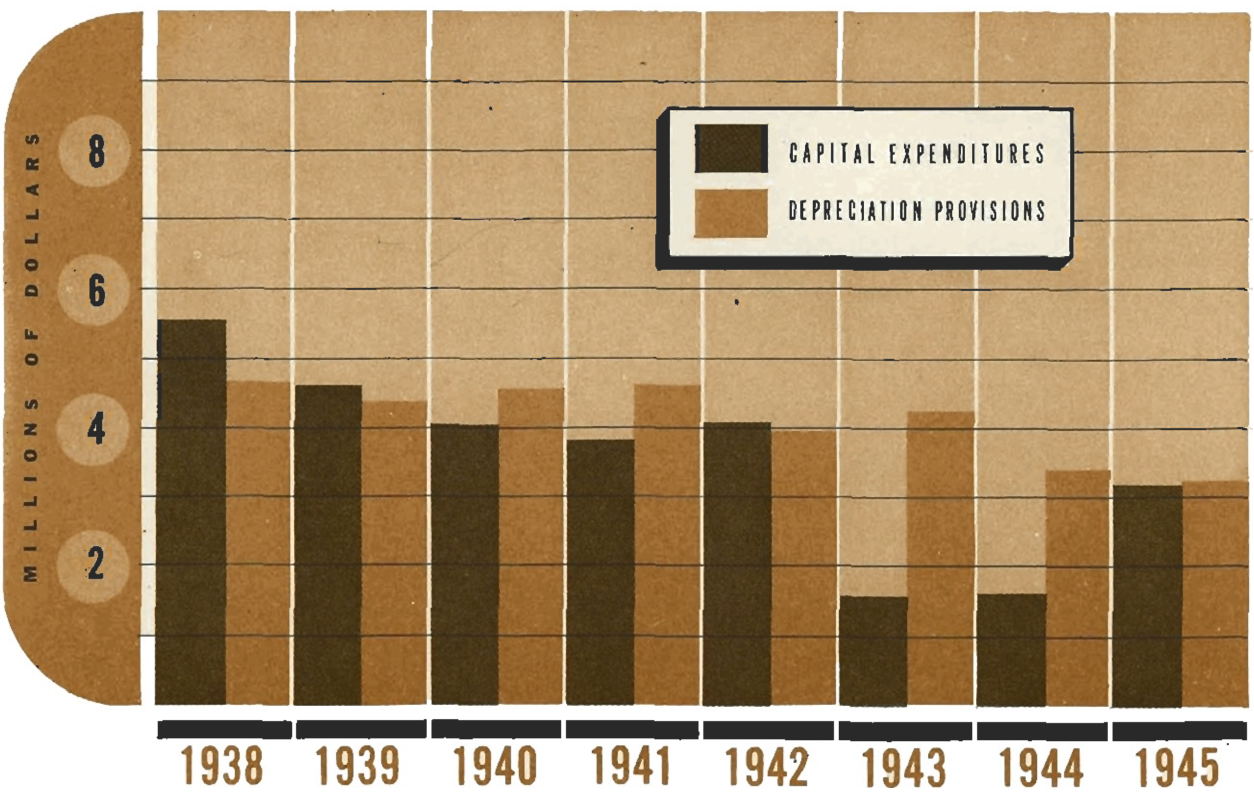
To supplement the laboratory and research work carried on in the East construction of a new laboratory for Calgary refinery is also to be proceeded with and numerous smaller projects for reconditioning and remodelling existing plants have been initiated.

In addition your Company plans to acquire as soon as possible several modern ocean-going tankers to replace ships lost by enemy action during the war. These ships will be larger in capacity and faster than those of the existing fleet. Plans are also being laid for the construction of tankers of even larger capacity in order further to reduce carrying costs.

At the end of the year negotiations were in progress for the purchase of a British tanker of coastal size. Construction in Canadian yards of three lake-size tankers had also been projected and the design of these vessels was well under way.

Approval was also given to a program developed by the marketing department for modernizing service stations, opening new

COMPARISON OF CAPITAL EXPENDITURES AND DEPRECIATION PROVISIONS
(EXCLUDING PRODUCING DEPARTMENT) • 1938 TO 1945



bulk terminals and improving marketing facilities in general with a view to rendering the most efficient service and minimizing marketing costs.

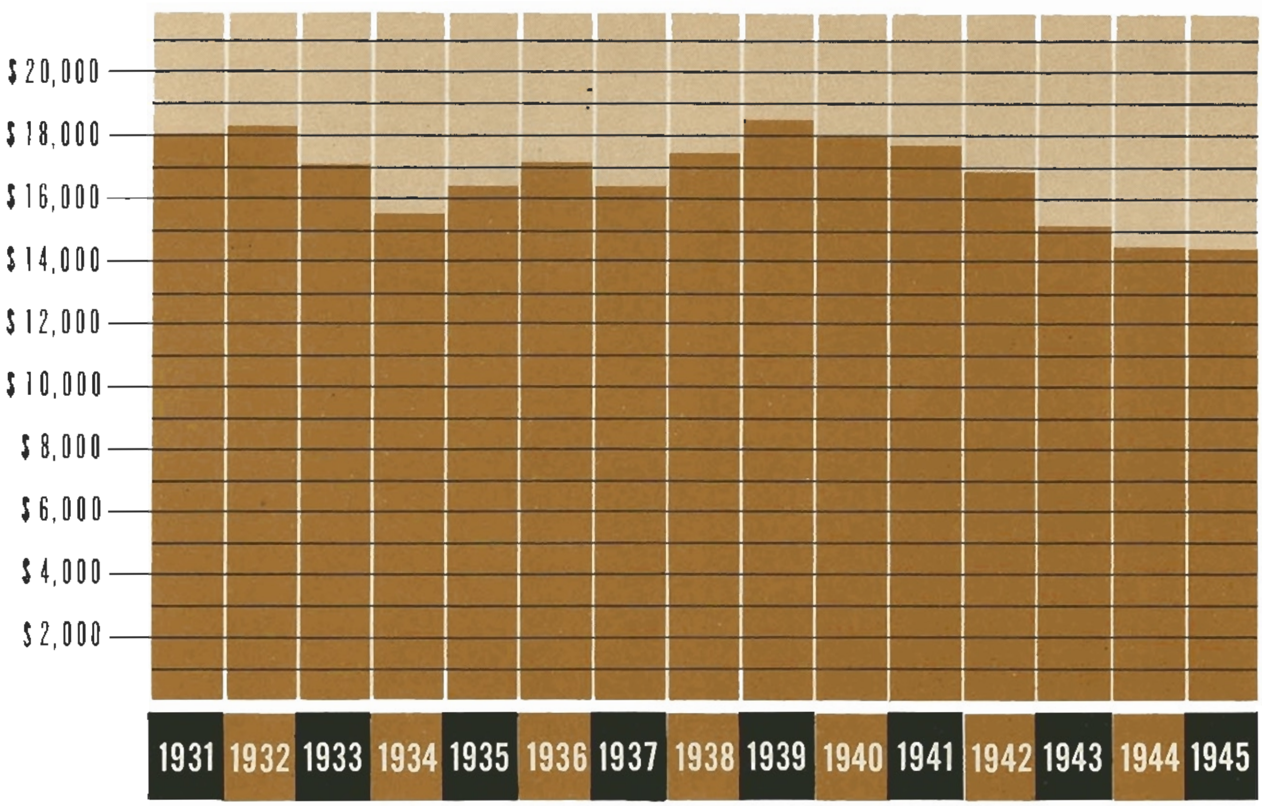
The vigorous exploration program which has been carried on, particularly in the West, will be extended through 1946. There will be continued test drilling in Western Ontario and geological and geophysical surveys will be carried on in other parts of Canada.

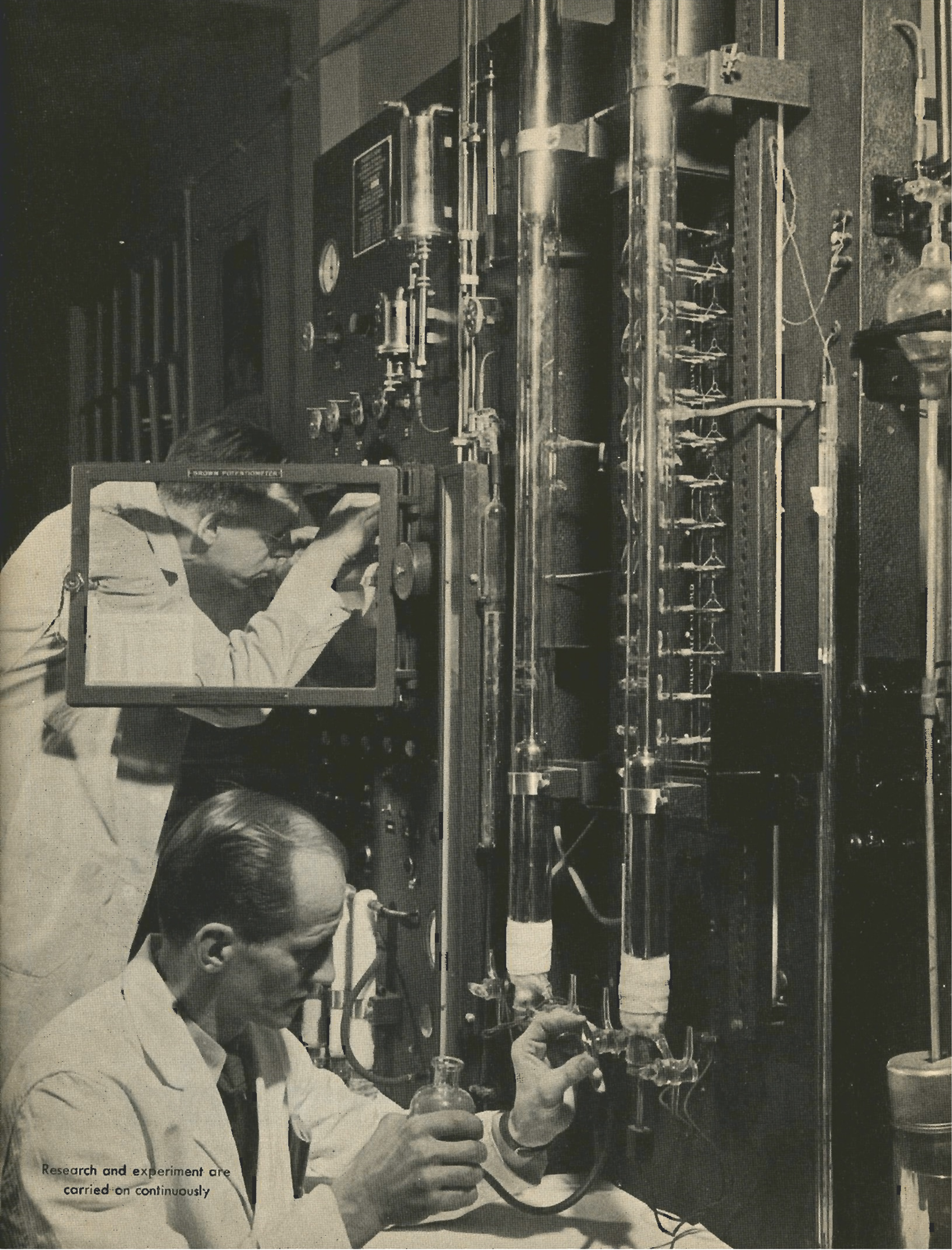
These programs, calling for very large capital outlays, will maintain your Company's leading position in the Canadian oil industry and will assist the Canadian economy by virtue of the large amounts of labour and materials involved. In this latter connection it is appropriate to note that your Company's policy has consistently been to purchase in Canada whenever possible and to this end it has over the years been instrumental in bringing about the manufacture in Canada of many diversified products, particularly articles manufactured from metals. Moreover, your Company has helped to expand export trade for the benefit of Canadian industry through large purchases of materials and supplies on behalf of its subsidiaries operating in South America.

