IMPERIAL OIL LIMITED
HEAD OFFICE: SARNIA, ONTARIO

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

OFFICERS
H. H. HEWETSON, President  G. L. STEWART, Chairman of the Board
Vice Presidents:
O. B. HOPKINS  J. R. WHITE  F. G. HALL  K. A. HENDERSON
K. A. HENDERSON, Treasurer  JAMES McGRATH, Comptroller
COLIN D. CRITCHTON, General Secretary  J. A. NEW, General Counsel

TRANSACTION OFFICE: 66 CHURCH STREET, TORONTO, CANADA
Capital Shares are Transferable at the Office of the Company

REFINERIES
JOCCO, BRITISH COLUMBIA  CALGARY, ALBERTA  EDMONTON, ALBERTA
REGINA, SASKATCHEWAN  SARNIA, ONTARIO  MONTREAL, EAST, QUEBEC
IMPERIAL, NOVA SCOTIA  NORMAN WELLS, NORTHWEST TERRITORIES

MARKETING DIVISIONS
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

ANNUAL REPORT to the SHAREHOLDERS
1948

THE activities of Imperial Oil Limited in all its departments were at new high levels during 1948. Your Company found more crude oil, produced more oil, transported, refined, distributed and marketed more oil and products than ever before.

While the year’s operating earnings grossed more than in any other year, they were not commensurate with the increased volume and activity of your Company’s business, as is indicated in the detailed statements of accounts.

Capital expenditures for increased production of crude oil, for overall enlargement of plant and equipment and for the heavy replacement programs in all departments were larger than in any previous year. This was due principally to the magnitude of the undertakings but in part to high costs of materials. There were major outlays such as for increased exploration, developments at Leduc, Woodbend and Redwater, completion of new units at the Montreal East refinery, construction of the new Edmonton refinery and enlargement of the ocean and lake fleets. As described elsewhere in this report, some additional financing was required for the many undertakings, and large sums were realized from sales of certain assets, the proceeds from which are being used to strengthen your Company’s position in all phases of its operations.
Your Company's increased activities and the expansion of plant and equipment were of correspondingly increased advantage to the Canadian economy. The gross value of natural product was substantially added to by the oil from the new Alberta fields discovered by your Company in 1947 and 1948, and the displacement of imported crude oil in Prairie refineries created large savings in United States exchange. Furthermore, relief from the abnormally high costs of crude oil imports to Prairie refineries from distant United States fields was reflected in reductions of product prices over a large part of the Prairies. These price adjustments were initiated by your Company because they were considered sound business measures which will particularly benefit Prairie agriculture and, consequently, the whole economy. Then there was stimulated business activity resulting from the big program of oil exploration and development. Attendant to these developments were increased revenues for the province of Alberta through sale of Crown reserves and from royalties, taxes, licenses, etc. In view of prevailing conditions your Company's payrolls were expanded and higher wage and salary levels were established throughout Canada. Purchases of supplies, materials and services both in Canada and abroad were larger than in any previous year because of the many projects under development.

EXPLORATION AND PRODUCTION

The 1947 discovery of the Leduc oil field in Alberta was followed by two important discoveries in 1948. These were at Woodbend, north of the Leduc field, and at Redwater, some 50 miles northeast of the Leduc area.

The strike at Woodbend was made on January 13. The test well location was across the North Saskatchewan river from Leduc and approximately five miles north of the Leduc discovery well. It is not at present known whether Woodbend is a separate oil structure or an extension of Leduc. In either event it is of considerable importance for although the oil-bearing zone is not yet fully defined it will add several thousand acres to the now known total of 13,000 acres in Leduc proper.

On October 1 your Company successfully completed a wildcat well near Redwater at a depth of 3,218 feet. While this discovery cannot be evaluated until considerably more drilling is done, it may eventually prove to be the most important oil discovery of the past year on the North American Continent. It is thought probable that the oil-bearing zone covers some 20,000 acres and because of greater thickness of the main producing formation it is expected that the reserves will prove larger than at Leduc and Woodbend.

