

Sustaining growth in shareholder value

Annual report to shareholders 2003



Corporate profile

Imperial Oil Limited has been a leading member of the Canadian energy industry for more than 120 years and is well positioned to deliver long-term shareholder value by participating in some of the industry's most promising growth opportunities.

One of the largest producers of crude oil and natural gas liquids in Canada and a major producer of natural gas, the company is also Canada's largest refiner and marketer of petroleum products – sold primarily under the Esso brand name – and a major producer of petrochemicals.

Imperial on-line

The company's Web site contains a wealth of information for investors and others seeking to evaluate Imperial's performance and prospects. The latest news releases, the most recent reports and presentations, information about dividends and taxes, key dates, historical share information, contact numbers and a frequently updated stock-price feed from the Toronto Stock Exchange (TSX) – all this and more is gathered in one convenient location.

Information on products and services, career opportunities, corporate citizenship, donations and sponsorships, coast-to-coast operations and the company's history is also available by visiting www.imperialoil.ca.

This report contains forward-looking information on future production, project start-ups and future capital spending. Actual results could differ materially as a result of market conditions or changes in law, government policy, operating conditions, costs, project schedules, operating performance, demand for oil and natural gas, commercial negotiations or other technical and economic factors.

Contents

2	Letter to shareholders
4	Highlights
5	The year in review
6	Natural resources
10	Petroleum products
13	Chemicals
14	Governance and ethics
16	A partner in the Canadian community
19	Frequently used financial terms
20	Management's discussion and analysis
28	Management and auditors' reports
29	Financial statements, accounting policies and notes
44	Natural resources segment – supplemental information
46	Share ownership, trading and performance
47	Quarterly financial and stock trading data
48	Directors, senior management and officers
49	Information for investors

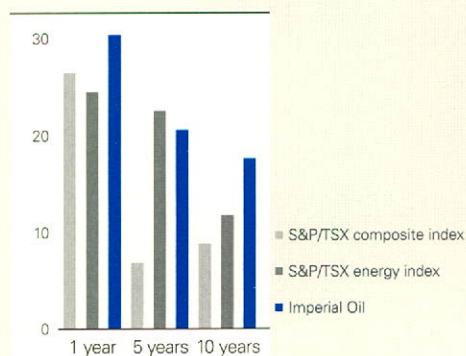
Growth in shareholder value

Imperial's approach to delivering shareholder value is straightforward and focused on the long term. Through a combination of disciplined investments and operational excellence, the company is able to achieve industry-leading returns and strong cash flows. The resulting financial strength enables Imperial to pursue opportunities that will provide the most benefit to its shareholders.



Shareholder returns

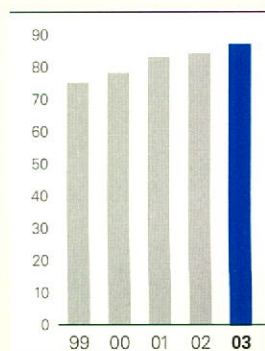
percent a year, compounded, based on original investment; assumes dividends are reinvested



Superior investment returns over time

Dividends per share

declared, in cents



Consistent dividend growth

Highlights 2003

Long-term growth in shareholder value is a fundamental objective, and Imperial's track record demonstrates its continuing success.

- In 2003, the total return on shares including capital appreciation and dividends was more than 30 percent (TSX), and about 58 percent (AMEX).
- During the past 10 years, the total return on shares has averaged more than 18 percent a year.
- Dividends have been paid every year for more than a century, and regular per-share dividend payments have increased in each of the past nine years.
- Since 1995, almost 220 million shares have been purchased, reducing the number of shares outstanding by 38 percent. This represents a total distribution to shareholders of approximately \$6 billion over the period.

Financial highlights

	2003	2002	2001	2000	1999
Net earnings (millions of dollars)	1 682	1 224	1 255	1 410	628
Net earnings per share (dollars) (a)					
– basic and diluted	4.52	3.23	3.19	3.38	1.46
Return on average shareholders' equity (percent) (b)	30.6	25.7	29.4	33.1	15.0
Return on average capital employed (percent) (c)	24.3	19.7	22.8	26.7	12.2

(a) Calculated by reference to the average number of shares outstanding, weighted monthly (page 46).

(b) Net earnings divided by average shareholders' equity (page 31).

(c) A definition of return on average capital employed can be found on page 19.

Letter to shareholders



T.J. (Tim) Hearn
Chairman, president and chief executive officer

2003 was another very good year for Imperial and its shareholders. Earnings reached a new record of \$1,682 million, or \$4.52 per share. Return on average capital employed of 24 percent and return on shareholders' equity of 31 percent were among the highest in history. The company's safety performance was the best on record, and operations were conducted in a continuously improving and environmentally responsible manner.

Imperial continued to provide excellent value to shareholders. Regular per-share dividends were increased for the ninth consecutive year, and shareholders continued to benefit from the ongoing share buyback program. The company maintained its strong financial position, while making solid progress on major projects aimed at ensuring long-term growth in shareholder value. For the second year in succession, capital and exploration expenditures exceeded \$1.5 billion.

The major factors behind Imperial's financial performance in 2003 were higher crude oil and natural gas prices and relatively strong industry margins for petroleum products. However, commodity prices are volatile and

heavily influenced by a variety of factors, including supply, demand, and political and other events. For this reason, Imperial remains committed to its long-standing strategy of focusing on the factors we can control in the business, as reflected in our four corporate priorities. This allows us to weather difficult times and to prosper when market conditions are favourable.

We also continued to lay a foundation for future profitability by investing in attractive long-term growth opportunities. Major projects in natural resources included advancing the expansion at Syncrude, further increasing production at Cold Lake, progressing the planned project to develop natural gas resources in the

Mackenzie Delta, advancing plans to develop the Kearl oil-sands properties near Fort McMurray, Alberta, and pursuing promising exploration opportunities off Canada's East Coast.

In petroleum products, major upgrades were completed at our refineries that reduced the sulphur content of the company's gasolines to 30 parts per million – more than a year ahead of the regulatory requirements. Construction also progressed on a cogeneration facility at the Sarnia manufacturing complex.

I continue to be encouraged by the prospects for long-term earnings growth driven by the continued need for and growth of petroleum energy.

Imperial remains focused on our four corporate priorities: flawless execution, growth in profitable sales, best-in-class costs and improved productivity of our asset mix.

There is a long-standing, proven correlation between population and economic growth and energy use. Growing economies will continue to require reliable and affordable supplies of all forms of energy. Events in 2003, such as the major power outage in Ontario and the northeastern United States, brought home the importance of reliable, affordable supplies of energy and the inextricable link between energy use and our way of life.

Most informed forecasters agree that oil and natural gas will supply a major proportion of this growing demand and will remain the dominant sources of the world's energy for at least the next several decades. No other source of energy provides a competitive combination of availability, affordability, efficient infrastructure and relative ease of safe handling and storage. In addition, petroleum provides the feedstock for literally thousands of products that are critical to our daily lives and economic activity.

To meet this projected need for petroleum energy, major new supply development will be required globally. In fact, about half of the oil and gas that will be needed 10 years from now will have to come from fields not currently in production.

Canada and Canada's petroleum industry are uniquely well positioned to become an even more significant producer and exporter than we are today, realizing the full value of our abundant energy resources. We have the natural resources, the expertise and experience to develop them, and close access, along with established infrastructures for transportation of oil and gas, to the world's largest energy market in the United States. We also offer a degree of political stability and reliability that can attract the major investments needed to develop our resources on the scale required.

Imperial, with access to a resource base of about 11 billion gross oil-equivalent barrels from diverse sources and a significant position in Canada's major opportunity areas, is well positioned to be a major participant in this growth.

We have the financial strength, well-delineated and proven strategies, a disciplined management approach, and highly capable, dedicated employees who continue to demonstrate their commitment to excellence.

Our capabilities are further leveraged by funding and participating in new and evolving technologies through ExxonMobil's worldwide research and development programs. We remain committed to the highest standards of corporate governance, ethics and integrity in all aspects of our business.

With these strengths and our proven record of performance, I believe shareholders can look forward to a future of long-term earnings growth for Imperial.



T.J. Hearn
February 18, 2004

Highlights

Financial highlights

- Earnings of \$1,682 million were the highest in the company's history.
- Return on average capital employed was 24 percent – a pace-setting level in the industry.
- Regular per-share dividend payments were increased for the ninth consecutive year.
- \$2.4 billion cash flow from earnings enabled the company to spend more than \$1.5 billion on capital and exploration expenditures, distribute \$1.1 billion to shareholders through dividend payments and share purchases, contribute more than \$500 million to meet pension obligations, and end the year with a cash balance of more than \$400 million.
- The company's balance sheet remained strong.

Net earnings by segment

millions of dollars	2003	2002	2001	2000	1999
Natural resources	1 139	1 056	957	1 177	567
Petroleum products	407	127	353	313	15
Chemicals	37	52	23	59	43
Corporate and others	99	(11)	(78)	(139)	3
Net earnings	1 682	1 224	1 255	1 410	628

Citizenship highlights

- Employee safety performance was the best on record.
- More than \$310 million was spent on investments and programs to improve environmental performance and safety.
- The construction and use of cogeneration facilities continues to improve energy efficiency and help reduce emissions.
- In 2002, Imperial's recovery of 99.7 percent of natural gas associated with crude oil production was the best among the top 50 oil producers in Alberta.
- Imperial contributed \$8.6 million to help improve the quality of life in Canada.
- By year-end, more than 600 meetings and consultations had been held with aboriginal and other groups in support of the proposed Mackenzie gas project.

Operating highlights

- Cold Lake phases 11–13 completed their first full year of production.
- All refineries began producing gasolines with an average sulphur content of less than 30 parts per million, more than a year ahead of regulatory requirements.
- Full production from the Wizard Lake natural gas cap began in July and is expected to reach capacity rates of about 180 million cubic feet a day in 2004 and continue through 2006.
- A number of regulatory filings required for advancing the Mackenzie gas project were completed.
- Production from the Aurora 2 mine at Syncrude began in November and construction of the upgrader expansion continued, with start-up anticipated in 2005.
- Progress was made on delineation of the Kearn oil-sands leases near Fort McMurray, Alberta.
- Development of the Sable offshore energy project continued, with production from the fourth natural gas field beginning in 2003.
- Balvenie, a deepwater exploration well, was drilled off the east coast of Nova Scotia.
- Imperial acquired a 25-percent interest in exploration rights for eight deepwater parcels in the Orphan Basin region offshore Newfoundland.
- The Sarnia polyethylene plant reached a milestone of five million tonnes of cumulative production and remained one of the most cost-competitive plants in North America.

Coast-to-coast operations: (left to right) Syncrude, Sarnia polyethylene plant, offshore Nova Scotia



The year in review

Strong commodity prices and industry margins for petroleum products contributed to record earnings of \$1,682 million, or \$4.52 a share, in 2003. The company's capital and exploration expenditures of more than \$1.5 billion were more than double the average during the 1990s and more than twice the current rate of depreciation and depletion.

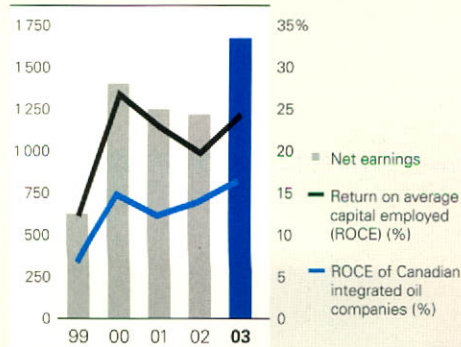
All major business units under Imperial's direct control had operating costs in the first quartile of the competitive range, and several were at best-in-class levels. Imperial has a long-term goal of having all its major businesses operating at best-in-class cost levels and employs rigorous external benchmarking processes to monitor performance.

In 2003, research expenditures in Canada were \$36 million. In addition, Imperial participates in and has access to worldwide research of about \$1 billion a year carried out by Exxon Mobil Corporation.

Imperial's financial strength enables it to pursue attractive opportunities relatively independent of short-term market conditions. The balance sheet has remained strong over time, with a debt-to-capital ratio consistently in the 20–30 percent range. The company's ability to meet its debt obligations was strengthened. In 2003, interest coverage on an earnings basis was more than 63 times, and on a cash-flow basis more than 79 times. This financial strength helped Imperial sustain the only Canadian industrial Triple-A rating from Standard & Poor's.

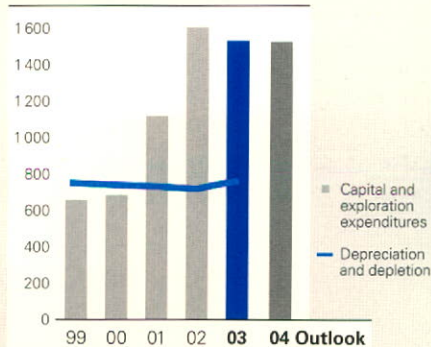
In 2003, an independent actuarial review of the company's registered pension plan showed the deficit to be in line with the company's expectations based on the downturn in equity markets since the last review in 2000. Imperial funded more than \$500 million of this deficit in 2003 and expects that it can meet any further funding requirements without affecting current or future investment plans.

Net earnings millions of dollars
Return on average capital employed (ROCE) percent



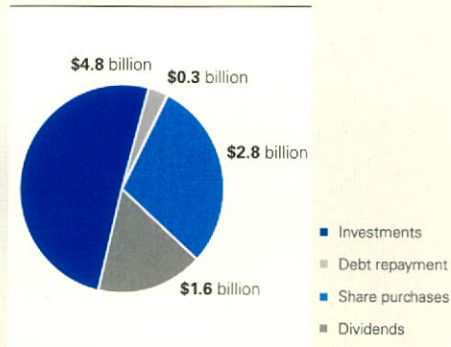
Highest earnings on record and double-digit returns

Investing in growth opportunities
millions of dollars



\$1.5 billion investment is more than twice depreciation

Long-term use of cash
five year total (1999-2003) \$9.5 billion



Enhancing shareholder value through effective use of cash



Natural resources

Oil-sands resources at Cold Lake (above) and Kearl (below and next page) contribute to Imperial's strong position in heavy-oil development.

For Imperial's natural resources business, 2003 was an excellent year. Earnings after tax were \$1,139 million, a near record, and return on average capital employed was 32 percent. Operations generated more than \$1.5 billion cash flow from earnings, of which \$1 billion was reinvested in capital and exploration. Strong operating performance yielded overall production for the year of 342,000 oil-equivalent barrels a day before royalties. Significant progress was made on projects aimed at ensuring future growth in production and earnings.





Positioned for growth

Oil-sands operations

Imperial's Cold Lake operation is a premier oil-sands resource for the company and for Canada – the largest thermal heavy-oil operation in the Western Hemisphere and the second largest in the world. In 2003, bitumen production was 129,000 barrels a day before royalties, an increase of 15 percent over 2002.

Phased development of Cold Lake has been a deliberate and successful strategy. New production has been brought on as markets have developed, and the company has been able to make use of the most advanced technologies available.

The most recent expansion, phases 11–13, was successfully commissioned in late 2002 and achieved a production rate of more than 30,000 barrels a day in early cycles. The expansion included a 170-megawatt, natural-gas-fired cogeneration facility that has improved energy efficiency and now supplies all the electric power needed for the entire Cold Lake operation. The expansion was recently named "project of the year" for 2003 by *Alberta Construction* magazine.

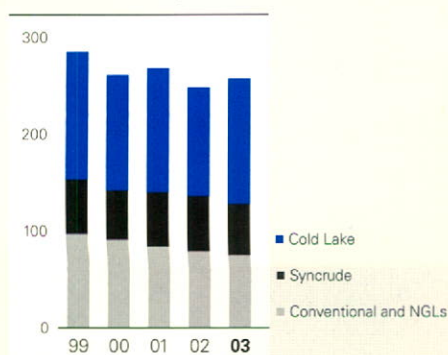
Proved reserves of crude oil and natural gas (a)

year ended	Crude oil and NGLs millions of barrels								Natural gas billions of cubic feet	
	Conventional		Cold Lake		Syncrude		Total		gross	net
	gross	net	gross	net	gross	net	gross	net		
1999	267	225	1 016	878	645	577	1 928	1 680	1 964	1 692
2000	233	196	972	851	679	610	1 884	1 657	1 852	1 572
2001	197	165	926	807	914	821	2 037	1 793	1 670	1 414
2002	175	146	895	801	893	800	1 963	1 747	1 445	1 224
2003	151	126	853	763	874	781	1 878	1 670	1 204	1 023

(a) Gross reserves are the company's share of reserves before deducting the shares of mineral owners or governments or both. Net reserves exclude these shares.

Crude oil and NGLs – gross production by source

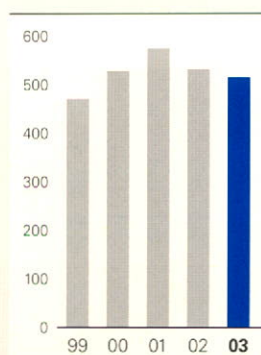
thousands of barrels a day



Declining conventional production is being offset by increasing oil-sands production

Natural gas – gross production

millions of cubic feet a day



Natural gas production declined slightly from 2002

Natural resources (continued)

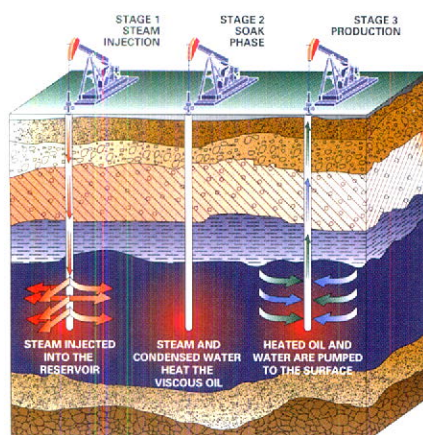
Oil-sands operations (continued)

In 2004, a significant development drilling program of more than 300 wells is planned within the currently approved development area to enhance productivity from existing Cold Lake phases. Opportunities are also being evaluated to improve utilization of the existing infrastructure. Regulatory approval for further expansion of the Cold Lake development area is anticipated this year. Expansions and future phases will continue to be advanced as market conditions allow.