EXPLORATION AND PRODUCTION

The total production of Canadian crude oil, separator naphtha and absorption plant product by your Company and its subsidiaries during 1945 was 2,632,625 barrels as compared with net owned production of 3,520,479 barrels in 1944. This decline was due almost entirely to the curtailment of Norman Wells production for war purposes. Your Company purchased 3,618,441 barrels of Canadian crude as compared with 3,869,516 barrels during 1944.

INVESTMENT IN PLANT FACILITIES PER EMPLOYEE
(MARKETING, MANUFACTURING AND TRANSPORTATION DEPARTMENTS)





Research and experiment are carried on continuously

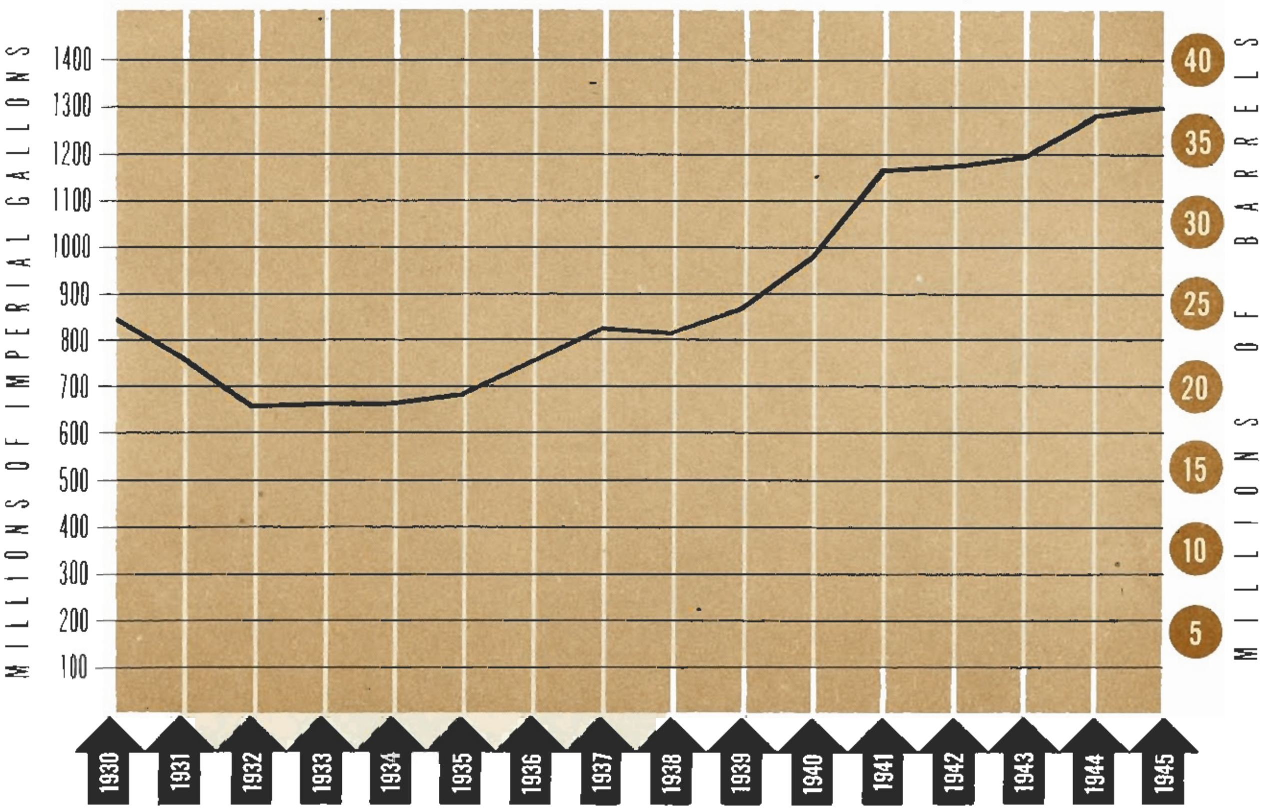
The past year was notable for the extensive exploration programs carried on by Imperial Oil Limited and other companies throughout Canada and which were stimulated in a large measure by tax considerations designed to advance the search for oil. Despite the increased effort there were no new oil discoveries of importance in Canada. Your Company and its associates completed 61 wells.

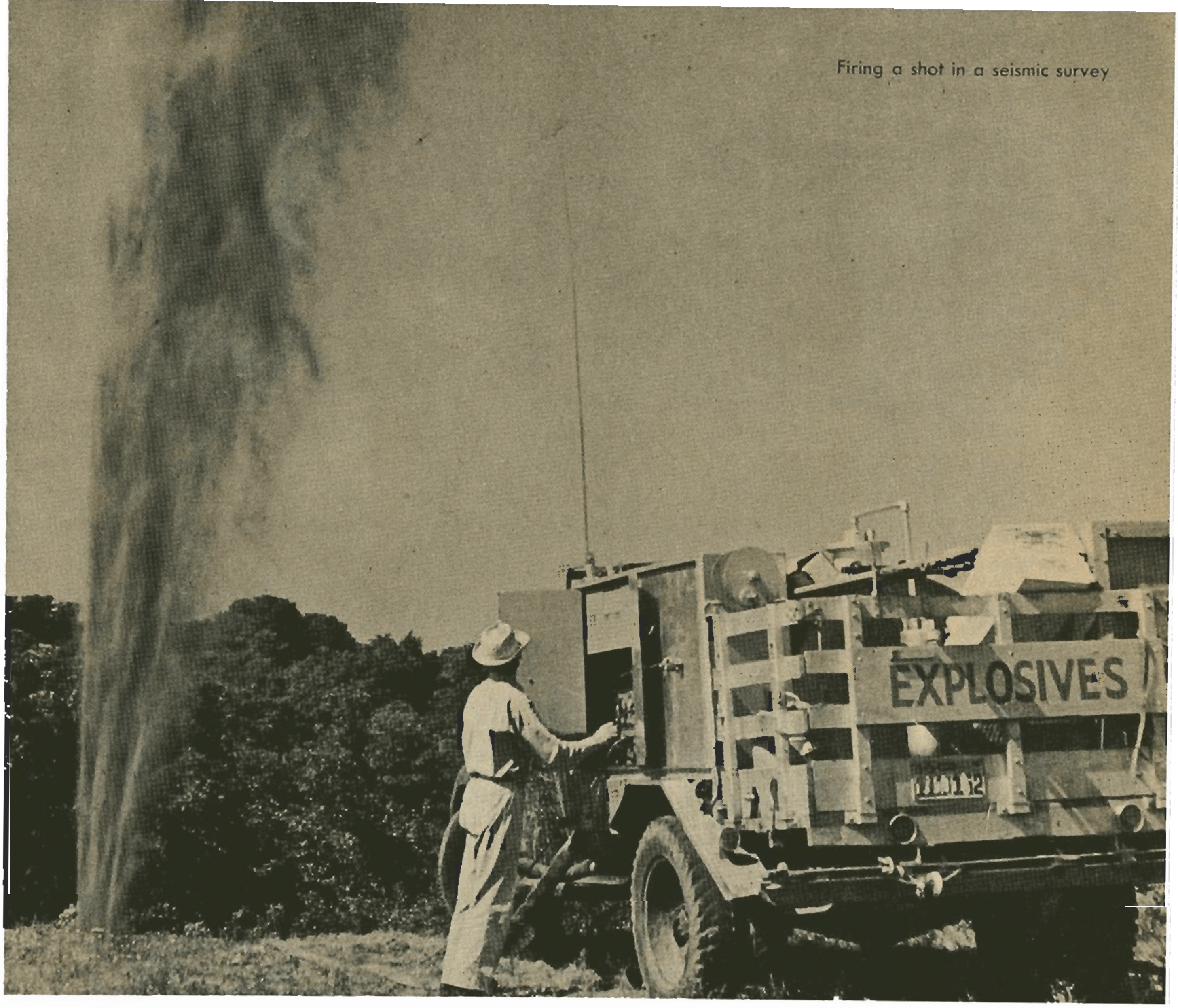
Imperial continued to import the major part of its crude oil requirements from the United States and South America. Its interest in 1945 production in Canada was 7,200 barrels per day as compared with refinery runs of approximately 105,000 barrels per day. Most of this production was obtained from the Turner Valley Field which reached its peak in 1942 and which has since steadily declined. Imperial's future supply problem will be most difficult in respect to its Regina and Calgary refineries which produce oil products for the Prairie Provinces. As Turner Valley production declines, these will be dependent in a large and increasing measure on imported crude oil which must be moved by rail for long distances and at a high cost. With the hope of reducing these excessive transportation costs and augmenting the local supply of crude oil for its Prairie refineries, your Company proposes to continue its vigorous search for new fields in the western provinces where exploration is encouraged, and in the Territories.

Your Company carried on geological investigations in the Maritime Provinces and began an exploration program in Ontario based on geological data which it has been accumulating for several years. In the course of these studies, records of some 4,000 of the wells which have been drilled in South-Western Ontario since 1860 were examined

SALES OF PETROLEUM PRODUCTS BY IMPERIAL OIL LIMITED - 1930 TO 1945

(EXCLUSIVE OF QUANTITIES CONSUMED IN OPERATIONS)





Firing a shot in a seismic survey

and on the basis of these data and field studies, twelve test wells were completed. Two of these gave showings of oil. The total footage drilled in the year was 14,293 feet and when the year ended ten drilling rigs were operating.

Geological and geophysical surveys were continued in Saskatchewan and the Company and its associates completed five unsuccessful exploratory wells with a total footage of 24,645 feet. At the end of the year one drilling rig was operating in Saskatchewan.