Following the Leduc discovery the Government of Alberta revised its regulations relative to leasing of oil and gas rights in Crown lands and restricted the area that could be leased in such lands to a maximum of 50 per cent. in any township. The remaining Crown lands are then reserved by the Provincial Government for sale of leases at their discretion. During the year a number of leases on such Crown reserves were sold by the Government for cash bonus, royalty bonus or both.
Sale of these Crown reserves enlarged the number of interests participating in oil developments in Alberta with the result that production will increase more rapidly and well the sooner exceed requirements of the Prairie market. This emphasizes the importance of low-cost transportation in order that the oil may move farther afield at prices adequate to encourage continued exploration and development work.

The successes at Woodbend and Redwater have brought competitive exploratory efforts in Alberta to very large proportions and accordingly your Company commensurately expanded its oil-seeking and development operations. Seismograph crews were increased from seven to 11 and in the search for new fields Imperial Oil completed 17 wildcat wells. Of these, three were discoveries and 14 were dry holes. The discoveries were at Woodbend and Redwater, already referred to, and at Armenia where the strike is still being evaluated. Towards the end of the year your Company also completed two exploratory wells in the Redwater area. One of these, Redwater No. 4, was a producer and the other, Redwater No. 2, a dry hole.

When the year ended your Company had ten drilling rigs engaged in the search for new Alberta fields. Five of these were drilling and preparations to drill were under way at five locations. Your Company was a partner in two other exploratory wells that were drilling at the end of the year, and during the year it shared also in the cost of drilling three exploratory wells of which one, California Standard Imperial Bantry 11-2, was a small producer.

The total exploratory footage drilled in Alberta during the year by Imperial and by its subsidiaries and partners, was 193,403 feet. Of this, 17,496 feet was drilled by partners and 14,425 feet by subsidiaries.

The number of development wells drilled in Alberta by Imperial was 119 of which 101 were successful at Leduc, nine at Woodbend and six at Lloydminster; three were dry holes, two at Leduc and one at Woodbend. Imperial’s subsidiaries completed four development wells in Turner Valley. The total footage of development drilling by Imperial and subsidiaries in Western Canada during the year was 671,498 feet.

On December 1, crude oil price reductions of 45 cents per barrel at the well in Turner Valley and 52 cents per barrel in Leduc, Woodbend and Redwater were made. The resulting prices were $3.25 in Turner Valley, $2.95 at Leduc and $2.60 at Redwater. Previous prices were influenced by the importation of crude oil at high costs from United States sources and as the time rapidly approached when these imports could be entirely displaced, the new prices were established to enable Alberta production to compete with existing economic sources of United States crude wherever supplies from those sources impinged on the Prairie market. In general, it is true that the price of crude oil in a field approximates the difference between the price that it commands at its farthest fringe of competition and the cost of transporting it to that fringe.

In Southwestern Ontario most of the effort was directed towards further defining of the Kimball and Becher fields and resulted in a considerable enlargement of both producing areas.
The resulting additional gas production was of particular importance under the prevailing conditions in the area. Ten development wells were drilled at Becher, eight at Kimball and 16 at various other locations. At the year's end your Company had 24 oil and gas wells at Becher, eight gas wells at Kimball and eight wells in other fields in the area. The total development footage drilled in Ontario was 53,762 feet.

In Quebec, Imperial participated in drilling a well on the Gaspé Peninsula. This was abandoned as a dry hole at 6,360 feet.

During the year your Company employed nine geological parties who conducted investigations on the Arctic coast, in the Maritimes and in Ontario, as well as in Alberta.

**MANUFACTURING AND MARKETING**

The daily average throughput of 135,027 barrels in your Company's eight refineries was 14.7 per cent. higher than in 1947 and set a new record. Although refinery capacity was increased, the plants were not able to supply all demands for products and again there were considerable imports of finished products.

