Imperial Oil progresses because it fulfills an important and useful role in the lives of Canadians.
RESULTS IN BRIEF

<table>
<thead>
<tr>
<th></th>
<th>1962</th>
<th>1961</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings after all charges and taxes</td>
<td>$68,833,000</td>
<td>$67,832,000</td>
</tr>
<tr>
<td>per share</td>
<td>$ 2.16</td>
<td>$ 2.14</td>
</tr>
<tr>
<td>as a percentage of gross income</td>
<td>7.0</td>
<td>7.5</td>
</tr>
<tr>
<td>as a percentage of capital employed</td>
<td>8.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Dividends paid to shareholders</td>
<td>$44,219,000</td>
<td>$51,155,000</td>
</tr>
<tr>
<td>per share</td>
<td>$ 1.40</td>
<td>$ 1.40</td>
</tr>
<tr>
<td>as a percentage of earnings</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Shareholders' investment at year end</td>
<td>$732,421,000</td>
<td>$679,131,000</td>
</tr>
<tr>
<td>per share</td>
<td>$ 22.54</td>
<td>$ 21.95</td>
</tr>
<tr>
<td>Capital and exploration expenditures</td>
<td>$76,389,000</td>
<td>$86,741,000</td>
</tr>
<tr>
<td>Total assets at year end</td>
<td>$958,670,000</td>
<td>$930,951,000</td>
</tr>
</tbody>
</table>

**OPERATING**

<table>
<thead>
<tr>
<th>Description</th>
<th>Barrels per day</th>
<th>Barrels per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Sales</td>
<td>317,000</td>
<td>295,000</td>
</tr>
<tr>
<td>Crude Oil Processed at Refineries</td>
<td>305,000</td>
<td>294,000</td>
</tr>
<tr>
<td>Crude Oil and Natural Gas Liquids Production Gross</td>
<td>124,000</td>
<td>111,000</td>
</tr>
<tr>
<td>Net</td>
<td>108,000</td>
<td>97,000</td>
</tr>
<tr>
<td>Percentage of actual to potential production</td>
<td>43</td>
<td>43</td>
</tr>
</tbody>
</table>

**NATURAL GAS PRODUCTION**

<table>
<thead>
<tr>
<th>Description</th>
<th>M.C.F. per day</th>
<th>M.C.F. per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>170,000</td>
<td>131,000</td>
</tr>
<tr>
<td>Net</td>
<td>150,000</td>
<td>117,000</td>
</tr>
</tbody>
</table>

ANNUAL REPORT 1962

**IMPERIAL OIL LIMITED**

Head Office: Toronto, Ontario

**DIRECTORS**


**OFFICERS**

President, W. O. Twats
Vice-President, J. A. Cogan, L. D. Prentice, T. F. Moore, V. Taylor
General Secretary, G. M. Henderson
Comptroller, J. H. Spence
Treasurer, D. W. McGregor
General Counsel, J. P. Barrett, Q.C.

**TRANSFER OFFICES**

Imperial Oil Limited:
Toronto, Ontario

Montréal Trust Company:
Halifax, Nova Scotia; Montreal, Quebec;
Winnipeg, Manitoba; Regina, Saskatchewan;
Calgary, Alberta; Vancouver, British Columbia

Bankers Trust Company:
New York, N.Y.

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- President's report to shareholders: 2
- Operating report: 5
- Financial review: 19
- Financial statements: 24
REPORT TO THE SHAREHOLDERS

For the fiscal year ended December 31, 1962

In 1962 Imperial's sales of petroleum products, petrochemicals, and crude oil and natural gas increased to record levels. This physical growth was accompanied at a time when the market in which the company operates was unsettled and when there were major changes in all aspects of the company's operations.

Despite the increased volume of business, the company's consolidated net earnings, at $68.4 million or $2.12 per share, were only marginally higher than in the previous year. This reflects not only the somewhat turbulent market conditions evident throughout 1962 but also many other variables which affect in different ways the performance of each of the company's main operating areas—exploration and production, petrochemicals, and petroleum products.

These other variables include the changes in technology which are constantly being made in the industry, the rapidly changing cost-price relationships, and the country's legislation which determines how a company can operate and how much of its profit it may keep. The impact of such factors shows up in the markedly different performance of each of the company's principal operations. These differences, moreover, are becoming increasingly evident each year as the company's operations become more complex. For example, while Imperial is a large producer of oil and gas, most of the company's assets, in fact, are in manufacturing and distribution facilities. These are of a highly technical nature and make Imperial one of the more important secondary manufacturers in Canada.

It is also remarkable to think of the company simply in terms of service station operations because these account for less than 20 percent of all petroleum products sales. A large proportion of company sales of petroleum products is made to other industries and, therefore, depends on the general economic health of Canadian industry. The same, of course, is true for petrochemical sales.

In the field of crude oil and natural gas production, the company had a good year. In addition, by comparison to 1961, some benefit was derived from inventory variations which even out over a period of years. Sales of both crude oil and natural gas were up substantially over 1961, particularly in the export market provided by the United States. While these export amounts to a small fraction of total U.S. demand, they represent long-term connections in the most economically-accessible markets for Canadian oil. The sharp rate of growth in exports during 1962 however, cannot continue, as Canadian crude has almost completely depleted its proportion of these U.S. markets where it is competitive. In the future Canadian crude oil sales will be largely determined by the normal expansion in demand in both Canada and the United States.

An important result of the growth of the oil and gas industry has been its positive effect on Canada's balance of trade. In 1962, crude and product imports of $440 million were offset by $311 million of petrochemical and natural gas exports leaving a net import of $129 million against $105 million the year before, an improvement of 55 percent.

It is unfortunate that so much attention is currently being focused on certain aspects of the balance of international payments and on short-term developments. Thus, our industry is frequently identified with some $480 millions of imports, but not with the nearly equal amount of exports it has generated.

