TO THE STOCKHOLDERS:

Your directors submit herewith the consolidated balance sheet as of the 31st December, 1926, and consolidated income account for the twelve months ending on that date.

Until the last few years the ownership of your Company was in the hands of a comparatively small number of corporations and individuals. In recent years, however, the winding up of the estates of deceased shareholders, the acquisition of shares by a large body of investors, both in Canada and abroad, and the operation of the Cooperative Investment Trusts whereby thousands of employees have become shareholders, have resulted in a widely diversified ownership.

Since it is impracticable for even a small percentage of the shareholders to attend the annual meeting, your directors have decided to forward to them a statement of the accounts together with a report of operations during the year.

The earnings of your Company for the twelve months ending December 31st, 1926, including dividends from other companies and interest on investments, were $22,583,845.

An improvement in earnings was largely due to the general revival in trade and the rapid development of the resources of the Dominion resulting in the greatly increased purchasing power of our population. Since Imperial Oil, Limited, is in closer contact than any other commercial enterprise with every community in Canada, and enters more generally into each phase of community life, its progress and prosperity are dependent entirely upon a corresponding condition in the country's affairs. Its operations are not confined to the large centres where costs are reduced by volume of turnover, but extend to smaller and isolated settlements and to newly opened areas in whose development the Company feels a sense of responsibility. Initially those operations in remote areas produce no enormous returns, but experience has proved that the widespread distribution of products attained and the good-will earned have been beneficial. In the past year larger agricultural production, which was accompanied by the application of mechanical power on a greatly increased scale, the opening of new mining areas, the expansion of industrial enterprises, and the greater use of motor transportation, all provided a stimulus to the Company's business and, particularly during the harvest season, to capacity of its refining and distributing facilities.

For years the Company has devoted large sums and the best available technical knowledge to the search for a Canadian supply of petroleum sufficient to meet the requirements of the country. Through the medium of one subsidiary, the Balzac Oil Company—It has expected the sum of three million dollars in testing the petroleum possibilities along the Balzac Oil Company—It has expected the sum of three million dollars in testing the petroleum possibilities along the Turner Valley in Alberta. While production on a large scale has not been attained, the Company has undertaken. The Company still adheres vigorously to promote the work which it alone, among major oil companies, has undertaken. The Company still adheres vigorously to its policy of drawing upon its financial resources and the activity of its geological and production staffs to assist in every legitimate effort in this direction. The production of crude petroleum and crude naphtha in the Turner Valley has been considerable proportions and has added materially to the wealth of the Province of Alberta, but it has not in any appreciable degree lessened the dependence of the Dominion upon foreign sources of petroleum supply. Fortunately, the development through the International Petroleum Company, Limited, of petrolium fields in British America has resumed, pending further investigation of the resources of this country, a sufficient supply of crude petroleum.

Marketing conditions in the petroleum industry, both in Canada and in the United States, underwent no marked change during the past year. The tendency towards over-competition was again emphasized by the exploitation by a number of wells on service stations and other outlets for petroleum products and by the use of prices which yielded a small return upon surface and underground investments in refining and marketing facilities. The Company's exclusive products, however, experienced increasing popularity and the increases in the sales of Imperial Gasoline and Marmane motor-oils were the largest in the history of the Company's history.

WESTERN CANADA:

Production in the Province of Alberta during 1926 showed a satisfactory increase over previous years. The estimated total production of crude oil and naphtha was 1,046,000 barrels. Of this 681 barrels was crude oil from the Waterfowl Field 104,000 barrels, the estimated total being 108,000 barrels. Of this 681 barrels was crude oil from the Waterfowl Field 104,000 barrels, and the remainder Turner Valley crude oil and 93,000 barrels Turner Valley crude naphtha. The output was from the Turner Valley exclusively, and totalled 36,000 barrels of crude oil and 109,000 barrels of crude naphtha, or approximately 25% of the crude oil and 81% of the naphtha production of Alberta.

Provincial No. 4 showed little diminution from its previous record. Its production continued to average over 50 barrels of crude naphtha daily and the total for the year of 93,000 barrels represented about 30% of the estimated total production in Canada.