Production from Imperial's 25-percent share in Syncrude operations was 53,000 barrels of synthetic crude oil a day before royalties, down from 57,000 barrels a day in 2002, mainly due to unplanned maintenance and equipment reliability issues. Syncrude management has developed plans to address these in 2004.

Construction continued on the third stage of expansion at Syncrude. The Aurora 2 mining facilities were completed in October on budget and on schedule, and production began by late 2003. Construction of the new upgrader was about 35-percent complete by year-end, and Syncrude Canada Ltd. expects it to be commissioned by late 2005. The Syncrude project team is developing plans to address increased cost pressures on this aspect of the expansion.

The cyclic steam-stimulation process used at Cold Lake



The Kearl oil-sands mining project was advanced in 2003 with the initiation of a 200-well delineation drilling program on Imperial's two wholly owned leases. Development activities will continue in 2004 to better define available mining resources and evaluate a range of upgrading options. The project participants, Imperial and ExxonMobil Canada, are investigating the potential development of minable bitumen on three oil-sands leases, some 70 kilometres north of Fort McMurray. A phased approach is being assessed, and the project may have the potential to produce up to a total of 200,000 barrels a day.

Mackenzie gas project

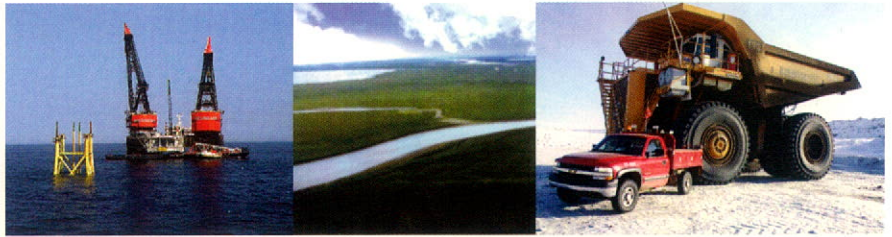
Imperial leads the Mackenzie gas project, which seeks to develop about six trillion cubic feet (TCF) of natural gas resource in the Mackenzie River delta of Canada's western Arctic – an important project for future North American gas supply. The largest of three major fields planned for development is Imperial's Taglu field, with about three TCF of gas.

The project design being advanced for regulatory filing is for a pipeline with an initial capacity of 1.2 billion cubic feet of gas a day (50 percent greater than the expected productive capacity of the three major discovered fields) and includes the flexibility to increase capacity up to 1.8 billion cubic feet a day. This would allow for additional northern gas to be brought to southern markets.

By year-end 2003, Imperial had completed about one million work hours on the project and had held more than 600 meetings and consultations with parties including aboriginal groups, local communities, government officials, regulatory agencies and potential gas shippers.

In June, as project operator, Imperial filed a Preliminary Information Package with regulatory agencies, an important milestone. This followed successful negotiations with other co-venturers, including the Aboriginal Pipeline Group (APG),

Positioned for growth: (left to right) offshore East Coast, Mackenzie gas project, Syncrude



which represents the interests of the Aboriginal Peoples in the North. APG participation is an integral part of the project and represents an historic advance for aboriginal involvement in commercial developments of this type.

Another milestone was passed in late 2003 when the application for Commercial Discovery Declaration for the Taglu field was filed with the National Energy Board. Assuming that the regulators proceed on the timelines described in their June 2002 Cooperation Plan, filing of the main regulatory applications for the project is expected to take place mid-2004.



Community engagement has been critical to the success of the Mackenzie gas project. Building enduring relationships with Canada's northern communities is an important component of Imperial's ongoing operations and development initiatives.

Conventional Western Canada

In Western Canada, full production from the natural gas cap at Imperial's Wizard Lake oil field in Alberta began in July 2003. Production rates of about 180 million cubic feet a day will be achieved in 2004 once gas plant capacity is available and are expected to continue through 2006. Also, in November, the first natural gas was produced from the Gwillim field in northeastern British Columbia. Additional development of this field is planned.

Offshore East Coast

In East Coast operations, natural gas production from Imperial's nine-percent interest in the Sable offshore energy project averaged 40 million cubic feet a day before royalties. During 2003, production began from a fourth Sable field, Alma, and construction was started on facilities for a fifth field, South Venture. Funding was also approved for a natural gas compression facility that will service production from all Sable fields by late 2006.

Balvenie, a deepwater exploration well drilled in mid-2003 off the east coast of Nova Scotia, did not encounter commercial quantities of gas and was abandoned. Imperial continues to monitor industry activity in the region, where it retains other exploration licences.

In December, Imperial acquired a 25-percent interest in the exploration rights for eight deepwater parcels in the Orphan Basin, off the east coast of Newfoundland. This region is considered to have high potential but is located in a harsh offshore environment and is a high-risk, high-cost area. Plans are being developed with co-venturers ExxonMobil Canada Ltd. (25 percent) and Chevron Canada Resources (50 percent) for potential seismic work in 2004. Imperial's share of proposed exploration spending on this acreage totals \$168 million, with a minimum commitment of \$42 million.



Petroleum products

Imperial's petroleum products operations achieved record earnings of \$407 million in 2003, supported by increased sales and strong industry refining and marketing margins. Return on average capital employed was 16 percent and cash flow from earnings was \$719 million, of which \$478 million was reinvested in the business.

Imperial continues to upgrade its network of retail outlets (above). In addition to fuels, petroleum provides the feedstock for thousands of products and materials that are essential to our way of life (below).



Customers enjoy the convenience of the company's On the Run retail sites



Improving productivity and profitability

Petroleum products

The company's strategy of focusing relentlessly on providing the best offer to customers, having best-in-class costs and using capital efficiently and effectively continued to serve shareholders well. At the end of 2003, all major business units in petroleum products were at first-quartile unit-cost levels, and some were best-in-class. Sales of refined products were up from 2002 as Imperial retained the leading position in every major market segment.

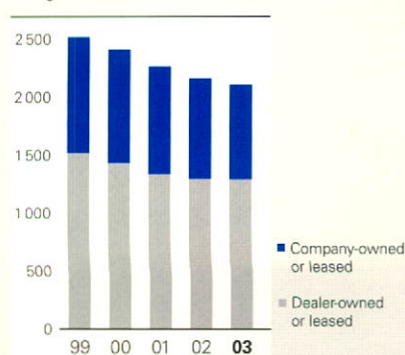
In the retail automotive business, the company's leading market share was increased with continuing improvements to products and services.

At the end of 2003:

- The retail network included 787 company-owned sites. Average productivity per site for 2003 was 5.2 million litres a year, up six percent from 2002. Under an ongoing program to improve the network, Imperial built nine new sites, rebuilt 17 and upgraded three.
- The company's network of about 650 Esso convenience stores across Canada, including On the Run and Tiger Express, was the second largest in Canada. On the Run was recently selected as the North American convenience store chain of the year by *Convenience Store Decisions* magazine. In 2003, 65 new On the Run stores were added. Convenience-store sales rose by about nine percent in 2003, well above the industry average. Imperial's network of about 400 sites with car-wash facilities is the largest in the industry.
- The number of Esso retail sites providing Tim Hortons food and refreshments had increased to more than 300 from 270 in 2002, as this strategic alliance continued to benefit both companies.

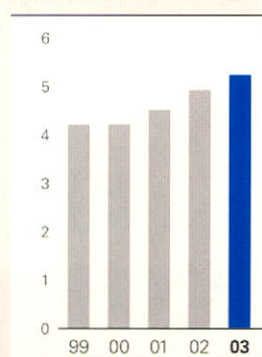
Esso retail outlets

average number



Throughput – company-owned and leased retail outlets

millions of litres per site



Network rationalization contributed to retail productivity improvement

Petroleum products (continued)

Previously introduced customer service and convenience features, such as the Speedpass transponder for payment convenience and the Esso Extra loyalty program, including the points-exchange alliance with Hudson's Bay Company, continued to help improve market share and sales volumes.

Imperial maintained its market-leading share of the finished lubricants market in Canada and continues to be the only supplier with manufacturing, blending and packaging capability in both the east and west. The company is also the exclusive Canadian marketer of Mobil products, for which sales almost doubled in 2003 from 2002. Through its world-leading lubricants research capability, the company commercialized 37 new products in 2003.

A centralized customer order and integrated management system was implemented during the year, completing a major program to improve productivity in Imperial's rural

agency business. Designed to reduce costs and increase efficiency, the project streamlined this business by replacing a network of rural bulk plants with a network of primary and secondary distribution terminals. In 2003, productivity per site quadrupled to an average of about 25 million litres.

During 2003, the ancillary equipment-servicing feature of Imperial's heating oil business was sold to Sears Canada Inc. Under a marketing agreement, Sears will provide equipment servicing for Esso Home Comfort customers, while promoting Imperial as the preferred supplier of heating oil.

A continued focus on reducing working capital lowered the number of days for which product is held in inventory by a further four percent versus 2002. Over the last 10 years, this has been reduced by about 25 percent. The reduction in 2003 freed up more than \$35 million in cash for more productive use.

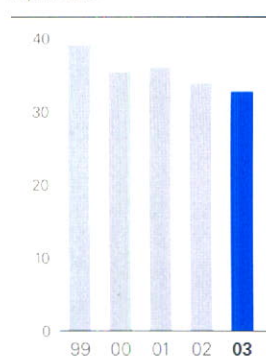
Capital expenditures in petroleum products operations were \$478 million in 2003. This included completion of a multi-year project to enable the company's refineries to produce low-sulphur gasoline to meet the requirements of 2004 model-year automotive technologies. This project, costing about \$600 million and using ExxonMobil proprietary SCANfining technology and other modifications, was completed more than a year ahead of federal regulatory requirements. As a result, gasolines produced by Imperial now have one of the lowest sulphur levels in the world.

Other capital expenditures included construction on a cogeneration facility in Sarnia and upgrading of the network of Esso service stations.

Imperial's refineries and chemical plants also continued to benefit from the ExxonMobil Global Energy Management System, a worldwide initiative aimed at improving energy use in manufacturing operations. Energy efficiency improved by one percent in 2003, and over the last 30 years, Imperial's refineries have improved energy efficiency by more than 40 percent.

Product inventory

days of sales



Freeing up working capital
for more productive use

Chemicals

(Left) manufacturing polyethylene, (right) constructing cogeneration facilities



Industry-leading performance

Imperial's chemicals operations generated earnings of \$37 million, with return on average capital employed of 18 percent and cash flow from earnings of \$66 million in 2003. Sales of petrochemical products were 3,300 tonnes a day, down slightly from 2002. In this cyclical business, 2003 was a weak year for the petrochemicals industry in North America, characterized by relatively high energy and feedstock costs and soft sales volumes.

The company remains one of Canada's leading producers of chemical products, with the largest market share in North America for polyethylene used in rotational and injection molding and the largest share of the Canadian market for solvents. The Sarnia polyethylene manufacturing facility is within one day's trucking of customers representing 70 percent of North American demand for polyethylene. The company's other chemicals businesses also contributed to profitability.

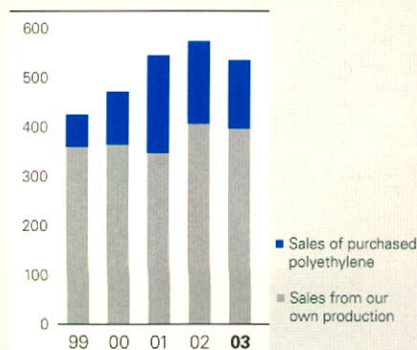
In 2003, the Sarnia polyethylene plant achieved a milestone of having produced five million tonnes of product, and it remains one of the most cost-competitive plants in North America. Through successive low-cost expansions, annual capacity has been increased from 135,000 tonnes in 1983 to about 450,000 tonnes in 2003.

A new computer-based managing system for chemicals operations that will improve service to customers throughout North America was completed in 2003 and became fully operational in early 2004. It is designed to realize efficiencies and cost reductions by managing all aspects of the business – from order processing through product delivery, invoicing, collection and financial information.

Capital expenditures in chemicals were \$41 million in 2003. This included chemicals' share of a 95-megawatt cogeneration facility under construction at Imperial's Sarnia refining and chemicals manufacturing complex. When it begins operation in 2004, the facility will significantly improve energy efficiency by using natural gas to generate both electricity and steam simultaneously, and help to reduce emissions. It is estimated that it will reduce the net costs of ethylene production by about 10 percent.

Polyethylene sales volumes

thousands of tonnes



Sales volumes declined in weak markets



Sound governance.
Ethics and integrity above all.

Some of the 244 talented new employees who joined Imperial in 2003 (above), formal training and on-the-job experience help employees develop capabilities (below)

Imperial has maintained a long tradition of sound governance practices. The company also recognizes the importance and value of ethics and business integrity and believes these principles are critical to long-term sustainable results.



Principled people and practices

Sound governance practices

Imperial's corporate governance practices are fully disclosed and meet the requirements of the Toronto Stock Exchange and the American Stock Exchange. For example:

- The majority of members of the board of directors are nonemployee directors.
- All board committees, including the audit committee, are comprised of only nonemployee directors.
- Directors and committees have the right to engage an outside adviser at the company's expense.
- Nonemployee directors meet regularly in the absence of management, and these meetings are chaired by a nonemployee director.
- The audit committee is finalizing processes for the confidential handling of employee complaints.

The company was able to meet the governance requirements of both the Ontario Securities Commission and the United States' Sarbanes-Oxley Act with only minor changes to long-established practices.

Imperial has determined that its existing reserves booking practices do not have to change as a consequence of the Canadian Securities Administrators National Instrument 51-101.

A complete description of Imperial's governance practices can be found in the 2003 Management Proxy Circular on the company's Web site at www.imperialoil.ca.



Imperial's board of directors

(Left to right) P. Des Marais II, B.J. Fischer, T.J. Hearn, R. Phillips, J.F. Shepard, P.A. Smith, S.D. Whittaker, K.C. Williams, V.L. Young

Integrity of reporting

Imperial has a simple, straightforward capital structure and consistently reports its results using clear, transparent accounting practices. The company does not use special purpose entities, special adjustments or pro-forma reporting, nor does it use derivatives to speculate on the future direction of currency or commodity prices, and it does not sell forward future production.

A commitment to maintaining sound financial controls is supported by the company's controls integrity management system. This establishes a framework of clearly defined expectations that every operation must meet.

Principled people

Employees are a competitive advantage, and the company strives to be an employer of choice by attracting, developing and retaining high-performing, principled people from diverse backgrounds.

Providing people with the opportunity to enhance their professional and technical skills is key to achieving superior business results. For example, in 2003, about a quarter of our employees attended the 100 courses offered to assist them in developing skills applicable throughout the company.

All employees and directors are required to comply with the company's business ethics program. Originally developed in the 1970s, the program covers topics such as conflicts of interest, integrity of dealings both inside and outside the company, competition law and restrictive trade practices.

Employees

	2003	2002	2001	2000	1999
Number of full-time employees at December 31	6 256	6 460	6 740	6 704	6 550
Total payroll and benefits (millions of dollars) (a)	1 188	1 034	902	814	856

(a) Includes both the company's payroll and benefit costs and its share of the Syncrude joint-venture payroll and benefit costs.

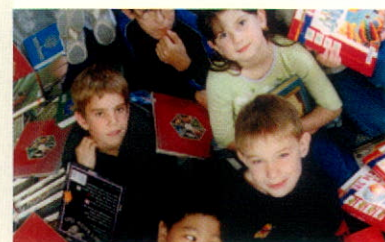


Filling up with Esso low-sulphur gasoline (above), striving to minimize the impact of operations on the environment (below)

Imperial is fully committed to maintaining the highest standards of health and safety for its employees and contractors, operating and managing its businesses in an environmentally responsible manner, and maintaining close relationships with local communities. In 2003, the company spent \$310 million on capital projects and other programs to improve safety and environmental performance, and contributed \$8.6 million to help improve the quality of life in Canadian communities.



Supporting literacy in the Northwest Territories



Caring about our community

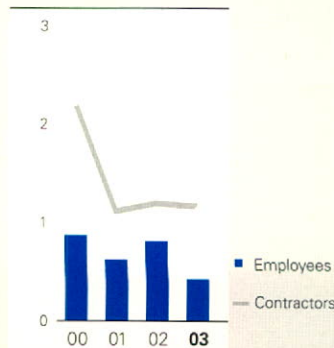
"Nobody gets hurt"

Nothing is more important than the health and safety of our employees, contractors, neighbours and customers. The operations integrity management system (OIMS) provides the framework for the disciplined management of safety, health and environmental activities. Lloyd's Register Quality Assurance Ltd. has attested that OIMS meets the ISO 14001 requirements for a comprehensive environmental management system.

Imperial's safety performance continues to be among the best in Canadian industry, and in 2003, the company had its safest year on record with the lowest incidence of work-related injuries and illnesses for employees and contractors combined. The company's goal, however, is that "nobody gets hurt," and Imperial is committed to continuously improving performance through education, awareness, training and other programs.

