

Imperial Oil Limited

1985 Annual Report



1985: another year of solid
growth for shareholders



Imperial Oil Limited is one of Canada's largest energy companies and industrial corporations. It manages most of its operations through three segments.

Esso Resources Canada Limited, a wholly owned subsidiary based in Calgary, is a major producer of crude oil; it also produces significant quantities of natural gas and coal.

Esso Petroleum Canada, a division of Imperial, operates five refineries across the country and has a major share of the Canadian market for petroleum products.

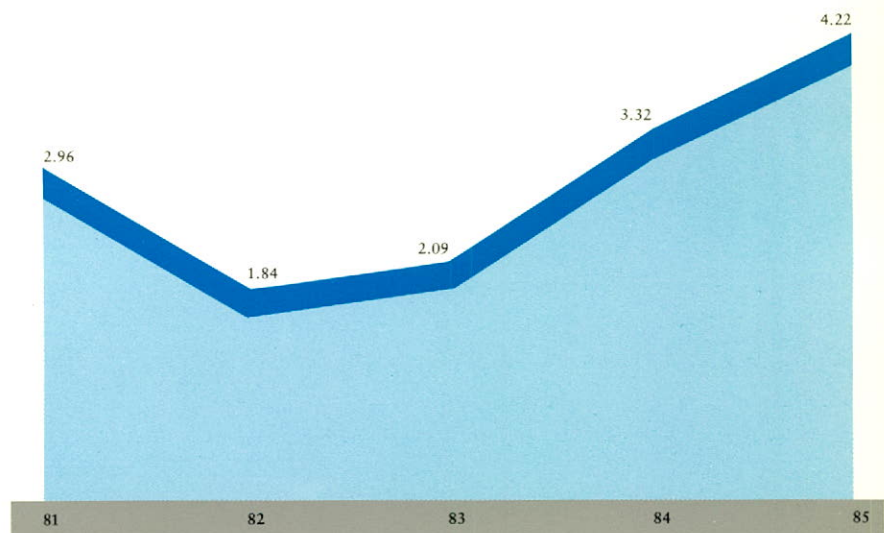
Esso Chemical Canada, another division, produces and markets a wide variety of fertilizers and petrochemicals.

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Financial highlights

	1983	1984	1985
	millions of dollars		
Earnings			
From operations	332	533	684
After unusual items	290	533	634
	millions of dollars		
Internal funds generated	714	708	1004
	millions of dollars		
Capital and exploration expenditures	699	679	1158
	percentages		
Return on average capital employed			
Before unusual items	6.0	8.5	9.9
After unusual items	5.3	8.5	9.2
Return on average shareholders' equity	7.0	12.1	13.1
	dollars		
Per-share information			
Earnings from operations	2.09	3.32	4.22
Earnings after unusual items	1.83	3.32	3.91
Internal funds generated	4.51	4.41	6.19
Dividends	1.40	1.45	1.65

Operating earnings
per share
dollars



Imperial's operating earnings per share have increased for three suc-

cessive years. In 1985 they grew by 27 percent to \$4.22. Higher oil

production was the main reason for the growth.



Imperial Oil's management committee: (left to right) Arden R. Haynes, chairman, president and chief executive officer; William J. Young, executive vice-president and chief financial officer; Robert B. Peterson, executive vice-president and chief operating officer.



I'm pleased to be able to tell you that Imperial's performance in 1985 maintained the upward momentum of the previous two years. Excellent results in our natural resource operations more than offset difficult marketing conditions in the petroleum product and chemical segments of our business.

At \$684 million, earnings from operations showed a 28 percent improvement over 1984, and the year's return on capital employed reached almost 10 percent – still unsatisfactory but moving steadily in the right direction.

A significant increase in crude-oil production and a major gain in crude-oil reserves for the third successive year were among the highlights of 1985, a year in which we began to see a payout from our heavy investment of recent years in new large-scale production projects. The start-up of the Norman Wells oil-field expansion, the beginning of commercial bitumen production at Cold Lake and the completion of the Judy Creek enhanced-recovery project were milestones in Imperial's history and will make major long-term contributions to future earnings.

Another very encouraging development during the year was the reaching of new energy agreements between the federal government and the oil-producing provinces. Those agreements, augmented by initiatives taken by the provinces themselves, have largely removed the political constraints under which we have had to operate in recent years, improved the financial health of the industry and reassured investors of getting a fair deal. Your company responded to this improvement in the investment climate and created many new jobs throughout Canada by increasing its 1985 capital and exploration expenditures by more than 70 percent over the previous year. In fact, the company reinvested about 115 percent of its internally generated funds.

Clearly, the recent fall in international oil prices and the uncertainty that surrounds their future have significant short-term implications for our resource projects. As our shareholders would expect, we are continuing to reassess our plans in the light of these changes.

Our strategy, as in the past, will be to balance our short-term plans against our longer-term goals and to take full advantage of our investment opportunities while maintaining our financial strength. It

will be extremely important in the current environment to continue our program of reducing operating costs through efficiency improvements, which we successfully initiated several years ago. Capital investment will be carefully managed in the light of uncertain cash flows. We are confident, however, that the long-term world energy picture will not be affected by present market conditions and that our company's prospects for future growth from resource projects remain bright.

Volatile prices are not confined to crude-oil markets. We have had to live with them in both our petroleum product and our chemical operations in recent years. In 1985 particularly, depressed prices, product oversupply and consequent keen competition reduced our earnings in both these areas. Despite the efficiencies we have already been able to achieve, returning these businesses to acceptable profit levels will require decisive action on our part to reduce our structural and operating costs and to tailor our operations to the realities of these markets and to customer needs.

While such adjustments to market conditions may affect our short-term performance, our company's longer-term prospects remain strong. We have an excellent resource inventory, significant financial strength, proven management talents, high-calibre and dedicated employees and the experience to apply these attributes to future growth.

One of the ways in which the company strives to serve the best interests of its shareholders is by continually enhancing the value of its assets. Some of the results of our efforts are described on pages 5, 6 and 7 of this report. Nineteen eighty-five was a year of solid growth both in operating and financial terms. As a result, we find ourselves in a very good position to weather the uncertain conditions in the world today and to capitalize on new opportunities.



Arden R. Haynes
Chairman, president and chief executive officer

March 3, 1986

Improving the performance of Imperial's assets

Shareholders commonly use a couple of measures to evaluate their investment in a company. For some, dividend income is a primary consideration. Others look for an increase in share price. Some seek a combination of the two.

Current dividends and share price, however, are by no means the only ways to evaluate a company's worth. Financial analysts and other investment professionals use a number of other measures — measures that help indicate the prospects for future increases in dividends and share price.

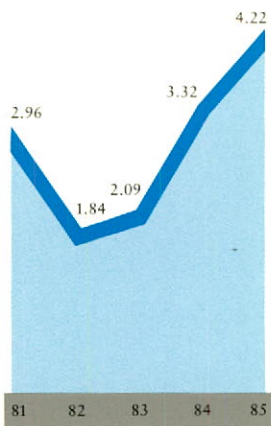
One widely used measure is the ability of a company's assets to generate earnings. On that basis, Imperial's performance has improved significantly in recent years. Its earnings per share have grown by an average of about nine percent a year since 1981 (chart 1), during a period when the number of its outstanding shares increased from 157 million to 163 million.

Another indicator of value that relates specifically to petroleum companies is their ability, over time, to find new reserves of oil that will enable them either to maintain or, ideally, to increase their production. During the past several years, Imperial's record in establishing new reserves (chart 2) has been among the best of all major companies in North America.

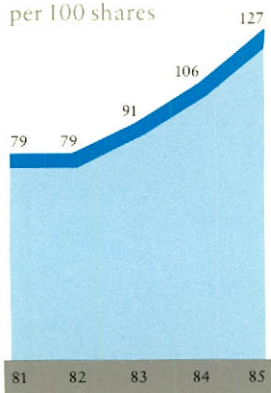
Oil reserves — as important as they are in the assessment of a petroleum company's potential — do not generate revenues and earnings until they are developed for production. Increases in Imperial's proved reserves — from its oil-field expansion at Norman Wells, investments in the Cold Lake project and enhanced recovery of conventional oil at Judy Creek — resulted during 1985 in significant growth in the company's production of both conventional and heavy crude oil (chart 3).

The value of that production will be dependent on a great many factors — including taxes and royalties, operating costs and, of course, changes in the price of oil. However, Imperial is

1. Operating earnings
dollars per share



2. Total net reserves
of crude oil
cubic metres
per 100 shares

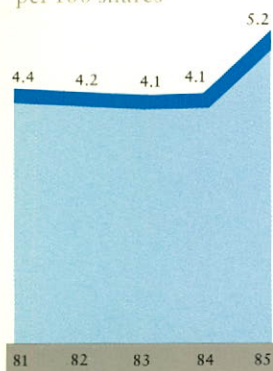


one of the few major companies in Canada whose oil production is expected to increase substantially during the next few years.

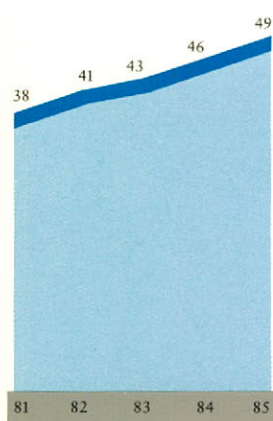
The value of proved reserves of oil and natural gas is not included in the list of a petroleum company's assets. Instead, assets normally contain such items as the cost of finding the oil, plus the production wells, processing plants and other facilities required to produce it. For an integrated company such as Imperial – which not only produces oil and gas but manufactures products from them – the list of assets also includes refineries, pipelines, distribution terminals, service stations, petrochemical plants and office buildings. Those assets, combined with products held in inventory, accounts receivable and investments in other companies, essentially make up Imperial's capital employed, which has increased substantially in recent years (chart 4).

Of course, prudent investors will want to know not only how the assets of a company have grown but the amount of debt the company has taken on either to develop or purchase its assets. Imperial's debt has been relatively constant in recent years, as its substantial program of capital spending (more than \$1.1 billion invested in 1985) has been supported largely through internally generated funds. As a result, the value of assets backing each share – shareholders' equity – has increased (chart 5).

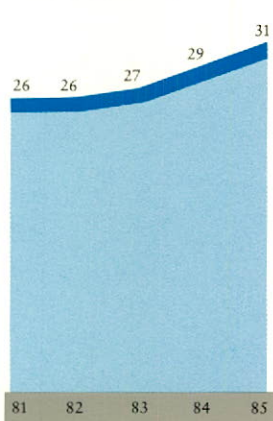
3. Total net production of crude oil cubic metres per 100 shares



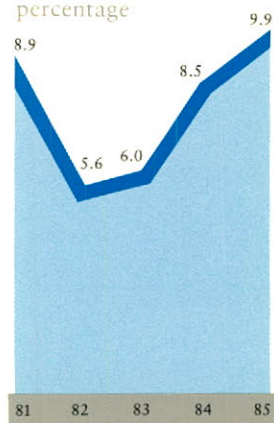
4. Capital employed dollars per share



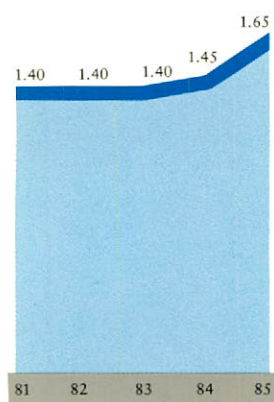
5. Shareholders' equity dollars per share



6. Return on average capital employed percentage



7. Dividends declared dollars per share



Although the value of assets backing each share plays a part in determining share price, the productivity of those assets is also vitally important. One measure of the productivity of assets is the return on average capital employed they generate from operations (chart 6).

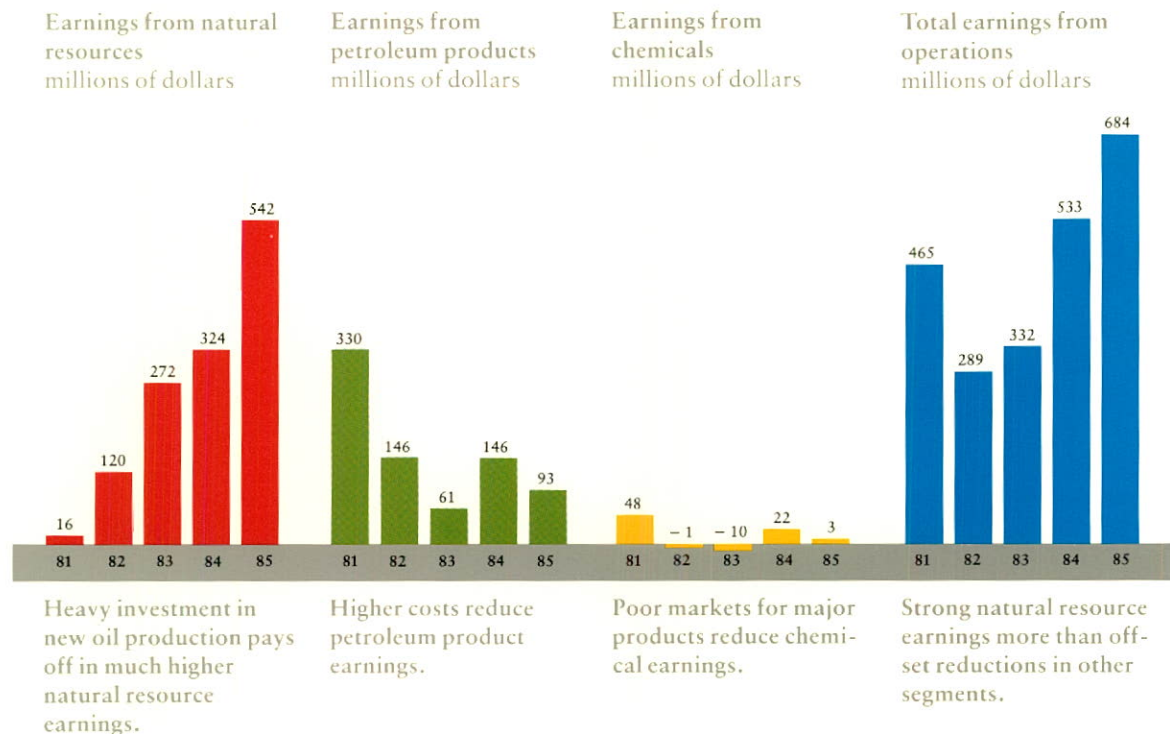
A company's cash flow has an important bearing on its ability to pay higher dividends. During much of this decade, Imperial maintained its annual dividend at \$1.40 a share despite greatly reduced cash flow and earnings resulting from the recession and higher taxes. It did not, however, consider it prudent to increase the dividend payment.

Higher earnings in 1984 allowed the company to increase its annual dividend to \$1.45 a share. Earnings improved significantly again in 1985, which enabled the company to declare an annual dividend of \$1.65 a share, including a special dividend of five cents a share in the final quarter of the year (chart 7). Total dividends thus declared in 1985 were about 40 percent of the company's earnings per share.

There are many initiatives a company can take to enhance its appeal to investors. Perhaps the most fundamental is to make good investment decisions over time. However, the returns, even on good investments, can be influenced greatly by external factors, such as inflation and taxation.

For companies in the petroleum industry, there are additional uncertainties about the success of exploration efforts and the risk that oil and gas prices — as well as product prices — may fluctuate considerably. Despite those risks, which have been underscored by recent changes in the world price of oil, Imperial believes that it has assembled a sound and productive base of assets. Those assets, combined with the financial strength to pursue profitable opportunities, provide good prospects for increasing shareholder value in years to come.

Operating earnings grow by 28 percent. Increased reserves and production highlight strong natural resource performance. Weak markets and intense competition reduce returns from petroleum products and chemicals.



While, overall, 1985 was a successful year for Imperial, it was not without its problems for some of the company's operations.