Twelve producing wells were drilled by subsidiary companies during 1926. Seven of these were the property of the Imperial Oil Company, two of the Balzac Oil and Gas Company, while the Balzac Oil Company completed three wells that were drilling at the beginning of the year. Of these twelve wells, six came in as crude oil wells and the remainder as naphtha wells; however, in many cases production from the upper formations proved somewhat disappointing, and the remainder were not drilled on the formation on which the Company had drilled in the beginning of the year.

Total gas deliveries for the year were 5,718,000,000 cubic feet, of which 4,300,000,000 cubic feet were sold to the Corporation supplying the City of Calgary, and 1,418,000,000 cubic feet in Imperial Oil Redwater, Limited, at Calgary. The remainder was consumed in the field by our own and other companies.
The floods of Imperial Oil, Limited, and of the Imperial Oil, Limited, were augmented by the construction of three motor ships of the most modern type, the "C. O. Stillman," the "Vizetelly," and the "Vanier," all of which were in service for the greater part of the year. Delivery early this year of the "Calgarystar," the fourth and last of the new ships by the Hudson builders, will complete for the time the marine construction program. The Company will have in service twenty ships of 53,483 dwt. capacity.

With the larger fleet the volume of crude and finished products transported in 1923 was increased by six million barrels over 1922. The aggregate movement was in excess of 52,000,000 barrels, an average of some 77,000 barrels per day.

In addition to the large proportion of the ownership of the Company held in the form of share warrants, the registered stockholders' list comprises some 9,000 persons, many of which are long-standing customers. Since the close of the year the Second Co-operating Investment Trust has terminated and 65,000 shares, acquired under the terms of the Trust, have been distributed to 5,200 employees.

The shareholders are being asked to form a By-law of the Board authorizing the further sale of stock to employees of one or more years' service under conditions similar to those of the First and Second Co-operating Investment Trusts. The Third Co-operating Investment Trust came into operation on January 1st this year. It has been definitely demonstrated that the results of the acquisition of a partnership in the business by such a large body of employees has reduced the taxburden on the Company and that it has been an influential factor in promoting industrial concord and prosperity throughout the country.

The directors are pleased to report that loyalty to the Company and concern for its interests were never more faithfully exemplified than in the past year.

By Order of the Board,

C. O. STILLMAN,
President.

IMPERIAL OIL LIMITED AND AFFILIATED COMPANIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1923

ASSETS

CURRENT ASSETS:
Inventories $30,512,503.86
Bills and Accounts Receivable 16,218,627.20
Cash 13,777,662.12
Bank Balances 97,287.17
$61,003,784.55

DEBTS AND LOANS CHARGED TO NON-CURRENT ASSETS:

STOCKS OF OTHER COMPANIES, MARRIAGES:
Securities and Other Assets 60,795,482.27
$245,724.02

TOTAL ASSETS $856,728,209.57

LIABILITIES

CAPITAL EQUITY:
Authorized, 8,000,000 shares par $1.00 each, 1,306,943 shares issued
Amount paid thereon $7,207,584.75

CURRENT LIABILITIES:
Accounts Payable $7,504,275.65
Accrued Liabilities 1,771,209.28
$9,275,484.93

DEFERRED EXPENSES
107,262.56

OTHER RESERVES:
Depreciation: Firms, Marine, Cargo, Freight and P. & I. Insurance Reserve for Accidents 45,412,721.21
CAPITAL AND SURPLUS AFTER LIABILITIES
13,353,15

SUBSIDIES
Unappropriated and Surplus Reserves 9,383,450.43

$2,253,169,178.93

TOTAL LIABILITIES $856,728,209.57

CONSOLIDATED INCOME STATEMENT
DECEMBER 31, 1923

TOTAL OPERATING PROFITS $50,117,775.55
OTHER NET INCOME:
Foreign Exchange, Dividends Received from Other Companies, etc. 4,609,167.04

TOTAL INCOME $54,726,942.59
Less Dominion Income Tax (Estimated) 1,727,028.28
NET INCOME $53,009,914.31