Nor is the even more important long-term favorable effect of our development adequately recognized. In fifteen years our industry has built up an annual production of $440 million of crude oil and $100 million of natural gas, all of which either drives our imports or adds to exports. In addition, the petrochemical industry now supplies $300 millions of petrochemicals to the same customers who buy the crude oil.

By the first of this year Canadian production of crude oil was approximately 100,000 barrels a day—the target established for the end of 1963 under the national oil policy. This is striking testimony to the wisdom of allowing private enterprise the freedom to develop in a manner that is compatible with both the national interest and the consuming public.

The company's petrochemical operations experienced another year of expansion in 1962. Sales volume increased 26 percent with new aromatics production making a significant contribution. Severe price competition in the field of chemicals, however, continued to limit the growth in earnings.

The company's investment policy is designed to establish a sound, long-term position in the growing domestic and export chemical markets. As mentioned earlier, the result has been a substantial contribution to the Canadian balance of trade. In addition, it has expanded domestic manufacturing facilities and provided employment.

Earnings from petroleum product sales are substantially down from last year. While volumes have increased, product prices have deteriorated considerably. Imperial's profits were further adversely affected by higher crude prices because, under government regulations, Imperial purchases most of its crude from other suppliers.

While competitive price action was most widely evident at the retail or service station level the same factors also resulted in lower realizations in the wholesale, industrial, and commercial markets.

W. O. TAYLOR, President

This continuing squeeze on operating margins over the past several years has required new standards of operating efficiency throughout the entire manufacturing and distribution operations. It has also required new concepts and techniques of petroleum marketing. These are having important, and lasting, effects on investment and operating policies. In several respects these developments are typical of the retail market as a whole. Technical and legal restrictions, moreover, have added to the special problems confronting the petroleum product business.

Anticipating these conditions, the company made important changes in its organization and in its investment programs. The extensive modernization and investment programs undertaken during the past decade are now providing an excellent low-cost foundation on which the flexibility necessary to meet new competitive challenges.

While surplus current supply continues to press on the whole petroleum product price structure, it is significant that a continued high rate of investment is required for new oil re-
OPERATING REPORT

A close look at any one of Imperial's operations tells little about the company as a whole. Looked at together, however, a picture emerges—a picture of a company doing business in all parts of Canada, whose daily operations play an active role in the everyday lives of Canadians at home, at work and at play.

At the same time it is easier to see how these individual operations affect the company's net profit if they are grouped into three broad categories—exploration and production, petroleum products, and chemicals.

The level of exploration in 1962 by both the company and industry was approximately the same as in the previous year. In 1962, the company participated in the drilling of 105 exploratory wells, with 24 of these wells finding oil or gas. The most significant of the 1962 successes were oil discoveries at Snipe Lake, in Alberta; East Willmar, in Saskatchewan; and Clearville, in Ontario; and gas discoveries in northeastern British Columbia and Alberta.
Imperial Oil — Supplying Energy For a Nation's Growth

Every time a Canadian flicks a light switch, starts a car, turns up the thermostat on his furnace, presses a button on a machine or ploughs a field he is converting energy to his own use. Scattered over an immense land and faced with a severe climate, Canadians have used their nation's abundant energy resources to develop modern industries based on minerals, forests, agriculture, fishing, and manufacturing. On a per capita basis Canadians are second only to the United States in the use of energy. Of all the energy Canadians use, 70 percent comes from crude oil and natural gas. Imperial alone provides nearly 20 percent of the total energy consumed by Canadians — more than the energy supplied by all hydro power stations across Canada.

Development of new discoveries and extensions to previously discovered fields resulted in the drilling of 121 net development wells in 1962. While several productive wells were drilled in southwestern Ontario, the principal area of activity continued to be western Canada. The development of the Judy Creek (Alberta) and Boundary Lake (B.C.) oil fields was nearly completed. Extensions to various fields in Saskatchewan continued to provide attractive development opportunities.

Several steps were taken to increase production from existing fields, and these have made a contribution to Imperial's strong reserve position as well as improved operating efficiency. For example, by injecting water into the Judy Creek field, reservoir pressure is maintained, thereby increasing recoverable oil reserves. Moreover, unitization of the field (whereby several companies share in oil production in proportion to their holdings in the field) promises to improve efficiency by reducing operating costs.

For a number of years, Imperial has participated in experiments to find an economic way to recover oil from the Athabasca oil sands. As a result of an extensive research and pilot plant program, the company and its partners, Cities Service Athabasca, Inc., Richfield Oil Corporation, and Royalite Oil Co. Ltd., now feel that economic recovery is feasible on the basis of a large-scale operation. An application has been made to the Alberta Oil and Gas Conservation Board for approval to build a plant to mine and recover 100,000 barrels of oil a day, with production to start about the beginning of 1970. The Conservation Board reserved its decision after hearing the application in January, 1963.

Imperial also has a substantial interest in natural gas. The company's gross production of gas in 1962 was 120 million cubic feet per day, up 30 percent from the year before. This increase resulted from the company sharing in the growth of domestic gas markets, as well as increased participation in United States markets. In partnership with other producers, Imperial was granted a permit to construct and operate a gas plant to process gas recovered from all fields in the Judy Creek - Swan Hills area 106 miles northeast of Edmonton. Construction of the facilities was started late in 1962 and should be completed before the end of 1963.
As mentioned in last year's annual report, Imperial is looking closely at opportunities to develop other mineral resources. The company has acquired potash properties near Regina, and, during the year, an experimental pilot project was started to determine an efficient way to recover this mineral. Potash is a prime ingredient in the rapidly growing fertilizer industry, and one of the largest deposits in the world underlies parts of southern Saskatchewan.

While your company is interested in other minerals, its primary interest has been and still is in the field of hydrocarbons. For this reason, the company continued its search for economic outlets for Canadian crude.