Our best results were in the natural resource area, where Esso Resources had a very encouraging year. However, major earnings improvements in this segment were partially offset by lower-than-expected returns from Esso Petroleum and Esso Chemical. In both these areas external factors overshadowed the operating efficiencies we were able to achieve.

External factors will continue to have a major influence on the performance of our business. Nevertheless, we believe that, as in the past, the effective management of our company lies in our ability to respond appropriately and promptly to those factors that do lie within our control.

Our operating principles will continue to stress the safe, efficient operation of established facilities and a level and balance of new investments best suited to the business environment and outlook.

In our natural resource operations, current international oil prices require the timing and scale of all planned activities to be reviewed. However, the flexibility already built into our investment program — for example, our staged approach to the Cold Lake project — allows us to control the pace of development in the light of changing conditions. We will continue to focus on opportunities to increase reserves and production in areas where acceptable returns can be realized at prevailing prices.

In our petroleum product business our strategy of being one of the lowest-cost producers in the industry remains crucial in the highly competitive environment that exists. Recent indications that demand for petroleum products in Canada may have stabilized offer hope for some growth in earnings. Nevertheless, we will take further steps to improve the efficiency of our operating organization and the performance of our refineries and supply network.

The challenge we face in our chemical operations is clearly to increase the currently unsatisfactory profitability of the business. Our strategies will continue to stress efficiency, aggressive marketing and concentration on products with higher profit potential.



R. B. Peterson
Executive vice-president and chief operating officer



K. Terry Koonce
President and chief executive officer
Esso Resources Canada Limited

Esso Resources had a very good year in 1985.

Oil production rose, proved oil reserves increased significantly for the third successive year, investment for the future was the highest in the company's history and operating earnings climbed to \$542 million, from \$324 million in 1984. Three major projects — Norman Wells, Judy Creek and stages one to four of Cold Lake — were completed in 1985 and made a significant contribution to earnings.

Total net crude reserves at the end of 1985 stood at 208 million cubic metres (1308 million barrels), an increase of 21 percent over 1984. This sizable addition to the company's reserve base was the result of continued commercial development at the Esso Resources oil-sands operations at Cold Lake, Alta., and further development at the Syncrude plant at Fort McMurray, Alta.

Total net production of crude oil increased by more than 25 percent in 1985, the first significant increase since 1979. Gains were recorded in the production of conventional and synthetic crude and of Cold Lake bitumen.

Sales of natural gas were lower, primarily because of normal declines in production and because a portion of the natural gas produced by the company was used in its enhanced oil-recovery operations. Production from Esso Resources'

	1983	1984	1985
Financial statistics	millions of dollars		
Earnings	272	324	542
Revenues	1718	1740	2255
Capital employed at December 31	2094	2423	3106
Return on average capital employed (percent)	13.1	14.3	19.6
Operating statistics	thousands of m ³ /d		
Crude oil and natural-gas liquids (NGL) — net production			
Conventional	10.7	10.6	12.7
Cold Lake	2.1	2.7	4.4
Syncrude	3.7	3.3	4.5
NGL	1.5	1.5	1.4
Total crude oil and NGL	18.0	18.1	23.0
	millions of m ³ /d		
Natural gas — net production	5.2	4.8	4.0
	millions of tonnes annually		
Thermal coal production	1.0	1.3	1.0

One cubic metre (m³) is equal to approximately 6.3 barrels or 35.3 cubic feet.

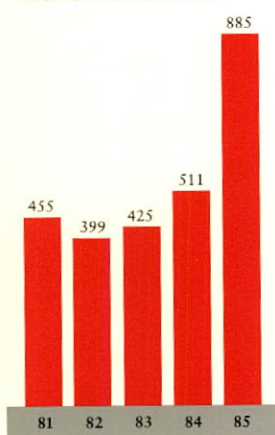
One tonne is equal to approximately 1.1 short tons or 0.98 long ton.

New production from an oil-field expansion at Norman Wells, 90 kilometres south of the Arctic Circle, resulted in the first increase in the company's conventional oil production since 1979. The project posed many technical challenges, including the construction of the world's first artificial islands in a river subject to heavy flows of ice. The islands served as platforms for drilling multiple wells into the oil

reservoir beneath the Mackenzie River, which is five kilometres wide at this point, and now serve as production platforms. The project cost about \$500 million, substantially less than originally budgeted, and was completed ahead of schedule, in April 1985.



Capital and exploration expenditures
millions of dollars



Sharply higher expenditures lead to increased reserves and production.

coal mine at Byron Creek in southeastern British Columbia also decreased in 1985, as a result of weakening export markets and strong international price competition.

Norman Wells expansion completed

At the Norman Wells oil field in the Northwest Territories, a three-year expansion project was successfully completed early in 1985. Production from Norman Wells reached 4200 cubic metres (26 000 barrels) a day and currently represents about 20 percent of the company's daily production of conventional crude oil. Costing about \$500 million, the Norman Wells expansion was one of the largest and most technologically challenging projects ever undertaken by the company. The first large petroleum project to be completed in Canada's North, it is widely regarded as a model for future development in the region.

Commercial production starts at Cold Lake

The start-up, in early summer, of commercial bitumen production from the Cold Lake oil-sands project marked the culmination of more than two decades of experimentation by Imperial into techniques for producing heavy oil from the oil sands through steam injection. The successful introduction of commercial production at Cold Lake highlights the valuable asset the company has in its Cold Lake leases.

Cold Lake is being developed in stages, each stage being capable of producing approximately 1500 cubic metres (9500 barrels) of bitumen a day. Four stages are now in production, and by the end of 1985 these, plus the pilot plants, were producing about 8000 cubic metres (50 000 barrels) a day. Most of the bitumen produced is sold to refineries in the northern United States that are equipped to process heavy crude of this nature; some is processed at Esso refineries in Canada.

Work on two more stages at Cold Lake began in mid-1985, with completion expected by mid-1986. The development of additional stages is under consideration.

Each pair of stages of Cold Lake development generates between 600 and 800 jobs during the peak construction period and ongoing operating and contract positions for approximately 150 people.

Increased emphasis on enhanced recovery

A \$100-million scheme to recover more oil from the Judy Creek field in Alberta using enhanced-recovery techniques was the third major project completed during 1985. Such

Development of bitumen deposits at Cold Lake, Alta., has contributed substantially to recent increases in the company's oil reserves and production. Here, a well-servicing crew – among the more than 1000 contract and company personnel employed at the site during early 1986 – works on a well associated with the commercial

production that began in 1985. Steam injected through the wells heats and thins the tar-like bitumen, which can then be pumped to the surface and processed for shipment to specially equipped refineries located primarily in the northern United States.



New oil from old fields:

Eso Resources is currently involved in several projects to recover more oil from mature conventional pools in western Canada by injecting solvents, gases and water. This process, known as enhanced recovery, is expected to be of growing importance as an increasing number of reservoirs reach the stage when normal recovery methods become less effective.

The company's largest enhanced-recovery project is at Judy Creek, 240 kilometres north-west of Edmonton, where the process is expected to recover about twice as much of the remaining oil as would have been recovered through waterflooding.

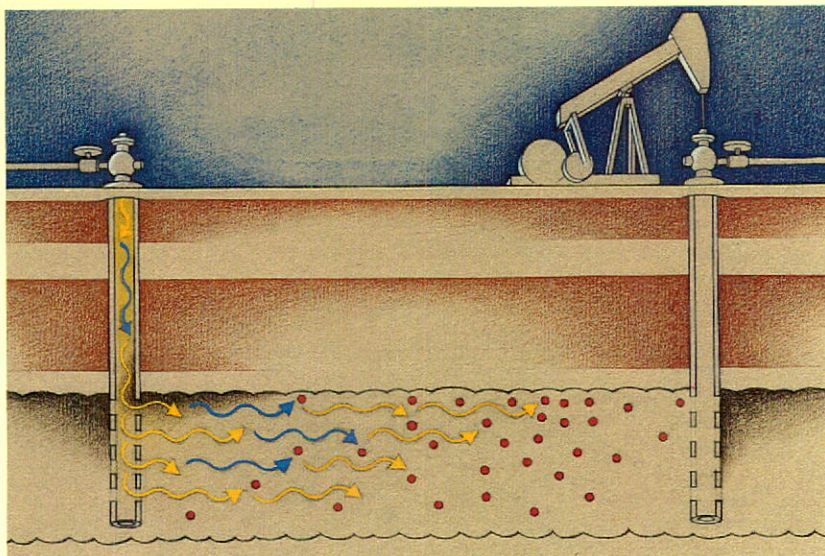
The first step in the process is to inject ethane-based solvent into the pool (illustration 1). Water is then injected to distribute the solvent more evenly throughout the pool. As the solvent spreads, it dissolves and mixes with a part of the remaining oil.

Since the solvent itself is quite valuable, one of the keys to success is to recover the maximum amount of it as well as the oil. In the next step (illustration 2), therefore, methane gas is injected into the pool to force the oil-solvent mixture toward producing wells.

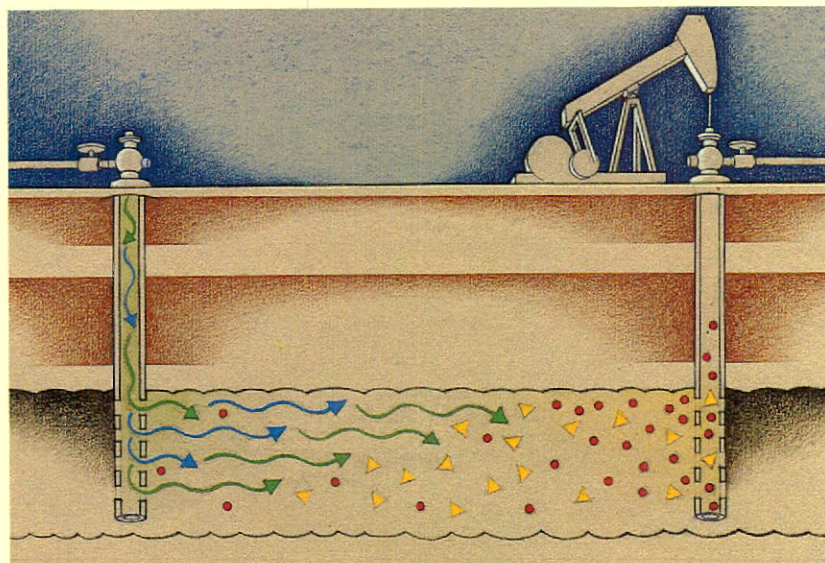
The last step (illustration 3) is to flood water into the reservoir to recover as much of the methane gas as possible.

- ▶ Solvent
- ▶ Water
- Oil
- ▶ Oil-solvent mixture
- ▶ Methane gas

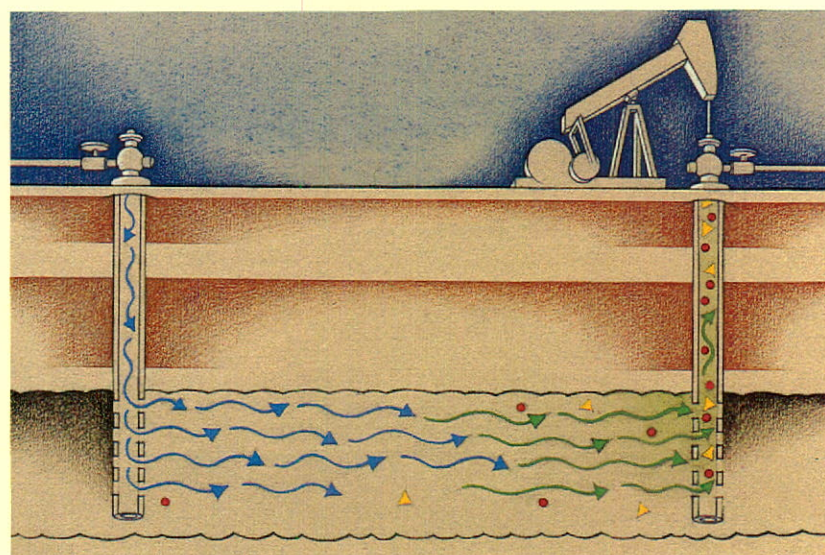
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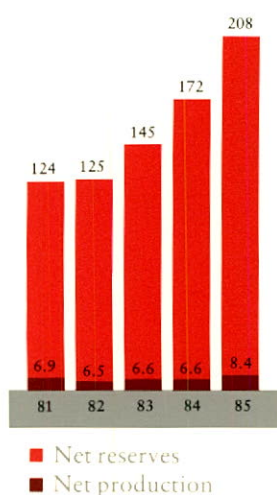
2



3



Net reserves and production of crude oil millions of cubic metres



Strong growth in proved reserves continues; reserves now equal 25 years of current production.

techniques represent another approach that is being taken by Esso Resources to increase oil production from mature fields in western Canada. The process employed at Judy Creek is known as miscible flooding (miscible means “capable of being mixed”) and involves the injection of solvents, gases and water into the reservoir to recover additional oil (see page 14).

In the case of the Judy Creek “A” pool, miscible flooding will increase the amount of oil that can be recovered by an estimated eight million cubic metres (50 million barrels), of which the company’s net share will be approximately six million cubic metres (38 million barrels).

Esso Resources has started work on the installation of enhanced - recovery facilities at the Judy Creek “B” pool, which will provide approximately three million cubic metres (19 million barrels) of additional recoverable oil, of which the company’s net share will be approximately two million cubic metres (11 million barrels). Similar work is also under way at other fields in western Canada in which the company has an interest.

Increased western Canada exploration

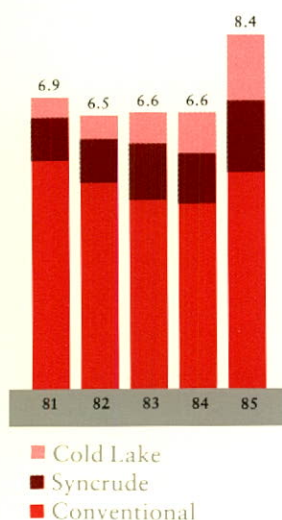
The improvement in government policies toward the oil industry, reflected by the 1985 energy agreements between the federal government and the western producing provinces and by reductions in provincial royalties, resulted in an enhanced business environment for the industry in western Canada. Esso Resources significantly increased its activities in this region in 1985, doubling its exploration expenditures over the previous year. The company drilled or participated in the drilling of 55 exploratory wells, resulting in 27 oil wells and 12 gas wells. The company also maintained a high level of development drilling in western Canada, drilling about 150 wells in company-operated fields and participating with other operators in the drilling of approximately 245 wells.

While the discoveries made by the company during 1985 were, as expected in this intensively explored region, relatively modest, they are profitable under the new fiscal arrangements.

Syncrude sets production record

The Syncrude oil-sands mining plant had an excellent year, surpassing all previous production records with a daily output of about 20 000 cubic metres (128 000 barrels) of synthetic crude. Work is currently under way to increase Syncrude’s production capacity. The company has a 25-percent interest in this operation.

Net production of
crude oil
millions of cubic metres



Syncrude achieves record production; Cold Lake output grows significantly; Norman Wells expansion increases conventional oil production.

Beaufort exploration produces encouraging results

Esso Resources continued an extensive frontier exploration program during 1985. In the Mackenzie Delta/Beaufort Sea region of the western Arctic, the drilling program was one of the most active in the company's history despite adverse weather conditions. The company participated in the drilling of four onshore and seven offshore wells.

In the Beaufort Sea, the most promising results were at Nipiterk artificial island, where oil was discovered and where a subsequent delineation well also encountered oil. Onshore, oil was discovered at a relatively shallow depth during the drilling of a well on the Tuktoyaktuk peninsula intended to delineate an earlier discovery of natural gas and condensate. Further delineation was proceeding during the 1985/86 drilling season.

While Esso Resources is encouraged by recent results, the pace of Beaufort development will be governed by a number of factors, including future exploration success and international oil prices.

In conjunction with a number of other companies, Esso Resources drilled an offshore exploration well in the Flemish Pass area, east of Newfoundland, in 1985. In addition, the company participated in the drilling of a well off the coast of Nova Scotia. These wells were abandoned after only traces of hydrocarbons were discovered.