In Alberta geological and geophysical surveys were made in several areas. Imperial and its associates completed 14 producing wells and one dry hole in the Turner Valley; two gas wells in the Central Plains area; 7 dry holes in the Southern Plains area; and 3 dry holes in the Foothills area. The two gas wells which are situated north-east of of the Viking-Kinsella Field indicate discovery of a probable large gas reserve. The total footage drilled by the Company and its associates in Turner Valley was 117,769 feet and in other parts of Alberta 87,772 feet. At the end of the year ten drilling rigs were in operation on Company leases in Alberta.

In the Northwest Territories Imperial carried on geological and geophysical surveys and drilled ten exploratory tests. It was a great disappointment that none of these exploratory wells, whose total footage was 24,659 feet, secured production. Seven producing wells were drilled in the proven area with a total footage of 12,846 feet. One drilling rig was in operation in the Norman Wells area at the end of the year.

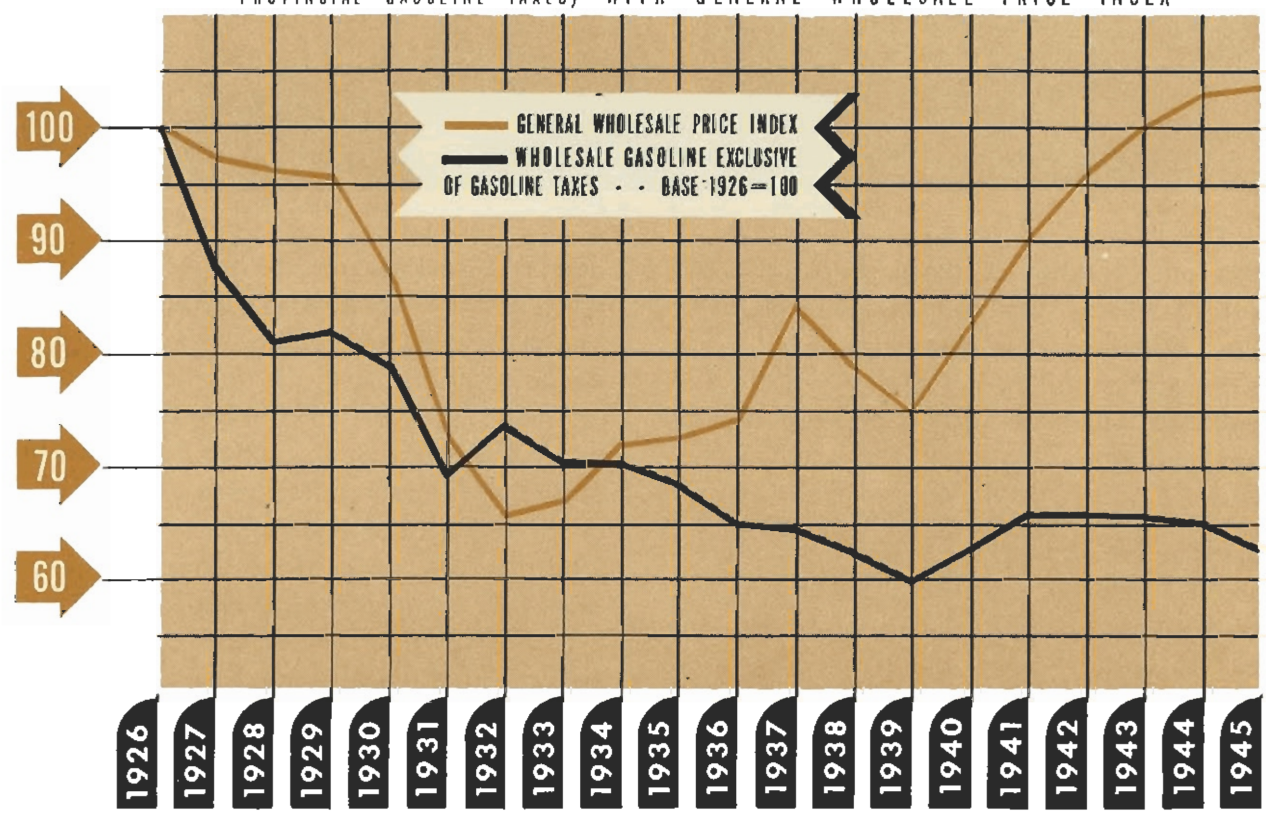
At December 31st, 1945, Imperial and its subsidiaries owned or had a participating interest in 198 oil and gas wells in the Turner Valley and in 63 oil wells in the Norman Wells Field.

Your subsidiaries in South America have been developing extensive programs to ensure adequate petroleum reserves for the future. War conditions have made delays inevitable and there is therefore a considerable backlog of field work to be done as soon as free movements of materials permit. These programs will call for large capital outlays over an extended period and it is expected that a great deal of the work will be started in 1946.

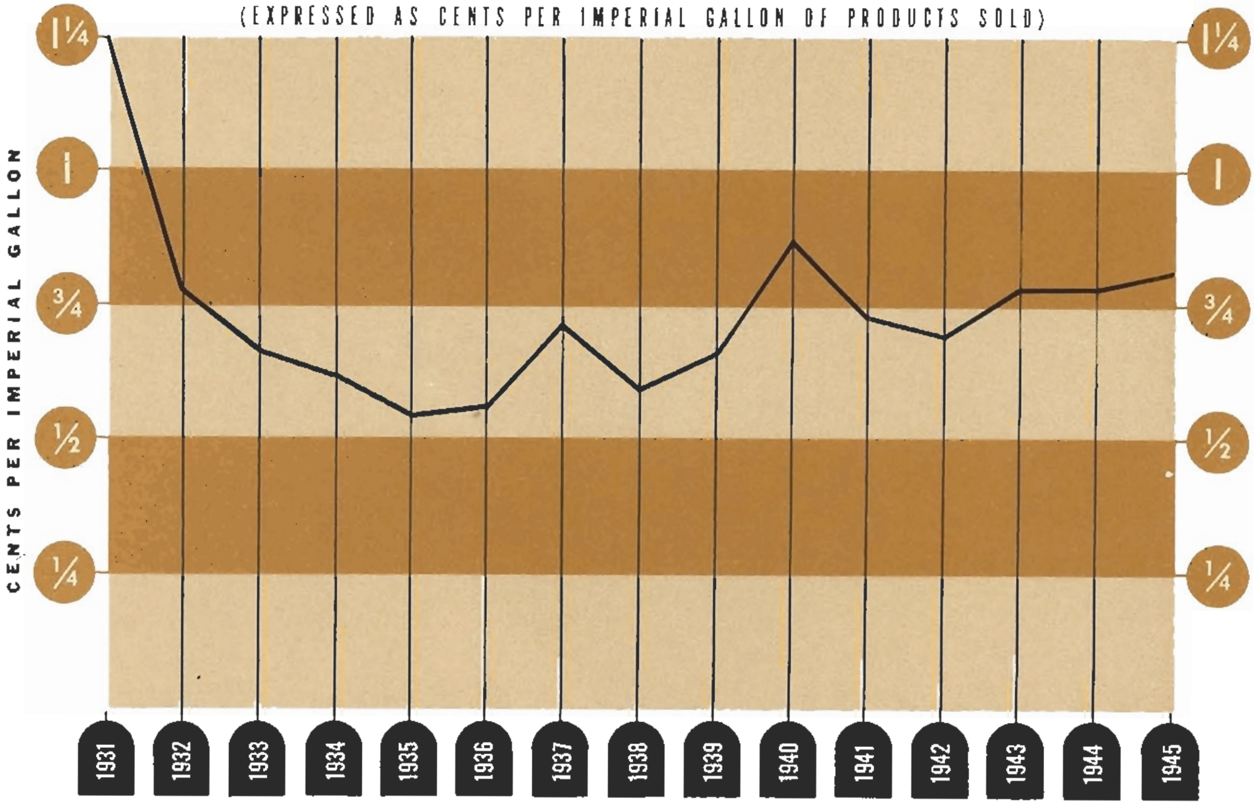
REFINING AND MARKETING OPERATIONS

You Company's seven refineries in Canada processed 104,700 barrels of crude oil per day, as compared with 107,007 barrels in 1944, a reduction of 2,307 barrels or 2.15%. Offsetting curtailed war requirements there have been substantial increases in civilian demands for practically all kinds of petroleum products, particularly light distillates and since the removal of rationing, for motor gasolines. There was a reduction in refinery runs at Ioco following termination of a processing contract which your Company had with Union Oil Company of Canada.

COMPARISON OF GASOLINE WHOLESALE PRICE INDEXES (WITHOUT FEDERAL AND PROVINCIAL GASOLINE TAXES) WITH GENERAL WHOLESALE PRICE INDEX



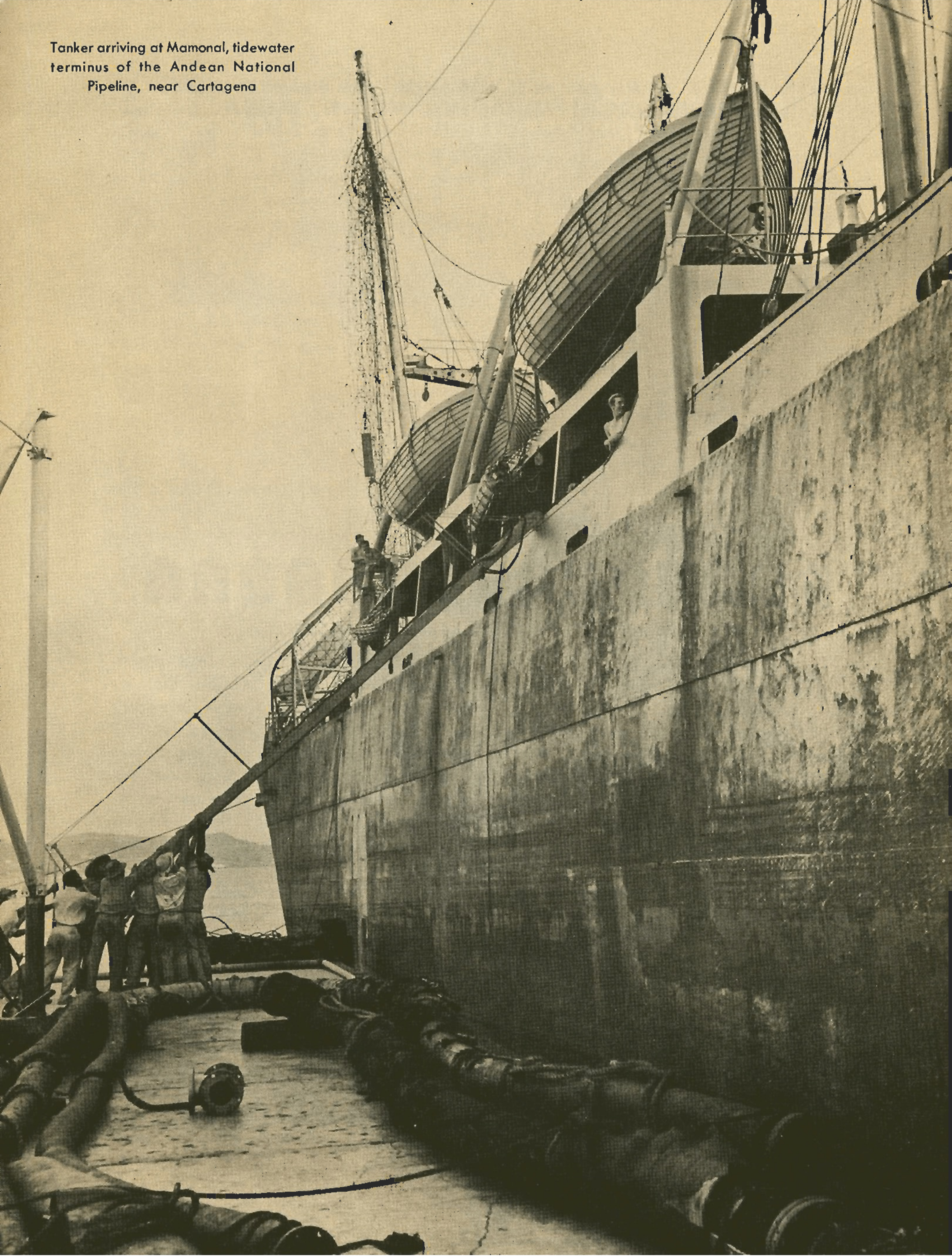
NET EARNINGS OF IMPERIAL OIL LIMITED FROM CANADIAN MARKETING, MANUFACTURING, TRANSPORTATION AND PRODUCING OPERATIONS - 1931 TO 1945
(EXPRESSED AS CENTS PER IMPERIAL GALLON OF PRODUCTS SOLD)