During 1962 in its own refineries and for its export sales, Imperial required 223,000 barrels per day of Canadian crude oil, an increase of eight percent from 1961. Of this, 160,000 barrels per day came from its own production and the remainder was purchased from other Canadian producers.

Imperial has been a leader in developing markets for Canadian crude in U.S. states adjacent to Canadian supply lines where western crude is competitive. The growth of exports to these markets has been aided by the U.S. cut in export policy as it has been applied to Canada. In 1962 Imperial increased its sales of crude to U.S. refiners by 15 percent to 75,000 barrels per day.

The present pattern of exporting Canadian crude to those U.S. markets where it is competitive and importing crude to the eastern provinces where the cost of transporting Canadian crude would make it uneconomic, is a sound one. It promotes the orderly development of a Canadian resource, and, at the same time, does not place a burden on the Canadian consumer. In recent years, crude oil and natural gas exports have assumed an important position in Canada's trade. They are an important U.S. dollar earner for the country and each year sees Canada's trade in hydrocarbons brought into closer balance. This is in marked contrast with the situation just 15 years ago when Canada imported nearly all of its crude oil requirements, principally from the U.S.

In summary, 1962 was a good year for the company in the production of hydrocarbons, and earnings from this area of operations contributed substantially to total profits.

PETROLEUM PRODUCTS: Lower prices and higher costs cut earnings

To carry out its function as a petroleum products supplier, the company must obtain crude oil, transport it, and refine it into products which it then distributes and sells. It is helpful to look at these operations together.

In 1962 Imperial's total sales of petroleum and chemical products were 317,000 barrels a day, an increase of seven percent. Despite this new record, earnings for the combined transportation, manufacturing, and marketing opera-
Imperial Oil — Helping a Nation Move Into The Future

Because Canada, the second largest country in the world, has a relatively small population, distance has always been a major obstacle to the country's progress. In overcoming this, Canadians have developed one of the most extensive transportation systems in the world, involving all forms of mechanized transportation from airplanes to motor vehicles, boats to trains. This would have been impossible without oil because every form of modern transportation uses oil products. Today more than 40 percent of all oil used by Canadians is used in the transportation of people and goods. Imperial has been a pioneer in this development—opening the first gasoline station in Canada, helping Canadian railways convert from coal to oil, and being the first Canadian supplier of aviation fuel.

Imperial has been able to help its dealers move more quickly to meet local retail price conditions because its gasoline is sold on a consignment-commission basis. This means that Imperial retains ownership of the gasoline until the motorist buys it. The company pays the dealer a commission on each gallon sold and this commission never falls below a minimum. Until this minimum is reached the company and dealer split any price reductions, with the company bearing most of the cost of the reduction. Once the minimum commission is reached the company bears the total cost of any further competitive price reductions.

This price policy has been successful in retaining business for both dealer and company but it has also meant lower profits on the business side. The same close attention to price competitiveness has been paid to all products, including those sold by your company under the Atlas brand name.

In another important step, your company began selling consumer items not previously available at service stations. This program was developed for the 15 major cities in Canada where competition from department store and automobile store discounters is severe.

The basic philosophy behind the program is simple. Many department store and other mass merchandisers now sell gasoline to attract customers for their regular products. Service stations, in turn, should be able to sell these items to attract customers for gasoline, and at the same time cater to a wider variety of customer needs.

Imperial realized that this program was new to the industry and might not conform to some existing municipal legislation designed for the days when retailers sold principally one line of goods. The company believes that this ability to adapt to the changing buying habits of customers should not be impaired unnecessarily and, for this reason, has been willing to work with municipalities towards corrective legislation where this is necessary to meet the changing needs and buying habits of its residents.

The company is also marketing other services designed to give greater customer satisfaction. For example, new central repair stations have been opened in Montreal and Toronto to which Eask dealers in these cities can take their vehicles.
can send cars for repairs which their own stations can not handle. This not only increases the scope of service offered to customers but dealer income as well. Another project to increase customer service is the chain of Voyager restaurants now being developed. These will be located at service stations where the nature of the traffic makes such an additional service desirable. Other innovations are also being developed and tested.

Innovative competition was evident as well in the marketing of other products which, because they account for larger volumes than do service station sales, are obviously important to your company. Dealers for large oil contracts in the industrial, commercial and government markets were subject to ensured price pressures.

The aggressive merchandising of the sales group is backed up by the entire Imperial organization. At the end of 1962 the company launched a "Sell Esso" campaign which enlists the support of all employees and customers in getting new customers. Training programs and meetings for agents and dealers have been expanded to strengthen their participation in the company’s sales programs and improve their business performance.

Part of the competitive strength your company enjoys comes from the continuous upgrading of its distribution facilities. For example, a new marine installation was opened at Seven Islands, Que., to service ships hauling iron ore from that area. This is one of the most recent examples of how Imperial has stimulated the development of major resources in Canada by extending its supply lines. Without adequate supplies of petroleum products much of Canada’s resource development could not have taken place.

The company opened two new offices to replace older, less efficient accommodations. A regional marketing building was built in Don Mills, Toronto, while, in Montreal, new regional offices were leased in Place Ville Marie. In Edmonton an addition to the regional office is under construction to provide accommodation for central regional accounting and, in Calgary, construction of a new producing office building was begun.

While most Canadians are familiar with Imperial as a marketer, few recognize that the company is one of the country’s largest secondary manufacturers, with a gross investment of $350 million invested in its refining and petrochemical plants.