Investment sets record at \$900 million

The improved environment for the industry provided by federal and provincial government initiatives prompted Esso Resources to respond to growth opportunities with a record level of activity and the largest investment program in the company's history. In total, capital and exploration expenditures during the year amounted to nearly \$900 million. Investment on such a scale has a marked effect on provincial and national economies; in 1985 more than 85 percent of the company's investment funds were spent on Canadian goods and services.



Gordon H. Thomson
President
Esso Petroleum Canada

A difficult operating environment caused Esso Petroleum's earnings to drop to \$93 million in 1985 from \$146 million the previous year. Although both sales volumes and revenues increased, net income was lower because of higher crude-oil costs and operating expenses.

Two developments during the year made the decline in earnings larger than it would have been otherwise. First, a major agreement to process crude oil for another company in 1984 expired during the first quarter of 1985. And second, an increase in the Petroleum Compensation Charge in 1984, which resulted in an inventory profit, did not recur in 1985. Those two events accounted for more than three-quarters of the reduction in earnings.

In addition, intense competition for sales of petroleum products continued during the year. Competition caused product prices to be very volatile, particularly in central Canada. It also contributed to higher costs for advertising and promotion.

The underlying reason for the competitive environment is the steep drop in demand for petroleum products, which began in 1980 and which created excess capacity throughout the refining and marketing industry. During the following five years, Canadian demand fell by an unprecedented amount — nearly 25 percent — because of recession, conservation and government programs that encouraged consumers to switch from oil to other energy sources.

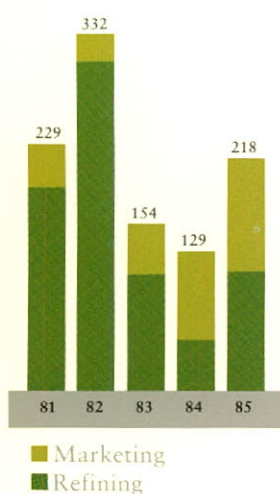
Demand down by about one percent

Recent economic growth has helped moderate the decline in demand for petroleum products. Total domestic demand only

	1983	1984	1985
Financial statistics	millions of dollars		
Earnings	61	146	93
Revenues	6702	6816	7265
Capital employed at December 31	2552	2467	2595
Return on average capital employed (percent)	2.4	5.8	3.7
Operating statistics			
Sales of petroleum products (thousands of m ³ /d)	54.4	53.0	54.1
Refinery capacity utilization (percent)	78	88	83

One cubic metre (m³) is equal to approximately 6.3 barrels.

Capital expenditures
millions of dollars



Refining investment and service-station upgrading increase expenditures.

fell by about one percent during 1985. Nevertheless, the refining and marketing industry is still undergoing a major readjustment to changes that occurred earlier in the decade.

Esso Petroleum has responded with a number of measures. First, it took steps to improve the capacity utilization of its refining and marketing network by closing its Montreal refinery (in 1983) as well as a number of distribution terminals. It also made investments to improve the efficiency of its Sarnia and Strathcona refineries. As well, the division launched a \$225-million program to make its retail gasoline outlets more attractive to customers.

By the end of 1984 those initiatives had provided some improvement in earnings, which continued into the first quarter of 1985. However, the combination of volatile prices and higher costs caused earnings to deteriorate in the second quarter; they remained low in the third quarter — normally one of the best periods for sales because of summer-vacation travel. Although operating earnings recovered somewhat during the final quarter, total earnings for the year were still substantially below initial expectations.

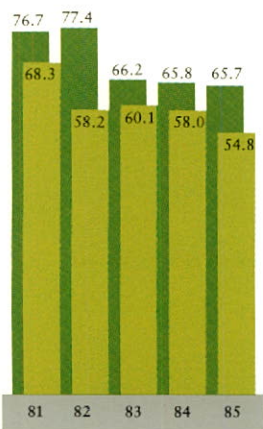
Volume increase first since 1979

The year was not without its bright spots, however. The division's total volume of sales grew for the first time since 1979, as increased exports more than offset a reduction in domestic shipments. Even domestically, sales of products such as aircraft fuel and diesel fuel increased substantially in response to the continuing economic recovery.

Significantly, the division's total share of domestic markets remained essentially unchanged for yet another year despite the intense competition.

Also significant was the extent of changes in government regulation affecting the industry during the year. On June 1, the federal government stopped setting the domestic price of

Refinery capacity and
crude oil processed
thousands of m³/d



■ Refining capacity at
Dec. 31

■ Crude oil processed

Refinery utilization
declines with the expir-
ation of a major
processing contract.

crude oil and allowed it to respond freely to market forces. At the same time, the government lifted most regulations affecting the foreign trade of both crude oil and petroleum products.

Esso Petroleum believes that the lifting of controls is a positive development. However, decontrol adds a new element of uncertainty to the sale of petroleum products, by making domestic prices more sensitive to international competitive forces.

New wholesale pricing introduced

Deregulation also provided the impetus for Esso Petroleum to introduce a new pricing structure for various categories of petroleum products, based on the type of product, the volume purchased and the method of delivery. Under the system that evolved when crude-oil prices were regulated, the division was required to offer various forms of discounts, allowances and consignment selling to ensure that its products were competitive in the marketplace. Over time, that system became increasingly complex and difficult to administer.

The new wholesale pricing structure is simpler and more responsive to changing market conditions. One of its major features is a competitive wholesale price for Esso dealers that allows them to set their own retail prices.

Another development in the regulatory environment was a federal proposal that would result in significant reductions in the lead content of gasoline. The proposal has implications for the entire refining industry, since most companies will have to install new equipment to produce gasoline that meets performance specifications without the benefit of lead-based additives. Esso Petroleum believes it is in a favorable position to meet the new requirements without major investments.

Imperial has made and continues to make significant investments in the Canadian petroleum product industry. Refining and marketing facilities represent about one-third of the company's total fixed assets. In recent years, those facilities – particularly the ones in central Canada – have not been yielding adequate returns.

Esso Petroleum has introduced an attractive new design and new customer services to its retail gasoline outlets, such as this one in North Vancouver. The division is also involved in major programs to improve recognition of the Esso brand, including participation in Expo 86 and sponsorship of a major program to help prepare Canadian amateur hockey players for the 1988 Winter Olympics in Calgary.

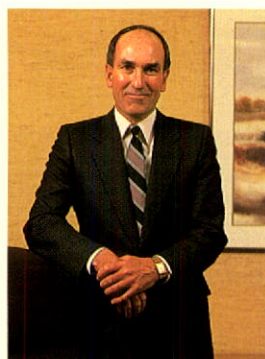


Strategies focus on efficiency and service

Esso Petroleum has adopted a number of strategies to improve returns. The primary one is to be the most efficient, lowest-cost manufacturer and distributor of petroleum products through selective efficiency investments and the continual tailoring of its supply network to meet demand requirements.

Another strategy is to make the Esso name synonymous with good customer service. A comprehensive training and recognition program has been developed for Esso service-station personnel. New features – including convenience stores, fast-food outlets, automated banking machines and automatic car washes – are being introduced at Esso outlets. And the Service Plus concept, which offers an extra level of customer service for a slight increase in price, has been tested with encouraging results.

Esso Petroleum remains one of Canada's largest suppliers of petroleum products. It manufactures a complete range of quality products and sells them through a national network of retail and wholesale outlets. Those strengths, combined with the division's continuing emphasis on efficiency, place it in a favorable position to benefit from any improvements in petroleum product markets.



John E. Akitt
President
Esso Chemical Canada

Poor markets for some of its major products caused Esso Chemical's earnings to fall to \$3 million in 1985, from \$22 million in 1984.

Nevertheless, the chemical division made considerable progress in strengthening its marketing and manufacturing performance and the utilization of its two largest production units – a nitrogen fertilizer plant at Redwater, Alta., and a polyethylene plant at Sarnia, Ont.

Two factors dominated the chemical division's financial results. One was a substantial reduction in overseas sales of nitrogen fertilizer, which had made a major contribution to earnings in 1984. The lower sales were attributable to a drop in world prices that made it unprofitable to ship overseas.

Another factor was a continuation of depressed prices for polyethylene, which offset an intensive marketing effort that achieved higher sales volumes and an increase in market share. The low prices were caused by an international surplus of production capacity. As well, shifting trade patterns caused by a strong U.S. dollar attracted new competitors to U.S. markets, where a significant proportion of Canadian-produced polyethylene is sold.

Domestic fertilizer gains encouraging

Among the marketing highlights was a significant gain in the agricultural chemical group's share of fertilizer markets in the Prairie provinces and in bordering regions of the United States. Those gains provide encouragement for improved future earn-

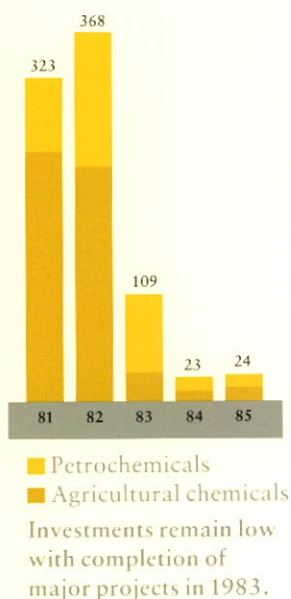
	1983	1984	1985
	millions of dollars		
Financial statistics			
Earnings (loss)	(10)	22	3
Revenues			
Petrochemicals	512	479	478
Agricultural chemicals	230	328	327
Total revenues	742	807	805
Capital employed at December 31	1123	1014	1008
Return on average capital employed (percent)	(0.9)	2.1	0.3
	thousands of tonnes per day		
Operating statistics			
Sales			
Petrochemicals	2.4	1.9	1.9
Agricultural chemicals	2.6	3.9	3.9

One tonne is equal to approximately 1.1 short tons or 0.98 long ton.

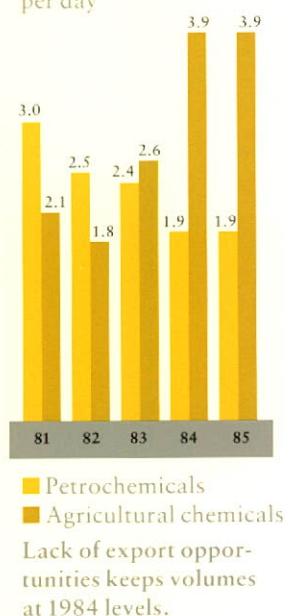
A highly responsive distribution network helped Esso Chemical increase its share of North American fertilizer markets during 1985. At one of the division's two major distribution centres on the Canadian Prairies (this one near Clavet, Sask.), employee Peter Pfefferle draws on the large stockpile of fertilizer that allows the division to respond immediately to customer orders received throughout the year.



Capital expenditures
millions of dollars



Sales volumes
thousands of tonnes
per day



ings, since the western North American market is where Esso Chemical can achieve better returns because of an efficient distribution network and lower-cost transportation.

Another highlight was the performance of new fertilizer production units at Redwater, which continued to demonstrate in 1985 that they can operate much above design capacity. The Redwater complex is one of the largest and most efficient centres of fertilizer production in the world.

Earnings from the sale of most of the division's petrochemical products — including performance chemicals, elastomers and higher olefins — improved during the year. (Performance chemicals are used in petroleum drilling and production; elastomers are used in tires to improve air retention and durability; higher olefins are an ingredient of detergents.)

Sales and production of polyvinyl chloride resins — used to make vinyl siding and other durable plastic products — reached record levels, although earnings did not meet expectations because of low profit margins. The Paramins group, which markets a line of specialty additives, completed the first phase of an expansion to increase its capability to supply performance additives for lubricants.

Esso Chemical achieved an outstanding safety record during the year.

Strategies stress service, new products

The chemical division is pursuing four basic strategies to improve earnings. One important strategy is to improve marketing effectiveness. That includes using knowledge of customer needs to provide superior service. Another strategy is to develop new products that meet the unique and specialized needs of Esso Chemical customers. The division has been particularly successful recently in marketing a variety of new petrochemical products.

The remaining strategies concentrate on organizational effectiveness and cost reduction. Every employee is strongly committed to the division's "to be the best" program, which seeks to eliminate waste in all areas of operation.

Recognizing that depressed markets for chemical products may continue for several years, Esso Chemical considers those approaches to be the best ways to improve profitability in the near term, while building a sound base for better earnings over the longer term.

Other business operations

In addition to its three major operating segments, Imperial has a variety of other interests, ventures and activities aimed at developing a wider base of profit opportunities for the company.

Building Products shows record sales and higher earnings

Building Products of Canada Limited, a wholly owned subsidiary of Imperial that produces construction materials for residential and commercial buildings, posted significantly higher sales and earnings in 1985 as housing markets improved.

Substantial gains in market share for all product lines, including roofing products, vinyl siding, insulation materials and fibreboard, were accompanied by cost savings in all operating areas. Particularly significant factors were increased sales of premium roofing products, major gains in production efficiency and successful expansion into profitable export markets. In December, the company added polystyrene insulation to its range of products.

Building Products plans to pursue a number of growth options to increase the profitability of both its own and its customers' operations.

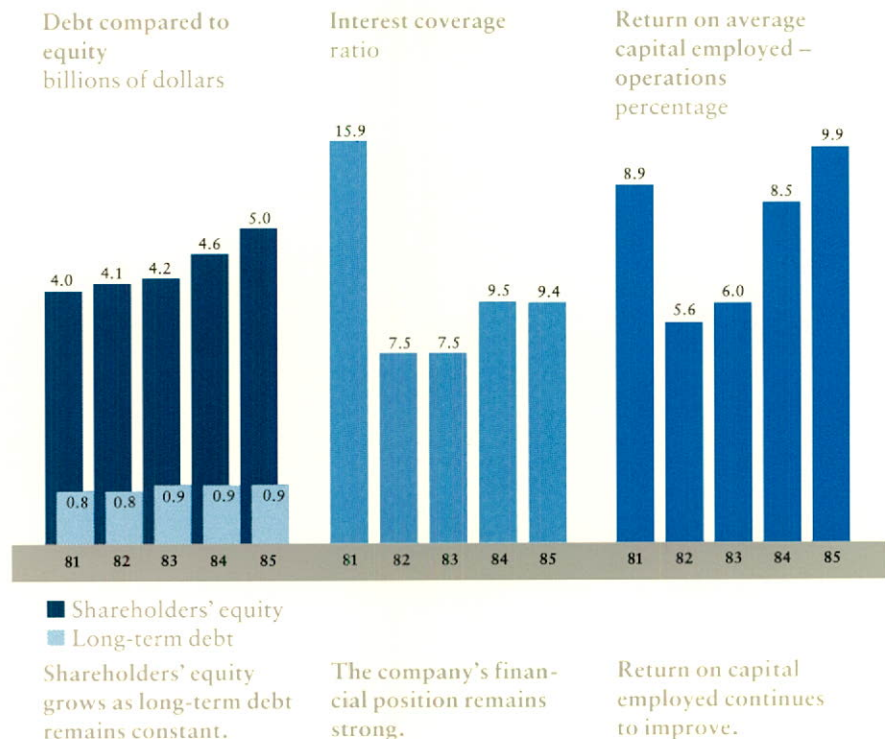
Esso Minerals acquires interest in zinc-copper mine

Esso Minerals Canada is a division of Esso Resources that explores for and seeks out profitable investment opportunities in minerals not related to energy – mainly base and precious metals. In 1985, Esso Minerals pursued an active exploration program, and toward the end of the year it acquired a 35-percent interest in Les Mines Selbaie, a mining complex in the Abitibi region of northwestern Quebec. The company currently produces copper from an underground mine and is developing a new open pit to produce zinc and copper, with gold and silver by-products.

Property group reports busiest and most profitable year

Imperial's property development group provides a variety of real-estate services to the company. In 1985, the group made an important contribution to corporate earnings by selling 83 surplus properties.