During the war it was necessary to produce large quantities of aviation gasoline requiring large supplies of tetraethyl lead. Accordingly qualities of motor gasolines were lowered by government regulations. With the end of the war and removal of these regulations, aviation gasoline together with tetraethyl lead again became available for use in the production of motor gasolines and so your Company immediately restored these products to pre-war quality levels or better. Similarly, large quantities of high quality aviation lubricating oils which had been required for war purposes became available for motor oils and the quality of these was also up-graded as soon as the war ended.

All purchasing on war account in Canada by the Canadian Government has been carried out under authority of the Department of Munitions and Supply Act which embodies a provision enjoining the Department to assure itself that prices are fair and reasonable, and which further provides that the Minister of Munitions and Supply may conduct inquiries into costs of production and profit margins and require price adjustments where it is felt that profits have been excessive. Your Directors are pleased to report that in November last they were informed by the Department of Munitions and Supply that on examination of data in the possession of the Oil Controller as to costs, prices and profits of your Company, it had been concluded that these prices were fair and reasonable and accordingly no price adjustments would be requested under the renegotiation provisions of the Act.

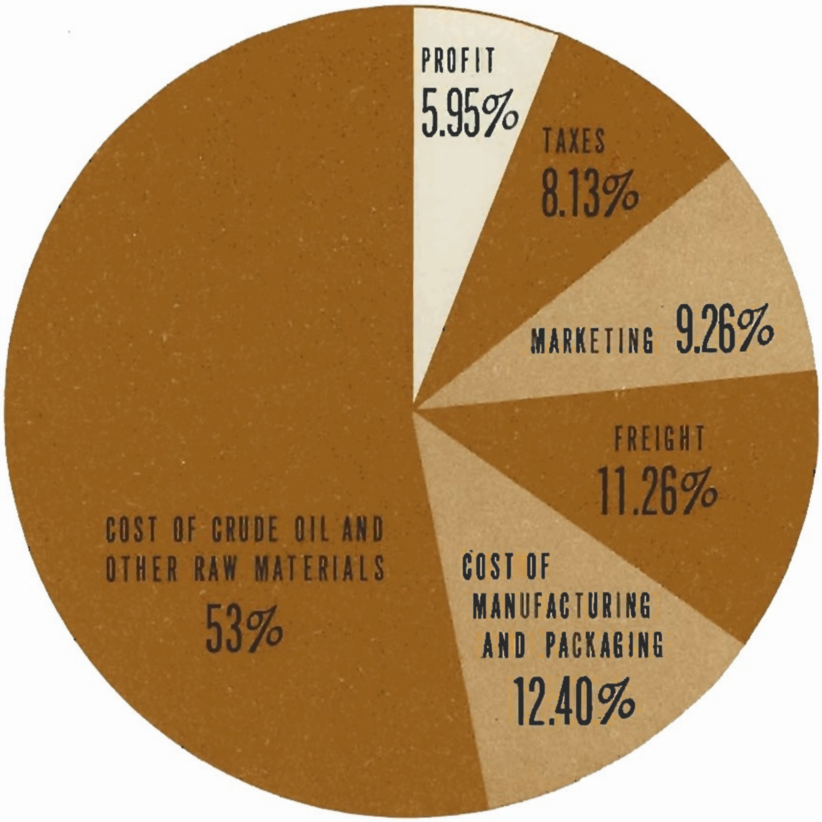
Following the end of hostilities, ocean transport rates prescribed by War Shipping Administration returned to the levels prevailing prior to the outbreak of active submarine warfare in the Spring of 1942 and, Tanker arriving at Mamonal, tidewater terminus of the Andean National Pipeline, near Cartagena



SALES RECEIPTS, COSTS AND PROFITS OF IMPERIAL OIL LIMITED FOR THE YEAR 1945

In 1945 Imperial Oil made and sold 1,291,000,000 gallons of products (Aviation and Motor Gasolines, Kerosene, Fuel Oils, Lubricants, Greases, Waxes, Asphalts, etc.). For these it received		$174,101,796.88
The cost of the Crude Oil and other raw materials was	$92,270,768.01	
The cost of manufacturing and packaging was	21,589,609.46	
The cost of freight was	19,607,558.17	
The cost of distributing and selling was	16,128,134.04	
The taxes paid (sales tax, property taxes, income tax, etc., but not including gasoline taxes which ranged from ten to thirteen cents per gallon) were	14,153,440.07	
This made a total cost of		$163,749,509.75
Leaving a profit of		$ 10,352,287.13

A PROFIT OF 4/5 of 1¢ PER GALLON



accordingly subsidies paid by the Dominion Government to offset the very high rates that had prevailed were discontinued as of September 1st last.

Crude oil importations into the Prairie Provinces, however, are still subject to subsidy with a view to reducing the cost of imported crude oil to a basis comparable with the cost of Turner Valley crude oil. In December the Wartime Prices and Trade Board advised that it would authorize an increase in the price of Turner Valley crude oil of 45 cents per barrel as of January 1st, 1946, and would reduce the import subsidies by the same amount. To compensate for this increased cost of Turner Valley crude and crude imported to the Prairies, the Wartime Prices and Trade Board announced that it would authorize a 2 cent per gallon increase in the ceiling price of gasoline, tractor distillates and other white products in the Provinces of Manitoba, Saskatchewan and Alberta. The effective date of this price ceiling adjustment was deferred by the Prices Board until March 18th, 1946 so that inventories of products made from crude oil acquired at the lower cost would be exhausted before consumers paid prices based upon the increased crude oil cost.

Removal of wartime restrictions such as gasoline rationing and quality limitations restores the competitive character of the Canadian petroleum industry except where certain provincial limitations of marketing activities have been enforced since before the war. Your Directors believe that through the years the consistent appreciation in quality and value of petroleum products and the steady improvement of services have been stimulated principally by competitive effort and that continued active competition is the best assurance of further development along these lines.

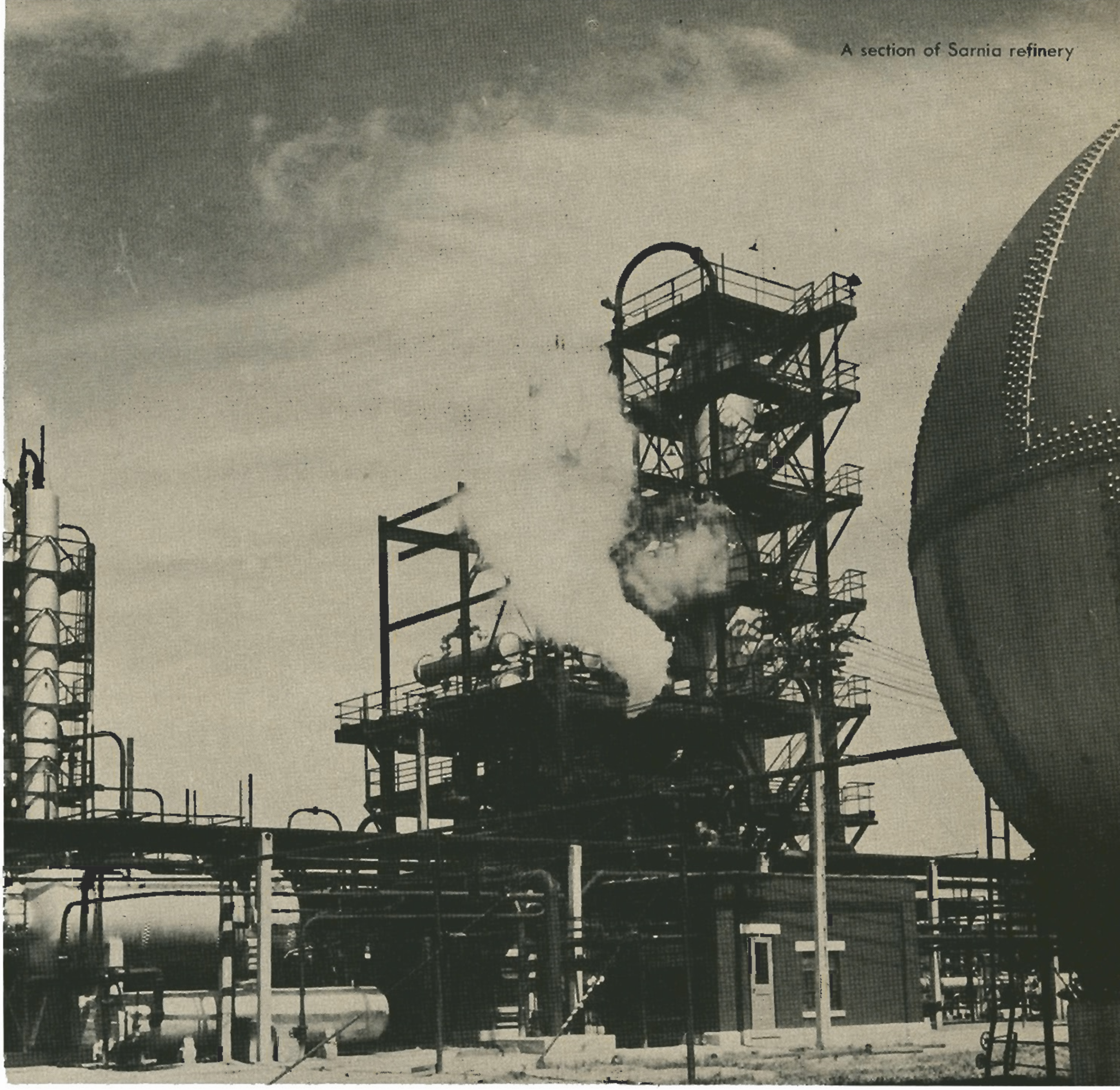
A modern tank waggon loading rack

MARINE DEPARTMENT

Loss by enemy action of four of your Company's large ocean-going tankers was noted in the annual report for 1944. When hostilities ended Imperial's ocean fleet consisted of five tankers with a total deadweight tonnage of 60,735 tons and the lake fleet comprised 13 vessels with a total deadweight of 31,838 tons.