Major developments in the manufacturing department were the completion of the expansion and modernization program at Montreal East and completion of the first phase of developing the new refinery at Edmonton.

The Montreal East project cost approximately $22,000,000. It was started in 1946 but material shortages and other difficulties retarded the work. Included in the new construction is a 13,000 barrel a day pipe still, an 11,000 barrel a day fluid catalytic cracking unit, a 4,200 barrel a day catalytic polymerization plant and a light ends recovery unit. Additional tankage for more than 2,000,000 barrels was also installed and the boiler house capacity was enlarged. The fluid catalytic unit was the first of its kind to go into operation in Canada. As a result of the Montreal East program, your Company can now provide increased supplies of quality products for the Quebec territory.

As was related in your Company's report for 1947, a refinery which had been built at Whitehorse, Y.T., was purchased and transported over the Alaska Highway to Dawson Creek and thence by rail to Edmonton to be set up at a site near that city. This unique project was carried through satisfactorily and the new refinery went "on stream" on July 17, only 17 months after the Leduc discovery and about one and a half years earlier than would otherwise have been possible.

The initial capacity of the Edmonton refinery was 6,000 barrels daily and this is being increased as rapidly as possible to 11,000 barrels. With the beginning of the new plant's operations there were substantial reductions in prices of gasoline, kerosene, distillate and fuel oils in the areas served by the new plant. These reflected Edmonton's new position as a source of product supply and preceded further substantial price reductions in Alberta and Saskatchewan which coincided with reduced postings of crude oil prices in the Alberta fields on December 1.
The Edmonton refinery is supplied by pipe line from Nisku, 17 miles away, which is the shipping point for Ledcor crude and which is itself linked by pipe line to the Ledcor field.

During the year various projects were developed and implemented to increase throughput in other refineries of your Company by removal of "bottlenecks". These resulted in enlarging the throughput by approximately 16,000 barrels daily at relatively very low cost.

There were normal expansions of marketing facilities during the year and the most interesting project was the installation of a bulk storage plant at Seven Islands on the north shore of the Gulf of St. Lawrence in the province of Quebec. This plant will supply products for the Labrador Mining and Exploration Co. which is engaged in developing a large new source of iron ore on the Quebec-Labrador boundary. In a period of two months the site was cleared, roads were built, tankage and warehousing erected, pipe lines laid, facilities prepared for anchoring tankers, and the first cargo discharged into the new tankage. This speedy program made it possible to have the tankage of some 35,000 barrels filled before navigation closed.

TRANSPORTATION

Two more "T-2" type tankers were added to the Imperial Oil Shipping Co. fleet during the year. Each of these vessels is of approximately 16,000 deadweight tons and the individual carrying capacity is roughly 100,000 barrels. There are now six of these vessels in the fleet.

Satisfactory progress was reported in the construction of Canada's first "supertanker" which, it is expected, will join the fleet in May. Her deadweight tonnage is approximately 26,000 and her carrying capacity is approximately 229,000 barrels.

Three new lake tankers went into service during 1948. They were built at Collingwood, Ont., and one of them, the "Imperial Sarnia", is the largest tanker ever built in Canadian shipyards and is also the largest tanker of Canadian registry on the Great Lakes.

An eight-inch pipe line was laid from Nisku to Imperial's Edmonton refinery and considerable progress was made in planning for a 16-inch line which will be laid from Edmonton to Regina. With co-operation from various sources your Company was able to overcome many of the difficulties involved in the development of this project. With adequate supply of steel now seemingly assured it is hoped that the project will be completed in 1949.

For rail transport a greater number of tank cars was required than ever before. Cars in service reached a record of 4,711 and more than 150,000 car loads of crude oil and petroleum products were moved at a freight cost of approximately $34,000,000. These figures represent an increase in car load shipments of seven per cent, and in car load freight paid of 16 per cent, over 1947. The relatively greater increase in freight costs resulted from the general 21 per cent. increase in freight rates which became effective in April and the 13 per cent. increase in competitive rates which became effective in September, together with several increases in the United States which affected international traffic.
Tank car shipments of crude oil increased 22 per cent. Thirty-nine per cent. of the crude shipments by tank car were imported whereas 74 per cent. of the tank car crude shipments were imports in 1947. It is expected that during 1948 tank car requirements will be still greater in spite of the discontinuance of crude oil importation by tank car from the United States and the shorter hauls that will result from the increased Canadian production of crude oil.