Improved returns generate higher cash flow, investment reaches record level, financial strength further improves



Consolidated statement of earnings

For the years	1983	1984	1985
	millions of dollars		
Revenues			
Crude oil (1, 2)	777	830	548
Natural gas	185	185	148
Petroleum products (3)	6231	6366	6761
Chemicals	694	753	762
Other operating	412	454	448
Interest and investment (4)	108	167	137
Total revenues	8407	8755	8804
Expenses			
Exploration	81	63	85
Purchases of crude oil and products (1, 2, 3)	4115	4049	4053
Extracting, processing and manufacturing	1056	1068	1187
Marketing and administration	781	879	939
Interest (9)	121	126	126
Total expenses	6154	6185	6390
Revenues less expenses	2253	2570	2414
Depreciation and amortization	235	260	322
Earnings before taxes and levies	2018	2310	2092
Taxes and levies (5)	1686	1777	1408
Earnings from operations	332	533	684
Unusual items (11)	(42)	—	(50)
Earnings after unusual items	290	533	634

	dollars		
Per-share information			
Earnings from operations (19)	2.09	3.32	4.22
Earnings after unusual items (19)	1.83	3.32	3.91
Dividends	1.40	1.45	1.65

The notes referred to on this and the following two pages are found in the "notes to the financial statements," pages 32 to 39.

The summary of accounting policies and glossary of terms are found on pages 30 and 31.

Consolidated statement of changes in financial position

For the years	1983	1984	1985
	millions of dollars inflows (outflows)		
Internal funds			
Revenues less expenses	2253	2570	2414
Current taxes and levies (5)	(1545)	(1612)	(1300)
Internal funds generated from operations	708	958	1114
Dividends	(222)	(233)	(268)
Change in operating working capital	147	(80)	73
Adjustment for exploration expense	81	63	85
Change in internal funds	714	708	1004
Investment of funds			
Capital and exploration expenditures	(699)	(679)	(1158)
Proceeds from sale of property, plant and equipment	56	42	50
Other	(115)	(27)	(37)
Total investment of funds	(758)	(664)	(1145)
Change in internal funds after investment	(44)	44	(141)
External financing			
Long-term debt and other obligations, after repayments	121	(30)	7
Capital stock	60	74	76
Total external financing	181	44	83
Inflow (outflow) of funds	137	88	(58)
Increase (decrease) in funds by component			
Marketable securities	58	193	(130)
Outstanding cheques, less cash	44	(97)	62
Short-term notes	35	(8)	10
Total increase (decrease) in funds	137	88	(58)

The summary of accounting policies and glossary of terms are found on pages 30 and 31.

Consolidated statement of financial position

As at December 31	1984	1985	change
	millions of dollars		
Capital employed			
Working capital			
Current assets			
Marketable securities at cost, which approximates market value	649	519	(130)
Accounts receivable (1, 3)	927	984	57
Amounts receivable from Exxon Corporation and affiliates (18)	15	—	(15)
Inventories of crude oil and products	1505	1300	(205)
Materials, supplies and prepaid expenses	120	143	23
Total current assets	3216	2946	(270)
Current liabilities			
Outstanding cheques, less cash	128	66	(62)
Short-term notes	11	1	(10)
Accounts payable and accrued liabilities (1, 3)	1044	1100	56
Amounts owing to Exxon Corporation and affiliates (18)	—	49	49
Taxes and levies payable	185	42	(143)
Dividends payable	—	68	68
Total current liabilities	1368	1326	(42)
Total working capital	1848	1620	(228)
Investments and other long-term assets (8)	511	576	65
Property, plant and equipment at cost, less accumulated depreciation and amortization (7)	4974	5680	706
Total capital employed	7333	7876	543
Sources of capital employed			
Long-term debt and other obligations (10, 18)	1184	1219	35
Commitments and contingent liabilities (12)			
Deferred income taxes (6)	1544	1610	66
Shareholders' equity			
Capital stock (19)	1324	1400	76
Earnings retained and used in the business			
At beginning of year	2981	3281	300
Earnings for the year	533	634	101
Dividends	(233)	(268)	(35)
At end of year	3281	3647	366
Total shareholders' equity	4605	5047	442
Total sources of capital employed	7333	7876	543

The summary of accounting policies, glossary of terms and notes are part of the financial statements.

Approved by the board

Arden R. Heyman

Chairman, president and
chief executive officer

C. J. Young

Executive vice-president and
chief financial officer

Auditors' report

To the shareholders of Imperial Oil Limited

We have examined the consolidated statements of earnings and changes in financial position of Imperial Oil Limited for each of the three years in the period ended December 31, 1985 and the consolidated statement of financial position as at December 31, 1984 and 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the results of operations and changes in financial position of the company for each of the three years in the period ended December 31, 1985 and its financial position as at December 31, 1984 and 1985 in accordance with generally accepted accounting principles in Canada consistently applied.

Pricewaterhouse

Chartered Accountants
Toronto-Dominion Centre
Toronto, Ontario
February 20, 1986

Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiary companies. All intercompany accounts and transactions have been eliminated. A list of subsidiary companies is shown on page 39.

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.

Inventories

Inventories of crude oil and products are recorded at cost (using the first-in, first-out method), which is less than net realizable value.

The recorded cost for prior-year inventories of crude oil and products includes the Petroleum Compensation Charge and the Canadian Ownership Special Charge. The recorded cost has been reduced by amounts claimed under the federal government's oil import compensation programs. These charges and programs expired on June 1, 1985. Payments and receipts under these charges and programs, therefore, do not have an impact on inventories as at December 31, 1985.

Materials and supplies are recorded at the lower of cost and net realizable value.

Investments

The principal investments in companies other than subsidiaries are accounted for using the equity method. Imperial's share of the net assets of these companies is recorded in the consolidated statement of financial position as "investments." Imperial's share of their earnings after income taxes is included in the consolidated statement of earnings under the revenue line "interest and investment."

Other investments are recorded at cost, and income from them is recorded only as dividends are declared.

The ownership percentages of Imperial's principal investments are shown on page 39. The amount at which all investments are recorded is shown in note 8 on page 34.

Property, plant and equipment

Property, plant and equipment, including related preoperational costs and design costs of major projects, are recorded at cost.

The company follows the successful-efforts method of accounting for costs of exploration and development activities. Costs of exploration acreage are capitalized and amortized over the period of exploration or until a discovery is made. Costs of exploratory wells are

capitalized until their economic status has been evaluated. Costs of exploratory wells found to be dry during the year or before the issuance of the annual financial statements are charged against earnings. All other exploration costs are charged against earnings as incurred. All costs of development wells and successful exploration wells are capitalized.

The costs of maintenance and repairs are charged to operating expenses. Improvements that increase the service capacity of an asset or prolong its service life beyond that contemplated in the established rates of depreciation are capitalized.

The cost of natural gas and natural gas liquids used as injectants in enhanced (tertiary) oil-recovery projects is capitalized as a development cost.

Investment tax credits, grants received under the Petroleum Incentives Program and other similar grants are treated as a reduction of the capitalized costs of the asset to which they apply.

Amortization of the capitalized costs of producing wells and leases, of the Syncrude project and Cold Lake plants and of operating mines are calculated using the unit-of-production method. Depreciation of other plant and equipment is calculated using the straight-line method, based on the estimated service life of the asset.

Gains or losses on assets sold or otherwise disposed of are included in the consolidated statement of earnings.

Retirement plans

The company's pension plans cover almost all employees. Pension-benefit obligations are determined annually by independent actuaries using the projected-unit-credit method. Valuation of assets is based on market values at December 31 of each year. The amount funded is charged to expense and is established according to accepted actuarial procedures.

Consumer taxes and Crown royalties

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 tax on exports of crude oil and petroleum products. Crown royalties are also excluded from the consolidated statement of earnings.

In order to encourage investment, the federal and provincial governments have reduced royalties in the early years of certain projects by allowing for the deduction of certain capital costs in determining the royalty. The resulting increased company share of production is accounted for as additional revenue rather than as a reduction in project costs.

Translation of foreign currencies

Gains and losses on forward exchange contracts, which are effective hedges against specific foreign currency exposures, are offset against the associated gains and losses of the hedged item.

Long-term monetary liabilities payable in foreign currencies have been translated at the rates of exchange prevailing on December 31. Exchange gains and losses arising on translation of long-term debt are amortized over the remaining term of the debt.

Glossary of terms

Taxes and levies: Taxes consist of income taxes, both current and deferred; revenue taxes, which comprise the Petroleum and Gas Revenue Tax and the Incremental Oil Revenue Tax; and commodity, property and other taxes, which include the special gasoline excise tax and the federal sales tax. Levies consist of the Petroleum Compensation Charge and the Canadian Ownership Special Charge.

Funds: total of cash, marketable securities and short-term loans, reduced by outstanding cheques and short-term notes.

Internal funds generated from operations: These are earnings from operations adjusted for those items that do not involve cash. The major items are depreciation and changes in deferred income taxes.

Operating working capital: working capital less funds.

Net realizable value: estimated selling price in the ordinary course of business less estimated costs of completion and sale.

Write-down: This is the downward adjustment of the recorded amount of an asset. Normally this is done because the recorded value is greater than the net realizable value.

Equity value: the valuation of an investment in another company, at the original cost of that investment, plus Imperial's share of earnings since the investment was made, less dividends received.

Other operating revenues: These are revenues from the sale of products and services other than the sale of crude oil, natural gas, petroleum products and chemicals. The main items are building materials, tires, batteries, auto parts, coal and other minerals.

Hedge: the purchase or sale of a forward exchange contract for the specific purpose of eliminating or restricting the risk of foreign exchange-rate fluctuations.

Notes to the financial statements

1. Reporting changes

In order to provide a clearer representation of business with customers, the company has modified reporting of accounts receivable and accounts payable in the consolidated statement of financial position on page 29. These modifications are described in note 3.

In addition, sales and purchases of crude oil for 1984 have been restated upward as described in note 2(b).

There is no effect on earnings, and prior years have been restated to conform with 1985 reporting.

2. Crude-oil revenues

(a) The company supplements its own production to meet its refining needs by buying crude oil and selling any unused quantities. Those purchases and sales, amounting to \$1693 million in 1985, are excluded from reported revenues and purchases (1984 – \$1354 million; 1983 – \$1191 million).

(b) Sales and purchases of crude oil for 1984 have been restated upward by \$140 million (1983 – \$95 million) to reflect third-party sales of bitumen, which had previously been eliminated as intercompany crude-oil sales. There is no effect on earnings.

3. Petroleum product purchase/sale agreements

Purchase/sale agreements with other refiners help the company meet its supply requirements while reducing transportation and other costs. Sales from those agreements are not included in "revenues," but are offset against the related purchases. In 1985 sales from those agreements amounted to \$934 million (1984 – \$964 million; 1983 – \$637 million). Accounts-receivable and accounts-payable balances with each company relating to such purchase/sale agreements have been offset.

4. Interest and investment income

	1983	1984	1985
	millions of dollars		
Interest on marketable securities and short-term deposits	47	65	69
Earnings (after income taxes) from equity investments	37	37	38
Other	24	65	30
Total interest and investment income	108	167	137
Dividends received from equity investments	19	21	22

5. Taxes and levies

	1983	1984	1985
	millions of dollars		
Current and deferred income taxes			
Federal	333	375	241
Provincial	87	114	76
Revenue taxes			
Petroleum and Gas Revenue Tax	170	150	125
Commodity, property and other taxes			
Federal sales tax	307	347	360
Special gasoline excise tax	106	101	145
Property and other taxes	91	86	89
Levies (1)			
Petroleum Compensation Charge	449	473	321
Canadian Ownership Special Charge	143	131	51
Total taxes and levies	1686	1777	1408
Less deferred income taxes	141	165	108
Current taxes and levies	1545	1612	1300

(1) These charges expired June 1, 1985.

The operations of the company are complex and the related income and other 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 and other taxes is adequate.

Summary of income-tax calculations	1983	1984	1985
	millions of dollars		
Earnings before taxes and levies	2018	2310	2092
Deduct:			
Taxes and levies, other than income taxes	1266	1288	1091
Equity companies' earnings	37	37	38
Adjusted earnings	715	985	963
Basic corporate tax rate (percent)	49.5	47.7	47.2
Income taxes at basic rate	354	470	455
Additions to income taxes due to:			
Petroleum and Gas Revenue Tax, Crown royalties and other similar non-deductible payments to governments	234	215	156
	588	685	611
Reduction in income taxes due to:			
Resource allowance	126	121	120
Depletion allowance	22	42	85
Manufacturing and processing credit	(2)	9	6
Inventory allowance	19	19	21
Other (1)	3	5	62
Income taxes	420	489	317
Effective income-tax rate (percent)	58.7	49.6	32.9
Increases (decreases) in deferred income taxes resulting from timing differences			
Capital cost allowance	113	136	75
Successful drilling	37	36	35
Land-acquisition costs	(13)	(4)	(23)
Depletion	18	—	—
Enhanced oil-recovery injectants	—	—	23
Other	(14)	(3)	(2)
Net increase in deferred income taxes (2)	141	165	108
Current income taxes (2)	279	324	209

(1) In 1985 the company sold interests in certain producing properties, with the right to reacquire them, and it is anticipated that this will occur in 1986. Due to deduc-

tions available for these transactions, no additional income tax was payable. This item includes \$42 million in respect of these transactions.

(2) Changes in income taxes as a result of unusual items recorded in 1983 and 1985 are not included.

6. Deferred income taxes

The company complies with income-tax laws and pays income taxes when due. Deferred income taxes are not a tax liability under the law. They result from differences between income-tax legislation and conventional accounting treatments of certain revenues and expenses. The major difference results from the substitution of legislated allowances on capital costs for depreciation and amortization expenses.

7. Property, plant and equipment

	Cost		Accumulated depreciation and amortization	
	1984	1985	1984	1985
	millions of dollars			
Natural resources				
Exploration and production	2412	2751	800	908
Heavy oil	1045	1411	124	169
Coal and other minerals	130	168	42	20
	3587	4330	966	1097
Petroleum products	2368	2557	1046	1127
Chemicals	1074	1091	232	273
Other	290	306	101	107
Total property, plant and equipment	7319	8284	2345	2604
Less accumulated depreciation and amortization	2345	2604		
Net investment	4974	5680		

Notes to the financial statements

8. Investments and other long-term assets

Investments are primarily in companies engaged in pipeline transportation of crude oil and petroleum products.

Investments	1984	1985
	millions of dollars	
At equity value (a):		
With quoted market value (b)	168	186
Without quoted market value	23	22
At cost	5	5
Total investments	196	213
Long-term receivables	175	152
Other (c)	140	211
Total investments and other long-term assets	511	576

(a) The principal investments in companies other than subsidiaries are accounted for using the equity method. Imperial's principal investments and ownership percentages are shown on page 39.

(b) This amount represents Imperial's investment in Interprovincial Pipe Line Limited. Imperial owns 8.597 million shares (22 percent) of Interprovincial with an original cost of \$18 million. The market value at December 31, 1985, was \$368 million (1984 - \$297 million).

(c) The unamortized cost of estimated future benefits associated with the company's health-care and life-insurance plans for retired employees is \$45 million and is included in this category. This item is being amortized over 17 years. The plans are described further in note 16.

9. Interest expense

	1983	1984	1985
	millions of dollars		
Long-term debt	101	107	107
Short-term notes	2	4	2
Capitalized leases	14	13	12
Other	4	2	5
Total interest expense	121	126	126

10. Long-term debt and other obligations

year of issue	maturity date	rate of interest	1984 millions of dollars	1985 millions of dollars
Debentures				
1967	Jan. 2, 1987	6¾	12	10
1968	Jan. 2, 1988	7⅜	15	12
1969	Aug. 15, 1989	8½	10	9
1972	Feb. 15, 1992	7¾	21	17
1974	Aug. 15, 1994	10⅝	65	63
1975	Feb. 15, 1995	9¾	71	66
1979	Sept. 15, 2009 (U.S.\$)			
	(1985 – \$226 million;			
	1984 – \$250 million)		9¾	330
1981	Dec. 1, 2011 (U.S.\$)			316
	(\$200 million)		15½	264
Total sinking-fund debentures			788	773
1983	Mar. 31, 1993	12	125	125
Total long-term debt (a)			913	898
Capitalized leases (a) (b)			93	84
Other obligations (c) (d)			178	237
Total long-term debt and other obligations			1184	1219

(a) Payments of principal required during the next five years for:

	Sinking-fund debentures	Capitalized leases
	millions of dollars	
1986	2	8
1987	16	6
1988	23	5
1989	19	5
1990	13	4

(b) Imputed interest on capitalized leases will be \$51 million during the next five years and \$114 million over the life of the leases.