The company’s nine refineries, in 1962, processed 305,000 barrels a day of crude oil, up five percent from 1961. Of the crude processed, 61 percent was Canadian. The only crude oil imported by Imperial was for its refineries at

Imperial Oil — Generating Revenue For a Nation’s Services

Through their taxes, Canadians pay for a multitude of services, many of which were not available even a few decades ago. The effects of taxation are widespread and should be assessed not only by how the money is used but also by the burden placed on the taxpayer. In 1962, Imperial collected and paid $24 million in taxes to federal, provincial and municipal governments, including $82 million in taxes charged against the company’s income. In total your company generated the equivalent of nearly $1.5 in taxes for every Canadian. Road taxes alone collected by the company from its customers in 1962 were enough to pay for about 1.8 percent of the road repair and construction carried out by all levels of government across Canada in that year.
Total volumes handled by pipe lines were up 10 percent. The two major pipeline systems in which your company has an investment interest (Transprovincial Pipe Line and Trans Mountain Oil Pipe Line) and the company's wholly-owned pipe lines all shared in this increase.

The marine operations of Imperial were also busy. The company owns 14 ships and charters others as required. Two larger oil carriers in Montreal harbour are under construction for use in 1963. In its marine operations, the company is also making greater use of computers for more efficient scheduling of its own and chartered ships.

In the sale of railway tank cars Imperial made further progress in reducing distribution costs. New agreements with Canada's principal railways resulted in lower transportation charges on the products leading to lower product prices in some areas. This effect to lower costs is part of a continuous program in all departments and is particularly important at a time when higher costs for crude and downward price pressures on products(d) have complicated profit margins on petroleum products.

As in previous years, your company continued to improve the efficiency of its trucking operations. Again in 1962, this was in part, the result of handling greater volumes of product per number of miles and deliveries recorded.

**CHEMICALS**
Sales up 20 percent in 1962

In the field of chemicals, as in exploration and production, sales are making a more satisfactory contribution to the company's total profit picture. Petrochemical sales showed a 20 percent increase over the previous year and are now more than three times the sales value of petrochemicals in 1958, the first full year of operations for the initial petrochemical plant. This growth in sales reflects the company's increasing investment in petrochemical plants and facilities, now approximately $46 million. Since 1958 these plants have provided employment for about 400 persons. The production of these plants has also attracted the building of new plants and facilities by other companies in the Sarnia area.

Moreover, this investment has been important in reducing the dollar value of imports of chemical raw materials and intermediates into Canada. At the same time, export markets have been developed which further improve the country's trade balance. In 1962 exports accounted for about 20 percent of the company's gross petrochemical sales.

The use of plastics, synthetic resins, elastomers, synthetic detergents and man-made fibres in a wide variety of everyday consumer goods continues to stimulate growth in petrochemicals.

As a result there are continuing opportunities to develop new markets for the company's production of petrochemicals and plans have been made to produce additional products at Sarnia. For example, a new plant, specifically designed to produce carbon black feedstock, is now under construction and will go into operation during the first half of 1963. Another plant to make high purity propylene will also be completed during this period and facilities are being added to the benzene plant for the production of toluene. The company is proceeding with a project to manufacture hydrogenating oil additivites. This will be the first part of an integrated additive operation which, when completed, will supply a large portion of Canadian requirements.

Competition in the chemical industry is as petroleum products, is severe and has resulted in a downward pressure on prices. Offsetting this to some extent, however, is the progress that has been made in operating efficiencies and in lowering the cost of storage materials.

**STAFF FUNCTIONS: Contributing to the company's strength**

In addition to the company's activities in producing petrochemicals, manufacturing and marketing there are many staff operations which are essential to the company's continued progress.

Imperial has been a leader in the use of data processing equipment and, each year, makes increased use of its equipment to research, coordinate and plan company operations across Canada. The large computer installed in Calgary in December, 1961, has contributed to the increased efficiency of marketing and producing department operations. Smaller computers were installed in 1962 at Edmonton and Dan Mills, primarily for processing credit card accounts.

With your company's investment in and use of data processing equipment, steadily increasing, plans are underway to consolidate data processing into one department. This move is designed to increase efficiency and permit greater interchange of computer programs and personnel.

Last year's annual report had a special supplement dealing with the company's research departments and it described in some detail the sizeable amount of research conducted.
Concrete "river weights" are used to restrict a gasoline piping line from freezing (left). Judy Gross, Alberta, Alta.

by Imperial. The level of research activities continued to increase last year, marked by the dedication in January, 1962, of the new addition to the Sarnia laboratories. Most of the petroleum product research done in Canada by the oil industry is performed by the more than 300 persons employed in research at Imperial. Their work is one of the many reasons why Esso products have won the confidence of consumers across Canada.

For many years your company has placed strong emphasis on the selection and training of personnel. This is especially necessary to develop the managerial and professional standards demanded by the ever-increasing complexity of business conditions in both the technical and economic area. In addition to programs for management and professional personnel, the company conducts extensive training programs to improve on-the-job performance at the operating level. Minimal educational requirements for employees have increased sharply in recent years, and it is quite clear that this trend will continue. As a result, the recruitment and selection of people is a major management responsibility.

These programs reflect the company’s belief that continuous successful operation rests on the interests and efforts of each employee. To make sure that each individual is aware, not only of what he can expect from Imperial, but what the company expects from him, con-

FINANCIAL REVIEW

The statements that appear on pages 24 to 28 give the results of operations for the year 1962, and show the financial position at the year-end.

EARNINGS FOR THE YEAR
The company's net earnings for 1962 were $60,433,000 — equal to $2.36 per share of outstanding capital stock, an increase of $601,000 over 1961.

DIVIDENDS PAID TO SHAREHOLDERS
The company paid dividends of $1.86 per share, consisting of four quarterly payments of 30 cents per share and an extra payment in December of 20 cents per share, the same total per share payments as the previous year. Dividends paid in 1962 totalled $44,240,000; the remaining earnings of $26,193,000 were retained for use in the business.