EMPLOYEE RELATIONS

Among developments in the field of employer-employee relations during 1948 were negotiation of upward adjustments of wages and salaries for occupational groups; further extension of the Joint Council system of representation; announcement of a liberalized Hospitalization and Surgical Benefits Plan; and expansion of the Employee Training program.

During July increases in occupational wages and salaries were negotiated on an area basis. These adjustments ranged up to a maximum of ten per cent. of basic rates depending on local conditions. An “allowance” of six cents per hour or six per cent., which had previously been introduced, was continued.

The Joint Council system of employee representation continued to expand, and during the year seven new Councils of management and employees were formed. At the year-end there were 83 Councils representing occupational employees throughout the Company's operations. The Union, which was certified at Ioco in 1946 continued to represent the hourly-paid employees at that refinery.

In keeping with the trend towards increased hospitalization costs, the Company’s Hospitalization and Surgical Benefits plan was liberalized and resulted in increased participation. Minor revisions in the Annuity Plan and Employees’ Thrift Plan were also adopted.

The Employee Training program was given further impetus with the introduction of a Training Course for supervisors in the Producing, Manufacturing and Marketing operations.

In addition to the regular contribution which it makes to the Thrift Fund under the Annuity and Thrift Plan, your Company made a special contribution to the Thrift Fund. This was equivalent to 30 per cent. of the contributions made by employees during the period from October 1, 1947 to September 30, 1948.

The activities of the Medical Department, the Accident Prevention Department and the Executive Development Department continued to expand gradually during the year.

Mr. F. G. Hall, a Director, was elected a Vice-President of the Company, and Mr. M. L. Haider, General Manager of the Producing Department, was elected to the Board of Directors.

The loyal and devoted body of employees which has now increased to more than 12,000 carried on with the usual efficiency and dealt competently with new tasks and problems developing from your Company’s expanded activities. Your Directors once again record their thanks for the splendid services and able support of employees in all departments and areas.
A

already noted there were greatly increased capital requirements in 1948. Large
sums were needed for the finding and development of crude oil reserves in Canada,
for completion of the Edmonton refinery, for gathering and pipe line facilities to
handle the crude and for the general expansion of refining, marketing and transpor-
tation activities to meet unprecedented demands. Accordingly your Company arranged for
additional finances.

In April, debentures were issued in the amount of $5,000,000 bearing interest at the
rate of 21/4 per cent. per annum and maturing during the same period as the debentures issued
in 1947. Total debentures outstanding at the year end amounted to $30,000,000, maturing at the
rate of $5,000,000 per year each year from 1950 to 1953, inclusive.

On June 18 the Company offered for sale to its shareholders, its holdings in International
Petroleum Co. Ltd. shares at $9.20 per share (U.S.). A total of 8,728,100 shares were disposed
of at a total price of $80,209,348. Under the terms of the offer the purchaser had the right to
pay in cash or to purchase on installments of 25 per cent. initial payment and 25 per cent. on June 1,
1949, 1950 and 1951 respectively. When the sale was completed the Company had received
cash in the amount of $38,930,004 and interest bearing notes in the amount of $41,109,344. During
the year other investments and capital assets disposed of realized $5,186,860.