Your Company's ocean tankers, together with ocean tankers operated and chartered by your Company, continued under Government direction as to movement. During the year these vessels moved approximately 24,756,000 barrels of crude oil and products, or 3,500,000 barrels more than in 1944. This transportation was furnished in about 25% company-owned and 75% chartered tonnage.

Your Company's inland transportation totalled 12,267,000 barrels, an increase of



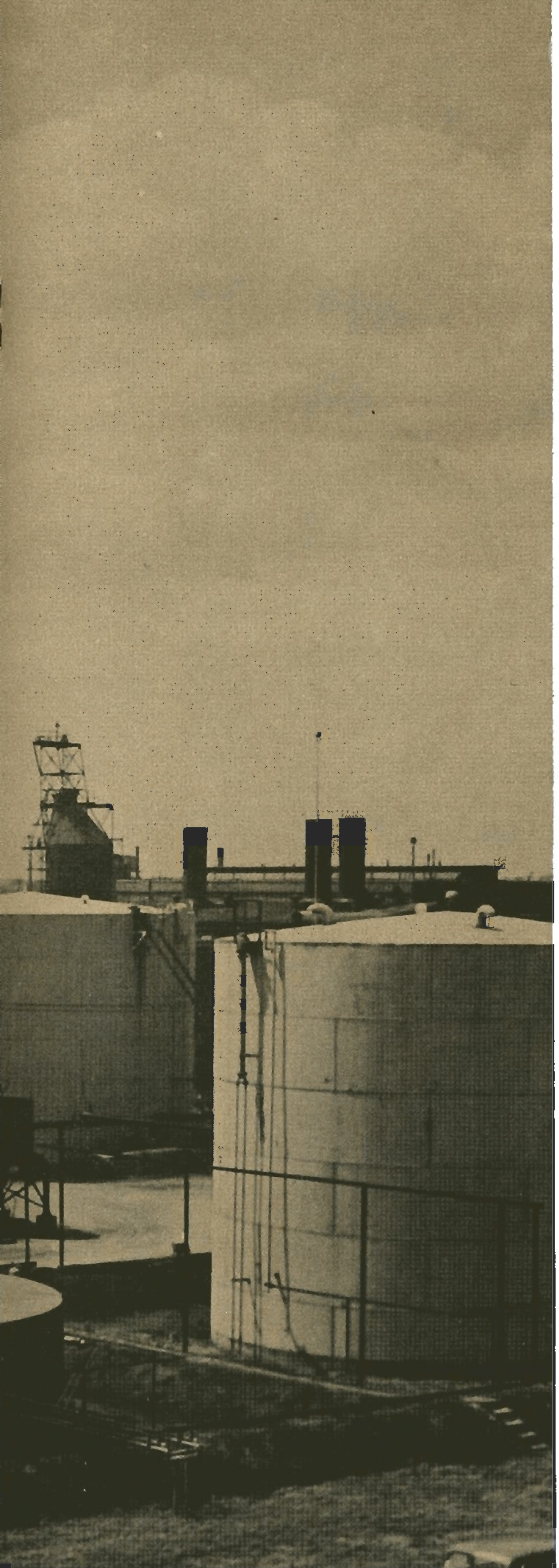
A section of Sarnia refinery

more than 1,200,000 over 1944 and was effected in about 76% Company-owned tonnage.

With the ocean fleet depleted and unduly deteriorated because the stresses of war required operation with minimum delay for overhaul and repairs, it is apparent that steps must be taken to provide new large fast tankers so as to maintain a competitive position. In view of the urgency of this need your Directors have been contemplating purchase of four of the wartime-built tankers which will be offered for sale by the United States government.

These tankers are known as the "T-2" type. They have an over-all length of approximately 525 feet and a beam of 68 feet. Their capacity is 145,000 barrels and their deadweight tonnage 16,615 tons. They have a speed of 14½ knots and are turbo or turbo-electric driven.

Another view of Sarnia refinery



A careful review indicates that construction of vessels of this size cannot be carried out in time to meet the pressing requirements and accordingly because of the urgency of Imperial's need for tonnage it proposes to buy some of the surplus tonnage as soon as it becomes available. A program for construction of even larger vessels is under consideration.

EARNINGS AND DIVIDENDS

Your Company's balance sheet and statement of surplus as of December 31st last, together with the profit and loss statement for 1945 and your auditors' certificate are presented in the following pages.

After providing for all taxes on earnings and adjustment of inventory reserves, the income of your Company during 1945 was as follows:--

From Canadian operations:		
	$11,030,549.41	40.91¢ per share
Dividends received from International Petroleum Co. Ltd.:		
	$ 5,586,036.48	20.71¢ per share
Total	$16,616,585.89	61.62¢ per share

A comparison of these earnings with those of 1944 is shown elsewhere in this report.

COMPARISON OF EARNINGS

	1945 Earnings	1945 Per Share	1944 Earnings	1944 Per Share
Operating Income (after income taxes). From producing, transportation, refining and marketing operations of Imperial Oil Limited.	$10,352,287.13	38.39¢	$ 9,934,021.76	36.84¢
Net Dividends (after income taxes) from Canadian subsidiaries, and income from miscellaneous sources........	678,262.28	2.52¢	672,612.01	2.50¢
Total operating and other Canadian income........................	$11,030,549.41	40.91¢	$10,606,633.77	39.34¢
Dividends (after income taxes) from subsidiary, International Petroleum Company Limited................	$ 5,586,036.48	20.71¢	$ 5,586,036.48	20.71¢
Total Net Profit after providing for all taxes.........................	$16,616,585.89	61.62¢	$16,192,670.25	60.05¢

Provision for Depreciation and Depletion and for Canadian Taxes

	1945 Amount	1945 Per Share	1944 Amount	1944 Per Share
Provisions for depreciation and depletion........................	$ 3,783,627.65	14.03¢	$ 4,702,638.41	17.44¢
Provision for taxes on income........	9,661,548.38	35.83¢	11,077,419.99	41.08¢

During the war your Company maintained a policy of setting aside reserves for uncertainties of the post-war period and among these reserves was one for shrinkage of inventory values. Since hostilities ended inventory volume and values in the East have lessened and consequently the inventory reserve at the end of 1945 was reduced by $1,971,414.87 and this amount was added to the 1945 earnings.

During 1945, the average net price received for all products, after deducting freight and sales tax, was lower by 4/10 cents per gallon than in 1944 and the average cost of raw material was lower by 6/10 cents per gallon. To some extent, the reduction in the cost of raw materials was offset by increased operating and selling costs. The net profit per gallon rose from .78 of a cent in 1944 to .80 of a cent in 1945, an increase of 2/100 of a cent per gallon.

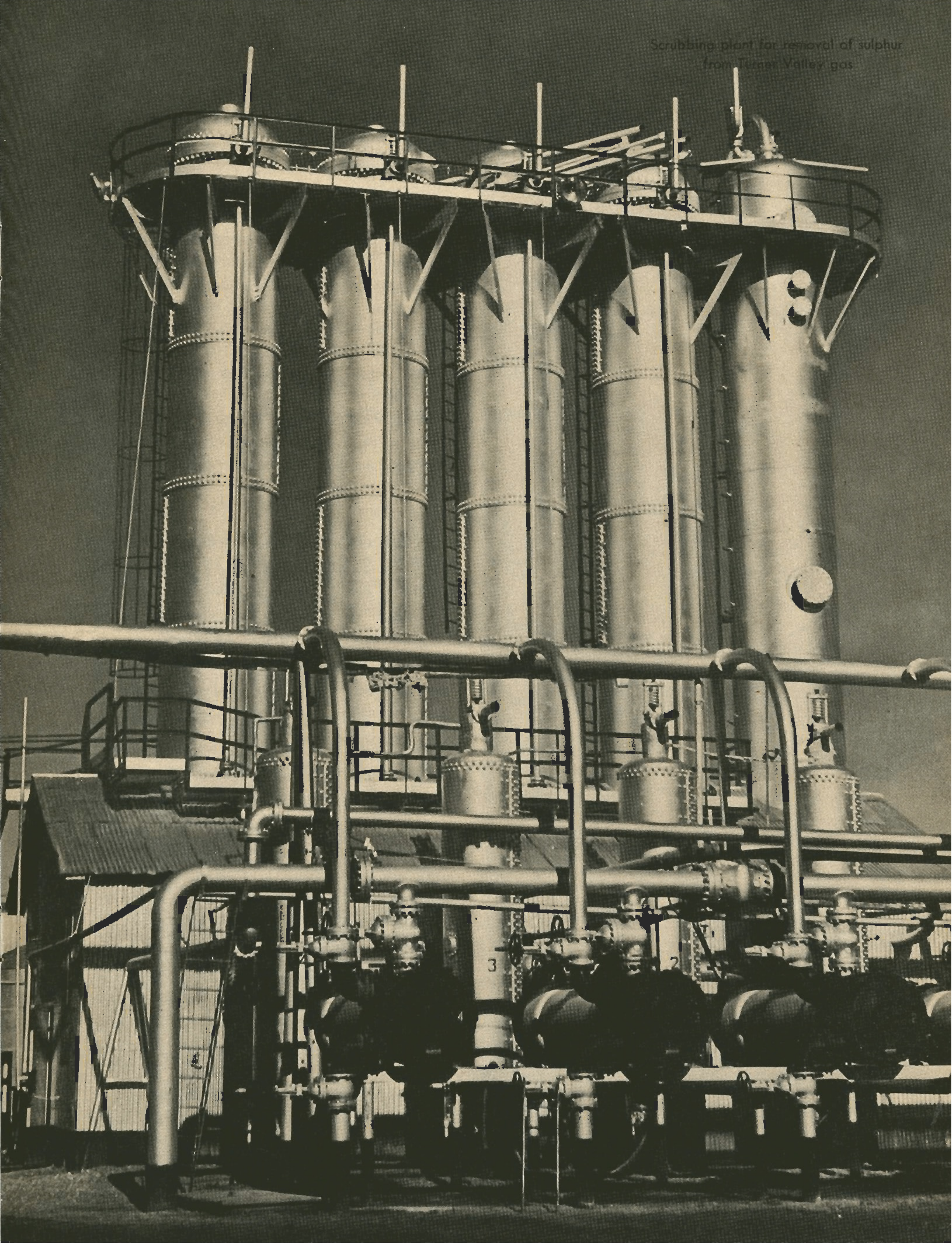
Charts indicating operating data will be found on Pages 11 and 13.