INCOME AND EXPENSES
The results are compared with the previous year in the following table:

<table>
<thead>
<tr>
<th>Income</th>
<th>1962</th>
<th>1961</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and other operating</td>
<td>$984,990,000</td>
<td>$984,738,000</td>
<td>8</td>
</tr>
<tr>
<td>Interest and other</td>
<td>15,061,000</td>
<td>13,868,000</td>
<td>8</td>
</tr>
<tr>
<td>Expenses, other than depreciation and income taxes</td>
<td>977,947,000</td>
<td>978,600,000</td>
<td>8</td>
</tr>
<tr>
<td>Earnings before depreciation and income taxes</td>
<td>813,040,000</td>
<td>717,633,000</td>
<td>9</td>
</tr>
<tr>
<td>Depreciation</td>
<td>68,254,000</td>
<td>56,680,000</td>
<td>6</td>
</tr>
<tr>
<td>Income taxes</td>
<td>43,250,000</td>
<td>40,833,000</td>
<td>6</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$60,433,000</td>
<td>$67,622,000</td>
<td>1</td>
</tr>
</tbody>
</table>

SALES AND OTHER OPERATING REVENUE increased eight percent due to higher sales volumes in all sectors, crude oil, natural gas, and petroleum and chemical products.

The improvement in combined petroleum and chemical product sales is portrayed in chart number two. A record level of 317,000 barrels per day was attained. However, reduced prices of petroleum products severely affected
realization in this area. Sales of Canadian crude rose over 13 percent accompanied by an increased price of 10 cents per barrel in May 1962. Natural gas sales increased 25 percent. Chemical product sales realization gained more than 20 percent.

Investment and Other Revenue in 1962 totalled $13,021,000, approximately the same as 1961. This mainly represents dividends from investments in other companies.

Material, Costs and Expenses increased seven percent due to higher volumes of crude oil purchased. Wages and benefits to employees totalled $88,197,000 for the year, an increase of $1,533,000 from 1961; the average compensation per employee continued the upward trend of recent years (see chart four).

Depreciation and Amortization Provisions charged against 1962 income totalled $85,294,000, an increase of $2,569,000. Provision for depreciation of capital costs of plant and equipment is based on the estimated service lives of the assets, calculated on the straight-line percentage method. Provision for amortization of producing lease and well costs is based on the unit-of-production method. Maximum allowances will be taken in the form of capital cost allowance in filling the company’s 1962 income tax return to governments; such allowances deducted in 1962 are less than the provision for depreciation and amortization, and this is referred to under the heading of Deferred Investment Taxes on page 22.

Taxes associated with company operations are shown in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Property and capital taxes</th>
<th>Federal sales tax</th>
<th>Taxes on income</th>
<th>Total charged against income</th>
<th>Road taxes, etc. collected on behalf of governments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>$11,891,000</td>
<td>$27,494,000</td>
<td>$132,249,000</td>
<td>$152,634,000</td>
<td>$42,184,000</td>
<td>$224,794,000</td>
</tr>
<tr>
<td>1961</td>
<td>$11,265,000</td>
<td>$27,092,000</td>
<td>$120,000</td>
<td>$148,357,000</td>
<td>$37,601,000</td>
<td>$185,958,000</td>
</tr>
</tbody>
</table>

Road and other taxes levied directly against consumers by governments and collected for them by the company increased $1,941,000 to $142,150,000. Road taxes now range from 12 to 19 cents per gallon.

ASSETS AND LIABILITIES

Total Assets of the company increased $14,728,000 during the year and totalled $533,679,000 at the year end.

Working Capital consisting of the current funds and inventory less current debts, increased $95,154,000 to $246,460,000 made up of the following:

| Year | Cash, including time deposits | Marketable securities | Accounts receivable | Perpetual taxes, insurance and rentals | Inventories | Current funds | Less: Current debts | Working Capital |
|------|------------------------------|-----------------------|---------------------|----------------------------------------|-------------|---------------|-------------------|----------------|-------------------|
| 1962 | $24,759,000                  | $32,938,000           | $146,033,000        | $2,346,000                             | $134,992,000 | $550,796,000   | $102,386,000     | $248,460,000    |
| 1961 | $23,279,000                  | $38,232,000           | $128,415,000        | $2,305,000                             | $133,333,000 | $335,486,000   | $106,265,000     | $229,285,000    |

The company has substantial funds in the form of cash and marketable securities to meet current operating requirements and for capital investment programs. At year-end, cash including time deposits totalled $24,759,000, and marketable securities totalled $32,938,000. It is in the company’s continuing practice to invest these funds not immediately required in its operations in short-term government bonds and commercial notes.

Current accounts receivable were $146,033,000, an increase of $17,710,000 over 1961. The increase reflects the higher volume of business done, with a greater proportion on a credit basis. Provisions have been made for accounts considered by the company to be doubtful of collection.

Inventories of crude oil, products and other merchandise totalled $134,992,000 for the fiscal year (toll-in-market inventory) method of costing, up $1,859,000 for the year. The materials and supplies inventory was $8,760,000, a reduction of $1,200,000 from yearend 1961.

Current debts at $102,386,000 consist chiefly of accounts payable to suppliers and taxes payable to governments.

Investment in Plant and Equipment

Expenditures in the company’s capital and exploration programs totalled $76,389,000 for the year. Of this amount, $49,077,000 was for new plant and equipment, a decrease of $13,920,000 from the previous year. The balance of $27,312,000 represents additional expenditures incurred and charged to expense in the continuous search for crude oil and gas reserves.

The following table provides a functional breakdown of the company’s investment in plant and equipment including 1962 additions. Gross plant investment is the cost of acquiring the assets, while net plant investment is the balance remaining after deducting the accumulated depreciation provisions that have been charged against income.
Plant Investment

1962

Investment

93,319,000

Additions

4,632,000

Total

97,951,000

Long-Term Debt

In 1962 the company reduced its long-term debt by $3,500,000, or about 28 percent, at the year-end, outstanding Stockholders' Stockholders' Loan and Subordinated Debtors totalling $53,000,000 (remaining later than one year).