(c) Other obligations at December 31, 1985, include \$75 million (1984 – \$83 million) related to take-or-pay gas contracts. Amounts received under these contracts for future delivery of natural gas are recorded as deferred revenue. These amounts are included in sales revenue when the gas is delivered.

(d) Other obligations at December 31, 1985, also include a \$48 million liability for the company's health-care and life-insurance plans for retired employees. These plans are described further in note 16.

Unused lines of credit with major Canadian banks totaled \$597 million as at December 31, 1985 (1984 – \$590 million).

11. Unusual items

	1983	1984	1985
	millions of dollars		
Montreal refinery	(70)	–	–
Sarnia ethylene unit	(6)	–	–
Interprovincial Pipe Line Limited	34	–	–
Deferral of producing profits	–	–	(45)
Granduc mine	–	–	(5)
Total unusual items	(42)	–	(50)

Montreal refinery – The company suspended operations at its Montreal refinery in order to improve the overall efficiency of its refinery network. The write-down of the refinery assets and suspension costs resulted in a one-time charge to 1983 earnings of \$70 million after income-tax credits of \$63 million.

Sarnia ethylene unit – The company suspended operations at one of its two ethylene producing units at the Sarnia chemical plant, due to surplus production capacity. The unit's assets were written down, resulting in a one-time charge to 1983 earnings of \$6 million after income-tax credits of \$4 million.

Interprovincial Pipe Line Limited (IPL) – IPL issued 13.6 million common shares to Hiram Walker Resources Limited (HWR) in exchange for 13.6 million shares of HWR. While Imperial retained ownership of 8,597 million common shares of IPL, the company's share ownership changed from 33 percent to 22 percent of the enlarged IPL. As a result of the transaction,

Imperial's equity investment in IPL was adjusted to reflect its new proportionate ownership in IPL's increased book value as demonstrated by the share exchange, over the prior carrying value. This 1983 adjustment resulted in a noncash gain of \$34 million. There was no income-tax effect.

Deferral of producing profits – The company's earnings have been adjusted to reflect a one-time, noncash decrease of \$45 million, after income-tax credits of \$42 million, resulting from the June 1 deregulation of crude oil pricing. Prior to June 1, the corporation was required to sell crude oil produced from Crown leases to the Alberta Petroleum Marketing Commission and recorded a sale at such time. This requirement has been removed. Consequently, the profit on company-produced crude oil used in the manufacture of petroleum products is deferred until sold to the customer. This change has a one-time impact on earnings with no effect on the company's cash flow.

Granduc mine – In late 1982 the company decided to wind down operations at the Granduc copper mine in British Columbia. An unusual item of \$40 million, after income-tax credits of \$26 million, was charged to earnings at that time to write the assets down to estimated net realizable value. The closure of the mine is now complete and the write-down has been increased by \$5 million, after income-tax credits of \$3 million, mainly due to lower-than-anticipated copper prices during the wind-down period.

12. Commitments and contingent liabilities

The future liability for long-term contractual obligations and commitments, all arising in the normal course of business, is not significant to the company's consolidated financial position.

Lawsuits pending against the company would not, in the opinion of counsel, result in any financial liability having a significant effect on the company's consolidated financial position and earnings.

Notes to the financial statements

13. Business segments

	Natural resources			Petroleum products			Chemicals		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
	millions of dollars								
Revenues									
Sales to customers	1030	1094	758	6384	6541	6919	696	750	758
Intersegment sales	688	646	1497	318	275	346	46	57	47
Total revenues (a)	1718	1740	2255✓	6702	6816	7265✓	742	807	805✓
Earnings before taxes and levies	878	883	1016	1147	1323	1031	(17)	44	7
Taxes and levies	606	559	474	1086	1177	938	(7)	22	4
Earnings from operations	272	324	542✓	61	146	93✓	(10)	22	3✓
Capital employed									
Segment assets	2622	2937	3663	3300	3436	3537	1068	1062	1064
Less current liabilities	528	514	557	748	969	942	(55)	48	56
Total capital employed (b)	2094	2423	3106✓	2552	2467	2595✓	1123	1014	1008✓
Depreciation and amortization	124	124	177	81	87	100	29	46	48
Capital and exploration expenditures	425	511	885	154	129	218	109	23	24

(a) Sales to customers have been adjusted to reflect those changes under notes 1 and 2(b).

(b) Segment assets and current liabilities have been adjusted as described in notes 1 and 3.

In the consolidated figures reported here, all intersegment transactions have been eliminated. The company operates its business in the segments described

14. Long-term incentive compensation plan

Monetary awards are granted to attract and retain promising employees and reward them for high performance. The amounts of the awards are based on increases over time in the price of Class A convertible shares or earnings per share, whichever is greater. Holders of the awards are not eligible to receive payments at the time the awards are granted. Payments are deferred for periods of up to six years depending on the type of award.

Estimated costs of the plan are amortized over its life. In 1985 the company charged \$20 million to earnings (1984 – \$20 million; 1983 – \$17 million).

15. Research and development costs

Research and development costs in 1985 were \$79 million (1984 – \$63 million; 1983 – \$60 million) before investment tax credits earned on these expenditures of \$10 million (1984 – \$14 million; 1983 – \$5 million). The net costs were charged to expenses.

Other investments			Consolidated		
1983	1984	1985	1983	1984	1985
millions of dollars					
297	370	369	8407	8755	8804
14	15	18	-	-	-
311	385	387	8407	8755	8804
10	60	38	2018	2310	2092
1	19	(8)	1686	1777	1408
9	41	46	332	533	684
1033	1203	1084	7968	8701	9202
12	(226)	(83)	1178	1368	1326
1021	1429	1167	6790	7333	7876
1	3	(3)	235	260	322
11	16	31	699	679	1158

in the operating reviews. The information in the table above is presented as though each segment were a separate business activity. Intersegment sales are made essentially at prevailing market prices.

16. Annuitant health care and life insurance

The company shares the cost of certain health-care and life-insurance benefits for retired employees. Almost all of the company's employees may become eligible for those benefits when they retire from the company.

In 1985 the method of charging costs against earnings was changed from a pay-as-you-go basis to a recognition of a liability at retirement basis. Under the new method, estimated future benefits are now charged to earnings in the year of employee retirement and the related liability is reduced by the annual cash costs of the benefits.

As a result of this change, a liability (as described in note 10(d)) has been recorded for employees who retired

prior to 1985. This initial liability has not been charged to earnings in 1985 but has been deferred and is being charged to earnings over a 17-year period. This is described further in note 8(c). Total charges to earnings in 1985 under the new method amounted to \$12.2 million (1984 and 1983 amounts, under the pay-as-you-go basis, were \$5.7 million and \$6.4 million respectively).

17. Employee retirement plans

The pension plans cover almost all employees and generally are based on length of service and on average earnings during the final three years of employment. The plans are funded primarily by the company, based on actuarial valuations, the most recent being at September 30, 1983.

Funded status at December 31	1983	1984	1985
millions of dollars			
Market value of assets	997	1035	1266
Accumulated earned benefits	754	827	878
Assets excess	243	208	388
Unearned future benefits	295	301	319
(Unfunded liability) Surplus	(52)	(93)	69

The surplus at December 31, 1985, will be credited to expense over 17 years, the average remaining working life of employees.

Charges to expense for the year	33	25	27
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Assumptions

Rate of return on the plan's assets (percent)	7.0	7.0	7.0
Salary escalation rate (percent)	5.0	5.0	5.0

Notes to the financial statements

18. Transactions with Exxon Corporation and affiliated companies (Exxon)

The net amount of outflows by Imperial from transactions with Exxon was \$244 million in the year. Transactions with Exxon resulted in a net inflow of \$197 million in 1984 and a net outflow of \$224 million in 1983. The terms of the transactions were competitive or as favorable as they would have been with unrelated parties. The transactions were to maintain supplies of crude oil, petroleum and petrochemical products to customers. Current amounts due to Exxon at December 31, 1985, were \$49 million (1984 – \$15 million due from Exxon; 1983 – \$9 million due to Exxon). "Other obligations," reported in note 10, include \$7 million due to Exxon at December 31, 1985 (1984 – \$6 million; 1983 – \$6 million).

In 1985, Exxon acquired 1 509 122 shares under the company's dividend reinvestment and share purchase plan described further in note 19 (1984 – 1 323 071 shares; 1983 – 1 195 811 shares). Exxon's ownership interest in Imperial at December 31, 1985, was 69.6 percent (1984 – 69.5 percent).

19. Capital Stock

	1983	1984	1985
	number of shares		
Authorized (Class A and B)	200 000 000	200 000 000	200 000 000
Issued at Dec. 31 (a)			
Class A	156 157 528	158 496 912	161 879 023
Class B	3 432 194	3 078 171	1 301 915
Total	159 589 722	161 575 083	163 180 938
Transactions during the year			
Dividend reinvestment and share purchase plan (b)			
Number of shares issued	1 571 313	1 777 917	1 545 879
Amount (millions of dollars)	51.9	67.0	73.0
Class B stock dividends paid			
Number of shares issued	170 341	121 374	59 976
Amount (millions of dollars)	5.8	4.7	3.0
Employee stock options (c)			
Number exercised	87 630	86 070	–
Amount (millions of dollars)	2.4	2.2	–
Fair market value (millions of dollars)	3.2	3.2	–
Number outstanding at Dec. 31	86 070	–	–

(a) Holders of both Class A and Class B shares have voting privileges. The shares are convertible on a share-for-share basis and rank equally in all other respects.

Holders of Class B shares receive a stock dividend of Class B shares with values substantially equivalent to the cash dividend on Class A shares.

(b) The plan enabled shareholders to reinvest their cash dividends in additional Class A shares at five percent less than average market price. Shareholders could also invest between \$50 and \$5000 per calendar quarter in additional Class A or Class B shares at an average market price without paying brokerage or other fees. This plan was modified in 1986 and further information is provided on page 56.

(c) When the options were granted, fair market value ranged from \$28.00 to \$42.375. All options expired on July 15, 1984.

Earnings per share are calculated on the monthly weighted average number of shares outstanding during the year. (1985 – 162 320 000; 1984 – 160 376 000; 1983 – 158 472 000.)

Supplemental information (unaudited)

Additional information for security holders is provided on pages 46 to 56.

Since the company uses capital markets in the United States, these pages include information that conforms with the financial reporting practices in that country. A description of the differences between the accounting principles generally accepted in Canada and the United States as they apply to the company appears on page 48.

Subsidiaries and principal investments

Subsidiary companies (a)

W. H. Adam Ltée, Ltd.
Atlas Supply Company of Canada Limited
Beaverhill Resources Limited
Building Products of Canada Limited
Byron Creek Collieries (1983) Limited
Canada Wide Mines Ltd.
Champlain Oil Products Limited
Devon Estates Limited
ESF Limited
Esso Chemical Alberta Limited
Esso of Canada Limited
Esso Resources Canada Limited
The Imperial Pipe Line Company, Limited
Maple Leaf Petroleum Limited
Nisku Products Pipe Line Company Limited
Northwest Company, Limited
107580 Canada Inc.
139675 Canada Ltd.
140129 Canada Limited

Pinpoint Retail Systems Inc.
Renown Building Materials Limited
Les Restaurants Le Voyageur Inc.
Servacar Ltd.
Taglu Enterprises Limited
305120 Alberta Ltd.
Winnipeg Pipe Line Company Limited
(a) See page 30, "Principles of consolidation."

Principal investments in other companies, not consolidated (b)

	Percentage of ownership
Alberta Products Pipe Line Ltd.	30.0
Interprovincial Pipe Line Limited	21.8
Montreal Pipe Line Limited	32.0
Rainbow Pipe Line Company, Ltd.	33.3
Tecumseh Gas Storage Limited	50.0
Williamsport Properties Limited	50.0

(b) See page 30, "investments"

Five-year summary Financial

Percentages and ratios	1981	1982	1983	1984	1985
Return on average Capital employed (1)					
Before unusual items	8.9	5.6	6.0	8.5	9.9
After unusual items	8.9	5.2	5.3	8.5	9.2
Shareholders' equity	11.9	6.6	7.0	12.1	13.1
Debt as a percentage of Capital employed					
Shareholders' equity	13.1	12.3	13.4	12.5	11.4
Shareholders' equity	19.3	19.3	21.5	19.8	17.8
Interest coverage (2)	15.9	7.5	7.5	9.5	9.4
Reinvestment percentage (3)	263.3	154.6	106.2	93.8	114.0
Current ratio (4)	2.8	2.6	2.3	2.3	2.2

Definitions

(1) The return consists of the average capital employed divided into the sum of the earnings (before or after unusual items), the after-tax long-term debt interest expense and capitalized leases interest expense.

(2) Interest coverage is the interest expense on long-term liabilities and capitalized leases divided into the sum of consolidated earnings from operations, interest on long-term liabilities and capitalized leases, and consolidated income taxes on earnings from operations.

(3) Reinvestment percentage is the total investments in the year divided by the change in internal funds in the year.

(4) Current ratio is current assets divided by current liabilities.

Consolidated statement of earnings	1981	1982	1983	1984	1985
	millions of dollars				
Revenues					
Crude oil (1)	608	714	777	830	548
Natural gas	193	208	185	185	148
Petroleum products	5887	6178	6231	6366	6761
Chemicals	704	626	694	753	762
Other operating	424	385	412	454	448
Interest and investment	187	159	108	167	137
Total revenues	8003	8270	8407	8755	8804
Expenses					
Exploration	221	113	81	63	85
Purchases of crude oil and products (1)	3079	3728	4115	4049	4053
Extracting, processing and manufacturing	1068	1016	1056	1068	1187
Marketing and administration	643	763	781	879	939
Interest	66	115	121	126	126
Total expenses	5077	5735	6154	6185	6390
Revenues less expenses	2926	2535	2253	2570	2414
Depreciation and amortization	244	219	235	260	322
Earnings before taxes and levies	2682	2316	2018	2310	2092
Taxes and levies	2217	2027	1686	1777	1408
Earnings from operations	465	289	332	533	684
Unusual items	—	(22)	(42)	—	(50)
Earnings after unusual items	465	267	290	533	634

(1) Data have been restated to reflect the changes discussed in notes 1 and 2(b) to the audited financial statements.

Consolidated statement of changes in financial position	1981	1982	1983	1984	1985
	millions of dollars inflows(outflows)				
Internal funds generated from operations	839	830	708	958	1114
Dividends	(220)	(220)	(222)	(233)	(268)
Change in operating working capital	(420)	9	147	(80)	73
Adjustment for exploration expense	221	113	81	63	85
Change in internal funds	420	732	714	708	1004
Total investment of funds	(1106)	(1132)	(758)	(664)	(1145)
Change in internal funds after investment	(686)	(400)	(44)	44	(141)
External financing					
Long-term debt and other obligations, after repayments	331	63	121	(30)	7
Capital stock	8	14	60	74	76
Total external financing	339	77	181	44	83
Inflow (outflow) of funds	(347)	(323)	137	88	(58)

Consolidated statement of financial position	1981	1982	1983	1984	1985
	millions of dollars				
Capital employed					
Funds	608	285	422	510	452
Operating working capital	1414	1405	1258	1338	1168
Investments and other long-term assets	203	286	450	511	576
Property, plant and equipment (net)	3738	4446	4660	4974	5680
Total capital employed	5963	6422	6790	7333	7876
Sources of capital employed					
Long-term debt and other obligations	946	1028	1180	1184	1219
Deferred income taxes	975	1291	1379	1544	1610
Shareholders' equity	4042	4103	4231	4605	5047
Total sources of capital employed	5963	6422	6790	7333	7876
Total assets (1)	7090	7463	7968	8701	9202

(1) Data have been restated to reflect changes discussed in notes 1 and 3 to the audited financial statements.