Dividends received from International Petroleum were on the same basis as in 1944. A chart on Page 24 indicates the portion of the total Company earnings that has been derived during the past fifteen years from dividends of International Petroleum.

During 1945 your Company paid dividends of 25 cents per share on June 1st and December 1st, a total of 50 cents per share. The same amount was paid in the previous year.

BALANCE SHEET

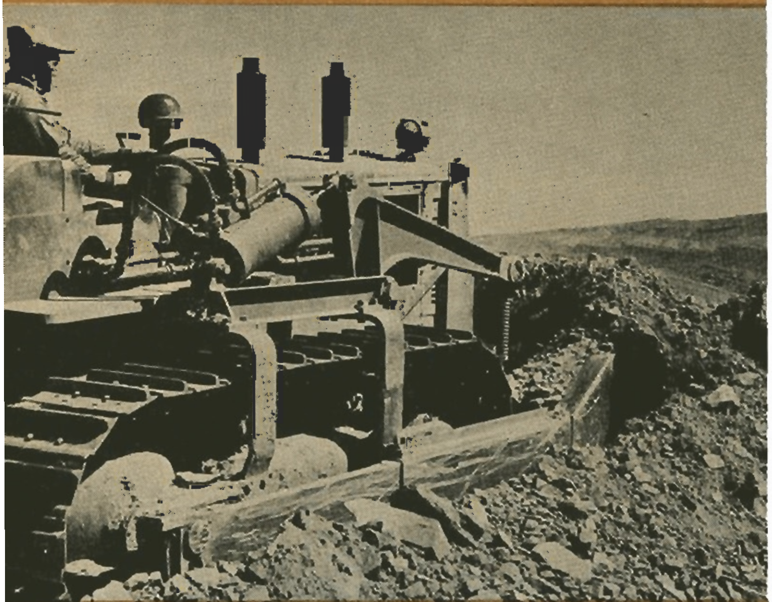
The financial position of your Company as of December 31st, 1945 is shown on the accompanying Balance Sheet. The current assets were $95,870,699.36, and the



Scrubbing plant for removal of sulphur from Turner Valley gas

Mapping room in a field geological office

Measuring contours from aerial photographs



Levelling ground for a new well location

current liabilities were $21,349,637.51, resulting in a net working capital of $74,521,061.85, a decrease of $181,482.58 from 1944. As previously stated considerable sums will be required for ships and for improvements in plant and equipment. Your Company has maintained a strong liquid position in anticipation of these abnormal requirements of the transition period.

In keeping with the Company's policy to ensure pensions under its retirement plans, further payments were made to the Imperial Oil Pension Fund Society. Approximately 75% of the Company's liability under the pension plan has now been paid to the Society.

PERSONNEL

With great regret your Directors record the death on September 6th, 1945, of Mr. R. V. LeSueur, K.C., chairman of the Board and president of Imperial Oil Limited. Mr. LeSueur rendered invaluable service to your Company for many years and will long be remembered for his personal charm, for his great abilities, his untiring energy and his wise leadership.

Reference has already been made to the loyalty and devotion of all ranks of employees which facilitated an enlarged supply and distribution of specialized products for war uses without entailing large additional requirements for manpower and equipment. The success of your Company throughout the years has been due in a great measure to the loyalty and industry of its workers and recognizing this, your Company has continuously endeavoured to improve their working conditions, to raise their standard of living and to increase their financial security. In 1945 the good relations which have always existed between the Company and its employees have been further confirmed and strengthened. A complete study of the thrift and benefits plans has been conducted and as a result your Company was able to announce shortly before the end of the year a revision of these plans to become effective January 1, 1946. The revised plans make it possible for all employees who retire after long service to enjoy better security. These plans have been accorded a gratifying reception throughout the organization and will maintain the Company's position as a pioneer and leader in the field of social security.

In 1945 there was adequate evidence that the Company's plan for the reinstatement of its employees returning from the armed forces will be successfully implemented. More than 1150 out of 2258 employees who enlisted had been reinstated in the organization at the end of the year, and this was approximately 93% of the number of whose discharge the Company had been informed up to that time. In view of the fact that veterans have three months from time of discharge in which to apply for reinstatement it is considered that this figure is highly satisfactory and indicative of a strong spirit of loyalty and appreciation of the Company's policy in making up the difference between service pay and the pay regular employees were receiving at time of enlistment. In addition to reinstating its own returning employees your Company employed many other veterans who were not previously in its service. The success of the veterans' reinstatement program has been due to the co-operative attitude of the veterans themselves and the effort which has been made throughout the Company's operations to implement the policy and to adapt it to individual cases.

Your Company is taking steps to reduce the working week of many of its employees

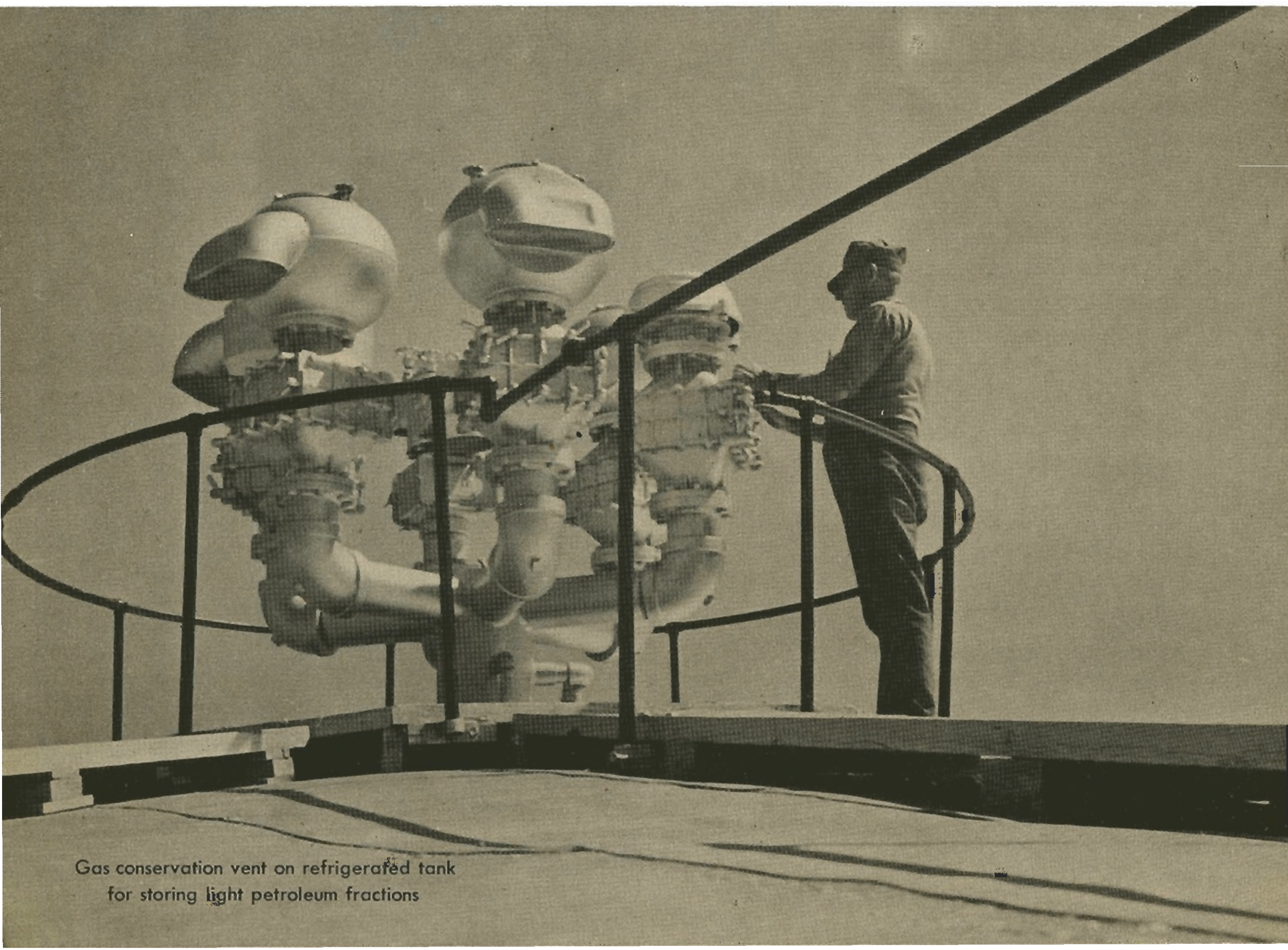
Modern instruments tell the driller what is happening thousands of feet below

As many rock cutting bits as these may be worn out in only a few feet of hard formation

More than a mile of casing is needed to line a Turner Valley well

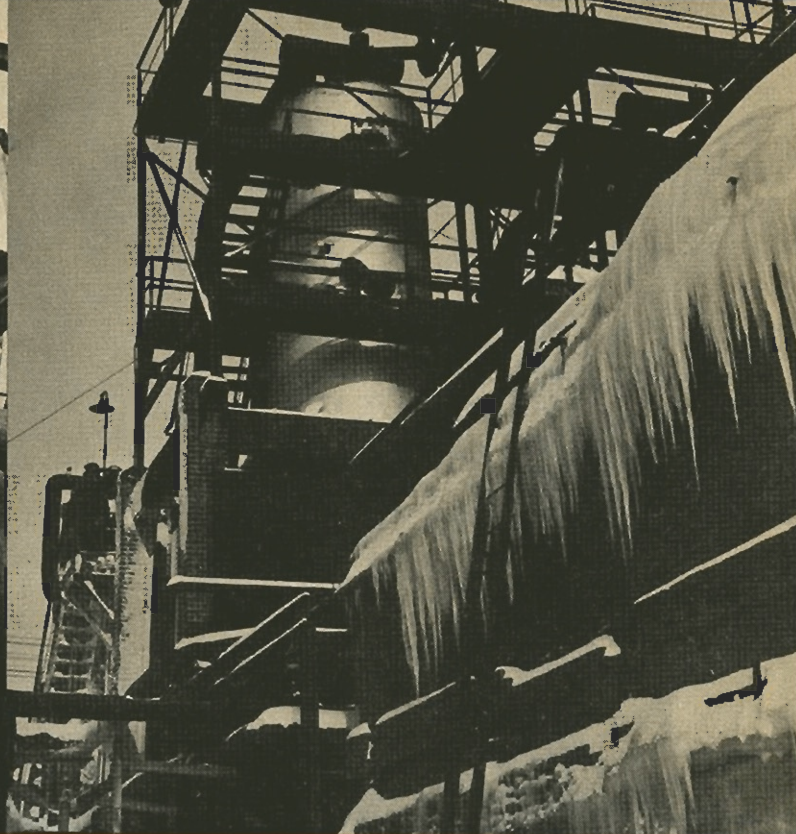
who voluntarily worked longer hours during the war. Through the medium of the Joint Councils, management and employees are discussing these problems and are working out adjustments in rates of compensation appropriate to local conditions. Such modifications in rates of compensation and working schedules require government approval and at the end of the year the first regional authorization to effect upward adjustment in rates had been obtained. The success of applications to effect similar adjustments in other areas depends upon government wage control policy.