Employee and contractor safety leadership

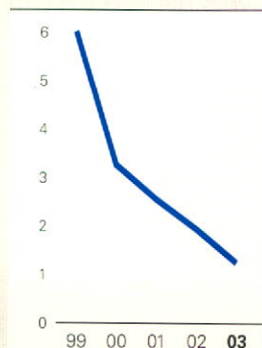
total recordable incidents per 200,000 work hours



Best safety performance on record for employees and contractors combined

Upstream flaring

millions of cubic feet of gas a day



Gas flaring substantially reduced

Improving environmental performance

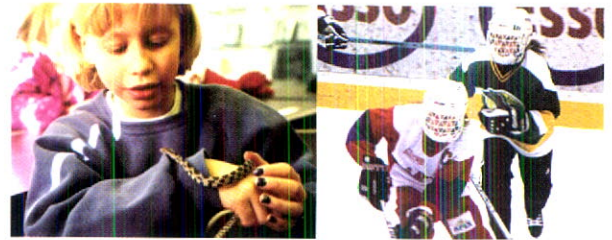
Recognizing the importance of a healthy environment, Imperial is committed to continuously improving in this area. For example, in 2003, the company:

- completed a more than \$600-million project to reduce the sulphur content of Esso-branded gasolines to among the lowest in the world.
- spent about \$90 million on environmental remediation programs.
- continued to conserve valuable resources and reduce emissions by recovering natural gas associated with crude oil production that would otherwise be flared or vented into the air. Imperial's 2002 recovery rate of 99.7 percent of associated gas was ranked the best among Alberta's top 50 oil producers for the second consecutive year.
- continued to pursue ways to improve energy efficiency and reduce emissions of carbon dioxide and other greenhouse gases from its operations, and to report annually to Canada's Climate Change Voluntary Challenge and Response (VCR) program. Imperial's VCR submissions have consistently achieved a gold-level rating.
- invested about \$65 million in Sarnia cogeneration facilities, which use natural gas to produce electricity and steam simultaneously, thereby reducing total energy consumption and helping to reduce emissions in Canada. Total project expenditures are expected to be about \$115 million when completed early in 2004.

In 2002, the government of Canada ratified the Kyoto protocol on climate change. It has not yet introduced any implementing legislation, and any possible effects on Imperial or its plans are uncertain. The government has indicated to industry that its intent is not to discourage energy development and that the impacts of Kyoto legislation will be contained. Through industry associations, Imperial continues to work closely with governments on the implementation of Canada's response.

Caring about our community (continued)

Funding environmental education at the Toronto Zoo (left) and supporting hockey and ringette programs across Canada (right)



Caring for our neighbours

Imperial was proud to assist local communities in 2003:

- When concern over SARS affected the tourism industry in Toronto, an "Esso Celebrates Toronto" promotion encouraged people to come back into the city by offering discounted gasoline. A portion of all sales – a total of \$250,000 – was donated for research to improve protective equipment for health-care workers.
- During the power blackout that affected much of Ontario and when Hurricane Juan hit the East Coast, employees worked around the clock to maintain fuel supplies for essential emergency services.

In recognition of their special needs, disabled drivers can buy full-serve gasoline for self-serve prices at company-owned Esso service stations. At sites with both full- and self-serve pumps, the disabled driver can have the tank filled by an attendant for the self-serve price. Self-serve retailers will arrange for assistance at the pump when the customer calls in advance.

A tradition of giving

In 2003, through donations, sponsorships, scholarships and grants, Imperial contributed a total of \$8.6 million to communities, groups and organizations that help improve the quality of life in Canada.

The Imperial Oil Foundation donated \$6.1 million to more than 400 organizations, with an emphasis on programs for youth and education. This included \$1 million to the University of Waterloo to help build the computer-science capability of high-school girls, and grants totalling about \$215,000 to fund environmental and conservation programs. In addition, Imperial gave 35 awards to 16 universities, totalling \$650,000, under the company's University Research Award program.

Other contributions included \$288,000 for aboriginal scholarships and educational programs, almost \$350,000 for the Esso Medals of Achievement and other amateur hockey programs, \$274,000 to support public policy organizations and about \$315,000 for local community sponsorships. The company also contributed \$400,000 to Syncrude's corporate-giving program, an amount representing Imperial's 25-percent ownership share.

In partnership with its employees and annuitants, the company contributed more than \$2.5 million to the 2003 United Way/Centraide campaigns across Canada. This was Imperial's highest-ever contribution, exceeding its 2002 contribution by more than \$100,000. The Toronto campaign received a Corporate Support Award for demonstrating exceptional commitment to the United Way.

Through its volunteer involvement program, Imperial provided 278 grants totalling \$270,000 to support organizations to which employees and annuitants contributed time and effort.

Engagement and dialogue with key communities is an important component of Imperial's ongoing operations and development initiatives. This includes building enduring relationships with Canada's aboriginal communities, with a focus on developing and implementing mutually beneficial strategies for business development, employment, education and training within the aboriginal communities in which we operate.

A comprehensive description of Imperial's corporate citizenship practices is available on the company's Web site at www.imperialoil.ca.

Frequently used financial terms

Listed below are definitions of four of Imperial's frequently used financial performance measures. The definitions are provided to facilitate understanding of the terms and how they are calculated. These terms do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be calculated in the same way as similar measures are by other companies.

Capital employed

Capital employed is a measure of net investment. When viewed from the perspective of how capital is used by the business, it includes the company's property, plant and equipment and other assets, less liabilities, excluding both short-term and long-term debt. When viewed from the perspective of the sources of capital employed for the total company, it includes total debt and shareholders' equity. Both of these views include the company's share of amounts applicable to equity companies.

millions of dollars	2003	2002	2001
Business uses: asset and liability perspective			
Total assets	12 361	11 894	10 781
Less: total current liabilities excluding short-term debt and current portion of long-term debt	(2 817)	(2 671)	(2 565)
Less: total long-term liabilities excluding long-term debt	(2 334)	(2 469)	(2 404)
Add: Imperial's share of debt-financed equity company net assets	52	49	29
Total capital employed	7 262	6 803	5 841
Total company sources: debt and equity perspective			
Short-term debt	72	72	460
Current portion of long-term debt	501	—	—
Long-term debt	859	1 466	1 029
Shareholders' equity	5 778	5 216	4 323
Add: Imperial's share of equity company debt	52	49	29
Total capital employed	7 262	6 803	5 841

Return on average capital employed (ROCE)

ROCE is a financial performance ratio. For each of the company's business segments, ROCE is annual business-segment earnings divided by average business-segment capital employed (an average of the beginning- and end-of-year amounts). These segment earnings include Imperial's share of segment earnings of equity companies, consistent with the definition used for capital employed, and exclude the cost of financing. The company's total ROCE is net earnings excluding the after-tax cost of financing divided by total average capital employed. The company has consistently applied its ROCE definition for many years and views it as the best measure of historical capital productivity to both evaluate management's performance and demonstrate to shareholders that capital has been used wisely over the long term.

millions of dollars	2003	2002	2001
Net earnings	1 682	1 224	1 255
Financing cost (after tax), including Imperial's share of equity companies	25	23	51
Earnings excluding financing costs	1 707	1 247	1 306
Average capital employed	7 033	6 322	5 738
Return on average capital employed (percent)	24.3	19.7	22.8

Operating costs

Operating costs are the combined total of operating, selling, general, exploration, depreciation and depletion expenses from the consolidated statement of earnings and Imperial's share of similar costs for equity companies. Operating costs are the costs incurred during the period to produce, manufacture and otherwise prepare the company's products for sale – including staffing, maintenance, and other costs to explore for and produce oil and gas and operate refining and chemical plants. Delivery costs to customers and marketing expenses are also included. Operating costs exclude the cost of raw materials and those costs incurred in bringing inventory to its existing condition and final storage prior to delivery to a customer. These expenses are on a before-tax basis. While Imperial's management is responsible for all revenue and expense elements of net earnings, operating costs, as defined below, represent the expenses most directly under management's control.

millions of dollars	2003	2002	2001
Expenses (from page 29)			
Exploration	55	30	45
Operating	2 025	1 865	1 830
Selling and general	1 269	1 222	1 280
Depreciation and depletion	750	705	718
Subtotal	4 099	3 822	3 873
Imperial's share of equity company expenses	56	49	42
Total operating costs	4 155	3 871	3 915

Cash flow from earnings

Cash flow from earnings is determined by adjusting net earnings for the effects of non-cash items. It measures the extent of cash generated from the business before the effects of changes in non-cash working capital and before any investing and financing activities by the company. Cash flow from earnings is a measure used by the company's management for analysis and evaluation of operating performance and liquidity of each business segment and for future investment decisions. A reconciliation of net earnings to cash flow from earnings is provided in the consolidated statement of cash flows on page 30.

Management's discussion and analysis of financial condition and results of operations

FINANCIAL SUMMARY

millions of dollars	2003	2002	2001	2000	1999
Revenues	19 208	17 042	17 253	18 051	12 853
Net earnings by segment					
Natural resources	1 139	1 056	957	1 177	567
Petroleum products	407	127	353	313	15
Chemicals	37	52	23	59	43
Corporate and other	99	(11)	(78)	(139)	3
Net earnings	1 682	1 224	1 255	1 410	628
Total assets	12 361	11 894	10 781	11 244	10 828
Long-term debt	859	1 466	1 029	1 037	1 352
Other long-term obligations	972	1 207	1 098	1 104	1 172
Per-share information (dollars)					
Earnings per share – basic and diluted	4.52	3.23	3.19	3.38	1.46
Dividends	0.87	0.84	0.83	0.78	0.75

RESULTS OF OPERATIONS

Net earnings in 2003 were \$1,682 million or \$4.52 a share – the best year on record – compared with \$1,224 million or \$3.23 a share in 2002 (2001 – \$1,255 million or \$3.19 a share). Higher realizations for natural gas and crude oil and higher industry margins for petroleum products, partly offset by the negative impact of a higher Canadian dollar, were the main reasons for the increased earnings.

Total revenues were \$19.2 billion, up about 13 percent from 2002.

The return on average capital employed was 24 percent, compared with 20 percent in 2002 (2001 – 23 percent).

Natural resources

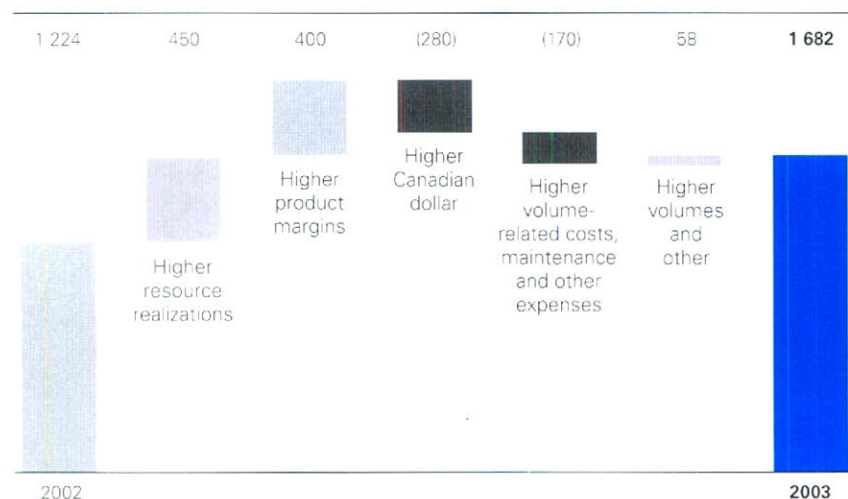
Earnings from natural resources were \$1,139 million, up from \$1,056 million in 2002 (2001 – \$957 million). Higher realizations for natural gas and crude oil and higher production of Cold Lake bitumen were largely offset by the negative impact of a higher Canadian dollar.

Resource revenues were \$5.6 billion, up from \$4.9 billion in 2002 (2001 – \$5.3 billion). The main reasons for the increase were higher prices for natural gas and crude oil and increased production from Cold Lake.

Return on average capital employed was 32 percent for the natural resources segment, compared with 36 percent in 2002 (2001 – 41 percent), reflecting the company's significant increase in investment in the resources business during the past two years.

Factors affecting Imperial's 2003 earnings

millions of dollars



Financial statistics

millions of dollars	2003	2002	2001	2000	1999
Net earnings	1 139	1 056	957	1 177	567
Revenues	5 648	4 894	5 321	5 900	3 904
Capital employed at December 31	3 784	3 325	2 580	2 142	2 472
Return on average capital employed (percent)	32.0	35.8	40.5	51.0	22.5

World oil prices strengthened considerably in early 2003 and remained relatively strong due to a combination of world supply concerns and increased world demand. The annual average price of Brent crude oil, the most actively traded North Sea crude and a common benchmark of world oil markets, was \$29 (U.S.) a barrel in 2003, compared with \$25 in 2002 (2001 – \$24.50).

The increase in the company's realizations on sales of conventional Canadian crude oil was diminished by the strengthening of the Canadian dollar. Average realizations during the year were \$40.10 (Cdn) a barrel versus \$36.81 in 2002 (2001 – \$35.56).

Average prices for Canadian heavy crude oil were higher in 2003, but not as high as those for lighter crude oil, as increased supply of Canadian heavy crude oil widened the average spread between light

and heavy crude. The price of Bow River, a benchmark Canadian heavy crude oil, increased by four percent in 2003, compared with a nine-percent increase in prices for Canadian light crude oil. Average realizations for Cold Lake bitumen were about two percent lower than the previous year, as the stronger Canadian dollar offset any price increases.

Prices for Canadian natural gas in 2003 were higher on average than in the previous year. The average of 30-day spot prices for natural gas at the AECO hub in Alberta was about \$6.70 a thousand cubic feet in 2003, up from \$4.10 in 2002 (2001 – \$6.30).

The company's average realizations on natural gas sales increased to \$6.60 a thousand cubic feet from \$4.02 in 2002 (2001 – \$5.72).

Average realizations and prices

dollars	2003	2002	2001	2000	1999
Conventional crude oil realizations (a barrel)	40.10	36.81	35.56	41.52	24.75
Natural gas realizations (a thousand cubic feet)	6.60	4.02	5.72	4.99	2.66
Par crude oil price at Edmonton (a barrel)	43.93	40.44	39.64	45.02	27.80
Heavy crude oil price at Hardisty (Bow River, a barrel)	33.00	31.85	25.11	34.49	23.51

Gross production of crude oil and natural gas liquids (NGLs) increased to 256,000 barrels a day from 247,000 barrels in 2002 (2001 – 267,000). Net production increased slightly to 225,000 barrels a day from 223,000 barrels in 2002 (2001 – 237,000).

Net bitumen production at the company's wholly owned facilities at Cold Lake increased to 116,000 barrels a day from 106,000 barrels in 2002 (2001 – 121,000). The higher volume was a result of the initial production cycles from phases 11–13, which began operation in December 2002. This was offset in part by lower production from existing operations, due to the cyclic nature of production at Cold Lake.

The effective royalty rate on Cold Lake production increased in 2003, as capital expenditures were lower upon the completion of phases 11–13. The rate increased to 10 percent of production from five percent in 2002 (2001 – five percent).

Production from the Syncrude operation, in which the company has a 25-percent interest, decreased during 2003 as increased unplanned maintenance affected production through much of the year. Gross production of upgraded crude oil dropped to 211,000 barrels a day from 229,000 barrels in 2002 (2001 – 223,000). Imperial's share of average net production decreased to 52,000 barrels a day from 57,000 barrels in 2002 (2001 – 52,000).

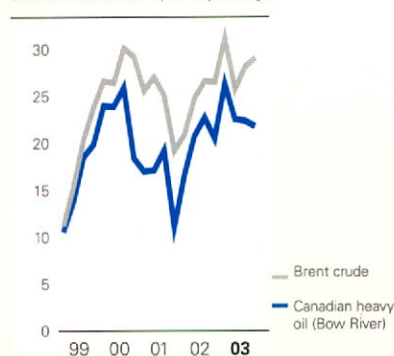
Net production of conventional oil decreased to 35,000 barrels a day from 39,000 barrels in 2002 (2001 – 42,000) as a result of the natural decline in western Canadian reservoirs.

Gross production of natural gas decreased to 513 million cubic feet a day from 530 million in 2002 (2001 – 572 million). Net production

was 457 million cubic feet a day in 2003, down from 463 million in 2002 (2001 – 466 million). Net production available for sale decreased to 390 million cubic feet a day from 396 million in 2002 (2001 – 376 million). Lower production as a result of reservoir decline was mostly offset by production from the new facilities at Wizard Lake in Alberta, which were completed in the third quarter of 2003.

Crude oil prices

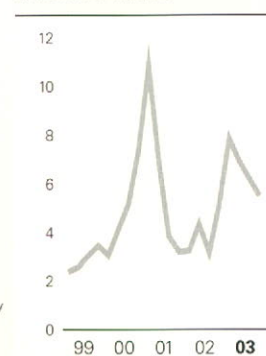
U.S. dollars a barrel – quarterly average



Crude oil prices remained strong in 2003

Natural gas average prices

dollars a thousand cubic feet – AECO hub 30-day spot



Average natural gas prices increased sharply from 2002

Management's discussion and analysis of financial condition and results of operations (continued)

Crude oil and NGLs – production and sales (a)

thousands of barrels a day	2003		2002		2001		2000		1999	
	gross	net	gross	net	gross	net	gross	net	gross	net
Conventional crude oil	46	35	51	39	55	42	60	46	65	51
Cold Lake	129	116	112	106	128	121	119	102	132	107
Syncrude	53	52	57	57	56	52	51	42	56	55
Total crude oil production	228	203	220	202	239	215	230	190	253	213
NGLs available for sale (b)	28	22	27	21	28	22	30	23	31	24
Total crude oil and NGL production	256	225	247	223	267	237	260	213	284	237
Cold Lake sales, including diluent (c)	170		145		167		156		173	
NGL sales	39		40		43		42		43	

Natural gas – production and sales (a)

millions of cubic feet a day	2003		2002		2001		2000		1999	
	gross	net	gross	net	gross	net	gross	net	gross	net
Production (d)	513	457	530	463	572	466	526	459	469	413
Production available for sale (b)	446	390	463	396	482	376	345	277	300	244
Sales	460		499		502		419		393	

(a) Daily volumes are calculated by dividing total volumes for the year by the number of days in the year. Gross production is the company's share of production (excluding purchases) before deducting the shares of mineral owners or governments or both. Net production excludes those shares.

(b) Production available for sale excludes amounts used for internal consumption and amounts reinjected. Starting in 2001, production available for sale reflects a change in the supply of natural gas to company operations from company-produced gas to third-party purchased gas.

(c) Includes natural gas condensate added to the Cold Lake bitumen to facilitate transportation to market by pipeline.

(d) Production of natural gas includes amounts used for internal consumption with the exception of amounts reinjected.

Operating costs increased by 11 percent in 2003. The main factors were increased costs associated with the newly completed phases 11–13 and cogeneration facilities at Cold Lake, unplanned maintenance at Syncrude and increased exploration costs.