Capital and exploration expenditures	1981	1982	1983	1984	1985
(after deducting incentives)	millions of dollars				
Natural resources					
Exploration	190	93	47	48	97
Production	90	206	246	209	315
Heavy oil	43	42	102	231	379
Coal and other minerals	132	58	30	23	94
Total natural resources	455	399	425	511	885
Petroleum products					
Marketing	42	31	46	83	106
Refining	187	301	108	46	112
Total petroleum products	229	332	154	129	218
Chemicals	323	368	109	23	24
Other investments	100	35	11	16	31
Total capital and exploration expenditures	1107	1134	699	679	1158

Five-year summary

Financial

Net payments to governments	1981	1982	1983	1984	1985
	millions of dollars				
Taxes and levies					
Income taxes (1)	474	384	420	489	317
Revenue taxes	91	175	170	150	125
Commodity, property and other taxes	518	554	504	534	594
Levies (2)	1134	914	592	604	372
Total taxes and levies	2217	2027	1686	1777	1408
Add:					
Current taxes on unusual items	-	(6)	(15)	-	(3)
Consumer taxes collected on behalf of governments	499	618	608	967	1078
Crown royalties	495	505	492	404	377
	3211	3144	2771	3148	2860
Less deferred income taxes	130	322	141	165	108
Total paid or payable to governments	3081	2822	2630	2983	2752
Receipts from governments					
Oil-import compensation (2)	761	422	149	105	57
Syncrude compensation (2)	138	117	86	83	60
Investment tax credits	58	20	24	44	71
Incentive programs	19	10	8	9	17
Federal government advance for Cold Lake megaproject	40	-	-	-	-
Total received or receivable from governments	1016	569	267	241	205
Net payments to governments	2065	2253	2363	2742	2547
Net payments to:					
Federal government	986	1139	1161	1610	1465
Provincial governments	1032	1058	1143	1067	1016
Local governments	47	56	59	65	66
Net payments to governments	2065	2253	2363	2742	2547

(1) Under a federal government program encouraging taxpayers to support Canadian scientific research, Imperial made payments to Canadian companies in lieu

of income-tax payments to the government. Those payments provided the company with credits totaling \$393 million, which were applied to payment of 1983 and 1984 income taxes reported above.

(2) Payments and receipts relating to these programs and charges expired on June 1, 1985.

Financial information by segment	1981	1982	1983	1984	1985
	millions of dollars				
Revenues					
Natural resources	1255	1484	1718	1740	2255
Petroleum products	6309	6638	6702	6816	7265
Chemicals	802	682	742	807	805
Other investments	379	328	311	385	387
Intersegment sales (1)	(742)	(862)	(1066)	(993)	(1908)
Total revenues (1)	8003	8270	8407	8755	8804
Earnings from operations					
Natural resources	16	120	272	324	542
Petroleum products	330	146	61	146	93
Chemicals	48	(1)	(10)	22	3
Other investments	71	24	9	41	46
Total earnings from operations	465	289	332	533	684
Capital employed					
Natural resources	2010	2066	2094	2423	3106
Petroleum products	2452	2519	2552	2467	2595
Chemicals	508	1030	1123	1014	1008
Other investments	993	807	1021	1429	1167
Total capital employed	5963	6422	6790	7333	7876
Return on average capital employed					
	percent				
Natural resources	0.8	5.9	13.1	14.3	19.6
Petroleum products	15.6	5.9	2.4	5.8	3.7
Chemicals	13.3	(0.1)	(0.9)	2.1	0.3
Other investments	9.4	8.8	7.9	8.7	8.6
Return on average capital employed (after unusual items)	8.9	5.2	5.3	8.5	9.2

(1) Data have been restated to reflect the changes discussed in notes 1 and 2(b) to the audited financial statements.

Five-year summary

Operating

Wells drilled (1)	1981		1982		1983		1984		1985	
	gross	net	gross	net	gross	net	gross	net	gross	net
Western provinces										
Exploratory										
Conventional	61	20	36	11	41	18	34	17	55	25
Heavy oil	30	11	75	21	40	12	77	16	79	56
Development										
Conventional	83	30	34	13	114	56	362	117	397	137
Heavy oil	81	81	29	29	210	210	349	346	554	550
Northern areas and Atlantic offshore (2)										
Exploratory	4	1	5	1	9	3	10	2	13	4
Development	1	–	12	8	30	20	38	26	35	22
Other provinces										
Exploratory	–	–	–	–	1	–	–	–	–	–
Total wells drilled										
Exploratory	95	32	116	33	91	33	121	35	147	85
Development	165	111	75	50	354	286	749	489	986	709
Total wells in progress	54	27	60	52	16	8	30	17	40	14

Land holdings (1)	millions of hectares									
Oil and gas										
Western provinces										
Conventional	5.6	1.4	5.3	1.3	2.5	0.9	2.4	0.9	2.3	0.9
Other	0.8	0.3	1.0	0.4	1.0	0.4	1.0	0.4	1.0	0.4
Northern areas (2,3)	11.4	3.8	9.8	3.9	10.5	3.8	9.6	3.5	8.7	2.6
Atlantic offshore (3)	5.5	4.8	6.0	4.7	4.4	3.6	4.0	3.3	2.5	1.9
Other provinces (4)	1.8	0.2	1.8	0.4	1.9	0.4	1.9	0.4	1.9	0.4
Total oil and gas land holdings	25.1	10.5	23.9	10.7	20.3	9.1	18.9	8.5	16.4	6.2
Minerals										
Coal	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Other minerals	0.6	0.5	0.6	0.5	0.5	0.3	0.3	0.1	0.6	0.3
Total mineral land holdings	1.1	1.0	1.1	1.0	1.0	0.8	0.7	0.5	1.0	0.7

One hectare equals about 2.5 acres.

(1) Gross includes the interests of others; net excludes the interests of others.

(2) Northern areas – the Arctic islands, the Yukon and the Northwest Territories, including the Beaufort Sea/Mackenzie Delta region – are often referred to as Canada Lands.

(3) The company's interests in lands under the jurisdiction of the government of Canada are subject to reduction under the terms of government of Canada legislation.

(4) This represents seismic options in Quebec.

Five-year summary

Operating

	1981		1982		1983		1984		1985	
	gross	net	gross	net	gross	net	gross	net	gross	net
Proved reserves (1)										
Crude oil and natural-gas liquids (NGL) (millions of m ³)	174	124	167	125	190	145	222	172	265	208
Natural gas (billions of m ³)	53	37	52	38	50	37	51	36	55	41
Crude oil supply and utilization (thousands of m ³ /d)										
Crude oil production (1)										
Conventional	21.0	12.6	18.2	11.6	16.0	10.7	15.4	10.6	16.7	12.7
Cold Lake	1.4	1.3	1.8	1.7	2.3	2.1	2.9	2.7	4.5	4.4
Syncrude	3.2	2.7	3.4	2.8	4.4	3.7	3.4	3.3	5.1	4.5
Total crude oil production	25.6	16.6	23.4	16.1	22.7	16.5	21.7	16.6	26.3	21.6
Natural-gas liquids (NGL)	3.2	2.3	2.6	1.8	2.1	1.5	2.0	1.5	1.7	1.4
Total crude oil and NGL production	28.8	18.9	26.0	17.9	24.8	18.0	23.7	18.1	28.0	23.0
Net purchases from others										
Domestic		34.3		28.8		33.3		32.1		22.4
Imported		15.1		11.5		8.8		7.8		9.4
Total purchases and production		68.3		58.2		60.1		58.0		54.8
Crude oil processed at company refineries										
Ioco, B.C.		6.0		5.6		5.2		6.0		6.0
Norman Wells, NWT		0.5		0.5		0.5		0.5		0.5
Strathcona, Alta.		24.4		21.1		21.9		24.8		20.4
Sarnia, Ont.		15.7		14.1		14.9		16.3		17.2
Montreal, Que. (2)		11.4		8.0		8.5		—		—
Dartmouth, N.S.		10.3		8.9		9.1		10.4		10.7
Total crude oil processed		68.3		58.2		60.1		58.0		54.8
Refinery capacity at December 31		76.7		77.4		66.2		65.8		65.7
Refinery capacity utilization (percent) (2)		89		75		78		88		83
Natural gas (millions of m³/d)										
Production (1)	7.7	5.4	7.3	5.4	6.9	5.2	6.6	4.8	5.5	4.0
Purchased for resale	0.8		0.6		0.6		0.4		0.4	
Sales	8.5		7.9		7.5		7.0		5.9	
Thermal coal production (millions of tonnes annually)		0.4		1.0		1.0		1.3		1.0

One cubic metre (m³) is equal to approximately 6.3 barrels or 35.3 cubic feet. One tonne is equal to approximately 1.1 short tons or 0.98 long ton.

(1) Gross reserves and production include only the amount directly owned, produced and sold by the company before deducting the shares of mineral owners or

governments or both. Net reserves and production exclude these shares.

(2) The Montreal refinery ceased operations in October, 1983. The calculation of capacity utilization for 1983 excludes the Montreal refinery.

Sales volumes	1981	1982	1983	1984	1985
Petroleum products (thousands of m ³ /d)(1)					
Gasolines	24.2	22.4	21.9	20.7	21.1
Jet fuels	4.5	4.3	3.7	4.5	4.9
Heating fuels	7.8	7.4	6.6	5.7	5.3
Diesel fuels	12.8	11.5	11.3	12.0	12.5
Heavy fuel oils	6.6	5.3	4.1	3.7	3.4
Liquid petroleum gas	4.2	4.2	3.4	3.1	3.3
Other products	3.6	3.2	3.4	3.3	3.6
Total petroleum products	63.7	58.3	54.4	53.0	54.1
Total domestic sales of petroleum products (percent)	96.0	95.5	93.8	92.3	91.4
Chemicals (thousands of tonnes per day)					
Petrochemicals	3.0	2.5	2.4	1.9	1.9
Agricultural chemicals	2.1	1.8	2.6	3.9	3.9

Average sale prices

dollars

Crude oil and NGL (per m ³)	114.54	151.90	189.55	192.43	197.48
Natural gas (per thousand m ³)	85.83	93.40	89.47	97.94	91.51

One cubic metre (m³) is equal to approximately 6.3 barrels or 35.3 cubic feet. One tonne is equal to approximately 1.1 short tons or 0.98 long ton.

(1) Volume data exclude sales attributable to purchase/sale agreements (see note 3 to the audited financial statements).

Employees

Number at December 31 (1)	16 314	15 476	14 732	14 331	14 674
Total payroll and benefits (millions of dollars)(2)	691	814	825	854	914
Payroll and benefits per employee (dollars)(3)	36 900	43 200	46 500	49 800	52 100

(1) The number of employees at December 31 includes only full-time employees.

(2) Total payroll and benefits include both the company and its share of the Syncrude joint-venture payroll and benefit costs.

(3) Payroll and benefits per employee are calculated by dividing the total payroll and benefits for full-time Imperial employees by the monthly average number of full-time Imperial employees.

Management discussion and analysis

Imperial's consolidated statements report the combined results of all the company's operations. The principal business segments are natural resources, petroleum products and chemicals. Each of these segments is managed by a president who is responsible for the segment's operations and who reports to the company's chief executive through the executive vice-president and chief operating officer.

The financial highlights for 1985 and the two preceding years are as follows:

	1983	1984	1985
Earnings from operations (millions of dollars)	332	533	684
Earnings after unusual items (millions of dollars)	290	533	634
Capital and exploration expenditures (millions of dollars)	699	679	1158
Earnings per share (after unusual items) (dollars)	1.83	3.32	3.91
Dividends per share (dollars)	1.40	1.45	1.65

The unusual items are described in note 11 to the audited financial statements.

Reported earnings are not adjusted for inflation and changes in prices. A report on these effects appears on pages 48 and 49.

Segment information*Natural Resources*

Earnings from natural resource operations in 1985 were \$542 million, an increase of 67 percent from the 1984 earnings of \$324 million. Earnings in 1983 were \$272 million. Return on average capital employed was 19.6 percent, an increase from 14.3 percent in 1984 and 13.1 percent in 1983.

Net crude-oil and natural-gas-liquids production in 1985 was 27 percent higher than in 1984. This was primarily the result of the successful start-up of the production of conventional crude oil from the Norman

Wells oil-field expansion project, the first four stages of commercial production of bitumen at Cold Lake and record production of upgraded crude oil at Syncrude.

Earnings also improved as the high level of investment spending on the enhanced-oil-recovery projects, the Cold Lake commercial production project and Syncrude resulted in significant capital-expenditure-related income-tax and royalty credits. As well, earnings increased in 1985 as a result of the sales of interests in certain producing properties with the right to reacquire them. It is anticipated this will occur in 1986. The impact on earnings is being recorded over the life of the transactions.

Capital and exploration expenditures of \$885 million were 73 percent higher than 1984 expenditures of \$511 million (1983 - \$425 million). Capital expenditures to increase or maintain production at Cold Lake and Syncrude amounted to \$379 million, compared with \$231 million in 1984 and \$102 million in 1983. Capital expenditures to increase or maintain conventional crude-oil production were \$315 million in 1985, \$209 million in 1984 and \$246 million in 1983. Expenditures related to exploring for conventional oil and gas were \$97 million in 1985, up from \$48 million in 1984 (1983 - \$47 million).

Petroleum products

Petroleum product operations earned \$93 million in 1985, compared with \$146 million in 1984 and \$61 million in 1983. The return on average capital employed continued at less than satisfactory levels. It was 3.7 percent in 1985, down from 5.8 percent in 1984 and slightly higher than the 2.4 percent reported in 1983. The significant drop in demand for petroleum products that occurred in the early part of the decade has leveled off; demand dropped only marginally in 1985. Two events accounted for more than three-quarters of the difference in earnings from 1984. First, an agreement to process crude oil for another company ended with the completion of its new facilities. Second, an increase in the Petroleum Compensation Charge in 1984 resulted in an inventory profit. As well, intense price competition in most markets, particularly the gasoline market in Ontario, prevented the company from fully recovering higher supply and operating costs. The higher costs were due to inflation, increased promotion expenses as a result of a strong battle for market share and programs to upgrade refinery and service-station facilities.

Capital expenditures for marketing increased \$23 million to \$106 million in 1985, as the enhancement of the service-station network continued (1983 -

\$46 million). Refining capital expenditures were \$112 million in 1985, up from \$46 million in 1984. This increase was primarily due to pipeline construction, and expenditures to maintain refining production capacity and to upgrade facilities (1983 – \$108 million).

Chemicals

Earnings from chemical operations were \$3 million in 1985, down from \$22 million in 1984, which had recovered from a loss of \$10 million in 1983. Return on average capital employed was 0.3 percent in 1985, a decrease from 2.1 percent in 1984, but better than the 1983 return, which was – 0.9 percent.

Earnings from agricultural chemicals were down slightly from 1984 levels. In line with company strategies, there was a significant increase in sales in the Prairie provinces and bordering regions of the United States. This improvement was offset by lower offshore sales, as well as higher raw-material costs, which could not be completely recovered in a highly competitive market.

In petrochemicals, earnings declined in 1985 as markets continued to be affected by surplus international production capacity that has affected the industry for several years. Sales volumes were maintained, but prices continued to be depressed. As well, in 1985 there was a write-down of amounts owed by a major customer and deemed unrecoverable.

Total capital expenditures were \$24 million in 1985, compared with \$23 million in 1984 and \$109 million in 1983, when major projects at Sarnia and Redwater were completed.