Employees' Annuities

The company's two main plans jointy provide life annuities to employees on retirement. One plan is an insured group annuity contract with current purchase cost shared by the company and the employees. The other is administered by a Board of Trustees with the company bearing the total cost; the liability is reinsured periodically by independent professional actuaries. The company makes regular payments to the Trustees in respect of both current and past years' services in 1962 in the amount of $5,132,000. As of December 31, 1962, the balance in the company's reserve for employees' annuities was $45,470,000: the Trustees held investments of $53,072,000, at cost.

At year-end 2,441 retired employees were receiving life annuities from these company plans.

Deferred Income Taxes

It is the company's current policy to pay income taxes based on claiming the maximum capital cost allowance permitted under the federal Income Tax Act. In previous years the income tax benefit, related to the difference between normal or straight-line depreciation and capital cost allowances, was placed in a deferred income tax account. At the end of 1961 this account totalled $2,980,000. In 1962 the maximum capital cost allowance to be claimed for tax purposes is lower than the charges against capital by $3,390,000. Accordingly, the related income tax cost amounting to $1,233,000 was withdrawn from the "Deferred Income Taxes" account accumulated in prior years, leaving a balance of $3,241,000 at year-end 1962. The funds represented by this deferred income tax are being used in the company's business.

Shareholders' Investment

Capital stock issues were made during the year, totalling 3,000,000 shares, for $320,000. These were issued to employees who exercised options under the company's Incentive Stock Option Plan. These options brought the total outstanding capital stock at December 31, 1962 to 31,600,656 shares for a total consideration of $230,041,000.

Capital surplus retained and used in the business was unchanged at $17,022,000.

Earnings retained and used in the business increased $13,000,000 to the year. Of this amount, $9,368,000 represents a transfer of an item in previous reports — "Reserves for Fire, Marine and Other Liabilities". The company has coverage with insurance companies for catastrophic and other contingencies and considers it unnecessary to carry such reserves. Charged to the increase in earnings retained is an amount of $1,885,000 representing a provision, after income tax credits, for vacation expenses accrued for prior years' service for which the company is liable upon the termination of employees' service. The balance of the increase, $51,000,000 is the difference between the year's earnings and dividends paid. Total earnings retained are now $49,150,000.

The shareholders' investment consisting of capital stock, capital surplus and earnings retained totalled $712,424,000 at December 31, 1962, equal to $22.51 per share. The company at the year-end had $13,185 registered shareholders, 26,091 in Canada.

Cash Flow

Chart number 12 portrays the major operating elements comprising the cash flow for the year. Funds generated from operations are made up of net earnings plus depreciation and other items and compared with requirements for capital expenditures and dividends.

The 1962 cash flow is shown in the following table with comparable 1961 amounts. A total of $121,734,000 became available including: $115,221,000 directly from operations, funds spent in 1962, $107,584,000, including $49,077,000 for capital expenditures and $64,484,000 for dividend payments. The balance of $14,147,000 went to working capital and compares with an addition to working capital of $9,667,000 in 1961.

Sources

1962

1961

Net cash flow from operations

$115,221,000

$107,584,000

Less: Expenses, excluding depreciation and amortization

$18,600,000

$47,623,000

Provision for income taxes

$4,220,000

$4,653,000

Net cash flow to working capital

$116,678,000

$97,307,000

Other sources of funds

Capital stock issues

262,000

3,000

Sales of capital assets

4,609,000

4,361,000

Additions to deferred income taxes

4,607,000

4,607,000

Net income tax refunds

1,683,000

1,683,000

Total

$121,734,000

$125,997,000

Uses

Capital expenditures for property, plant and equipment

$39,072,000

$42,103,000

Dividends to shareholders

4,216,000

4,151,000

Reduction in long-term debt

3,500,000

3,500,000

Withdrawal of deferred income taxes

4,607,000

4,607,000

Accrual vacation expense — net

4,216,000

4,607,000

Sundry investments and deposits

4,609,000

4,609,000

Total

$107,584,000

$116,352,000

Additions to working capital

$14,147,000

$9,667,000

NATURAL GAS PRODUCTION

Chart number 12 portrays the major operating elements comprising the cash flow for the year. Funds generated from operations are made up of net earnings plus depreciation, and are compared with requirements for capital expenditures and dividends.

The 1962 cash flow is shown in the following table with comparable 1961 amounts. A total of $121,734,000 became available including: $115,221,000 directly from operations, funds spent in 1962, $107,584,000, including $49,077,000 for capital expenditures and $64,484,000 for dividend payments. The balance of $14,147,000 went to working capital and compares with an addition to working capital of $9,667,000 in 1961.

Sources

1962

1961

Net cash flow from operations

$115,221,000

$107,584,000

Less: Expenses, excluding depreciation and amortization

$18,600,000

$47,623,000

Provision for income taxes

$4,220,000

$4,653,000

Net cash flow to working capital

$116,678,000

$97,307,000

Other sources of funds

Capital stock issues

262,000

3,000

Sales of capital assets

4,609,000

4,361,000

Additions to deferred income taxes

4,607,000

4,607,000

Net income tax refunds

1,683,000

1,683,000

Total

$121,734,000

$125,997,000

Uses

Capital expenditures for property, plant and equipment

$39,072,000

$42,103,000

Dividends to shareholders

4,216,000

4,151,000

Reduction in long-term debt

3,500,000

3,500,000

Withdrawal of deferred income taxes

4,607,000

4,607,000

Accrual vacation expense — net

4,216,000

4,607,000

Sundry investments and deposits

4,609,000

4,609,000

Total

$107,584,000

$116,352,000

Additions to working capital

$14,147,000

$9,667,000
CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT FUNDS AND INVENTORIES:

Cash, including time deposits ................................................. $ 24,750,105
Short-term commercial notes .................................................. 9,165,362
Government securities, at the lower of cost or market .............. 24,779,951, 10,369,006
Trade accounts receivable .................................................. 142,639,480
Other accounts receivable .................................................. 4,013,111
Prepaid taxes, insurance and rentals .................................... 2,346,086
Inventories, on basis of cost which was less than market ........ 126,511,089 125,470,011
Crude oil and refined products ........................................... 8,150,294
Other merchandise ............................................................. 7,662,450
Materials and supplies ..................................................... 8,760,054
.......................................................... 350,785,501 333,848,370

DEFERRED FUNDS:

Mortgages and other long-term accounts receivable ................. 34,224,617
.......................................................... 31,927,673

INVESTMENT IN OTHER COMPANIES:

Bonds and shares, at cost—without quoted market value .......... $142,130,290 146,764,620
.......................................................... 16,012,150 16,012,150

Funds deposited with governments and others:

Government securities, at the lower of cost or market ........... 1,816,913
Cash ........................................................................... 540,012
.......................................................... 2,356,925

INVESTMENT IN PLANT AND EQUIPMENT:

Leases, leases, wells, buildings, plant, transportation and other equipment, at cost .................................................. 987,059,812
Less—accumulated depreciation and amortization .................. 492,726,900
.......................................................... 494,332,912

DEFERRED CHARGES:

Unamortized debt discount and expense ................................. 575,964
Other deferred charges and credits (net) ................................. 2,746,536
.......................................................... 2,457,400

The signatures of the Board:

[Signatures]

$953,670,800 $930,951,569

LIABILITIES

CURRENT DEBTS:

Accounts payable .............................................................. $ 74,259,569
Long-term debts due within one year ................................. 1,500,000
Incomes and other taxes payable ........................................... 20,756,704
Other accrued liabilities ................................................... 5,703,794
.......................................................... 102,345,667 103,562,138

LONG-TERM DEBTS (exclusive of amounts due within one year):

Imperial Oil Limited—
3% sinking fund debentures, 1949 issue, maturing .......... $30,000,000
Sinking fund requirements: $32,000,000—In each of the years 1965 to 1968 inclusive
3% sinking fund debentures, 1953 issue, maturing .......... 3,000,000
Sinking fund requirements: $3,000,000—In each of the years 1962 to 1965 inclusive
3% sinking fund debentures, 1956 issue, maturing ........ 40,000,000
Sinking fund requirements: $40,000,000—In each of the years 1964 to 1969 inclusive

OTHER DEFERRED DEBTS:

Employees' annuities ..................................................... 10,477,525
Contingent obligation .......................................................... 3,000,000
Reserves for fire, marine and other insurance .................... 9,992,496
Deferred income taxes .......................................................... 52,431,330
.......................................................... 52,996,644

TOTAL LIABILITIES .......................................................... $241,255,132 $259,815,989

SHAREHOLDERS' INVESTMENT

CAPITAL STOCK:

Authorized—40,000,000 shares of no par value .......................... $236,040,512 $233,805,512
Issued 1962—31,006,588 shares 1961—31,601,948 shares ........... 67,222,821 67,222,821

EARNINGS RETAINED AND USED IN THE BUSINESS, per page 28 .................................................. 409,160,335

TOTAL SHAREHOLDERS' INVESTMENT .................................. $712,423,668 $679,131,380

$953,670,800 $930,951,569

The notes to the financial statements on page 27 are an integral part of this statement.
IMPERIAL OIL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31

1962  1961

INCOME:
Sales and other operating revenue  $864,925,759  $894,737,681
Investment and other revenue  13,020,755  13,060,155

EXPENSES:
Crude oil, refined products and other merchandise purchases, including freight  551,592,539  483,373,888
Operating, administrative and exploration expenses  240,876,776  222,592,925
Taxes, other than income taxes  39,318,284  38,956,541
Depreciation and amortization  45,233,773  45,068,396
Interest and discount on long-term debt  2,690,836  2,728,962

Earnings before income taxes  111,652,472  114,455,746
Provision for income taxes thereon  43,591,955  46,669,306

EARNINGS AFTER INCOME TAXES  $68,060,517  $67,786,440
Per share  $2.16  $2.14

CONSOLIDATED STATEMENT OF EARNINGS
RETAINED AND USED IN THE BUSINESS

Balance at January 1  $357,070,047  $350,725,895
Add: Earnings after income taxes:  
1962, $2.16 per share  1961, $2.14 per share  68,060,517  67,786,440
Income tax adjustments applicable to prior years  1,663,279
Transfer of reserves for fire, marine and other insurance  9,562,436
Deficit: Dividends paid:  
1962, $1.40 per share  1961, $1.40 per share  44,247,593  44,151,477
Vacation expense accrued for prior years’ service  1,057,114
Less related income tax credits ($73,6018)  
Balance at December 31  $409,160,315  $376,070,047

The Notes to the Financial Statements on page 27 are an integral part of these statements.

IMPERIAL OIL LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

CONTINGENCIES AND COMMITMENTS

To ensure the transportation of Canadian crude oil to its refineries and other markets the company is a party to agreements under which it is obligated to protect certain pipelines and interests payment required to be made by various crude oil products of United States Funds. The oil companies are meeting their obligations as they fall due and present indications are that they will continue to do so.

Guarantees, chiefly principal and interest on borrowings of others, amounted to $5,700,765 at December 31, 1962.

Taxes due to be paid and other rentals payable to the companies under long-term agreements are $3,318,000 annually.

While the company is involved in certain litigation, it is not material to assume that, if any, such matters will be finally determined, and any amounts which the company may agree to pay as a result of settlement or court action are not currently in question.

INCOME TAXES

In the policy of the company to make charges against income for depreciation and amortization of investment in plant and equipment based on the estimated service life of the assets by either the straight-line or units of production method but maximum capital cost allowances are claimed for income tax purposes. The maximum allowable deductible for 1962 are less than the provision for depreciation and amortization and, as a result, income taxes payable in respect of 1962 are estimated at $43,665,049, whereas $43,919,545 was charged to income. The difference of $454,500 has the effect of reducing the “Deferred Income Taxes” accumulated on prior years when capital cost allowances were deductible exceeded depreciation and amortization recorded in the accounts.