Petroleum products

Net earnings from petroleum products were a record \$407 million or 1.3 cents a litre in 2003, up from \$127 million or 0.4 cents a litre in 2002 (2001 – \$353 million or 1.2 cents a litre). Earnings improved

mainly as a result of the strengthening of industry petroleum product margins and increased sales volumes, partly offset by the negative impact of a higher Canadian dollar.

Revenues were \$16.1 billion, up from \$14.4 billion in 2002 (2001 – \$14.4 billion).

Return on average capital employed was 16 percent for the petroleum products segment, compared with six percent in 2002 (2001 – 16 percent).

Financial statistics

millions of dollars	2003	2002	2001	2000	1999
Net earnings	407	127	353	313	15
Revenues	16 058	14 434	14 405	15 120	10 665
Capital employed at December 31	2 784	2 484	2 148	2 280	2 213
Return on average capital employed (percent)	15.5	5.5	15.9	13.9	0.6

Sales of petroleum products

millions of litres a day (a)	2003	2002	2001	2000	1999
Gasolines	33.0	32.9	32.3	32.0	31.9
Heating, diesel and jet fuels	26.2	25.0	26.5	27.5	26.9
Heavy fuel oils	5.4	4.9	5.4	5.1	4.6
Lube oils and other products	5.8	6.4	5.4	5.0	5.8
Net petroleum products sales	70.4	69.2	69.6	69.6	69.2
Sales under purchase and sale agreements	14.6	13.9	11.6	10.7	10.8
Total sales of petroleum products	85.0	83.1	81.2	80.3	80.0
Total domestic sales of petroleum products (percent)	93.3	91.5	93.4	94.0	95.6

Refinery utilization

millions of litres a day (a)	2003	2002	2001	2000	1999
Total refinery throughput (b)	71.6	71.2	71.4	71.6	70.1
Refinery capacity at December 31	79.9	79.4	79.1	78.7	78.7
Utilization of total refinery capacity (percent)	90	90	90	91	89

(a) Volumes a day are calculated by dividing total volumes for the year by the number of days in the year.

(b) Crude oil and feedstocks sent directly to atmospheric distillation units.

One thousand litres is approximately 6.3 barrels.

Margins were higher in the refining segment of the industry in 2003 compared with those in 2002, as international wholesale product prices increased more than raw material costs. However, the effects of higher international margins were reduced partially by a higher Canadian dollar.

The company's total sales volumes, including those resulting from reciprocal supply agreements with other companies, were 85 million litres a day, compared with 83.1 million litres in 2002 (2001 – 81.2 million). Excluding sales resulting from reciprocal agreements, sales were 70.4 million litres a day, compared with 69.2 million litres in 2002 (2001 – 69.6 million).

Operating costs increased by about five percent in 2003 from the previous year, mainly because of higher energy costs and expenses related to increased sales volumes.

Chemicals

Earnings from chemical operations were \$37 million in 2003, down from \$52 million in 2002 (2001 – \$23 million). Reduced industry margins on sales of polyethylene as a result of higher feedstock costs and weaker industry demand were the main reasons for the decrease in earnings.

Total revenues from chemical operations were \$1,232 million, compared with \$1,164 million in 2002 (2001 – \$1,175 million). Gains from higher prices for polyethylene, intermediate chemicals and aromatics during 2003 more than offset lower sales volumes.

Return on average capital employed was 18 percent for the chemicals segment, compared with 28 percent in 2002 (2001 – 14 percent).

The average industry price of polyethylene was \$1,415 a tonne in 2003, up 15 percent from \$1,229 a tonne in 2002 (2001 – \$1,284). However, margins were reduced because of higher feedstock costs, reflecting increased prices for natural gas.

Sales of chemicals decreased to 3,300 tonnes a day from 3,500 tonnes in 2002 (2001 – 3,300 tonnes) as a result of reduced demand.

Operating costs in the chemicals segment increased by about four percent in 2003 mainly because of higher planned capital project-related expenses.

Financial statistics

millions of dollars	2003	2002	2001	2000	1999
Net earnings	37	52	23	59	43
Revenues	1 232	1 164	1 175	1 173	872
Capital employed at December 31	246	178	195	140	81
Return on average capital employed (percent)	17.5	27.9	13.7	53.4	48.9

Sales volumes

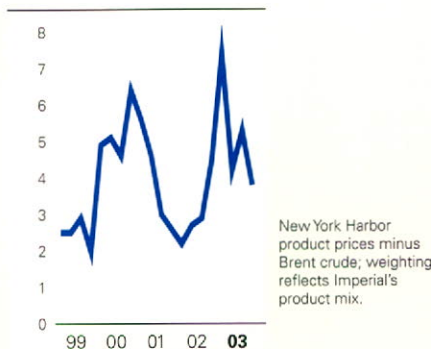
thousands of tonnes a day (a)	2003	2002	2001	2000	1999
Polymers and basic chemicals	2.4	2.5	2.4	2.2	2.0
Intermediates and other	0.9	1.0	0.9	0.9	1.0
Total chemicals	3.3	3.5	3.3	3.1	3.0

(a) Volumes a day are calculated by dividing total volumes for the year by the number of days in the year.

One tonne is approximately 1.1 short tons or 0.98 long tons.

Average refining margins

Canadian cents a litre



Industry refining margins improved from 2002

Management's discussion and analysis of financial condition and results of operations (continued)

Corporate and other

Earnings from corporate and other accounts were positive \$99 million in 2003, compared with negative \$11 million in 2002 (2001 – negative \$78 million). The improvement was mainly attributable to favourable foreign-exchange effects on the company's U.S.-dollar-denominated debt. The company retired the remaining balance of its U.S.-dollar-denominated debt in 2003.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from earnings was \$2,354 million, up from \$1,781 million in 2002 (2001 – \$2,016 million), mainly because of increased earnings. Cash provided from operating activities was \$2,194 million, compared with \$1,676 million in 2002 (2001 – \$2,004 million). The increased cash inflow was mainly due to higher earnings, timing of scheduled income-tax payments and the effects of commodity prices on receivable and payable balances, partly offset by additional funding contributions to the company's registered pension plan.

In June, the company renewed the normal course issuer bid (share buyback program) for another 12 months. During 2003, the company purchased more than 16 million shares for \$799 million. Since Imperial initiated its first buyback program in 1995, the company has purchased 219 million shares – representing about 38 percent of the total outstanding at the start of the program – with resulting distributions to shareholders of \$5,968 million.

The company declared dividends totalling 87 cents a share in 2003, up from 84 cents in 2002 (2001 – 83 cents). Regular per-share dividends paid have increased in each of the past nine years and, since 1986, payments a share have grown by more than 55 percent.

The company's financial position remained very strong in 2003. Following one of the largest capital investment programs in Imperial's history as well as funding contributions to the company's registered pension plan, the cash balance was \$448 million at year-end, compared with \$766 million at the end of 2002 (2001 – \$872 million).

In 2003, the company retired its \$600-million (U.S.) variable-rate debt, due in 2004, for \$818 million (Cdn) and replaced it with \$818 million of Canadian-dollar-denominated variable-rate loans from Exxon Overseas Corporation at interest equivalent to Canadian market rates.

Total debt outstanding, excluding the company's share of equity company debt, at the end of 2003 was \$1,432 million, compared with \$1,538 million at the end of 2002 (2001 – \$1,489 million). Debt represented 20 percent of the company's capital structure at the end of 2003, compared with 23 percent at the end of 2002 (2001 – 26 percent).

Debt-related interest expense paid in 2003 was \$38 million, down from \$40 million in 2002 (2001 – \$77 million). The retirement of the company's long-term fixed-rate debt during the past few years was the main reason for the reduction. The average effective interest rate on the company's debt was 2.9 percent in 2003, compared with 2.1 percent in 2002 (2001 – 5.1 percent).

Financial percentages, ratios and credit rating

	2003	2002	2001	2000	1999
Total debt as a percentage of capital (a)	20	23	26	25	24
Interest coverage ratios					
Earnings basis (b)	63	46	26	23	9
Cash-flow basis (c)	79	63	36	29	14
Long-term unsecured debt rating (d)					
Local currency (DBRS/S&P)	AA/AAA	AA/AAA	AA/AAA	AA/AAA	AA/AAA

(a) Current and long-term portions of debt (page 31) divided by debt and shareholders' equity (page 31).

(b) Net earnings (page 29), debt-related interest expense (page 43, note 12) and income taxes (page 29) divided by debt-related interest expense.

(c) Cash flow from earnings (page 30), current income tax expense (page 37, note 4) and debt-related interest expense divided by debt-related interest expense.

(d) Dominion Bond Rating Service (DBRS) and Standard & Poor's Corporation (S&P) are debt-rating agencies.

Capital and exploration expenditures

Total capital and exploration expenditures were \$1,526 million in 2003, down slightly from \$1,600 million in 2002 (2001 – \$1,115 million).

The funds were used mainly to maintain and expand crude oil and natural gas production capacity, to upgrade refineries to meet

low-sulphur gasoline requirements and to enhance the company's retail network.

The following table shows the company's capital and exploration expenditures for natural resources during the five years ending December 31, 2003:

millions of dollars	2003	2002	2001	2000	1999
Exploration	57	39	49	56	29
Production	181	143	109	110	138
Heavy oil	769	804	588	268	263
Total	1 007	986	746	434	430

For the natural resources segment, about 90 percent of the capital and exploration expenditures in 2003 was focused on growth opportunities. The single largest investment during the year was the company's share of the Syncrude expansion. The remainder of 2003 investment was directed to advancing the Mackenzie gas project, drilling for conventional oil and gas in Western Canada, and East Coast development and deepwater exploration.

Planned capital and exploration expenditures in natural resources are expected to total about \$1 billion in 2004, with nearly 90 percent of the total focused on growth opportunities. Much of the expenditure will be directed to the expansion now underway at Syncrude. Investments are also planned for the ongoing

development drilling at Cold Lake, the Mackenzie gas project, development of the Sable South Venture field and the Sable compression platform, as well as further development drilling in Western Canada. Planned expenditures for exploration and development drilling, as well as capacity additions in conventional oil and gas operations, are expected to be about \$320 million.

The following table shows the company's capital expenditures in the petroleum products segment during the five years ending December 31, 2003:

millions of dollars	2003	2002	2001	2000	1999
Marketing	91	133	171	121	80
Refining and supply	368	399	118	100	114
Other (a)	19	57	50	11	9
Total	478	589	339	232	203

(a) Consists primarily of real estate purchases.

For the petroleum products segment, capital expenditures decreased to \$478 million in 2003, compared with \$589 million in 2002 (2001 – \$339 million), primarily because of the completion of the project to significantly reduce sulphur content in gasoline, which began in 2001. New investments in 2003 included the products segment's \$32-million share of capital expenditures on a 95-megawatt cogeneration facility to improve energy efficiency and reduce emissions at the petroleum products and chemicals operations in Sarnia. In addition, almost \$60 million was spent on other refinery projects to improve energy efficiency and increase yield. Major investments were also made to upgrade the network of Esso retail outlets during the year.

Capital expenditures for the petroleum products segment in 2004 are expected to be about \$450 million. Major items include investment in refining facilities to reduce the sulphur content in diesel to meet regulatory requirements and continued enhancements to the company's retail network.

The following table shows the company's capital expenditures for its chemicals operations during the five years ending December 31, 2003:

millions of dollars	2003	2002	2001	2000	1999
Chemicals	41	25	30	13	20

Of the capital expenditures for chemicals in 2003, the major investment was the Sarnia cogeneration project, a joint development between the petroleum products and chemicals operations at the site.

Planned capital expenditures for chemicals in 2004 will be about \$20 million. Funds will be used largely to improve energy efficiency and yields.

Total capital and exploration expenditures for the company in 2004, which will focus mainly on growth and productivity improvements, are expected to total about \$1.5 billion and will be financed primarily from internally generated funds.

During 2003, the company spent more than \$310 million on projects related to reducing the environmental impact of its operations and improving safety. This included investments of more than \$260 million in the company's four refineries as part of the capital project to produce low-sulphur gasoline and diesel fuels.

Reporting investments in mineral interests in oil and gas properties

The accounting standards for business combinations and goodwill and other intangible assets issued by the Canadian Institute of Chartered Accountants (CICA) became effective for the company on July 1, 2001, and January 1, 2002, respectively. These Canadian standards are harmonized with specific U.S. standards in these areas. Currently, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) is considering the issue of whether the U.S. standards require interests held under oil, gas and mineral leases to be separately classified as intangible assets on the balance sheets of companies in the extractive industries. If such interests were deemed to be intangible assets by the EITF, mineral rights to extract oil and gas for both undeveloped and developed leaseholds would be classified separately from oil and gas properties as intangible assets on the company's balance sheet. The EITF interpretation could potentially have an impact on the Canadian standards and the company's financial reporting. Historically, in accordance with Canadian generally accepted accounting principles (GAAP), the company has capitalized the cost of oil and gas leasehold interests and reported these assets as part of tangible oil and gas property, plant and equipment.

Management's discussion and analysis of financial condition and results of operations (continued)

This interpretation of the current U.S. standards would only affect the classification of oil and gas leaseholds on the company's balance sheet and would not affect total assets, net worth or cash flows. The company's results of operations would not be affected since these leasehold costs would continue to be amortized in accordance with GAAP. The amount that is subject to reclassification as of December 31, 2003, was \$935 million and \$1,109 million as of December 31, 2002.

Pension

An independent actuarial valuation of the company's registered pension plan was completed in 2003. As a result of the valuation, the company contributed \$500 million to the registered pension plan. While equity markets improved in 2003 and the company's contribution levels increased, the company plans to take a measured approach to the pace of funding, within the requirements of pension regulations.

However, pension liabilities need to be assessed in light of the company's strong credit position and prudent financial management. The company has in the past used and expects to continue to use its strong balance sheet to effectively manage pension liabilities. Future funding requirements are not expected to affect the company's existing capital investment plans or its ability to pursue new investment opportunities.

Contractual obligations

To more fully explain the company's financial position, the following table shows the company's contractual obligations outstanding at December 31, 2003. It brings together, for easier reference, data from the consolidated balance sheet and from individual notes to the consolidated financial statements.

millions of dollars	Financial statement note reference	Payment due by period			Total amount
		2004	2005 to 2008	2009 and beyond	
Long-term debt and capital leases	note 3	501	834	25	1 360
Imperial's share of equity company debt		52	—	—	52
Operating leases	note 9	72	185	114	371
Unconditional purchase obligations (a)	note 9	90	161	98	349
Firm capital commitments (b)	note 9	176	13	—	189
Pension obligations (c)	note 5	138	100	318	556
Asset retirement obligations (d)	note 6	34	112	181	327
Other long-term agreements (e)	note 9	260	500	277	1 037
Total		1 323	1 905	1 013	4 241

(a) Unconditional purchase obligations mainly pertain to pipeline throughput agreements.

(b) Firm capital commitments related to capital projects, shown on an undiscounted basis, totalled approximately \$189 million at the end of 2003, compared with \$284 million at year-end 2002. The largest commitment outstanding at year-end 2003 was associated with the company's share of capital projects at Syncrude (\$56 million).

(c) Pension obligations represent the amount by which accumulated benefit obligations (ABO) exceeded the fair value of plan assets. The ABO is the actuarial present value of benefits attributed to employee service rendered up to the end of the year and is based on current compensation levels. The ABO is less than the (projected) benefit obligation shown in note 5 to the consolidated financial statements because it does not take into account future compensation levels. It is used instead of the projected benefit obligation because it more truly reflects the actual benefit obligation at the end of the year. The payments by period include expected contributions to the company's registered pension plan in 2004 and estimated benefit payments for unfunded plans in all years. The term ABO used here is consistent with the definition under Statement of Financial Accounting Standards No. 87 issued by the Financial Accounting Standards Board.

(d) Asset retirement obligations represent the discounted present value of legal obligations associated with site restoration on the retirement of assets with determinable useful lives.

(e) Other long-term agreements include primarily raw material supply and transportation services agreements.

CRITICAL ACCOUNTING POLICIES

The company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include estimates that reflect management's best judgments. The company's accounting and financial reporting fairly reflect its straightforward business model. Imperial does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. The following summary provides further information about the critical accounting policies and the estimates that are made by the company to apply those policies. It should be read in conjunction with pages 32 to 33.

Oil and gas reserves

Proved oil and gas reserves quantities are used as the basis of calculating unit-of-production rates for depreciation and evaluating for impairment. These reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs and deposits under existing economic and operating conditions. The estimation of reserves is an

ongoing process based on rigorous technical evaluations and extrapolations of appropriate information.

While proved reserves have a reasonable certainty of recovery, they are based on estimates that are subject to some variability. The variability can result in upward or downward revisions in the previously estimated volumes of proved reserves for existing fields due to initial study or restudy of (1) already available geologic, reservoir or production data, or (2) new geologic or reservoir data obtained from wells. Revisions can also include changes associated with improved recovery projects, fiscal terms and significant changes in development strategy, oil and gas prices or production equipment/facility capacity. Over time, revisions of proved reserves for the company have generally resulted in net upward experience-based changes through effective reservoir management and the application of new technology. While revisions are an indicator of variability, they have had little impact on the unit-of-production rates of depreciation and on impairment testing because the revisions have been small compared to the large proved reserves base.

Retirement benefits

The company's pension plan is managed in compliance with the requirements of governmental authorities and meets funding levels as determined by independent third-party actuaries. Pension accounting requires explicit assumptions regarding, among others, the discount rate for the benefit obligations, the expected rate of return on plan assets and the long-term rate of future compensation increases. All pension assumptions are reviewed annually by senior financial management. These assumptions are adjusted only as appropriate to reflect long-term changes in market rates and outlook. The long-term expected rate of return on plan assets of 8.25 percent used in 2003 compares to actual returns of 9.5 percent and 10 percent achieved over the last 10- and 20-year periods ending December 31, 2003. If different assumptions are used, the expense and obligations could increase or decrease as a result. The company's potential exposure to change in assumptions is summarized in footnote (e) of note 5 to the consolidated financial statements. At Imperial, differences between actual returns on plan assets versus long-term expected returns are not recorded in the year the differences occur, but rather are amortized in pension expense as permitted by GAAP, along with other actuarial gains and losses over the expected remaining service life of employees. The company uses the fair value of the plan assets at year-end to determine the amount of the actual gain or loss that will be amortized and does not use a moving average value of plan assets. Pension expense represented about one percent of total expenses in 2003.