After payment of dividends, the remainder of 1948 earnings and other funds have been invested in the business as indicated in the following summary:

**SOURCE OF FUNDS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Earnings after Income Taxes</td>
<td>$22,832,071</td>
</tr>
<tr>
<td>Surplus Adjustments (Income Taxes)</td>
<td>255,353</td>
</tr>
<tr>
<td>Add—Provisions for Depreciation, Depletion, Amortization, Inventory and</td>
<td>11,140,608</td>
</tr>
<tr>
<td>Other Reserves which did not involve the disbursement of Cash</td>
<td>13,420,119</td>
</tr>
<tr>
<td>Less—Dividends Paid to Shareholders</td>
<td>13,545,205</td>
</tr>
<tr>
<td>Cash Available from Earnings after Dividends</td>
<td>20,683,824</td>
</tr>
<tr>
<td>Cash Received from Sale of International Petroleum Co. Ltd. Shares</td>
<td>38,930,004</td>
</tr>
<tr>
<td>Cash Received from Sale of Debentures</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Cash Received from Sale of Other Miscellaneous Investments and Capital</td>
<td>6,186,860</td>
</tr>
<tr>
<td>Assets</td>
<td>71,206,088</td>
</tr>
</tbody>
</table>

**DISPOSITION OF FUNDS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Plant and Equipment</td>
<td>$36,591,957</td>
</tr>
<tr>
<td>Payment of Account of Employees' Pensions</td>
<td>2,544,796</td>
</tr>
<tr>
<td>Additions to Working Capital</td>
<td>29,441,329</td>
</tr>
<tr>
<td>Miscellaneous including Discount on Debentures</td>
<td>2,692,625</td>
</tr>
<tr>
<td>Total</td>
<td>71,206,088</td>
</tr>
</tbody>
</table>
CORPORATE CHANGES

On January 1, 1948, the ocean tonnage operated by the Company was transferred to The Imperial Oil Shipping Co. Ltd., a wholly-owned subsidiary. This change was desirable from an operational standpoint because the ocean fleet carries cargoes for other interests, is subject to foreign legislation on many of its voyages and in general is entirely separate in operations from the fleet on the Great Lakes.

Assets were exchanged at net book value for an equivalent value of shares in The Imperial Oil Shipping Co. Ltd. The earnings derived from the operations of the ocean fleet during the year are included as dividends received from subsidiaries.

In view of the rapidity and extent of Western oil developments it became apparent during the year that normal competitive practices between Imperial and Royalite Oil Co. Ltd., in which Imperial held approximately 90 per cent. of the capital stock, would in time lead to embarrassing difficulties for either or both companies. Your Directors therefore proposed that Imperial would purchase the assets of Royalite as a going concern at $23.75 per share and, in the event of acceptance, would consolidate Royalite and Imperial operations.

The Directors of Royalite made an alternative proposal which your Board did not consider acceptable. Accordingly when the year ended your Directors were negotiating to dispose of Imperial holdings in Royalite to Canadian interests.*

EARNINGS AND DIVIDENDS

The total sales of all products during 1948 amounted to 51,964,373 barrels, an increase of 4,470,612 barrels, or 9.4 per cent. over the 1947 sales. The major increases were in gasoline and bunker fuel products.

The demands for products exceeded the Company’s refining capacity and the deficiency was supplied by 8,843,571 barrels of imports.

The crude run to stills totalled 49,547,000 barrels of which 2,684,000 barrels were the Company’s own production.

The total net operating profit expressed as a percentage of total dollar sales shows a decrease from 6.10 per cent. in 1947 to 4.90 per cent. in 1948. When expressed in terms of volume, the net profit is 95/100 of one cent per gallon in 1948 compared with 96/100 of one cent per gallon in 1947.