By virtue of by-law No. 330 which was confirmed at the last annual general meeting of shareholders, the membership of your Board of Directors has been increased from six to nine. During the year Mr. G. Harrison Smith retired from the office of chairman of the Board after long and distinguished service to the Company and was succeeded in that position by the late Mr. R. V. LeSueur who continued also in the office of president



Gas conservation vent on refrigerated tank for storing light petroleum fractions

Refinery maintenance employs many skilled trades



Winter weather increases operating costs

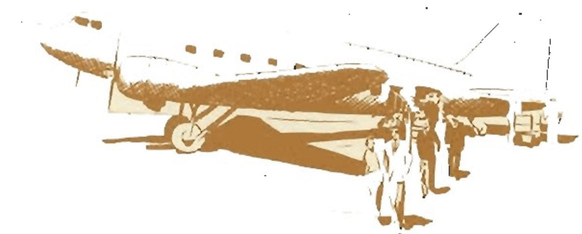
until his death. Mr. F. W. Pierce was elected to succeed Mr. LeSueur as chairman of the Board and Mr. H. H. Hewetson was elected to the presidency. The new members of the Board elected during 1945 are Dr. O. B. Hopkins, Mr. J. R. White, Mr. F. C. Mechin, Mr. C. E. Carson and Mr. F. G. Hall, all of whom have had long service with the Company. Dr. Hopkins and Mr. White occupy also the offices of vice-presidents, and the latter is a director of International Petroleum Company Limited.

Mr. C. A. Eames, for many years a vice-president of the Company, retired in November.

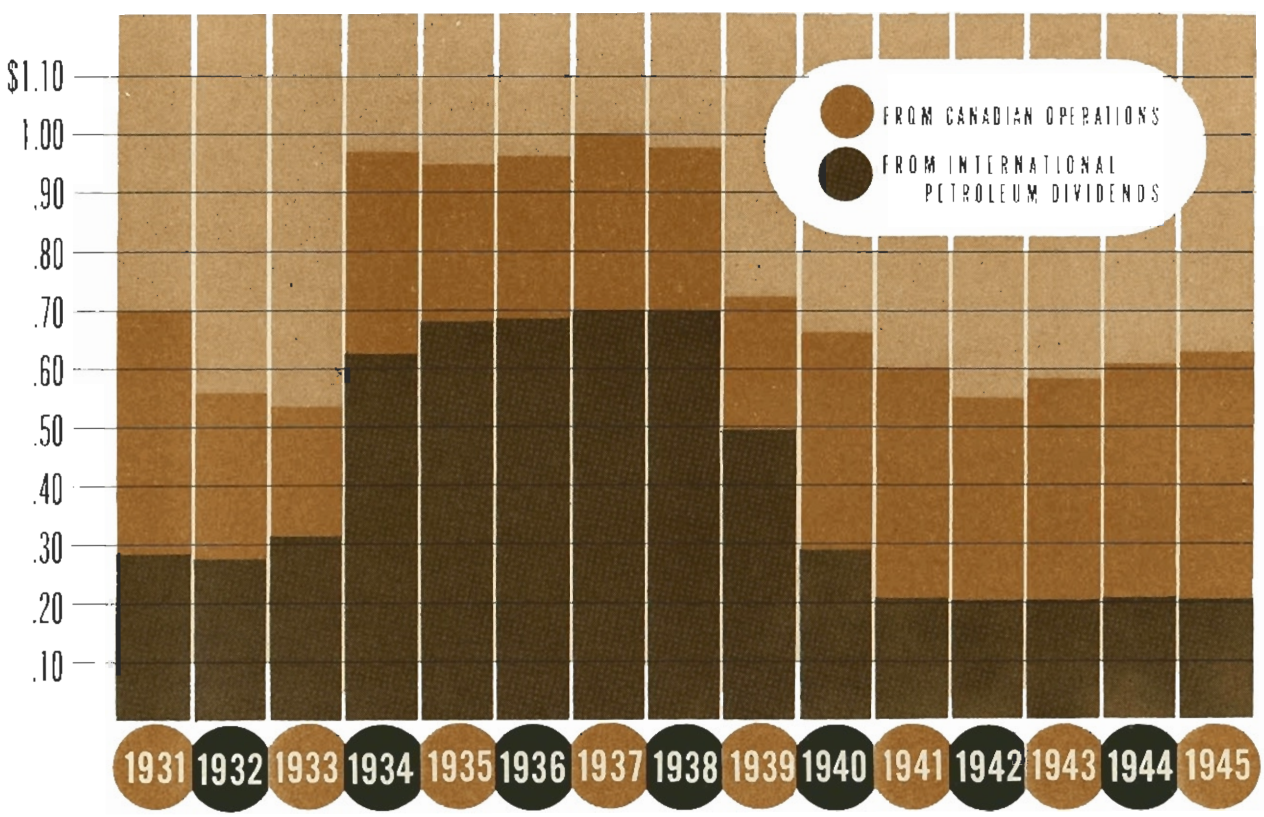
IN CONCLUSION

Up to the present Canada has come through the transition from war to peace with little dislocation and disturbance. For this there are a number of reasons: the wisdom and understanding shown by management and labour, the readiness of consumers to share with less fortunate people abroad and the wise administration and gradual relaxation of wartime economic controls.

However, we must not assume that the difficult problems created by war have been solved and that we are entering into a halcyon period. The present high level of business activity has created much optimism, but as the Governor of the Bank of Canada has so wisely pointed out, it would be most unfortunate to let that optimism "divert attention from the problems which have to be



NET EARNINGS PER SHARE (AFTER INCOME TAXES)



faced". This high level of activity results to an important degree from continuing large government expenditures (including the financing of exports). Before long these expenditures will decline, the backlog of domestic demand will not be excessive in relation to supply once industry has reconverted and inventories are built up to normal, and Canada's export trade may experience wide fluctuations. It is therefore most important that domestic private investment and domestic consumption should expand as much as possible to offset declining Government expenditures.

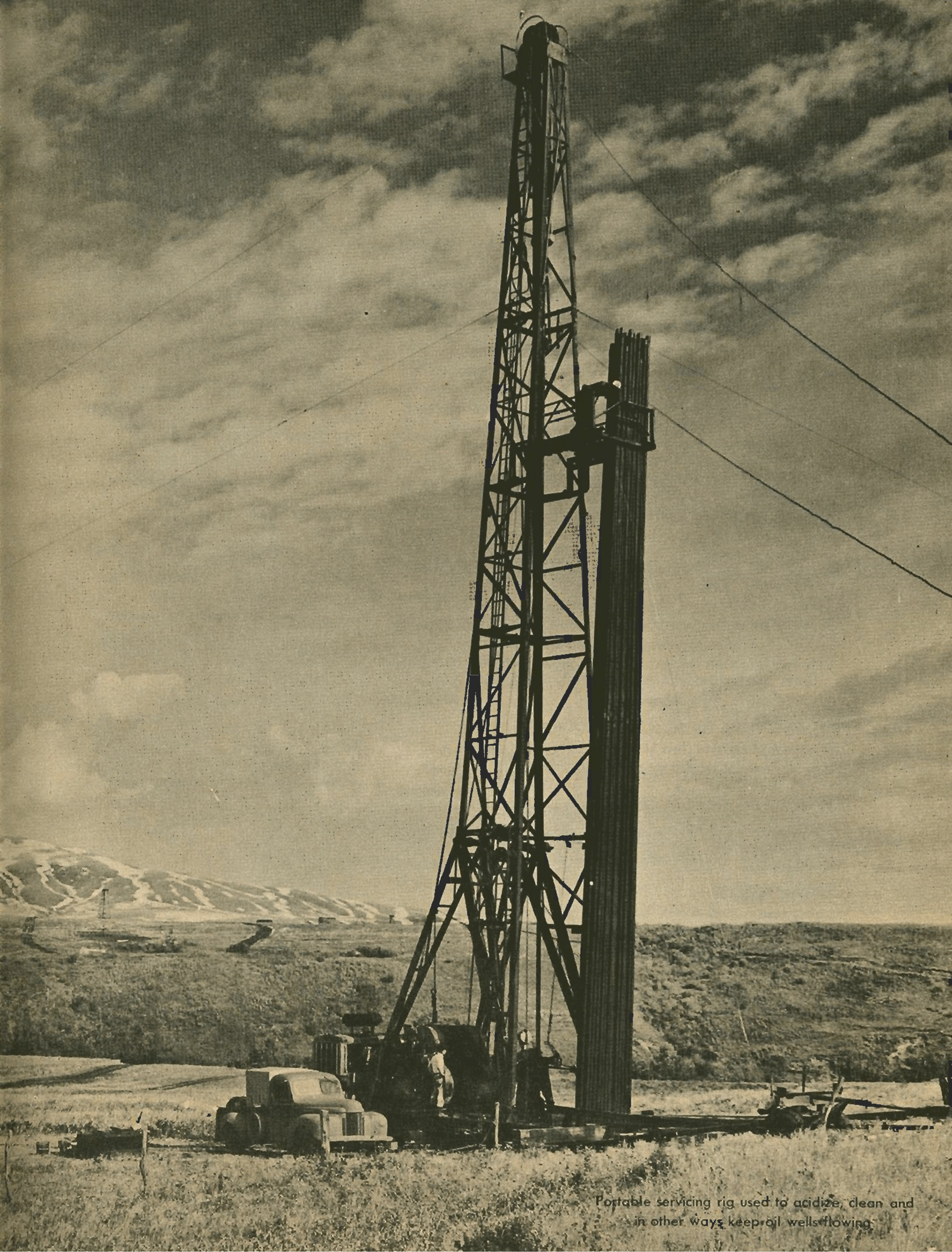
The capital outlays by your Company for construction and replacement will create employment during the critical period when men released from the services and from war industries are looking for work. Improvement in facilities for marketing and for betterment of product quality will, your Directors are confident, stimulate consumer expenditures. Your management recognizes too the need for the closest co-operation between all sections of the community and for the fullest and most sympathetic understanding by each of the other's problems.