Asset retirement obligations and other environmental liabilities

Legal obligations associated with site restoration on the retirement of assets with determinable useful lives are recognized when they are incurred, which is typically at the time the assets are installed. The obligations are initially measured at fair value and discounted to present value. Over time the discounted asset retirement obligation amount will be accreted for the change in its present value, with this effect included in operating expense. As payments to settle the obligations occur on an ongoing basis and will continue over the lives of the operating assets, which can exceed 25 years, the discount rate will be adjusted only as appropriate to reflect long-term changes in market rates and outlook. In 2003, the obligations have been

discounted at six percent and the accretion expense was \$20 million, which was significantly less than one percent of total expenses in the year. There would be no material impact on the company's reported financial results if a different discount rate had been used.

Asset retirement obligations are not recognized for assets with an indeterminate useful life. For these and non-operating assets, the company accrues provisions for environmental liabilities when it is probable that obligations have been incurred and the amount can be reasonably estimated.

Asset retirement obligations and other environmental liabilities are based on engineering estimated costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, current technology and the possible use of the location. Since these estimates are specific to the locations involved, there are many individual assumptions underlying the company's total asset retirement obligations and provision for other environmental liabilities. While these individual assumptions can be subject to change, none of them is individually significant to the company's reported financial results.

MARKET RISKS AND OTHER UNCERTAINTIES

The company is exposed to a variety of financial, operating and market risks in the course of its business. Some of these risks are within the company's control, while others are not. For those risks that can be controlled, specific risk-management strategies are employed to reduce the likelihood of loss. Other risks, such as changes in international commodity prices and currency-exchange rates, are beyond the company's control. The company's size, strong financial position and the complementary nature of its natural resources, petroleum products and chemicals segments help mitigate the company's exposure to changes in these other risks. The company's potential exposure to these types of risk is summarized in the table below.

The company does not use derivative markets to speculate on the future direction of currency or commodity prices and does not sell forward any part of production from any business segment.

The following table shows the estimated annual effect, under current conditions, of certain sensitivities of the company's after-tax earnings.

Earnings sensitivities (a)

millions of dollars after tax

Three dollars (U.S.) a barrel change in crude oil prices	+(-)	140
Sixty cents a thousand cubic feet change in natural gas prices	+(-)	40
One cent a litre change in sales margins for total petroleum products	+(-)	180
One cent (U.S.) a pound change in sales margins for polyethylene	+(-)	8
One-quarter percent decrease (increase) in short-term interest rates	+(-)	2
Eight cents decrease (increase) in the value of the Canadian dollar versus the U.S. dollar	+(-)	340

(a) The amount quoted to illustrate the impact of each sensitivity represents a change of about 10 percent in the value of the commodity or rate in question at the end of 2003. Each sensitivity calculation shows the impact on annual earnings that results from a change in one factor, after tax and royalties and holding all other factors constant. While these sensitivities are applicable under current conditions, they may not apply proportionately to larger fluctuations.

The sensitivity to changes in the Canadian dollar versus the U.S. dollar increased from 2002 by about \$12 million (after tax) a year for each one-cent change. This is primarily a result of the retirement of the U.S.-dollar-denominated debt, which had previously moderated the impact of foreign-exchange rate changes on commodity prices and product margins.

The sensitivity to changes in crude oil prices decreased from 2002 by about \$13 million (after tax) for each one U.S.-dollar difference. An increase in the value of the Canadian dollar has lessened the impact of U.S.-dollar-denominated crude oil prices on the company's revenues and earnings.

Management report

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information contained throughout this annual report is consistent with these financial statements.

Management has established and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements fairly report the company's operating and financial results and that the company's assets are safeguarded. The company's internal audit unit reviews and evaluates the adequacy of and compliance with the company's internal control standards. It is also the company's policy to maintain the highest standard of ethics in all its activities.

Imperial's board of directors has approved the information contained in the financial statements. The board fulfills its responsibility regarding the financial statements mainly through its audit committee, which is composed of the nonemployee directors. The audit committee reviews the company's annual and quarterly financial statements, accounting practices, business and financial controls, and internal audit program and its findings. It also recommends the external auditors to be appointed by the shareholders at each annual meeting, reviews their audit work plan and approves their fees.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed by a vote of shareholders at the company's last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.



T.J. Hearn



P.A. Smith

February 18, 2004

Auditors' report

To the shareholders of Imperial Oil Limited

We have audited the consolidated balance sheets of Imperial Oil Limited as at December 31, 2003 and 2002 and the consolidated statements of earnings and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Ontario

February 18, 2004

Consolidated statement of earnings ^(a)

millions of dollars

For the years ended December 31

	2003	2002	2001	2000	1999
Revenues					
Operating revenues (b)	19 094	16 890	17 153	17 829	12 763
Investment and other income	114	152	100	222	90
Total revenues	19 208	17 042	17 253	18 051	12 853
Expenses					
Exploration	55	30	45	35	28
Purchases of crude oil and products	11 580	10 155	10 134	10 772	7 091
Operating	2 025	1 865	1 830	1 554	1 511
Selling and general	1 269	1 222	1 280	1 271	1 251
Federal excise tax (b)	1 254	1 231	1 180	1 194	1 188
Depreciation and depletion	750	705	718	726	736
Financing costs (note 12)	(87)	32	152	163	38
Total expenses	16 846	15 240	15 339	15 715	11 843
Earnings before income taxes	2 362	1 802	1 914	2 336	1 010
Income taxes (note 4)	680	578	659	926	382
Net earnings	1 682	1 224	1 255	1 410	628
Per-share information (dollars)					
Net earnings – basic and diluted (note 10)	4.52	3.23	3.19	3.38	1.46
Dividends	0.87	0.84	0.83	0.78	0.75

(a) Business segments are reported in note 1.

(b) Operating revenues include federal excise tax of \$1,254 million (2002 – \$1,231 million; 2001 – \$1,180 million).

The information on pages 32 through 43 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation. The effects of new accounting standards on the consolidated statement of earnings and balance sheet are described in note 2.

Consolidated statement of cash flows

millions of dollars
(inflow (outflow))

For the years ended December 31

	2003	2002	2001	2000	1999
Operating activities					
Net earnings	1 682	1 224	1 255	1 410	628
Depreciation and depletion	750	705	718	726	736
(Gain)/loss on asset sales, after tax	(10)	(4)	(7)	(96)	(17)
Future income taxes and other	(68)	(144)	50	(175)	(324)
Cash flow from earnings (note 11)	2 354	1 781	2 016	1 865	1 023
Accounts receivable	33	(356)	504	(358)	(124)
Inventories and prepaids	31	51	(11)	(6)	(16)
Income taxes payable	38	(225)	(408)	503	225
Accounts payable and other (a)	(262)	425	(97)	85	362
Change in operating assets and liabilities	(160)	(105)	(12)	224	447
Cash from operating activities	2 194	1 676	2 004	2 089	1 470
Investing activities					
Additions to property, plant and equipment and intangibles	(1 449)	(1 552)	(1 070)	(644)	(625)
Proceeds from asset sales	56	61	46	274	88
Proceeds from marketable securities	—	—	—	116	59
Additions to marketable securities	—	—	—	(58)	(88)
Cash from (used in) investing activities	(1 393)	(1 491)	(1 024)	(312)	(566)
Financing activities					
Short-term debt – net	—	(388)	385	75	—
Long-term debt issued	818	500	—	—	—
Repayment of long-term debt	(818)	(71)	(379)	(68)	(379)
Issuance of common shares under stock option plan	2	—	—	—	—
Common shares purchased (note 10)	(799)	(13)	(812)	(1 208)	—
Dividends paid	(322)	(319)	(322)	(331)	(319)
Cash from (used in) financing activities	(1 119)	(291)	(1 128)	(1 532)	(698)
Increase (decrease) in cash	(318)	(106)	(148)	245	206
Cash at beginning of year	766	872	1 020	775	569
Cash at end of year (b)	448	766	872	1 020	775

(a) Includes contribution to registered pension plans of \$511 million (2002 – \$19 million; 2001 – \$6 million).

(b) Cash is composed of cash in bank and cash equivalents at cost. Cash equivalents are all highly liquid securities with a maturity of three months or less when purchased.

The information on pages 32 through 43 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation.

Consolidated balance sheet

millions of dollars
At December 31

	2003	2002	2001	2000	1999
Assets					
Current assets					
Cash	448	766	872	1 020	775
Marketable securities	—	—	—	—	59
Accounts receivable (note 11)	1 315	1 348	992	1 496	1 138
Inventories of crude oil and products (note 11)	407	433	478	421	451
Materials, supplies and prepaid expenses	105	110	116	162	125
Future income tax assets (note 4)	353	323	227	377	285
Total current assets	2 628	2 980	2 685	3 476	2 833
Investments and other					
long-term assets (note 5)	259	134	139	127	172
Property, plant and equipment (note 1)	9 218	8 525	7 722	7 391	7 549
Goodwill (note 1)	204	204	204	232	260
Other intangible assets (note 1)	52	51	31	18	14
Total assets (note 1)	12 361	11 894	10 781	11 244	10 828
Liabilities					
Current liabilities					
Short-term debt	72	72	460	75	—
Accounts payable and accrued liabilities (note 13)	2 222	2 114	1 791	1 866	1 731
Income taxes payable	595	557	774	1 182	666
Current portion of long-term debt	501	—	—	300	—
Total current liabilities	3 390	2 743	3 025	3 423	2 397
Long-term debt (note 3)	859	1 466	1 029	1 037	1 352
Other long-term obligations (note 6)	972	1 207	1 098	1 104	1 172
Future income tax liabilities (note 4)	1 362	1 262	1 306	1 476	1 580
Commitments and contingent liabilities (note 9)					
Total liabilities	6 583	6 678	6 458	7 040	6 501
Shareholders' equity					
Common shares at stated value (note 10)	1 859	1 939	1 941	2 039	2 209
Net earnings retained and used in the business					
At beginning of year	3 277	2 382	2 165	2 118	1 814
Net earnings for the year	1 682	1 224	1 255	1 410	628
Share purchases (note 10)	(717)	(11)	(714)	(1 038)	—
Dividends	(323)	(318)	(324)	(325)	(324)
At end of year	3 919	3 277	2 382	2 165	2 118
Total shareholders' equity	5 778	5 216	4 323	4 204	4 327
Total liabilities and shareholders' equity	12 361	11 894	10 781	11 244	10 828

The information on pages 32 through 43 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation. The effects of new accounting standards on the consolidated statement of earnings and balance sheet are described in note 2.

Approved by the directors



T.J. Hearn
Chairman, president and
chief executive officer



P.A. Smith
Controller and senior vice-president,
finance and administration

Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiaries. Intercompany accounts and transactions are eliminated. Subsidiaries include those companies in which Imperial has both an equity interest and the continuing ability to unilaterally determine strategic operating, investing and financing policies. Significant subsidiaries included in the consolidated financial statements include Imperial Oil Resources Limited, Imperial Oil Resources N.W.T. Limited, Imperial Oil Resources Ventures Limited and McColl-Frontenac Petroleum Inc. All of the above companies are wholly owned. A significant portion of the company's activities in natural resources is conducted jointly with other companies. The accounts reflect the company's proportionate interest in such activities, including its 25-percent interest in the Syncrude joint venture and its nine-percent interest in the Sable offshore energy project.

Segment reporting

The company operates its business in Canada in the following segments:

Natural resources includes the exploration for and production of crude oil and natural gas.

Petroleum products comprises the refining of crude oil into petroleum products and the distribution and marketing of these products.

Chemicals includes the manufacturing and marketing of various hydrocarbon-based chemicals and chemical products.

Corporate and other includes assets and liabilities that do not specifically relate to business segments – primarily cash, marketable securities and long-term debt. Net earnings in this category primarily include debt-related charges and interest income.

Segment accounting policies are the same as those described in this summary of significant accounting policies. Natural resources, petroleum products and chemicals expenses include amounts allocated from the "corporate and other" segment. The allocation is based on a combination of fee for service, proportional segment expenses and a three-year average of capital expenditures. Transfers of assets between segments are recorded at book amounts. Items included in capital employed that are not identifiable by segment are allocated according to their nature.

Accounts receivable

Accounts receivable arise mainly from customer purchases of the company's products. Interest is accrued on overdue accounts (generally those over 30 days) and is reported in "investment and other income" in the consolidated statement of earnings. Interest accrual will be suspended if collection becomes doubtful. An allowance for doubtful accounts is established based upon an

assessment of the collectibility of individual larger account balances and upon historical experience, economic and judgmental factors collectively for groups of smaller homogeneous accounts. Accounts are written off when judged to be uncollectable.

Inventories

Inventories are recorded at the lower of cost or net realizable value. The cost of crude oil and products is determined primarily using the last-in, first-out (LIFO) method. LIFO was selected over the alternative first-in, first-out and average cost methods because it provides a better matching of current costs with the revenues generated in the period.

Inventory costs include expenditures and other charges, including depreciation, directly or indirectly incurred in bringing the inventory to its existing condition and final storage prior to delivery to a customer. Selling and general expenses are reported as period costs and excluded from inventory costs.

Investments

The principal investments in companies other than subsidiaries are accounted for using the equity method. They are recorded at the original cost of the investment plus Imperial's share of earnings since the investment was made, less dividends received. Imperial's share of the after-tax earnings of these companies is included in "investment and other income" in the consolidated statement of earnings. Other investments are recorded at cost. Dividends from these other investments are included in "investment and other income."

These investments represent interests in non-publicly traded pipeline companies that facilitate the sale and purchase of crude oil and natural gas in the conduct of company operations. Other parties who also have an equity interest in these companies share in the risks and rewards according to their percentage of ownership. Imperial does not invest in these companies in order to remove liabilities from its balance sheet.

Property, plant and equipment

Property, plant and equipment are recorded at cost.

Investment tax credits and other similar grants are treated as a reduction of the capitalized cost of the asset to which they apply.

The company follows the successful-efforts method of accounting for its exploration and development activities. Under this method, costs of exploration acreage are capitalized and amortized over the period of exploration or until a discovery is made. Costs of exploration wells are capitalized until their success can be determined.

If the well is successful, the costs remain capitalized; otherwise they are expensed. Capitalized exploration costs are re-evaluated annually. All other exploration costs are expensed as incurred. Development costs, including the cost of natural gas and natural gas liquids used as injectants in enhanced (tertiary) oil-recovery projects, are capitalized.

Imperial selected the successful-efforts method over the alternative full-cost method of accounting because it provides a more timely accounting of the success or failure of exploration and production activities.

Maintenance and repair costs, including planned major maintenance, are expensed as incurred. Improvements that increase or prolong the service life or capacity of an asset are capitalized.

Production costs are expensed as incurred. Production involves lifting the oil and gas to the surface and gathering, treating, field processing and field storage of the oil and gas. The production function normally terminates at the outlet valve on the lease or field production storage tank. Production costs are those incurred to operate and maintain the company's wells and related equipment and facilities. They become part of the cost of oil and gas produced.

Depreciation and depletion for assets associated with producing properties begin at the time when production commences on a regular basis. Depreciation for other assets begins when the asset is in place and ready for its intended use. Assets under construction are not depreciated or depleted. Depreciation and depletion are calculated using the unit-of-production method for producing properties, including capitalized exploratory drilling and development costs. Depreciation of other plant and equipment is calculated using the straight-line method, based on the estimated service life of the asset. In general, refineries are depreciated over 25 years; other major assets, including chemical plants and service stations, are depreciated over 20 years.

Proved oil and gas properties held and used by the company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The company estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. Cash flows used in impairment evaluations are developed using annually updated corporate plan investment evaluation assumptions for crude oil commodity prices and foreign-currency exchange rates.

Annual volumes are based on individual field production profiles, which are also updated annually. Prices for natural gas and other products sold under contract are based on corporate plan assumptions developed annually by major contracts and also for investment evaluation purposes.

Gains or losses on assets sold are included in "investment and other income" in the consolidated statement of earnings.

Goodwill and other intangible assets

Goodwill and intangible assets with indefinite lives are not subject to amortization. These assets are tested for impairment annually or more frequently if events or circumstances indicate the assets might be impaired. Impairment losses are recognized in current period earnings. The evaluation for impairment of goodwill is based on a comparison of the carrying values of goodwill and associated operating assets with the estimated present value of net cash flows from those operating assets.

Intangible assets with determinable useful lives are amortized over the estimated service lives of the assets. Computer software development costs are amortized over a maximum of 15 years and customer lists are amortized over a maximum of 10 years. The amortization is included in "depreciation and depletion" in the consolidated statement of earnings.

Asset retirement obligations and other environmental liabilities

Legal obligations associated with site restoration on the retirement of assets with determinable useful lives are recognized when they are incurred, which is typically at the time the assets are installed. The obligations are initially measured at fair value and discounted to present value. A corresponding amount equal to that of the initial obligation is added to the capitalized costs of the related asset. Over time the discounted asset retirement obligation amount will be accreted for the change in its present value, and the initial capitalized costs will be depreciated over the useful lives of the related assets.

No asset retirement obligations are set up for assets with an indeterminate useful life. Provision for environmental liabilities of these and non-operating assets is made when it is probable that obligations have been incurred and the amount can be reasonably estimated. The fair values of asset retirement obligations and other provisions for environmental liabilities are determined based on engineering estimated costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, current technology and the possible use of the location.

Foreign-currency translation

Monetary assets and liabilities in foreign currencies have been translated at the rates of exchange prevailing on December 31. Any exchange gains or losses are recognized in earnings.