Liquidity and capital resources support investments

Internal funds generated (after changes in operating working capital and payment of dividends by the company) were \$1 billion in 1985, an increase of 42 percent from \$708 million in 1984 (1983 – \$714 million). These funds were used primarily to finance the highest-ever level of capital and exploration expenditures, totaling \$1.16 billion in 1985, up from \$679 million in 1984 and \$699 million in 1983.

Operating working capital requirements decreased \$73 million in 1985. Favorable decreases in inventories (resulting from continuing efforts to control inventory levels) and increases in accounts payable and dividends payable were offset by a reduction in taxes and levies

payable and slightly higher accounts receivable. The 1985 decrease in operating working capital compares to an increase of \$80 million in 1984 and a decrease of \$147 million in 1983.

There was no long-term debt issued in 1985. The company's last long-term debt issue was in 1983 when \$125 million was issued. Debt as a percent of shareholders' equity was 17.8 percent at December 31, 1985, down from 19.8 percent in 1984 and 21.5 percent in 1983.

In October 1982 the company introduced the Imperial Oil Limited dividend reinvestment and share purchase plan, which raised \$73 million in 1985, \$67 million in 1984 and \$52 million in 1983. The plan is described in note 19 to the audited financial statements on page 38. In 1986, funds directed to the plan will be used to buy existing shares on a stock exchange, rather than new shares from the company.

Funds available at the end of the year were \$452 million, compared with \$510 million in 1984 and \$422 million in 1983. In addition to these funds, the company's unused lines of credit with five Canadian banks amounted to \$597 million at December 31, 1985.

Outlook for 1986

In the early part of 1986, there has been a significant deterioration in world crude-oil prices and there is uncertainty as to their future level. The impact of lower crude-oil prices will fall largely on the natural resource segment, which has provided the strongest earnings growth in recent years. In these new circumstances, it will be difficult to maintain the company's 1985 level of earnings and cash flow. The company's investment program is being reassessed to ensure that it is appropriate and some slowdown in the rate of capital spending is anticipated.

Going into this period of lower crude-oil prices, the company's financial position is strong, with debt as a percent of shareholders' equity at 17.8 percent at the end of 1985 and a strong credit rating.

Presentation of financial statements

The financial statements of the company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. These principles conform in all material respects to those in the United States except for the following:

	1981	1982	1983	1984	1985
	millions of dollars				
Earnings as shown in financial statements	465	267	290	533	634
Increase (decrease) in net earnings due to					
Capitalized interest (1)	3	21	21	24	10
Foreign exchange (2)	(1)	(10)	(4)	(19)	(15)
Earnings according to generally accepted accounting principles in the United States	467	278	307	538	629
Earnings per share	dollars				
under the accounting principles of					
Canada	2.96	1.70	1.83	3.32	3.91
United States	2.96	1.77	1.94	3.35	3.88

(1) Interest expense related to major construction projects is not required to be capitalized in Canada, as it is in the United States.

(2) Long-term liabilities in foreign currencies have been translated at the rates of exchange prevailing on December 31. Exchange gains and losses arising on translation of long-term debt are amortized over the remaining term of the debt. In the United States the practice is to include the gains and losses arising from this translation in the earnings for the period in which they arise.

Although the following methods of disclosure in the financial statements differ between Canada and the United States, they do not affect the amounts shown as net earnings.

(a) Under U.S. GAAP the unusual items described in note 11 to the financial statements would be reported in the consolidated statement of earnings before "earnings before taxes and levies" and would not be shown net of the applicable income taxes.

(b) Because of the tax structure for the Canadian oil and gas industry, the company reports all taxes and levies shown in note 5 as a separate item in the consolidated

statement of earnings. The general practice in the United States is to disclose earnings before income taxes and to report income taxes as a separate item.

International Accounting Standards

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards.

Accounting for the effects of inflation and changing prices

Conventional accounting practices and published reports reflect financial results from prices and costs in effect at the time the transactions occurred.

Inflation-adjusted earnings provide insight into the performance of the company after stripping away the uncontrollable factors of inflation and changing prices, leaving earnings that are available to shareholders after providing for the preservation of the company's financial capital.

Comparative results for 1985

	Conventional	Inflation adjusted Imperial method (1)
	millions of dollars	
Revenues less expenses	2414	2414
Adjustment for cost of sales	—	10
Depreciation and amortization	(322)	(650)
Earnings before taxes and levies	2092	1774
Current taxes and levies	(1300)	(1300)
Deferred income taxes	(108)	(40)
Earnings from operations	684	434
Unusual items	(50)	(50)
Earnings after unusual items	634	384

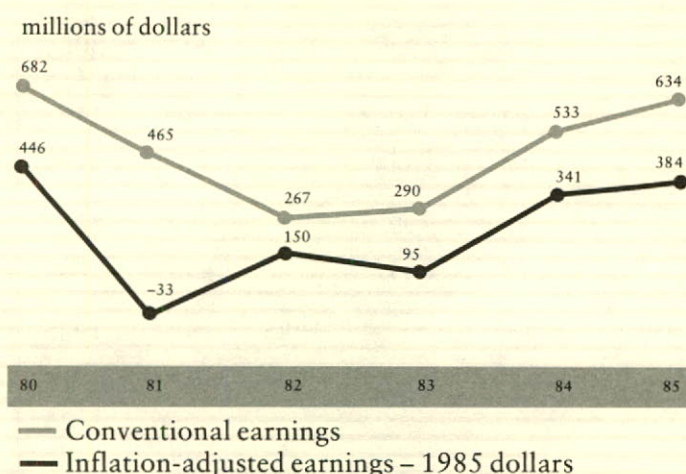
(1) Adjustments have been rounded to the nearest \$10 million.

Inflation-adjusted earnings for 1985 are lower than reported by conventional accounting methods. This is due to three recurring items: cost of sales, depreciation and amortization, and deferred income taxes.

The cost of sales is lower under inflation accounting because it is based on current replacement cost for crude oil and products, which in 1985 is lower than the

historical cost used in conventional accounting. Depreciation and amortization are higher under inflation accounting because they are based on the cost of the company's physical assets in current (inflated) dollars.

Deferred taxes are lower under inflation accounting as the higher accounting depreciation results in a smaller difference from the tax depreciation.



Inflation-adjusted earnings were consistently lower from 1980 to 1985, revealing a different pattern from earnings calculated under conventional accounting methods. In 1981 the impact of the economic recession and the National Energy Program was more severe than was apparent from conventional results. Conversely, the 1982 adjusted results show that the company was recovering, which was not evident until 1983 and 1984 under conventional accounting. While both inflation-adjusted and conventional results show increases in 1985, the increase in inflation-adjusted earnings is significantly smaller.

CICA approach

The Canadian Institute of Chartered Accountants (CICA) introduced recommendations for "reporting the effects of changing prices" in 1982. It is encouraging experimentation to arrive at the best method of reporting the impact of inflation.

Using the CICA approach, Imperial's inflation-adjusted earnings for 1985 are \$251 million, or \$133 million lower than under the company's method. This is due to different adjustments for depreciation and amortization (\$65 million) and deferred taxes (\$68 million).

The difference in depreciation and amortization occurs because the CICA recommends all fixed assets be

valued at their replacement costs. Given the market volatility, excess productive capacity and rapid technological change affecting the petroleum industry, Imperial believes that many companies invest to adapt their businesses to the changing environment rather than to replace existing production capacity. This leads us to favor the concept of maintenance of financial capacity and hence the use of CPI-adjusted values, rather than the CICA approach.

The second item contributing to the difference is the impact on deferred taxes of inflation-adjusted data, which is not addressed by the CICA.

Additional 1985 information (CICA) millions of dollars

Net assets on a current-dollar basis	
Inventory	1300
Property, plant and equipment	10264
Net assets (equity)	9633

Other supplemental information

Total current-cost increase in inventory, property, plant and equipment	534
General inflation component	479
Increase in current cost over the effect of general inflation	55
Gain in purchasing power of net monetary items	23

The CICA recommends including a financing adjustment calculated on two bases: the net monetary position of the company (1985 – a profit increase of \$29 million); and current-cost adjustments made to earnings for the year (1985 – a profit increase of \$22 million). While this item may have theoretical attraction, it is unduly complex and the company does not support its inclusion in the inflation-adjusted results.

Imperial supports the reporting of inflation-adjusted financial results. Since the company feels the CICA approach is unnecessarily complex and subjective, it has chosen to account for the effects of inflation on a different basis that is easier to interpret and communicate. Imperial believes it is important for the accounting model to evolve so that it communicates objective, understandable information to all users of financial statements.

Oil and gas exploration and production activities									
Capitalized costs (1)	Oil and gas		Syncrude		Total				
	1984	1985	1984	1985	1984	1985	millions of dollars		
Property costs									
Proved	140	137	—	—	140	137			
Unproved	203	210	—	—	203	210			
Producing assets	1497	2462	575	624	2072	3086			
Support facilities	134	138	—	—	134	138			
Incomplete construction	816	471	91	120	907	591			
Total capitalized costs	2790	3418	666	744	3456	4162			
Accumulated depreciation and amortization	847	978	77	99	924	1077			
Net capitalized costs	1943	2440	589	645	2532	3085			
Costs incurred	1983	1984	1985	1983	1984	1985	1983	1984	1985
millions of dollars									
Property costs	3	6	21	—	—	—	3	6	21
Exploration costs	44	42	76	—	—	—	44	42	76
Development costs	310	397	613	38	44	80	348	441	693
Results of operations									
Sales to customers	829	888	715	—	—	—	829	888	715
Intersegment sales	331	319	708	343	323	415	674	642	1123
Total sales (2)	1160	1207	1423	343	323	415	1503	1530	1838
Production expenses	245	268	374	195	208	216	440	476	590
Exploration expenses	57	36	79	—	—	—	57	36	79
Depreciation and amortization	95	95	106	19	16	25	114	111	131
Petroleum and Gas Revenue Tax	152	140	106	18	10	19	170	150	125
Income taxes	390	383	308	45	32	55	435	415	363
Results of operations	221	285	450	66	57	100	287	342	550

(1) "Property costs" are payments for rights to explore for petroleum and natural gas. "Proved" represents areas where successful drilling has delineated a field capable of production. "Unproved" represents all other areas. Costs of incomplete construction include drilling and other costs relating to the discovery of commercial oil and gas reserves in the Beaufort Sea/Mackenzie Delta region.

(2) Sales have been modified in accordance with notes 1 and 2(b) to the audited financial statements. Sales of crude oil to consolidated affiliates are valued at market, using posted field prices. Sales of natural-gas liquids to consolidated affiliates are valued at amounts estimated to represent prices equivalent to those that could be obtained in a competitive, arm's-length transaction. Total sales exclude the sale of natural gas and natural-gas liquids purchased for resale.

Net reserves of crude oil and natural gas

Crude oil	Conventional and Cold Lake			Syncrude			Total		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
	millions of m ³								
Net proved developed and undeveloped									
Beginning of year	94.7	116.4	144.5	29.8	28.5	27.3	124.5	144.9	171.8
Revisions of previous estimates and improved recovery	2.2	9.4	2.2	—	—	—	2.2	9.4	2.2
Sale of reserves in place	—	—	(0.1)	—	—	—	—	—	(0.1)
Discoveries and extensions	24.8	24.1	29.7	—	—	12.9	24.8	24.1	42.6
Production	(5.3)	(5.4)	(6.7)	(1.3)	(1.2)	(1.7)	(6.6)	(6.6)	(8.4)
End of year	116.4	144.5	169.6	28.5	27.3	38.5	144.9	171.8	208.1
Net proved developed									
Beginning of year	82.4	81.0	84.3	29.8	28.5	27.3	112.2	109.5	111.6
End of year	81.0	84.3	136.0	28.5	27.3	34.7	109.5	111.6	170.7

Natural gas	1983	1984	1985
	billions of m ³		
Net proved developed and undeveloped			
Beginning of year	38.2	36.8	36.2
Revisions of previous estimates and improved recovery	0.1	0.9	4.4
Sale of reserves in place	—	—	—
Discoveries and extensions	0.4	0.2	1.5
Production	(1.9)	(1.7)	(1.5)
End of year	36.8	36.2	40.6
Net proved developed			
Beginning of year	30.8	31.9	31.1
End of year	31.9	31.1	33.2

All reported reserves of crude oil and natural gas are located in Canada. Reserves of crude oil include condensate and natural-gas liquids. Conventional crude-oil and natural-gas reserve estimates are determined through analysis of geological and engineering data, which have demonstrated with reasonable certainty that these reserves are recoverable from known oil and gas fields under economic and operating conditions at December 31 of each year. The calculation of reserves of crude oil at Syncrude is based on the company's partici-

pating interest in the production permit granted in October 1979 and amended in January 1985 by the province of Alberta. Reserves of crude oil at Cold Lake are those reserves estimated to be recoverable from the existing experimental pilot plants and stages one to six of the Cold Lake production project.

The net proved reserves of conventional crude oil (excluding enhanced-oil-recovery projects in Alberta), oil from the Cold Lake pilots and natural gas are determined by deducting the mineral owners' or government's share or both and are based on an estimate of the average royalty rate over the remaining production life. These royalty rates may vary with production and price.

Net reserves of Syncrude, stages one to six of the Cold Lake production project and enhanced-oil-recovery projects in Alberta are based on an estimate of the average royalty rate over the project's life. These royalty rates may vary with production, prices and costs.

Reserves related to stages one to four of the Cold Lake production project have been recognized as proved developed. Stages five and six have been recognized as

proved undeveloped. The amount added in 1985 for stages five and six was 26 million cubic metres. At the end of 1985, total proved developed and undeveloped reserves for all Cold Lake operations amounted to 89.7 million cubic metres (1984 – 62.7 million cubic metres; 1983 – 41.6 million cubic metres).

The company's share of Syncrude reserves increased by 9.1 million cubic metres during 1985 with approval by the Alberta government to extend the Syncrude permit by nine years from December 31, 2004, to December 31, 2013. In addition, a project to increase production capacity at the Syncrude plant was approved, increasing reserves recoverable under the permit by 3.8 million cubic metres. These reserves have been recorded as undeveloped. Reserves data do not include crude oil and natural gas discovered in the Beaufort Sea/Mackenzie Delta and the Arctic islands nor the reserves contained in the oil sands other than those attributable to Syncrude, the Cold Lake pilot area and stages one to six of the Cold Lake production project.

Natural-gas reserves are calculated at a pressure of 101.325 kilopascals at 15 degrees Celsius.

The company does not agree that the calculation of the present value of future net cash flows from estimated production of proved reserves necessarily represents future cash flows or the fair market value of conventional oil and gas properties. The valuation does not include the value of exploratory properties and probable reserves and does not provide for the deduction of exploration expenses, amortization of land acquisition costs and depreciation of capitalized producing assets. It also does not include any potential changes in future prices for oil and gas and any potential changes in the cost of development and production. The valuation excludes the company's activities related to extraction and upgrading of crude oil from Syncrude. In the company's opinion, the method of calculating the data is not reliable and the values may not provide a basis for meaningful analysis. Imperial cautions readers about its use.

(a) Estimated future net cash flows are computed by applying the prices on December 31 of crude oil, including condensate, natural-gas liquids and natural gas to the estimated future production of proved oil and gas reserves.

(b) The estimated future Petroleum and Gas Revenue Tax is calculated using a rate of 10 percent for 1986, eight percent for 1987, six percent for 1988 and none thereafter.

(c) Estimated future income taxes are computed by applying the current statutory income-tax rates to the estimated taxable income for each year. Taxable income is based on estimated future net revenues adjusted to take into account differences from standard accounting practices permitted under income-tax regulations in effect at the end of the year.