*The sale was completed in January, 1949, at a price of $23.25 per share.
After providing for all taxes on income, the earnings of the Company for the year 1948 were as follows, compared with 1947:

<table>
<thead>
<tr>
<th></th>
<th>1947</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>From Canadian operations</td>
<td>$18,903,866</td>
<td>$16,873,163</td>
</tr>
<tr>
<td>Other income</td>
<td>1,374,796</td>
<td>4,266,912</td>
</tr>
<tr>
<td>Dividend from International Petroleum Co., Ltd.</td>
<td>3,185,789</td>
<td>1,952,893</td>
</tr>
<tr>
<td>Total</td>
<td>$23,464,441</td>
<td>$22,832,270</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>75.56c</td>
<td>84.18c</td>
</tr>
</tbody>
</table>

During the year the inventory of crude oil and products increased from $99,147,727 to $112,120,532. As the greater part of the inventory consists of crude and products from foreign sources and some weaknesses have developed in prices, it was considered prudent to add to the inventory reserves an amount of $3,500,000 which is deducted from the 1948 earnings in the above summary. This brings the reserve for future shrinkage of inventory values up to $10,000,000 as protection against an inventory of $70,120,532.

The increase in "Other Income" is principally accounted for by the inclusion under this heading in 1948 of a dividend from Imperial Oil Shipping Co., Ltd.

As the sale of International Petroleum Co., Ltd. shares occurred in the latter part of the year, the Company received only the dividend of 25 cents per share payable on June 1.

Your Company paid dividends of 25 cents per share on June 1 and December 1, a total of 50 cents per share, the same rate as in 1947. The amount of earnings over and above the dividends paid was put back into the business for development and expansion.

**BALANCE SHEET**

The financial position of the Company as of December 31, 1948, is shown on the accompanying Balance Sheet. The Current Assets were $147,709,730 and the Current Liabilities $56,933,829, resulting in a net working capital of $90,775,901 which is an increase over 1947 of $45,411,110.

The increase in working capital includes an increase in inventories of $22,620,323, as a result of expansion in business and rising costs, and Notes Receivable of $13,969,781 which is the payment due in June 1949 on the sale of the Company's shareholdings in International Petroleum Co., Ltd. The balance of the amount owing in this transaction, $27,539,362, is included in Deferred Accounts Receivable.

During the year the increase in the investment of plant and equipment was as follows:

- Crude production: $15,600,627
- Manufacturing facilities: 18,287,721
- Marketing facilities: 4,130,786
- Transportation facilities: 1,473,503
The Company was again faced with rising costs, current construction costs being far in excess of the original cost of equipment replaced. This has been a considerable drain on the Company's resources.

After allowing for the retirement of equipment taken out of service and after the transfer of the ocean fleet to The Imperial Oil Shipping Co. Ltd., as previously referred to, the gross investment in plant and equipment at the end of the year was $197,638,546 compared with $174,018,542 in 1947.

IN CONCLUSION

OBSERVABLE trends indicate continued substantial increases in the consumption of petroleum products in Canada but it is expected that in the coming year these increases will be at a somewhat lesser rate than during the transition from a wartime to a peacetime economy. They are expected particularly in distillate fuels for diesel operation and household heating, and to a somewhat smaller extent in motor gasolines. Your Company is diligently working to secure a fair share of the increased volume, and its improved position as a producer of crude oil together with its enlarged and modernized plants and equipment will be of great assistance in this respect.

Your Directors believe that exploration for additional new oil reserves in Alberta is of prime importance and plan that your Company will continue to be most active during 1949. They expect increasingly keen rivalry from organizations already in the field and from others who, they hope, will also be attracted to the search.

In the long term, an all-out competitive effort will be most beneficial both to the operators and to the Canadian economy. By stimulating venture, enterprise, resourcefulness and ingenuity the free play of competitive forces will speed both the field operations and the establishing of new markets.

There will be periods that may seem discouraging to those who are not familiar with the history of oil developments in other countries. For instance, potential production will at times exceed the requirements of currently available markets and it will not be possible immediately to provide low-cost transportation to reach more distant areas and to establish various facilities for serving markets in those areas. In light of this fact the question may arise: Why should additional reserves be sought when existing reserves cannot be fully drawn upon? The answer is that additional reserves will be needed to assure continued supply for the substantial new markets that must be attained. Assurance of continued supply is imperative in order that the heavy capital outlays that will be needed to extend low-cost transportation, to build new refineries and to provide other necessary plant and equipment, may be justified by the hope of profitable investment.
Accordingly, the sooner reserves are enlarged, the sooner will it be possible to extend the markets.