Financial instruments

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset is other than temporary, the financial asset is written down to its fair value. Unless otherwise indicated, the fair values of financial instruments approximate their recorded amounts.

The fair values of cash, marketable securities, accounts receivable and current liabilities approximate recorded amounts because of the short period to receipt or payment of cash. The fair value of the company's long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same duration to maturity. The fair values of other financial instruments held by the company are estimated primarily by discounting future cash flows, using current rates for similar financial instruments under similar credit risk and maturity conditions.

The company does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. The company makes limited use of derivatives. Derivative instruments are not held for trading purposes.

Revenues

Revenues associated with sales of crude oil, natural gas, petroleum and chemical products and other items are recorded when the products are delivered. Delivery occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectibility is reasonably assured. The company does not enter into ongoing arrangements whereby it is required to repurchase its products, nor does the company provide the customer with a right of return.

Revenues include amounts billed to customers for shipping and handling. Shipping and handling costs incurred up to the point of final storage prior to delivery to a customer are included in "purchases of crude oil and products" in the consolidated statement of earnings. Delivery costs from final storage to customer are recorded as a marketing expense in selling and general expenses.

Stock-based compensation

The company accounts for its stock-based compensation programs, except for the incentive stock options granted in April 2002, by using the fair-value-based method. Under this method, compensation expense related to the units of these programs is measured by the fair value of the unit and is recorded in the consolidated statement of earnings over the vesting period.

As permitted by the new Canadian Institute of Chartered Accountants (CICA) standard on accounting for stock-based compensation, the company continues to apply the intrinsic-value-based method of accounting for the incentive stock options granted in April 2002. Under this method, compensation expense is not recognized on the issuance of stock options as long as the exercise price is equal to the market value at the date of grant.

Consumer taxes

Taxes levied on the consumer and collected by the company are excluded from the consolidated statement of earnings. These are primarily provincial taxes on motor fuels and the federal goods and services tax.

Interest costs

Interest costs are expensed as incurred and included in "financing costs" in the consolidated statement of earnings.

Accounting principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Form 10-K, filed with the United States Securities and Exchange Commission, includes a description of the differences between GAAP in Canada and in the United States as they apply to the company.

Effective January 1, 2003, the company has adopted the new CICA standards on accounting for asset retirement obligations. The impact of adopting this new standard is described in note 2 to the consolidated financial statements on page 35. The company has early adopted the additional disclosure requirements by the CICA on employee future benefits, as shown in note 5 on page 37. The company has also early adopted the new CICA standard on stock-based compensation with no impact on its accounting or reporting.

Notes to consolidated financial statements

1. Business segments

millions of dollars	Natural resources (a)			Petroleum products			Chemicals		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Revenues									
External sales (c)	3 390	2 573	3 144	14 710	13 362	13 079	994	955	930
Intersegment sales	2 224	2 217	2 166	1 294	1 038	1 300	238	209	245
Investment and other income	34	104	11	54	34	26	—	—	—
Total revenues	5 648	4 894	5 321	16 058	14 434	14 405	1 232	1 164	1 175
Expenses									
Exploration	55	30	45	—	—	—	—	—	—
Purchases of crude oil and products	2 357	1 814	2 444	12 066	10 974	10 505	911	830	895
Operating	1 093	990	952	810	761	755	124	115	124
Selling and general (d)	28	21	30	1 123	1 076	1 134	118	115	97
Federal excise tax	—	—	—	1 254	1 231	1 180	—	—	—
Depreciation and depletion (e) (f)	517	479	457	211	203	238	22	23	23
Financing costs (note 12)	1	1	2	2	1	2	—	—	—
Total expenses	4 051	3 335	3 930	15 466	14 246	13 814	1 175	1 083	1 139
Earnings before income taxes	1 597	1 559	1 391	592	188	591	57	81	36
Income taxes (note 4)									
Current	535	517	556	66	172	125	13	40	11
Future	(77)	(14)	(122)	119	(111)	113	7	(11)	2
Total income tax expense	458	503	434	185	61	238	20	29	13
Net earnings	1 139	1 056	957	407	127	353	37	52	23
Cash flow from earnings	1 576	1 526	1 287	719	216	700	66	63	49
Capital and exploration expenditures (g)	1 007	986	746	478	589	339	41	25	30
Property, plant and equipment									
Cost	12 610	11 672	10 785	6 069	5 827	5 462	609	579	554
Accumulated depreciation and depletion	6 813	6 303	5 871	2 856	2 867	2 842	401	383	366
Net property, plant and equipment (h)	5 797	5 369	4 914	3 213	2 960	2 620	208	196	188
Total assets (f)	6 434	6 014	5 385	5 341	5 048	4 348	446	418	373
Total capital employed	3 784	3 325	2 580	2 784	2 484	2 148	246	178	195

millions of dollars	Corporate and other			Consolidated (b)		
	2003	2002	2001	2003	2002	2001
Revenues						
External sales (c)	—	—	—	19 094	16 890	17 153
Intersegment sales	—	—	—	—	—	—
Investment and other income	26	14	63	114	152	100
Total revenues	26	14	63	19 208	17 042	17 253
Expenses						
Exploration	—	—	—	55	30	45
Purchases of crude oil and products	—	—	—	11 580	10 155	10 134
Operating	—	—	—	2 025	1 865	1 830
Selling and general (d)	—	10	19	1 269	1 222	1 280
Federal excise tax	—	—	—	1 254	1 231	1 180
Depreciation and depletion (e) (f)	—	—	—	750	705	718
Financing costs (note 12)	(90)	30	148	(87)	32	152
Total expenses	(90)	40	167	16 846	15 240	15 339
Earnings before income taxes	116	(26)	(104)	2 362	1 802	1 914
Income taxes (note 4)						
Current	(4)	(11)	(13)	610	718	679
Future	21	(4)	(13)	70	(140)	(20)
Total income tax expense	17	(15)	(26)	680	578	659
Net earnings	99	(11)	(78)	1 682	1 224	1 255
Cash flow from earnings	(7)	(24)	(20)	2 354	1 781	2 016
Capital and exploration expenditures (g)	—	—	—	1 526	1 600	1 115
Property, plant and equipment						
Cost	—	—	—	19 288	18 078	16 801
Accumulated depreciation and depletion	—	—	—	10 070	9 553	9 079
Net property, plant and equipment (h)	—	—	—	9 218	8 525	7 722
Total assets (f)	448	766	873	12 361	11 894	10 781
Total capital employed	448	816	918	7 262	6 803	5 841

(a) A significant portion of activities in the natural resources segment is conducted jointly with other companies. The segment includes the company's proportionate share of joint-venture activities, as follows:

millions of dollars	2003	2002	2001
Total revenues	2 494	2 357	2 689
Total expenses	1 577	1 520	1 733
Net earnings, after income taxes	664	557	637
Total current assets	302	321	232
Long-term assets	3 553	3 038	2 750
Total current liabilities	913	669	919
Other long-term obligations	302	268	262
Cash flow from earnings	868	767	828
Cash flow from operating activities	883	615	850
Cash from (used in) investing activities	(754)	(601)	(301)

(b) Information is presented as though each segment were a separate business activity. Intersegment sales are made essentially at prevailing market prices. Consolidated amounts exclude intersegment transactions, as follows:

millions of dollars	2003	2002	2001
Purchases of crude oil and products	3 754	3 463	3 710
Operating expense	2	1	1
Total intersegment sales	3 756	3 464	3 711
Intersegment receivables and payables	308	352	198

(c) Includes export sales to the United States, as follows:

millions of dollars	2003	2002	2001
Natural resources	1 304	942	1 018
Petroleum products	792	723	770
Chemicals	567	520	503
Total export sales	2 663	2 185	2 291

(d) Consolidated selling and general expenses include delivery costs from final storage to customers of \$285 million (2002 – \$216 million; 2001 – \$244 million).

(e) Goodwill was not amortized in 2003 and 2002 (amortization expense in 2001 – \$28 million). All goodwill has been assigned to the petroleum products segment. There have been no goodwill acquisitions, impairment losses or write-offs due to sales in the past three years.

(f) Total assets include amortized intangible assets, consisting primarily of acquired customer lists and capitalized computer-software development costs, as follows:

millions of dollars	2003	2002
Cost	87	81
Accumulated amortization	35	30
Net intangible assets	52	51

Customer lists acquired in 2003 were \$1 million (2002 – \$5 million), those disposed of or retired were \$1 million (2002 – \$1 million) and no gain or loss was recognized. Capitalized computer-software development costs in 2003 were \$6 million (2002 – \$20 million). The estimated annual amortization expense for intangible assets in each of the next five years is \$8 million.

(g) Capital and exploration expenditures of the petroleum products segment include non-cash capital leases of \$22 million in 2003 (2002 – \$18 million).

(h) Includes property, plant and equipment under construction of \$1,426 million (2002 – \$1,275 million).

2. Reporting changes

Effective January 1, 2003, the company implemented reporting changes to reflect the new accounting standard of the Canadian Institute of Chartered Accountants (CICA) dealing with accounting for asset retirement obligations. The new CICA standard changes the method of accruing for certain site-restoration costs. Under the new standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically at the time the related assets are installed. Amounts recorded for the related assets are increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value, and the initial capitalized costs will be depreciated over the useful lives of the related assets. There are no asset retirement liabilities set up for those assets that have an indeterminate useful life.

Notes to consolidated financial statements (continued)

Reporting changes (continued)

Estimated cash flows have been discounted at six percent. Implementation of the new standard has reduced environmental liabilities by \$28 million to \$462 million as of December 31, 2003. The total undiscounted amount of the estimated cash flows required to settle the obligations is \$895 million. Payments to settle the obligations occur on an ongoing basis and will continue over the lives of the operating assets, which can exceed 25 years. This change in accounting standard has no impact on the cash flow profile of the company. The new standard has been applied retroactively, and the financial statements of prior periods have been restated.

The impact of adopting the new standard of accounting for asset retirement obligations on the consolidated balance sheet and statement of earnings is:

Changes in consolidated balance sheet

millions of dollars – increase/(decrease)	2003	2002
Property, plant and equipment	24	26
Total assets	24	26
Other long-term obligations	(28)	20
Future income tax liabilities	18	2
Retained earnings	34	4
Total liabilities and shareholders' equity	24	26

Changes in consolidated statement of earnings

millions of dollars – increase/(decrease)	2003	2002	2001
Operating expense	(48)	(23)	(25)
Depreciation and depletion expense	2	2	2
Total expenses	(46)	(21)	(23)
Income taxes	16	7	7
Net earnings	30	14	16
Earnings per share – basic and diluted (dollars)	0.08	0.04	0.04

The change in asset retirement obligations liability is as follows:

millions of dollars	2003	2002
Asset retirement obligations liability at January 1	341	334
Additions	–	8
Accretion	20	20
Settlements	(34)	(21)
Asset retirement obligations liability at December 31	327	341

3. Long-term debt

			2003	2002
issued	maturity date	interest rate	millions of dollars	
1989	September 1, 2004 (2002 – \$600 million (U.S.)) (a)	Variable	–	946
2002	May 7, 2004 (b)	Variable	–	500
2003	\$250 million due May 26, 2005 and \$250 million due August 26, 2005 (a)	Variable	500	–
2003	January 19, 2006 (a)	Variable	318	–
Long-term debt (at period-end exchange rates) (c)			818	1 446
Capital leases (d)			41	20
Total long-term debt (e)			859	1 466

(a) During the first half of 2003, the company redeemed the \$600-million (U.S.) variable-rate debt for \$818 million (Cdn) and replaced it with long-term variable-rate loans of \$818 million (Cdn) from Exxon Overseas Corporation at interest equivalent to Canadian market rates. The average effective interest rate for the loans was 3.1 percent for 2003.

(b) Principal payments on medium-term notes of \$500 million, which have been reclassified to current portion of long-term debt in the balance sheet, are due in 2004. These notes are extendable up to May 7, 2007, at note holders' discretion.

(c) The estimated fair value of the long-term debt at December 31, 2003, was \$818 million (2002 – \$1,446 million).

(d) These obligations primarily relate to the capital lease for marine services, which are to be provided by the lessor commencing in 2004 for a period of 10 years, extendable for an additional five years. The obligations recorded to date represent the costs incurred by the lessor for the construction of the related marine assets.

(e) Principal payments on long-term loans of \$500 million are due in 2005 and \$318 million are due in 2006. Principal payments on capital leases of approximately \$4 million a year are due in each of the next five years.

4. Income taxes

millions of dollars	2003	2002	2001
Current income tax expense	610	718	679
Future income tax expense (a)	70	(140)	(20)
Total income tax expense (b)	680	578	659
Statutory corporate tax rate (percent)	38.5	42.0	42.7
Increase/(decrease) resulting from:			
Non-deductible royalty payments to governments	5.0	5.4	7.9
Resource allowance in lieu of royalty deduction	(7.5)	(11.8)	(11.4)
Manufacturing and processing credit	0.2	(0.3)	(1.3)
Non-deductible depreciation and amortization	—	—	0.6
Enacted tax rate change	(3.1)	(0.9)	(2.1)
Other	(4.3)	(2.3)	(2.0)
Effective income tax rate	28.8	32.1	34.4

Future income taxes are based on differences between the accounting and tax values of assets and liabilities. These differences in value are remeasured at each period-end using the tax rates and tax laws expected to apply when those differences are realized or settled in the future. Components of future income tax liabilities and assets as at December 31 were:

millions of dollars	2003	2002
Depreciation and amortization	1 233	1 098
Successful drilling and land acquisitions	495	660
Pension and benefits	(137)	(229)
Site restoration	(167)	(186)
Net tax loss carryforwards (c)	(57)	(37)
Other	(5)	(44)
Total future income tax liabilities	1 362	1 262
LIFO inventory valuation	(268)	(271)
Other	(85)	(52)
Total future income tax assets	(353)	(323)
Net future income tax liabilities	1 009	939

(a) The future income tax expense for the year is the difference in net future income tax liabilities at the beginning and end of the year.

(b) Net cash outflow from income taxes, plus investment credits earned, were \$573 million in 2003 (2002 – \$935 million; 2001 – \$1,086 million).

(c) Tax losses can be carried forward indefinitely.

The operations of the company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. The company believes the provision made for income taxes is adequate.

5. Employee retirement benefits

Retirement benefits, which cover almost all retired employees and their surviving spouses, include pension-income and certain health-care and life-insurance benefits. They are met through funded registered retirement plans and through unfunded supplementary benefits that are paid directly to recipients. Funding of registered retirement plans complies with federal and provincial pension regulations, and the company makes contributions to the plans based upon an independent actuarial valuation.

Pension-income benefits consist mainly of company-paid defined benefit plans that are based on years of service and final average earnings. The company shares in the cost of health-care and life-insurance benefits. The company's benefit obligations are based on the projected-benefit method of valuation, which includes employee service to date and present compensation levels as well as a projection of salaries and service to retirement.

The expense and obligations for both funded and unfunded benefits are determined in accordance with generally accepted Canadian accounting principles and actuarial procedures. The process for determining retirement-income expense and related obligations includes making certain long-term assumptions regarding the discount rate, rate of return on plan assets and rate of compensation increases.

The total obligation for employee retirement benefits exceeded the fair value of plan assets at December 31, 2003, by \$1,357 million (2002 – \$1,780 million), \$975 million (2002 – \$1,426 million) of which was related to pension benefits and \$382 million (2002 – \$354 million) was related to other post-retirement benefits. The obligation and pension expense can vary significantly with changes in the assumptions used to estimate the obligation and the expected return on plan assets.

Notes to consolidated financial statements (continued)

Employee retirement benefits (continued)

Details of the employee retirement benefits plans are as follows:

millions of dollars	Pension benefits			Other post-retirement benefits		
	2003	2002	2001	2003	2002	2001
Components of net benefit expense						
Current service cost	71	64	57	5	4	4
Interest cost	219	222	215	22	21	21
Expected return on plan assets	(179)	(191)	(257)	—	—	—
Amortization of prior service cost	25	25	23	—	—	—
Recognized actuarial loss/(gain)	69	34	—	3	1	—
Net benefit expense (a) (e)	205	154	38	30	26	25

Change in benefit obligation

Benefit obligation at January 1	3 530	3 248		354	323	
Current service cost	71	64		5	4	
Interest cost	219	222		22	21	
Amendments	—	27		—	—	
Actuarial loss/(gain)	171	196		19	25	
Benefits paid	(230)	(227)		(18)	(19)	
Benefit obligation at December 31 (b) (e)	3 761	3 530		382	354	

Change in plan assets

Fair value of plan assets at January 1	2 104	2 390				
Actual return on plan assets	377	(107)				
Company contributions (b)	511	19				
Payments directly to participants	24	29				
Benefits paid	(230)	(227)				
Fair value of plan assets at December 31 (b)	2 786	2 104				

Excess/(deficiency) of plan assets over benefit obligation	(975)	(1 426)		(382)	(354)	
Unrecognized net actuarial (gain)/loss (c)	829	924		52	36	
Unrecognized prior service cost (c)	89	114		—	—	
Total net liability	(57)	(388)		(330)	(318)	
Less: Prepaid benefit cost (d)	162	—		—	—	
Liability recognized (note 6)	(219)	(388)		(330)	(318)	

The benefit obligation at year-end includes funded and unfunded plans, as follows:

Funded plans	3 464	3 230		—	—	
Unfunded plans	297	300		382	354	
Benefit obligation at December 31	3 761	3 530		382	354	

Assumptions

The discount rate used for year-end employee retirement liabilities reflects the rate at which employee retirement liabilities could be effectively settled and is based on the year-end rate of interest on a portfolio of high-quality bonds.