If Canadian industry, by working together with Government and other groups concerned, can maintain a high level of employment in Canada, the prevailing economic system, it is believed, will fully justify itself in the minds of the great majority of people.

By order of the Board,

H. H. HEWETSON, President

Sarnia, Ont., April 15, 1946.



Portable servicing rig used to acidize, clean and in other ways keep oil wells flowing.

IMPERIAL

BALANCE SHEET

ASSETS

CURRENT ASSETS:			
Cash on hand and in banks		$20,199,104.72	
Dominion of Canada and other bonds at cost including accrued interest:			
Dominion of Canada bonds	$17,136,996.16		
Other bonds (Market Value $17,315,832.47)	114,647.92	17,251,644.08	
Trade accounts and bills receivable (less reserves)		13,266,052.18	
Other accounts receivable, including accrued interest on miscellaneous investments		3,959,053.06	
Inventories, determined and certified as to quantities and condition by responsible officers of the Company:			
Crude oil and refined products (on basis of cost, which was approximately the same as replacement value)	$36,476,589.33		
Materials and supplies (at cost)	4,718,255.99	41,194,845.32	
			$95,870,699.36
MISCELLANEOUS INVESTMENTS, DEFERRED ACCOUNTS RECEIVABLE, ETC:			
Bonds and debentures of other companies		$2,708,246.81	
Shares of other companies (quoted market value $2,628,256.50)		1,298,681.98	
Shares of other companies (no quoted market value)		174,332.21	
Deferred accounts receivable; mortgages and miscellaneous loans and advances (less reserves)		1,388,019.00	
			5,569,280.00
INVESTMENT IN SUBSIDIARY COMPANIES:			
Investment in shares (less reserves)		$43,601,072.06	
Indebtedness of subsidiary companies		2,826,011.80	
			46,427,083.86
DEFERRED AND PREPAID CHARGES			658,107.23
GOODWILL, PATENTS, COPYRIGHTS, TRADE MARKS AND LICENCES			270.00
CAPITAL ASSETS:			
Land, leases and wells, buildings, plant, transportation and other equipment (at cost)		$132,699,443.99	
Less—Reserves for depreciation and depletion		94,365,584.54	
			38,333,859.45
			$186,859,299.90

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 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, 1945

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable		$10,760,353.91	
Amounts owing to subsidiary companies		5,788,330.61	
Reserve for taxes on income and other accrued taxes in Canada	$9,600,952.99		
Less—Amount paid on account of 1945 taxes on income	4,800,000.00	4,800,952.99	
			21,349,637.51
RESERVES:			
For fire, marine and other insurance		$13,948,646.38	
For employees' annuities and thrift plan		5,510,865.18	
For future shrinkage of inventory values and other contingencies		8,788,208.53	
			28,247,720.09
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		44,022,789.68	
			$137,261,942.30
			$186,859,299.90

Approved on behalf of the Board:

H. H. HEWETSON, *Director.*

G. L. STEWART, *Director.*

NOTE (2)—At December 31, 1945, the Company had outstanding contingent liabilities aggregating $2,997,000.00.
NOTE (3)—The auditors' report to the shareholders appears on page 30 hereof.

STATEMENT OF SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1945

PARTICULARS	EARNED SURPLUS	CAPITAL SURPLUS	TOTAL
Balances at January 1, 1945	$44,177,376.20	$15,264,192.26	$59,441,568.46
Deduct—			
Adjustments affecting previous financial periods in respect of reserves for employees' annuities, contingencies and prior year's taxes on income (net)	3,288,633.41	——	3,288,633.41
	40,888,742.79	15,264,192.26	56,152,935.05
Add—			
Net Profit for the year ended December 31, 1945	16,616,585.89	——	16,616,585.89
	57,505,328.68	15,264,192.26	72,769,520.94
Deduct—			
Dividends paid	13,482,539.00		13,482,539.00
Balances at December 31, 1945, carried to Balance Sheet	$44,022,789.68	$15,264,192.26	$59,286,981.94

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1945

PARTICULARS OF INCOME		BEFORE PROVIDING FOR CANADIAN TAXES ON INCOME	PROVISION FOR CANADIAN TAXES ON INCOME	NET INCOME	CENTS PER SHARE
Operating Income from producing, transportation, refining and marketing operations of Imperial Oil Limited, after deducting all selling, administrative and general expenses and after adding the amount of $1,971,414.87 by which the reserve for future shrinkage of inventory values was reduced during the year	$20,678,431.65				
Less—Provision for depreciation and depletion	3,783,627.65	$16,894,804.00	$6,542,516.87	$10,352,287.13	38.39¢
Other Income:					
Dividends from Canadian subsidiaries, and other companies, interest on bonds, and other miscelloneous income	$1,499,017.13				
Less — Provision for losses of Canadian subsidiaries, interest on annuity reserves and other miscellaneous interest and charges	843,868.86	655,148.27	*23,114.01*	678,262.28	2.52¢
		$17,549,952.27	$6,519,402.86	$11,030,549.41	40.91¢
Other Dividends:					
From subsidiary, International Petroleum Company Limited		8,728,182.00	3,142,145.52	5,586,036.48	20.71¢
		$26,278,134.27	$9,661,548.38		
NET PROFIT FOR THE YEAR CARRIED TO EARNED SURPLUS				$16,616,585.89	61.62¢

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 $303,078.21; in addition, solicitors' fees totalling $3,024.69 were charged to Capital Assets during the year 1945.

NOTE (2)—The Company's proportion of the aggregate net profits of subsidiary companies for the year 1945 exceeded the dividends received from subsidiary companies, by $896,349.46, after deducting from such excess the income taxes (at present rates) which would be payable by Imperial Oil Limited on distribution.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders
of Imperial Oil Limited:

We have examined the balance sheet of Imperial Oil Limited as at December 31, 1945, and the related statements of profit and loss and surplus for the fiscal year then ended, and have obtained all the information and explanations which we required. Whilst we did not make a detailed audit of the transactions for the year, our examination was carried out in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and of other supporting evidence and such other procedures as we considered necessary.

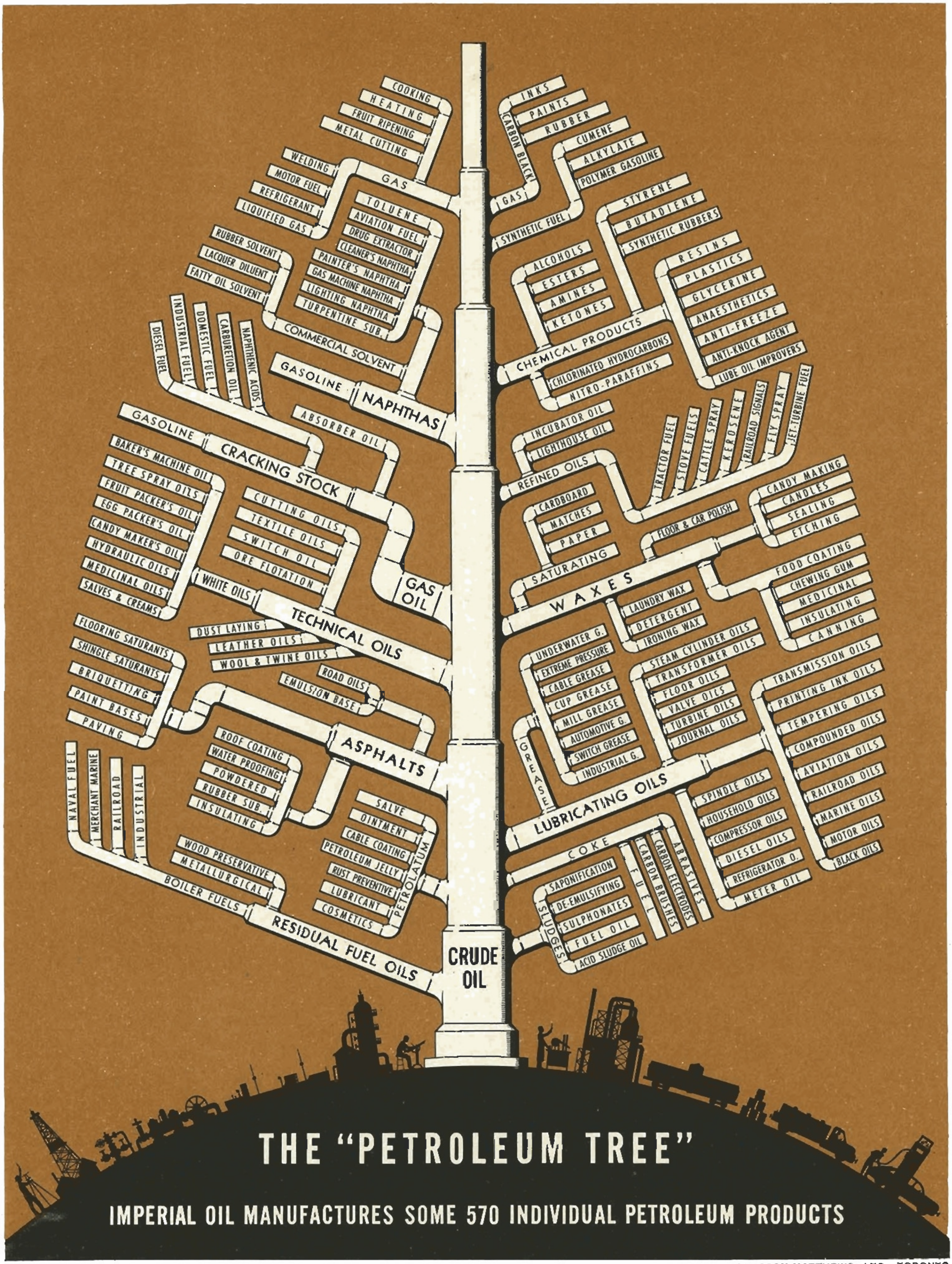
In accordance with section 114 of The Companies Act, we report that in the case of such subsidiary companies as incurred losses up to December 31, 1945, the parent Company's proportion of such losses has been fully provided for in the books of Imperial Oil Limited and in the attached balance sheet. In 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; the Company's proportion of the aggregate net profits of such subsidiary companies for the year 1945, exceeded the dividends received in 1945 by $896,349.48 after deducting from such excess the income taxes (at present rates) which would be payable by Imperial Oil Limited on distribution.

We report that, in our opinion, the attached balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of Imperial Oil Limited as at December 31, 1945, 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 29, 1946.

Crude oil and product lines, Imperoyal refinery, near Dartmouth



SAMPSON-MATTHEWS LTD., TORONTO

Gas compressors, Turner Valley, Alberta

Fractionating towers, Calgary refinery