The finding and development of a major supply of crude oil is of more than local importance; it is an event of world-wide significance. Once again, as everywhere else in the past, private competitive enterprise has been the mainspring of achievement. It alone could have made the developments possible and can carry them forward for the greatest general benefit.

Your Directors are happy to record their appreciation of the continued interest and support of the shareholders throughout the year.

By order of the Board,
H. H. HEWETSON, President

Sarnia, Ontario
April 14, 1940.

The drawings in this report are by Mr. John Worsley, formerly an Official British Naval War Artist, who recently visited Imperial Oil's operations at several points in Canada.
IMPERIAL OIL LIMITED
BALANCE SHEET
DECEMBER 31, 1948

ASSETS

CURRENT ASSETS:
Cash on hand and in banks ........................................... $ 11,533,480.13
Domestic and Canadian bonds at market value, which was less than cost, plus accrued interest ........................................... 928,160.41
Trade accounts and bills receivable (less reserve) .................. $1,019,848.31
Other accounts receivable ........................................... 1,456,098.93
Notes receivable from shareholders due June 1, 1949, on
sale of shares of International Petroleum Company,
Limited .......................................................... 46,495,638.64
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 less than replacement value) ..................... $79,129,932.47
Materials and supplies (at cost) ................................... 9,322,999.20
88,452,931.67
147,300,720.94

MISCELLANEOUS INVESTMENTS, DEFERRED ACCOUNTS
RECEIVABLE, ETC.
Share of other companies (quoted market value $3,924,364.38) .. 1,215,519.18
Share of other companies (no quoted market value) ............... 1,249,072.99
Deferred accounts receivable, mortgages and miscellaneous loans and
advances (less reserves) ........................................... 5,711,066.62
Notes receivable from shareholders on sale of shares of
International Petroleum Company, Limited ..................... $41,939,144.20
Less—Carried in Current Assets .................................... 27,999,962.80
33,939,181.40

INVESTMENT IN SUBSIDIARY COMPANIES:
Investment in shares (less reserves) (Note 1) ....................... $ 24,422,834.50
Indebtedness of subsidiary companies (less reserve) .............. 5,328,087.60
Less—Carried in trade and other accounts receivable ............ 3,777,857.58
2,550,220.02
26,873,044.51

DEFERRED AND PREPAID CHARGES ........................................ 1,625,935.53

GOODWILL, PATENTS, COPYRIGHTS, TRADE MARKS AND
LICENCES ........................................................................ 274,00

CAPITAL ASSETS:
Land, leases and wells, buildings, plant, transportation and other equip-
ment (at cost) .......................................................... 107,638,846.98
Less—Reserves for depreciation and depletion ....................... 96,593,844.77
$10,045,002.21

LIABILITIES

CURRENT LIABILITIES:
Accounts payable .......................................................... $30,077,699.59
Amounts owing to subsidiary companies .................. 3,619,047.47
Reserve for taxes on income and other accrued taxes in Canada 3,237,142.87
$ 36,933,889.93

DEBENTURES:
Authorized—$60,000,000
Issued—2½% Serial Debentures, Series "A", maturing $5,000,000
per annum October 15, 1955 to 1959 30,000,000.00

RESERVES:
For fire, marine and other insurance .................. $ 9,822,630.38
For employees' annuities ........................................... 8,515,000.78
For future shrinkage of inventory values ...................... 10,000,000.00
For other contingencies ............................................. 2,238,194.43
22,585,825.59

CAPITAL AND SURPLUSES:
(Capital Stock):
Authorized—32,000,000 shares of no par value
Issued and outstanding—22,121,403 shares (Note 2) ........... 80,443,121.36
Capital Surplus, as per statement attached ........... 64,446,116.20
Earnings Surplus, as per statement attached ........... 69,930,371.26
214,221,608.82

Approved on behalf of the Board:
H. H. Hewetson, Director
G. L. Stewart, Director

NOTE (1)—Pursuant to the terms of an offer of exchange of shares to the minority shareholders of Imperial Oil Limited, a subsidiary company, have been sold at approximately $800,000.00 in excess of the value at which such shares are carried in the above balance sheet.