Assumptions used to determine benefit obligations at December 31 (percent)

Discount rate	6.25	6.25		6.25	6.25	
Long-term rate of compensation increase	3.50	3.50		3.50	3.50	

Assumptions used to determine net benefit expense for years ended December 31 (percent)

Discount rate	6.25	6.75	7.00	6.25	6.75	7.00
Long-term rate of compensation increase	3.50	3.50	3.50	3.50	3.50	3.50
Long-term rate of return on plan assets	8.25	8.25	10.00	—	—	—

Plan assets

Imperial's pension plan asset allocation at December 31, 2002 and 2003, and target allocation for 2004, are as follows:

Asset category (percent)	Target allocation 2004	Percentage of plan assets at December 31	
		2003	2002
Equities	50 – 75	62	60
Fixed income	25 – 50	38	40
Other	0 – 10	–	–
Total		100	100

The company establishes the long-term expected rate of return by developing a forward-looking long-term return assumption for each asset class, taking into account factors such as the expected real return for the specific asset class and inflation. A single, long-term rate of return is then calculated as the weighted average of the target asset allocation and the long-term return assumption for each asset class. The 2003 long-term expected rate of return of 8.25 percent used in the calculations of pension expense compares to an actual rate of return over the past decade of 9.5 percent.

The company's investment strategy for benefit plan assets reflects a long-term view, a careful assessment of the risks inherent in various asset classes and broad diversification to reduce the risk of the total portfolio. The company primarily invests in funds that follow an index-based strategy to achieve its objectives of diversifying risk while minimizing costs. The fund holds Imperial Oil Limited common shares only to the extent necessary to replicate the relevant equity index. Asset-liability studies, or simulations of the interaction of cash flows associated with both assets and liabilities, are periodically used to establish the preferred target asset allocation. The target asset allocation for equity securities reflects the long-term nature of the liability. The balance of the fund is targeted to debt securities.

- (a) Additional expenses include contributions to defined contribution plans, primarily the employee savings plan, of \$31 million in 2003 (2002 – \$30 million; 2001 – \$23 million).
 (b) The most recent independent actuarial valuation was as at June 30, 2003. The measurement date used to determine the plan assets and the benefit obligations was December 31, 2003.
 (c) Unrecorded assets/(liabilities) are amortized over the average remaining service life of employees, which for 2004 and subsequent years is 13 years (2003 – 13.5 years; 2002 – 13.5 years).
 (d) Prepaid benefit costs are included in investments and other long-term assets on the consolidated balance sheet.
 (e) A one-percent change in the assumptions at which retirement liabilities could be effectively settled is as follows:

millions of dollars	One-percent increase	One-percent decrease
Rate of return on plan assets:		
Effect on net benefits expenses	(20)	20
Discount rate:		
Effect on net benefits expenses	(35)	40
Effect on benefits obligations	(440)	540
Rate of compensation increases:		
Effect on net benefits expenses	25	(25)
Effect on benefits obligations	130	(115)

For measurement purposes, a five-percent health-care cost trend rate was assumed for 2003 and thereafter. A one-percent change in the assumed health-care cost trend rate would have the following effects:

millions of dollars	One-percent increase	One-percent decrease
Effect on service and interest cost components	3	(2)
Effect on other post-retirement benefit obligation	35	(30)

6. Other long-term obligations

millions of dollars	2003	2002
Employee retirement benefits (note 5) (a)	505	671
Asset retirement obligations and other environmental liabilities (b)	393	454
Other obligations	74	82
Total other long-term obligations	972	1 207

(a) Total recorded employee retirement benefits obligations also include \$44 million in current liabilities (2002 – \$35 million).

(b) Total asset retirement obligations and other environmental liabilities also include \$69 million in current liabilities (2002 – \$71 million).

Notes to consolidated financial statements (continued)

7. Derivative financial instruments

No significant energy derivatives, foreign-exchange forward contracts or currency and interest-rate swaps were transacted in the past three years. The company maintains a system of controls that includes a policy covering the authorization, reporting and monitoring of derivative activity.

8. Incentive compensation programs

Incentive compensation programs are designed to retain selected employees, reward them for high performance and promote individual contribution to sustained improvement in the company's future business performance and shareholder value.

Incentive share units, deferred share units, earnings bonus units and restricted stock units

Incentive share units have value if the market price of the company's common shares when the unit is exercised exceeds the market value when the unit was issued. The issue price of incentive share units is the closing price of the company's shares on the Toronto Stock Exchange on the grant date. Up to 50 percent of the units may be exercised after one year from issuance; an additional 25 percent may be exercised after two years; and the remaining 25 percent may be exercised after three years. Incentive share units are eligible for exercise up to 10 years from issuance. The units may expire earlier if employment is terminated other than by retirement, death or disability.

The deferred share unit plan is made available to selected executives and nonemployee directors. The selected executives can elect to receive all or part of their performance bonus compensation in units and the nonemployee directors can elect to receive all or part of their directors' fees in units. The number of units granted to executives is determined by dividing the amount of the bonus elected to be received as deferred share units by the average of the closing prices of the company's shares on the Toronto Stock Exchange for the five consecutive trading days immediately prior to the date that the bonus would have been paid. The number of units granted to a nonemployee director is determined at the end of each calendar quarter by dividing the amount of directors' fees for the calendar quarter that the nonemployee director elected to receive as deferred share units by the average closing price of the company's shares for the five consecutive trading days immediately prior to the last day of the calendar quarter. Additional units are granted based on the cash dividend payable on the company's shares divided by the average closing price immediately prior to the payment date for that dividend and multiplying the resulting number by the number of deferred share units held by the recipient.

Deferred share units cannot be exercised until after termination of employment with the company or resignation as a director and must be exercised no later than December 31 of the year following termination or resignation. On the exercise date, the cash value to be received for the units is determined based on the average closing price of the company's shares for the five consecutive trading days immediately prior to the date of exercise.

The earnings bonus unit plan is available to selected executives. Each earnings bonus unit entitles the recipient to receive an amount equal to the company's cumulative net earnings per common share as announced each quarter beginning after the grant. Payout occurs on the fifth anniversary of the grant or when the maximum settlement value per unit is reached, if earlier. Earnings bonus units may expire if employment is terminated other than by death or disability.

Under the restricted stock unit plan, each unit entitles the recipient to the conditional right to receive from the company, upon exercise, an amount equal to the closing price of the company's common shares on the Toronto Stock Exchange on the exercise dates. Fifty percent of the units are exercised three years following the grant date, and the remainder are exercised seven years following the grant date.

All units require settlement by cash payments with one exception. The restricted stock unit plan was amended for units granted in 2003 and future years by providing that the recipient may receive one common share of the company per unit or elect to receive the cash payment for the units to be exercised on the seventh anniversary of the grant date.

For deferred share units, a charge is made to expense in the year of grant equal to the cash performance bonus payment and directors' fees foregone. The company records expense for incentive share, deferred share and restricted stock units based on changes in the price of common shares in the year. Expense for earnings bonus units is recorded based on the cumulative net earnings per outstanding common share from issue date, up to the maximum settlement value for the units.

Incentive stock options

In April 2002, incentive stock options were granted for the purchase of the company's common shares at an exercise price of \$46.50 per share. Up to 50 percent of the options may be exercised on or after January 1, 2003, a further 25 percent may be exercised on or after January 1, 2004, and the remaining 25 percent may be exercised on or after January 1, 2005. Any unexercised options expire after April 29, 2012. The company did not issue incentive stock options in 2003 and has no plans to issue incentive stock options in the future.

The company does not recognize compensation expense on the issuance of stock options because the exercise price is equal to the market value at the date of grant. If the fair-value-based method of accounting had been adopted, net income and earnings per share (on both a basic and diluted basis) for 2003 would have been reduced by \$5 million or \$0.01 per share (2002 – \$16 million or \$0.04 per

share). The average fair value of each option granted during 2002 was \$12.70. The fair value was estimated at the grant date using an option-pricing model with the following weighted average assumptions: risk-free interest rate of 5.7 percent, expected life of five years, volatility of 25 percent and a dividend yield of 1.9 percent.

The company has purchased shares on the market to fully offset the dilutive effects from the exercise of stock options. The practice is expected to continue.

A summary of the incentive compensation is as follows:

	Granted in period			Number of units outstanding at December 31	Expensed in period (millions of dollars)	Obligations outstanding at December 31 (millions of dollars)
	Number of units	To number of employees	To number of nonemployees			
Incentive share units						
2003	—	—	—	6 889 330	109	216
2002	7 000	3	—	8 012 250	39	142
2001	2 752 700	744	—	8 823 125	51	129
Deferred share units						
2003	8 253	5	6	43 911	1	3
2002	7 479	6	7	85 523	—	4
2001	15 222	2	5	87 897	1	4
Earnings bonus units						
2003	2 221 580	84	—	3 234 250	3	3
2002	1 036 500	75	—	2 169 040	3	3
2001	1 132 540	21	—	1 132 540	—	—
Incentive stock options						
2003	—	—	—	3 136 150	—	—
2002	3 210 200	765	—	3 196 700	—	—
Restricted stock units						
2003	872 085	613	5	1 660 555	11	11
2002	791 890	690	5	791 890	—	—

9. Commitments and contingent liabilities

At December 31, 2003, the company had commitments for noncancellable operating leases and other long-term agreements that require the following minimum future payments:

millions of dollars	2004	2005	2006	2007	2008	After 2008
Operating leases (a)	72	59	49	43	34	114
Unconditional purchase obligations (b)	90	47	38	38	38	98
Firm capital commitments (c)	176	8	5	—	—	—
Other long-term agreements (d)	260	235	151	57	57	277

(a) Total rental expense incurred for operating leases in 2003 was \$124 million (2002 – \$124 million; 2001 – \$122 million). Operating lease commitments related to joint-venture activities are not material.

(b) Unconditional purchase obligations are those long-term commitments that are noncancellable or cancellable only under certain conditions. These mainly pertain to pipeline throughput agreements. Total payments under unconditional purchase obligations were \$114 million in 2003 (2002 – \$115 million; 2001 – \$179 million).

(c) Firm capital commitments related to capital projects, shown on an undiscounted basis, totalled approximately \$189 million at the end of 2003 (2002 – \$284 million). The largest commitments outstanding at year-end 2003 were associated with the company's share of capital projects at Syncrude of \$56 million and offshore East Coast of \$50 million.

(d) Other long-term agreements include primarily raw material supply and transportation services agreements. Total payments under other long-term agreements were \$332 million in 2003 (2002 – \$288 million; 2001 – \$264 million). Payments under other long-term agreements related to joint-venture activities are approximately \$44 million per year.

Other commitments arising in the normal course of business for operating and capital needs do not materially affect the company's consolidated financial position.

The company was contingently liable at December 31, 2003, for a maximum of \$163 million relating to guarantees for purchasing operating equipment and other assets from its rural marketing agents upon expiry of the agency agreement or the death or resignation of the agent. The company expects that the fair value of the operating equipment and other assets so purchased would cover the maximum potential amount of future payment under the guarantees.

The company provides in its financial statements for asset retirement obligations and other environmental liabilities (see accounting policies on page 33). Provision is not made with respect to those manufacturing, distribution and marketing facilities with indeterminate useful lives for which estimates of these future costs cannot be reasonably determined. These are primarily currently operated sites. These costs are not expected to have a material effect on the company's current consolidated financial position.

Notes to consolidated financial statements (continued)

Commitments and contingent liabilities (continued)

Various lawsuits are pending against Imperial Oil Limited and its subsidiaries. The actual liability with respect to these lawsuits is not determinable, but management believes, based on the opinion of counsel, that any liability will not materially affect the company's consolidated financial position.

10. Common shares

The number of authorized common shares of the company as at December 31, 2003 was 450,000,000, unchanged from December 31, 2002, and December 31, 2001.

From 1995 to 2002, the company purchased shares under eight 12-month normal course share purchase programs, as well as an auction tender. On June 23, 2003, another 12-month normal course share purchase program was implemented with an allowable purchase of 18.6 million shares (five percent of the total at June 19, 2003), less any shares purchased by the employee savings plan and company pension fund. The results of these activities are shown below.

Year	Purchased shares	Millions of dollars
1995 to 2001	202 365 149	5 156
2002	296 052	13
2003	16 259 538	799
Cumulative purchases to date	218 920 739	5 968

Exxon Mobil Corporation's participation in the above maintained its ownership interest in Imperial at 69.6 percent.

The excess of the purchase cost over the stated value of shares purchased has been recorded as a distribution of retained earnings.

The company's common share activity is summarized below:

	Thousands of shares	At stated value, millions of dollars
Balance as at December 31, 2001	379 159	1 941
Issued for cash under stock option plan	—	—
Purchases	(296)	(2)
Balance as at December 31, 2002	378 863	1 939
Issued for cash under stock option plan	49	2
Purchases	(16 260)	(82)
Balance as at December 31, 2003	362 652	1 859

The following table provides the calculation of basic and diluted earnings per share:

	2003	2002	2001
Net earnings (millions of dollars)	1 682	1 224	1 255
Average number of common shares outstanding, weighted monthly (thousands)	372 011	378 875	393 121
Plus: average number of shares issued on assumed exercise of stock options (thousands)	143	1	—
Weighted average number of diluted common shares (thousands)	372 154	378 876	393 121
Earnings per share – basic (dollars)	4.52	3.23	3.19
Earnings per share – diluted (dollars)	4.52	3.23	3.19

11. Miscellaneous financial information

In 2003, net earnings included an after-tax gain of \$9 million (2002 – \$2 million loss; 2001 – \$18 million gain) attributable to the effect of changes in last-in, first-out (LIFO) inventories. The replacement cost of inventories was estimated to exceed their LIFO carrying values at December 31, 2003, by \$797 million (2002 – \$941 million). Inventories of crude oil and products at year-end consisted of the following:

millions of dollars	2003	2002
Crude oil	161	148
Petroleum products	175	198
Chemical products	57	70
Natural gas and other	14	17
Total inventories of crude oil and products	407	433

Research and development costs in 2003 were \$63 million (2002 – \$64 million; 2001 – \$71 million) before investment tax credits earned on these expenditures of \$10 million (2002 – \$10 million; 2001 – \$6 million). The net costs are included in expenses due to the uncertainty of future benefits.

Cash flow from earnings included dividends of \$15 million received from equity investments in 2003 (2002 – \$18 million; 2001 – \$10 million).

Accounts receivable included allowance for doubtful accounts of \$13 million in 2003 (2002 – \$13 million).

12. Financing costs

millions of dollars	2003	2002	2001
Debt-related interest	38	40	77
Other interest	4	2	4
Total interest expense (a)	42	42	81
Foreign-exchange expense (gain) on long-term debt	(129)	(10)	71
Total financing costs	(87)	32	152

(a) Cash interest payments in 2003 were \$38 million (2002 – \$41 million; 2001 – \$99 million). The weighted-average interest rate on short-term debt in 2003 was 3.1 percent (2002 – 2.4 percent). The average effective interest rate on the company's debt was 2.9 percent in 2003 (2002 – 2.1 percent).

13. Transactions with Exxon Mobil Corporation and affiliated companies (ExxonMobil)

Revenues and expenses of the company also include the results of transactions with ExxonMobil in the normal course of operations. These were conducted on terms as favourable as they would have been with unrelated parties and primarily consisted of the purchase and sale of crude oil, petroleum and chemical products, as well as transportation, technical and engineering services. Transactions with ExxonMobil also included amounts paid and received in connection with the company's participation in a number of natural resources joint-venture operations in Canada. The company has an existing agreement with ExxonMobil Canada to share common business and operational support services that allow the companies to consolidate duplicate work and systems. The amounts paid or received have been reflected in the statement of earnings as shown in the table below.

millions of dollars	2003	2002	2001
Operating revenues	950	1 036	664
Purchases of crude oil and products	2 464	2 134	1 873
Operating expense	14	57	47

Accounts payable due to Exxon Mobil Corporation at December 31, 2003, with respect to the above transactions, were \$167 million (2002 – \$146 million).

During 2003, the company borrowed \$818 million (Cdn) from Exxon Overseas Corporation under two long-term loan agreements as described in note 3. Interest paid on the loans in 2003 was \$14 million.

14. Net payments to governments

millions of dollars	2003	2002	2001
Current income tax expense (note 4)	610	718	679
Federal excise tax	1 254	1 231	1 180
Property taxes included in expenses	80	85	86
Payroll and other taxes included in expenses	52	51	47
GST/QST/HST collected (a)	2 015	1 717	1 749
GST/QST/HST input tax credits (a)	(1 705)	(1 368)	(1 384)
Other consumer taxes collected	1 662	1 589	1 585
Crown royalties	418	314	460
Total paid or payable to governments	4 386	4 337	4 402
Less investment tax credits and other receipts	30	12	7
Net payments to governments	4 356	4 325	4 395
Net payments to:			
Federal government	2 061	2 171	2 160
Provincial governments	2 215	2 069	2 149
Local governments	80	85	86
Net payments to governments	4 356	4 325	4 395

(a) The abbreviations refer to the federal goods and services tax, the Quebec sales tax and the federal/provincial harmonized sales tax, respectively. The HST is applicable in the provinces of Nova Scotia, New Brunswick and Newfoundland and Labrador.

Natural resources segment – supplemental information

Pages 44 and 45 provide information about the natural resources segment (see note 1, page 34). The information excludes items not related to oil and natural gas extraction such as administrative and general expenses, pipeline operations, gas plant processing fees and gains or losses on asset sales.