Expenses relating to operations in all phases of the company’s petroleum and petrochemical industry and the related income tax inter-relationships, legislation and regulations are continually changing. As a result there are usually some tax matters in question sometimes for large amounts. The companies have made what they believe to be adequate provisions for income taxes payable.

CAPITAL STOCK

The Incentive Stock Option Plan (1962) provides for the granting of options to employees in purchase not more than $500,000 shares at not less than 95 per cent of the market price on the date of option. The company issued 5,000 shares for $250,000 under the terms of this Plan, and options for 500,000 shares were outstanding at December 31, 1962.

EARNINGS RETAINED AND USED IN THE BUSINESS

The company has coverage with Reinsurance companies for earthquake and other contingencies and considers it unnecessary to carry “Reserves for Fire, Marine and Other Insurance”. Accordingly, reserves of $982,438 have been added to “Earnings Retained and Used in the Business”.

SALARIES OF EXECUTIVE OFFICERS AND COUNSEL FEES

The total amount deducted in the Consolidated Statement of Earnings in respect of salaries and other remuneration paid to executive, directors and executive officers, including all salaries, was $399,662 for 1962.

AUDITORS’ REPORT TO THE SHAREHOLDERS

To the Shareholders of Imperial Oil Limited:

We have examined the Consolidated Balance Sheet of Imperial Oil Limited and its subsidiaries as at December 31, 1962 and the Consolidated Statement of Financial and Earnings Retained and Used in the Business for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted accounting standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our knowledge and the explanations given to us and as shown by the books of the company, the accompanying Consolidated Balance Sheet and related Consolidated Statement of Earnings and Earnings Retained and Used in the Business are properly drawn up so as to exhibit a true and correct view of the affairs of the company as at December 31, 1962 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERSHOUSE & CO.
Chartered Accountants

TORONTO, March 7, 1963.
### TEN-YEAR SUMMARY

#### FINANCIAL

<table>
<thead>
<tr>
<th>Year</th>
<th>Income from operations and investments</th>
<th>$577,547,000</th>
<th>$907,800,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loss—Expenses excluding depreciation and amortization</td>
<td>$818,030,000</td>
<td>$747,650,000</td>
</tr>
<tr>
<td></td>
<td>Provision for income taxes</td>
<td>$43,220,000</td>
<td>$46,650,000</td>
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<tr>
<td></td>
<td>Net loss of funds from operations</td>
<td>($316,467,000)</td>
<td>($139,800,000)</td>
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<tr>
<td></td>
<td>Per Share</td>
<td>$0.60</td>
<td>$0.95</td>
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<tr>
<td></td>
<td>Depreciation and amortization</td>
<td>($8,231,000)</td>
<td>$45,608,000</td>
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<tr>
<td></td>
<td>Earnings after income taxes</td>
<td>($68,433,000)</td>
<td>$97,832,000</td>
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<tr>
<td></td>
<td>Per Share</td>
<td>$2.36</td>
<td>$2.14</td>
</tr>
</tbody>
</table>

- **Earnings as a percentage of income:** 7.6% 7.7%
- **Dividends paid:** $44,248,000 $44,151,000
  - **Per Share:** $1.40 $1.45
  - **As a percentage of earnings:** 65% 63%
- **Current funds and inventories:** $339,780,000 $339,848,000
- **Less: Current debt:** $372,246,000 $106,562,000
- **Working capital:** $248,940,000 $226,396,000
- **Ratio of current funds and inventories to current debt:** 3.9 3.2
- **Investment in plant and equipment: less accumulated depreciation and amortization:** $544,277,000 $477,353,000
- **Deferred funds, investments, and other assets:** $50,616,000 $57,750,000
- **Capital employed:** $951,393,000 $892,895,000
  - **Earnings as a percentage of capital employed at January 1:** 8.2% 8.4%
- **Less: Long-term debt:** $73,800,000 $26,300,000
- **Other deferred debt, reserves and deferred income taxes:** $63,900,000 $26,750,000
- **Balance—being shareholders’ investment at book value:** $712,624,000 $679,135,000
  - **Per Share:** $22.54 $21.45
  - **Earnings as a percentage of shareholders’ investment at December 31:** 9.6% 8.9%
- **Number of shares issued and outstanding:** 31,687,000 31,602,000
- **Number of shareholders:** 43,155 43,562
- **Capital expenditures:** $49,671,000 $62,103,000
- **Exploration expenditures:** $27,312,000 $28,839,000

#### OPERATING

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<tr>
<th>Year</th>
<th>Product sales</th>
<th>barrels per day</th>
<th>317,000</th>
<th>250,000</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Crude oil processed at refineries</td>
<td>barrels per day</td>
<td>365,000</td>
<td>284,000</td>
</tr>
<tr>
<td></td>
<td>Crude oil and natural gas liquids production—gross</td>
<td>barrels per day</td>
<td>124,000</td>
<td>118,000</td>
</tr>
</tbody>
</table>
  - **-net after royalties and oil payments:** | barrels per day | 96,000 | 93,000 |
|      | Natural gas production—gross | M.C.F. per day | 175,000 | 151,000 |
  - **net after royalties:** | M.C.F. per day | 130,000 | 117,000 |
|      | Number of employees at year-end | | 12,257 | 12,517 |

- **Oil sales:** 387,385,000 386,100,000 308,175,000 384,509,000 317,374,000 709,275,000 684,550,000 663,304,000
- **Gas sales:** 711,018,000 725,321,000 211,944,000 275,579,000 684,006,000 510,139,000 658,513,000 495,241,000
- **Earnings:** 46,081,000 41,217,000 31,293,000 32,260,000 49,781,000 44,321,000 44,706,000 38,267,000