NOTE (2)—On December 31, 1948, the Company had outstanding convertible debentures aggregating $4,972,195.71.

NOTE (3)—On December 31, 1948, the Company had outstanding convertible debentures aggregating $4,972,195.71.
IMPERIAL OIL LIMITED

STATEMENT OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1948

<table>
<thead>
<tr>
<th>CAPITAL SURPLUS</th>
<th>EARNED SURPLUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$13,264,192.26</td>
<td>$56,877,242.33</td>
</tr>
</tbody>
</table>

Add—
Net credit arising from sale of investment in International Petroleum Company Limited:  49,171,928.94
Net credit arising from sales of other investments:  2,953,000.00
Credits applicable to prior years taxes on income (Net):  216,353.05
Net Profit for the year ended December 31, 1948:  22,832,070.68

$64,456,119.20  $82,538,656.26

Deduct—
Dividends Paid:  13,345,205.00

$51,110,914.20  $69,293,371.26

NOTE: The total amount deducted in the above statement is in respect of accrued and unclaimed fees and salaries of executive officers, including all related Directors. The balance is $481,650.

IMPERIAL OIL LIMITED

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1948

PARTICULARS OF INCOME

<table>
<thead>
<tr>
<th>REVERSE PROVIDING</th>
<th>Provision for</th>
<th>CENTRE</th>
<th>FOR</th>
<th>SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CANADIAN TAXES ON</td>
<td>INCOME</td>
<td>NET</td>
<td>INCOME</td>
<td></td>
</tr>
<tr>
<td>INFUSION</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Operating Income from producing, transportation, refining and marketing operations of Imperial Oil Limited, after deducting all selling, administrative and general expenses:  34,944,682.13
Less—Provision for depreciation and depletion:  7,945,582.19
Less—Provision for future shrinkage of inventory values:  5,200,000.00

$25,899,999.41  $7,025,968.45  $16,873,153.49  62.21%

Other Income:
Dividends from Canadian subsidiaries, and other companies, interest on bonds, and other miscellaneous income:  5,309,449.14
Less—Interest on amortized reserves and other miscellaneous interest and charges including $635,602.00 interest on Series "A" Debentures:  1,268,291.39

$28,021,359.69  86,762,191.68  589,152.85  8,512,003.17  5.87%

Net Profit for the Year CARRIED TO EARNED SURPLUS:  32,852,070.08  84.18%

NOTE (1) The total amount deducted in the above statement is in respect of accrued and unclaimed fees and salaries of executive officers including all related Directors. The balance is $481,650.

NOTE (2) For the year 1948 the Company's proportion of the aggregate net profit of companies which were subsidiaries at December 31, 1948 exceeded the dividends received from such subsidiary companies by $2,032,311.00.
To the Shareholders of
IMPERIAL OIL LIMITED:

We have examined the balance sheet of Imperial Oil Limited as at December 31, 1948, 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. Our examination included such tests of the accounting records and of other supporting evidence and such other procedures as we considered appropriate in the circumstances.

In accordance with section 114 of The Companies Act, we report that in the case of each subsidiary company as incurred losses up to December 31, 1948, 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 companies which were subsidiaries at December 31, 1948, 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 each subsidiary company for the year 1948, exceeded the dividends received in 1948 by $2,012,135.05.

We report that, in our opinion, the accompanying balance sheet and related statements of profit and loss and surplus are 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, 1948, and the results of operations for the year ended that date after appropriating $3,500,000.00 for reserve for future shrinkage of inventory values, 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, Ontario
March 28, 1949
Most favourable areas for oil prospecting.

Less favourable areas—largely unfavourable for oil prospecting.

The Canadian shield, rich in metal deposits but without oil prospects.