Results of operations

	Oil and gas			Syncrude			Total		
millions of dollars	2003	2002	2001	2003	2002	2001	2003	2002	2001
Sales to customers	1 816	1 381	1 306	–	–	–	1 816	1 381	1 306
Intersegment sales	584	741	767	817	838	741	1 401	1 579	1 508
Total sales (a)	2 400	2 122	2 073	817	838	741	3 217	2 960	2 814
Production expenses	594	576	526	449	388	395	1 043	964	921
Exploration expenses	55	30	45	–	–	–	55	30	45
Depreciation and depletion	463	426	411	54	53	46	517	479	457
Income taxes	364	350	340	97	124	92	461	474	432
Results of operations	924	740	751	217	273	208	1 141	1 013	959

Capital and exploration expenditures

	Oil and gas			Syncrude			Total		
millions of dollars	2003	2002	2001	2003	2002	2001	2003	2002	2001
Property costs (b)									
Proved	–	13	–	–	–	–	–	13	–
Unproved	2	5	5	–	–	–	2	5	5
Exploration costs	55	34	44	–	–	–	55	34	44
Development costs	339	469	489	609	465	208	948	934	697
Total capital and exploration expenditures	396	521	538	609	465	208	1 005	986	746

Property, plant and equipment

	Oil and gas		Syncrude		Total	
millions of dollars	2003	2002	2003	2002	2003	2002
Property costs (b)						
Proved	3 332	3 338	3	3	3 335	3 341
Unproved	163	155	5	5	168	160
Producing assets	5 775	5 371	1 657	1 474	7 432	6 845
Support facilities	125	126	226	201	351	327
Incomplete construction	200	227	990	578	1 190	805
Total cost	9 595	9 217	2 881	2 261	12 476	11 478
Accumulated depreciation and depletion	6 012	5 528	714	657	6 726	6 185
Net property, plant and equipment	3 583	3 689	2 167	1 604	5 750	5 293

(a) Sales of crude oil to consolidated affiliates are at market value, using posted field prices. Sales of natural gas liquids to consolidated affiliates are at prices estimated to be obtainable in a competitive, arm's-length transaction. Total sales exclude the sale of natural gas and natural gas liquids purchased for resale, as well as royalty payments. These items are reported gross in note 1 in "Total revenues" and in "Purchases of crude oil and products."

(b) "Property costs" are payments for rights to explore for petroleum and natural gas and for purchased reserves (acquired tangible and intangible assets such as gas plants, production facilities and producing-well costs are included under "Producing assets"). "Proved" represents areas where successful drilling has delineated a field capable of production. "Unproved" represents all other areas.

Net proved developed and undeveloped reserves (a)

	Crude oil and NGLs millions of barrels			Total	Natural gas billions of cubic feet
	Conventional	Cold Lake	Syncrude		
Beginning of year 2001	196	851	610	1 657	1 572
Revisions of previous estimates and improved recovery	(8)	—	—	(8)	9
(Sale)/purchase of reserves in place	—	—	—	—	1
Discoveries and extensions	—	—	230	230	2
Production	(23)	(44)	(19)	(86)	(170)
End of year 2001	165	807	821	1 793	1 414
Revisions of previous estimates and improved recovery	3	33	—	36	(26)
(Sale)/purchase of reserves in place	—	—	—	—	2
Discoveries and extensions	—	—	—	—	3
Production	(22)	(39)	(21)	(82)	(169)
End of year 2002	146	801	800	1 747	1 224
Revisions of previous estimates and improved recovery	1	5	—	6	(40)
(Sale)/purchase of reserves in place	—	—	—	—	—
Discoveries and extensions	—	—	—	—	6
Production	(21)	(43)	(19)	(83)	(167)
End of year 2003	126	763	781	1 670	1 023

(a) Net reserves are the company's share of reserves after deducting the shares of mineral owners or governments or both. All reported reserves are located in Canada. Reserves of natural gas are calculated at a pressure of 14.73 pounds per square inch at 60°F.

Crude oil and natural gas reserve estimates, excluding Syncrude, are based on geological and engineering data, which have demonstrated with reasonable certainty that these reserves are recoverable in future years from known reservoirs under existing economic and operating conditions; i.e., prices and costs as of the date the estimate is made. Reserves of crude oil at Cold Lake are those estimated to be recoverable from the existing experimental pilot plants and commercial phases 1 through 13. The calculation of reserves of crude oil at Syncrude is based on the company's participating interest in the production permit granted in October 1979 and as subsequently amended by the Province of Alberta.

Net proved reserves are determined by deducting the estimated future share of mineral owners or governments or both. For conventional crude oil (excluding enhanced oil-recovery projects) and natural gas, net proved reserves are based on estimated future royalty rates representative of those existing as of the date the estimate is made. Actual future royalty rates may vary with production and price. For enhanced oil-recovery projects, Syncrude and Cold Lake, net proved reserves are based on the company's best estimate of average royalty rates over the life of each project. Actual future royalty rates may vary with production, price and costs.

Reserves data do not include certain resources of crude oil and natural gas such as those discovered in the Beaufort Sea-Mackenzie Delta and the Arctic islands, or the resources contained in oil sands other than those attributable to Syncrude, the Cold Lake pilot area and phases 1 through 13 of Cold Lake production operations.

In 2003, Imperial's net proved reserves of crude oil and NGLs decreased by 77 million barrels, while the net proved reserves of natural gas decreased by 201 billion cubic feet. Production in 2003 totalled 83 million barrels of crude oil and NGLs and 167 billion cubic feet of natural gas. Revision of previous estimates and improved recovery increased reserves of crude oil and NGLs by six million barrels and decreased reserves of natural gas by 40 billion cubic feet. Discoveries and extensions in 2003 totalled six billion cubic feet of natural gas.

Oil-equivalent barrels (OEB) may be misleading, particularly if used in isolation. An OEB conversion ratio of 6,000 cubic feet to one barrel is based on an energy-equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

Share ownership, trading and performance

	2003	2002	2001	2000	1999
Share ownership					
Average number outstanding, weighted monthly (thousands)	372 011	378 875	393 121	417 753	431 475
Number of shares outstanding at December 31 (thousands)	362 653	378 863	379 159	398 263	431 475
Shares held in Canada at December 31 (percent)	15.2	15.8	15.9	16.6	17.6
Number of registered shareholders at December 31 (a)	15 516	15 988	16 483	17 104	17 941
Number of shareholders registered in Canada	13 601	14 014	14 358	14 873	15 650
Shares traded (thousands)	94 063	83 019	129 285	117 980	74 151
Share prices (dollars)					
High	58.22	49.38	46.50	42.25	36.00
Low	43.20	38.51	34.05	26.50	21.70
Close at December 31	57.53	44.86	44.31	39.45	31.00
Net earnings per share – basic and diluted (dollars)	4.52	3.23	3.19	3.38	1.46
Price ratios at December 31					
Share price to net earnings (b)	12.7	13.9	13.9	11.7	21.2
Dividends declared (c)					
Total (millions of dollars)	323	318	324	325	324
Per share (dollars)	0.87	0.84	0.83	0.78	0.75

(a) Exxon Mobil Corporation owns 69.6 percent of Imperial's shares.

(b) Closing share price at December 31, divided by net earnings per share – basic and diluted.

(c) The fourth-quarter dividend is paid on January 1 of the succeeding year.

Information for security holders outside Canada

Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to a Canadian nonresident withholding tax of 15 percent.

The withholding tax is reduced to five percent on dividends paid to a corporation resident in the United States that owns at least 10 percent of the voting shares of Imperial.

Imperial Oil Limited is a qualified foreign corporation for purposes of the new reduced U.S. capital gains tax rates (15 percent and five percent for certain individuals) which are applicable to dividends paid by U.S. domestic corporations and qualified foreign corporations.

There is no Canadian tax on gains from selling shares or debt instruments owned by nonresidents not carrying on business in Canada.

Valuation day price

For capital gains purposes, Imperial's common shares were quoted at \$10.50 a share on December 31, 1971, and \$15.29 on February 22, 1994. Both amounts are restated for the 1998 three-for-one share split.

Quarterly financial and stock trading data ^(a)

	2003 three months ended				2002 three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Financial data (millions of dollars)								
Total revenues	5 478	4 510	4 626	4 594	3 485	4 195	4 532	4 830
Total expenses	4 688	3 895	4 066	4 197	3 316	3 811	3 970	4 143
Earnings before income taxes	790	615	560	397	169	384	562	687
Income taxes	252	101	185	142	59	74	215	230
Net earnings	538	514	375	255	110	310	347	457
Segmented earnings (millions of dollars)								
Natural resources	339	351	257	192	144	251	346	315
Petroleum products	139	102	115	51	(37)	15	21	128
Chemicals	6	7	8	16	9	11	22	10
Corporate and other	54	54	(5)	(4)	(6)	33	(42)	4
Net earnings	538	514	375	255	110	310	347	457
Per-share information (dollars)								
Net earnings – basic and diluted	1.42	1.38	1.01	0.71	0.29	0.82	0.91	1.21
Dividends (declared quarterly)	0.21	0.22	0.22	0.22	0.21	0.21	0.21	0.21
Share prices (dollars) (b)								
Toronto Stock Exchange								
High	47.80	47.40	53.49	58.22	47.85	49.38	47.10	46.10
Low	43.48	43.20	45.62	50.16	41.13	43.76	38.51	41.55
Close	47.35	47.10	50.80	57.53	47.45	47.29	45.90	44.86
American Stock Exchange (S.U.S.)								
High	32.20	34.99	38.79	44.75	30.33	31.85	31.09	29.31
Low	28.25	29.94	33.04	37.24	25.83	28.15	24.00	26.61
Close	32.14	34.92	37.21	44.42	29.84	31.19	29.00	28.70
Shares traded (thousands) (c)	21 350	23 171	21 434	28 108	21 316	23 057	21 377	17 269

(a) Quarterly data has not been audited by the company's independent auditors.

(b) Imperial's shares are listed on the Toronto Stock Exchange and are admitted to unlisted trading on the American Stock Exchange in New York.

The symbol on these exchanges for Imperial's common shares is IMO. Share prices were obtained from stock exchange records.

(c) The number of shares traded is based on transactions on the above stock exchanges.

Directors, senior management and officers

Board of directors

P. (Pierre) Des Marais II
President
Gestion PDM Inc.
Montreal, Quebec

B.J. (Brian) Fischer
Senior vice-president, products
and chemicals division
Imperial Oil Limited
Toronto, Ontario

T.J. (Tim) Hearn
Chairman, president and
chief executive officer
Imperial Oil Limited
Toronto, Ontario

R. (Roger) Phillips
Retired president and
chief executive officer
IPSCO Inc.
Regina, Saskatchewan

J.F. (Jim) Shepard
Retired chairman and
chief executive officer
Finning International Inc.
Vancouver, British Columbia

P.A. (Paul) Smith
Controller and senior vice-president,
finance and administration
Imperial Oil Limited
Toronto, Ontario

S.D. (Sheelagh) Whittaker
Managing Director,
Public Sector Business
Electronic Data Systems Limited
London, England

K.C. (K.C.) Williams
Senior vice-president,
resources division
Imperial Oil Limited
Calgary, Alberta

V.L. (Victor) Young
Corporate director of
several corporations
St. John's, Newfoundland
and Labrador

Other officers

J.F. (John) Kyle
Vice-president and treasurer

B.W. (Brian) Livingston
Vice-president and general counsel

J. (John) Zych
Corporate secretary

Dividend and share purchase information

	2nd quarter, 2004	3rd quarter, 2004	4th quarter, 2004	1st quarter, 2005
Declaration date	May 27, 2004	August 17, 2004	November 17, 2004	February 17, 2005
Dividend record date	June 8, 2004	September 1, 2004	December 1, 2004	March 3, 2005
Dividend payment date	July 1, 2004	October 1, 2004	January 1, 2005	April 1, 2005
Share purchase cutoff date (cheques for share purchase must be dated and received no later than)	June 16, 2004	September 17, 2004	December 15, 2004	March 17, 2005
Investment date (dividend reinvestment and share purchase funds are invested by the company on)	July 2, 2004	October 4, 2004	January 4, 2005	April 4, 2005

The declaration of dividends and the dates shown are subject to change by the board of directors.

The company reserves the right to amend, suspend or terminate the dividend reinvestment and share purchase plan at any time.

Share purchase cheques should be made payable to CIBC Mellon Trust Company.

Dividend cheques are normally mailed three to five days prior to payment dates.

Quarterly statements for dividend reinvestment and share purchase plan participants are normally mailed two weeks after the investment dates.

Information for investors

Head office

Imperial Oil Limited
111 St. Clair Avenue West
Toronto, Ontario, Canada M5W 1K3

Annual meeting

The annual meeting of shareholders will be held on Wednesday, April 21, 2004, at 10:30 a.m. local time at the Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada.

Shareholder account matters

To change your address, transfer shares, eliminate multiple mailings, elect to receive dividends in U.S. funds or have dividends deposited directly into accounts at financial institutions in Canada that provide electronic fund-transfer services, enrol in the dividend reinvestment and share purchase plan or enrol for electronic delivery of shareholder reports, please contact CIBC Mellon Trust Company.

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada M5C 2W9
Telephone: 1-800-387-0825 (from Canada or U.S.A.)
or 416-643-5500
Fax: 416-643-5660 or -5661
E-mail: inquiries@cibcmellon.com
www.cibcmellon.com

United States resident shareholders may transfer their shares through Mellon Investor Services LLC.

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, New Jersey, U.S.A. 07660
Telephone: 1-800-526-0801

Dividend reinvestment and share purchase plan

This plan provides shareholders with two ways to add to their shareholdings at a reduced cost. The plan enables shareholders to reinvest their cash dividends in additional shares at an average market price. Shareholders can also invest between \$50 and \$5,000 each calendar quarter in additional shares at an average market price.

Funds directed to the dividend reinvestment and share purchase plan are used to buy existing shares on a stock exchange rather than newly issued shares.

Imperial on-line

Imperial's Web site contains a variety of corporate and investor information, including:

- current stock prices
- annual and interim reports
- Form 10-K
- Information for Investors (a factbook that describes the company and its operations in detail)
- investor presentations
- earnings and other news releases
- historical dividend information
- corporate citizenship practices

www.imperialoil.ca

Investor information

Information is also available by writing to the investor relations manager at Imperial's head office or by:

Telephone: 416-968-8145
Fax: 416-968-5345

Other contact numbers

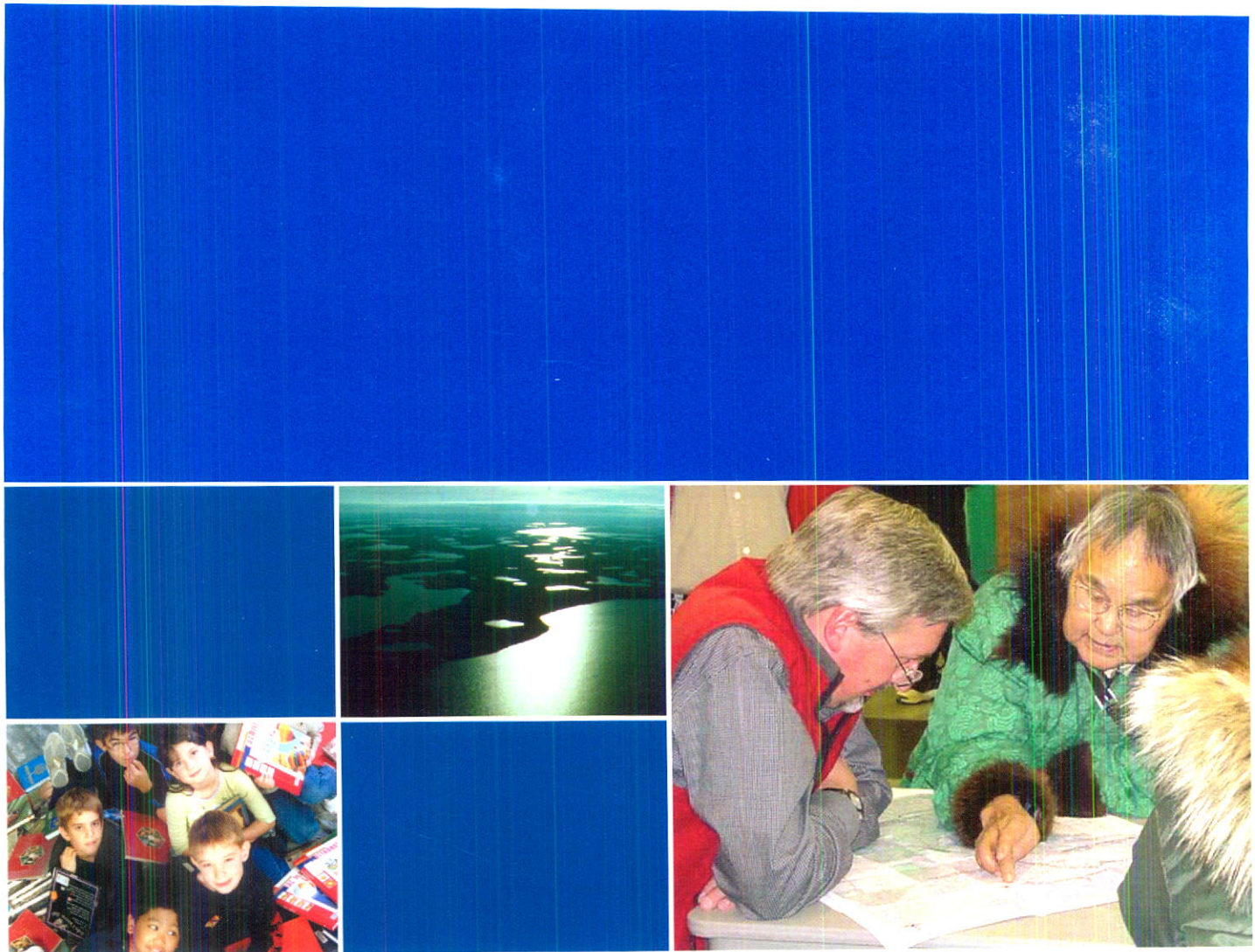
Customer and other inquiries:
Telephone: 1-800-567-3776
Fax: 1-800-367-0585

Corporate secretary

Telephone: 416-968-4713
Fax: 416-968-4095

Version française du rapport

Pour obtenir la version française du rapport de la Compagnie Pétrolière Impériale Ltée, veuillez écrire à la division des Relations avec les investisseurs, Compagnie Pétrolière Impériale Ltée, 111 St. Clair Avenue West, Toronto, Ontario, Canada M5W 1K3.



Cover photos:

Front

Kearl oil sands (top left), Dartmouth low-sulphur gasoline unit (centre left), filling up with low-sulphur gasoline (bottom left), Cold Lake operations (top right), Syncrude expansion (bottom right)

Back

Supporting literacy programs in the Northwest Territories (left), Mackenzie Delta (centre), community consultations on the Mackenzie gas project (right)

Imperial Oil Limited
111 St. Clair Avenue West
Toronto, Ontario
Canada M5W 1K3



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