Oil and gas producing activities			
	1983	1984	1985
Present value of estimated future net cash flows discounted at 10 percent	millions of dollars		
Future cash flows (a)	24928	31848	31862
Future production and development costs	(8042)	(10859)	(11109)
Future Petroleum and Gas Revenue Tax (b)	(2995)	(3605)	(389)
Future income taxes (c)	(7712)	(9851)	(9532)
Future net cash flows	6179	7533	10832
Discount of 10 percent for estimated timing of cash flows	(3867)	(4285)	(5810)
Discounted future net cash flows	2312	3248	5022

Summary of changes in present value of estimated future net cash flows	1983	1984	1985
	millions of dollars		
Balance at beginning of year	1337	2312	3248
Changes resulting from:			
Sales and transfers of oil and gas produced, net of production costs	(864)	(914)	(1163)
Net changes in prices, development costs and production costs (1)	1864	258	(2351)
Extensions, discoveries, additions and improved recovery, less related costs (2)	364	659	1815
Development costs incurred during the period	309	479	688
Revisions of previous quantity estimates (3)	47	266	1
Accretion of discount (4)	453	631	377
Net change in Petroleum and Gas Revenue Tax (5)	(365)	(248)	1149
Net change in income taxes (6)	(801)	(858)	(414)
Change in production pattern (7)	(32)	663	1672
Net change	975	936	1774
Balance at end of year	2312	3248	5022

(1) Net changes in prices and costs reflect the changes in prices for crude oil, natural gas and natural-gas liquids during each year, and related increases in development and production costs.

(2) Increases in proved reserves resulting from extensions, discoveries, additions and improved recovery represent the present value of estimated future net revenues, less estimated future development and production costs. The 1985 increase was primarily due to the recognition of reserves related to the Cold Lake production project (stages five and six), and the Rainbow, Joarcam, Peco, Rycraft and Brazeau areas.

(3) In 1985 an upward revision of \$521 million resulted primarily from royalty-rate reductions associated with provincial incentives given for new oil production and enhanced-oil-recovery projects, mostly offset by net downward revision, primarily to Judy Creek "A" pool and Norman Wells, amounting to \$520 million.

(4) Accretion of discount is due to an increase in the estimated present value because realization of future net cash flows occurs one year sooner.

(5) The net change in the Petroleum and Gas Revenue Tax is calculated by applying the tax rate (1986 – 10 percent; 1987 – eight percent; 1988 – six percent; 1989 and future years – nil) to the estimated present value of future income from net operating revenue at the end of the year and deducting the amount similarly computed at the beginning of the year. This charge is considered a production tax and is shown as a reduction of net revenues.

(6) The net change in income taxes is computed by applying current statutory tax rates to the estimated present value of future taxable income to be generated from proved reserves in production at the end of the year and deducting the amount similarly computed as of the beginning of the year. The temporary federal tax surcharge applicable to 1986 is not applied for valuation of future proved reserves.

(7) Changes in production patterns result primarily from revisions to the timing of future production.

Shareholder and investor information

Share ownership, trading and performance

	1981	1982	1983	1984	1985
Share ownership, Class A and B					
Average number outstanding, weighted monthly (thousands)	157 034	157 328	158 472	160 376	162 320
Number of shares outstanding at December 31 (thousands)	157 182	157 760	159 590	161 575	163 181
Shares held in Canada at December 31 (percent)	24.3	26.0	26.8	26.9	25.3
Number of shareholders at December 31 (1)					
Total shareholders	46 849	44 691	41 571	37 237	33 664
Registered in Canada	40 669	39 289	36 926	32 995	29 800
Shares traded, Class A (thousands)	22 498	21 187	19 516	23 604	24 905

dollars

Share prices, Class A

High	38 $\frac{1}{4}$	33 $\frac{1}{4}$	41 $\frac{1}{4}$	45 $\frac{1}{2}$	55
Low	24 $\frac{1}{2}$	19 $\frac{5}{8}$	26 $\frac{1}{2}$	33 $\frac{3}{8}$	39 $\frac{7}{8}$
Close at December 31	25 $\frac{1}{2}$	28 $\frac{3}{4}$	37 $\frac{1}{8}$	42 $\frac{3}{8}$	51

Earnings per share

From operations	2.96	1.84	2.09	3.32	4.22
After unusual items	2.96	1.70	1.83	3.32	3.91

Return on average shareholders' equity (percent)

11.9	6.6	7.0	12.1	13.1
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Price/earnings ratio, Class A at December 31

8.6	16.9	20.3	12.8	13.0
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Dividends

Total paid (millions of dollars) (2)	220	220	222	233	268
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Per share (dollars) (2)

Cash	1.40	1.40	1.40	1.45	1.65
Stock	1.40	1.40	1.40	1.45	1.65

As a percentage of earnings after unusual items

47	82	77	44	42
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(1) Imperial is an affiliate of Exxon Corporation, which owns 69.6 percent of the company's shares.

(2) The 1985 fourth-quarter dividend declared on November 18, 1985, was paid on January 1, 1986.

Shareholders	Shareholders of record at Dec. 31, 1985	Registered (percent)		
		Canada	Foreign	Total
Class A	32 982	88.7	11.3	100
Class B	876	78.9	21.1	100

The total number of shareholders does not equal the total number of shareholders of record, because some shareholders hold both Class A and Class B shares.

Quarterly financial and stock-trading data	1984				1985			
	three months ended				three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
	millions of dollars							
Financial data								
Operating revenues (1)	1984	2166	2166	2272	2089	2249	2107	2222
Investment and other income	37	45	41	44	38	34	30	35
Total revenues	2021	2211	2207	2316	2127	2283	2137	2257
Expenses, including taxes and levies (1)	1926	2085	2064	2147	1997	2131	1985	2007
Earnings from operations	95	126	143	169	130	152	152	250
Unusual items	—	—	—	—	—	—	(45)	(5)
Earnings after unusual items	95	126	143	169	130	152	107	245

(1) Previously reported revenues and purchases have been increased as described in notes 1 and 2(b) to the audited financial statements. These increases, noted above, are as follows:

Quarterly financial and stock-trading data	1984				1985			
	three months ended				three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
	dollars							
	40	25	26	49	38	—	—	—

Per-share information								
Earnings from operations	0.60	0.78	0.89	1.05	0.81	0.94	0.93	1.54
Earnings after unusual items	0.60	0.78	0.89	1.05	0.81	0.94	0.65	1.51
Dividends (declared quarterly)	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45
Share prices (2)								
Toronto Stock Exchange								
High	39 ¹ / ₈	40 ¹ / ₈	44	45 ¹ / ₂	52 ³ / ₈	55	53 ⁷ / ₈	55
Low	35	34 ¹ / ₂	33 ⁵ / ₈	39 ¹ / ₂	39 ⁷ / ₈	47 ³ / ₈	48	49 ⁵ / ₈
Close	38 ⁵ / ₈	34 ⁵ / ₈	43 ⁷ / ₈	42 ³ / ₈	52	48 ¹ / ₄	50 ⁵ / ₈	51
American Stock Exchange (\$U.S.)								
High	30 ⁷ / ₈	31 ³ / ₈	33 ¹ / ₄	34 ³ / ₈	38 ¹ / ₂	40 ¹ / ₄	39 ¹ / ₂	39 ³ / ₄
Low	27 ³ / ₄	26 ¹ / ₄	25 ³ / ₈	30	30 ¹ / ₄	34 ³ / ₈	35 ¹ / ₈	36
Close	30 ¹ / ₄	26 ¹ / ₄	33 ¹ / ₈	32	38 ¹ / ₈	35 ³ / ₈	36 ⁷ / ₈	36 ¹ / ₂
Shares traded (thousands)	5296	4466	7282	6560	7886	5909	4694	6416

(2) Share prices were obtained from stock exchange records.

Imperial Oil shares are listed on the Montreal, Toronto and Vancouver stock exchanges and are admitted to unlisted trading on the American Stock Exchange. The high and low prices for Class A shares are based on trading on the Toronto Stock Exchange and American

Stock Exchange. The number of shares traded is based on transactions on all the above exchanges. The Class B shares generally trade at the same price as Class A shares.

The average number of outstanding shares included in the calculation of earnings per share is weighted on a monthly basis. As a result, the sum of the quarterly earnings per share does not necessarily equal the yearly earnings per share.

Shareholder and investor information

Mailing address

The company's head office mailing address is:
Imperial Oil Limited, 111 St. Clair Avenue West,
Toronto, Canada M5W 1K3.

Share transfer

To transfer your Imperial Oil shares you may contact the head office of Imperial Oil Limited or the principal offices of our co-transfer agent, Montreal Trust Company at St. John's, Charlottetown, Halifax, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver; and Bank of New York, New York.

Change of address

Shareholders who change their address should notify the company in writing and mail the notification to Investor Relations at the above address.

Shareholder and investor inquiries

Additional information about the company can be obtained either by writing to Investor Relations at the above address or by phoning one of the following numbers.

For information about shares and dividends, please phone (416) 968-5076.

To obtain additional information on the company's operating performance and projects, including the annual report incorporated in Form 10-K filed with the United States Securities and Exchange Commission, write to the investor relations manager or phone (416) 968-4342.

Dividend reinvestment and share purchase plan

In October 1982 the company introduced its dividend reinvestment and share purchase plan. The plan enabled shareholders to reinvest their cash dividends in additional Class A shares at five percent less than an average market price. Shareholders could also invest between \$50 and \$5000 per calendar quarter in additional Class A or Class B shares at an average market price, without paying brokerage or other fees.

Imperial has revised its dividend reinvestment and share purchase plan effective January 23, 1986. The dividend reinvestment plan has been changed to eliminate the five-percent discount on shares purchased with cash dividends. As well, funds directed to the dividend reinvestment and share purchase plan will be used to buy existing shares on a stock exchange, rather than new shares from the company.

General summary of tax consequences affecting foreign security holders

Cash dividends paid to shareholders resident outside Canada – in the United States, the United Kingdom, France, Switzerland and most countries with which Canada has an income-tax convention – are usually subject to Canadian nonresident withholding tax of 15 percent. Class B stock dividends paid on or after October 1, 1985, to nonresident holders of Class B shares are subject to the same Canadian nonresident withholding tax as cash dividends.

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

Interest paid to nonresidents with whom the company deals at arm's length on the company's outstanding debentures issued before June 24, 1975, is subject to withholding tax. Interest paid on debentures issued subsequent to that date is not subject to withholding tax.

No estate taxes or succession duties are imposed by the government of Canada or provincial governments except the province of Quebec. In the province of Quebec, no succession duties are payable if the company's securities are physically situated outside that province and the person to whom they are transmitted is domiciled and resident outside that province. The province of Quebec has introduced legislation to eliminate succession duties.

Version française des rapports

Pour obtenir en français les rapports de la Compagnie Pétrolière Impériale Ltée aux actionnaires, veuillez écrire à la division des Relations avec les investisseurs, Compagnie Pétrolière Impériale Ltée, 111 St. Clair Avenue West, Toronto, Canada M5W 1K3.

Of the company's nearly 34 000 shareholders, approximately 30 000 are registered with addresses in Canada. About a thousand people attended last year's annual meeting.

Shareholders are cordially invited to attend this year's annual meeting, which will be held on Monday, April 21, 1986, at 11:00 a.m., in the Canadian Room of the Royal York Hotel in Toronto.



Directors, officers and principal operating management

Directors

J. E. Akitt
J. B. Buchanan
J. V. R. Cyr
P. Des Marais II
A. R. Haynes
M. Kovitz
W. A. Macdonald, Q.C.
R. B. Peterson
G. H. Thomson
W. J. Young

Officers

A. R. Haynes
Chairman of the board, president and chief executive officer
R. B. Peterson
Executive vice-president and chief operating officer
W. J. Young
Executive vice-president and chief financial officer
W. E. Beacom
Vice-president and comptroller
H. G. Jarvis
Vice-president and treasurer
G. A. Rogers, Q.C.
Vice-president and general counsel
R. J. Michaelides
General secretary

Principal operating management

Esso Resources Canada Limited
K. T. Koonce
President and chief executive officer
D. D. Lougheed
Executive vice-president
Esso Petroleum Canada
G. H. Thomson
President
Esso Chemical Canada
J. E. Akitt
President

Board of directors

The board schedules monthly meetings to consider and act on matters of significance to the corporation. These include financial and social performance, investment decisions, strategic plans, corporate policies and other matters on which the board is legally required to act. In 1985, attendance at board meetings averaged 91 percent.

The board has 10 members: Mr. Haynes, Mr. Akitt, Mr. Peterson, Mr. Thomson and Mr. Young are employees of the company; the other five members have their principal employment outside Imperial. Here is a short biography of each of the non-employee directors.



Mr. Buchanan is vice-chairman of British Columbia Packers Limited, a fishing and food processing company. He is past chairman of the Fisheries Council of Canada, a

director of the Fisheries Council of British Columbia and is associated with a number of other business, community and health related organizations.



Mr. Cyr is chairman and chief executive officer of Bell Canada. He holds a number of other directorships, including Bell Canada Enterprises Inc. and the Canadian Chamber of Commerce, and is chairman of the

Museum of Contemporary Art of Montreal. Mr. Cyr is also associated with several business, education, culture and health related organizations.



Mr. Des Marais is president of Pierre Des Marais Inc., a large printing and lithography firm. Prior to his appointment as chairman of the board, president and chief executive officer of Canadair Limited, Mr. Des Marais was chairman of the executive committee of

the Montreal Urban Community and has held senior positions with various business, community and educational organizations. He also holds a number of other corporate directorships and is a former mayor of the City of Outremont.



Mrs. Kovitz is president of Murko Investments Ltd., a private company. She is a member of the Order of Canada, Chancellor Emeritus of the University of Calgary and holds several corporate and other directorships. Mrs. Kovitz has been actively asso-

ciated with numerous community, health and educational organizations and is a member of the executive of the board of directors, Canadian Council of Christians and Jews, Western Region.



Mr. Macdonald is a partner with the firm of McMillan, Binch, barristers and solicitors. He is a recognized authority in the field of taxation, government-business relations and other public policy and serves on the Ontario government sponsored Labor

Management Study Group and on the C. D. Howe Institute Policy Analysis Committee. Mr. Macdonald is also a director of other corporations as well as a number of organizations concerned with health, culture and the arts.

Board committees

	Meetings of board committees are usually scheduled on the same day as board meetings. Attendance at all board committee meetings in 1985 averaged 92 percent.
Audit committee W. A. Macdonald, Q.C., <i>chairman</i> The committee, composed of the five non-employee directors and Mr. Peterson, reviews the company's financial statements, accounting practices and business and financial controls. It also recommends the	appointment of auditors and reviews their fees. The shareholders' auditors, Price Waterhouse, attend and participate in all meetings. The committee met eight times in 1985.
Board compensation committee P. Des Marais II, <i>chairman</i> The committee, composed of the five non-employee directors and Mr. Haynes, is responsible for decisions on the compensation of senior management above the level of vice-president. It also reviews policy on	corporate compensation and the process by which future managers of the company are identified and selected. The committee met three times in 1985.
Contributions committee M. Kovitz, <i>chairman</i> The committee, composed of the five non-employee directors and Mr. Young, examines policies and programs related to the contribution program and recommends an annual budget for adoption by the board of directors. The company's contribution	program is aimed at enhancing the quality of Canadian life through support for education, health, welfare, community services, sports and culture. The committee met seven times in 1985.
Nominations committee A. R. Haynes, <i>chairman</i> The committee, composed of the five non-employee directors and Mr. Haynes, recommends to the board of directors the slate of director candidates to be proposed for election by the shareholders at the annual	meeting. It also recommends criteria for the selection and tenure of directors, specific director candidates and the successor to the chief executive officer when vacancies are expected. The committee met twice in 1985.

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Imperial Oil strives for excellence in all its activities. By competing aggressively but fairly, seeking new opportunities, providing quality and value in its products and services and responding to community needs, the company serves its customers, shareholders and employees and contributes to Canada's economic growth.

Imperial markets a wide range of quality products, primarily under the Esso brand name, and pursues product innovation and processing advances through one of the country's largest research programs, which in 1985 committed \$77 million to research and development in Canada. The company has an active and long-standing program to identify and support Canadian suppliers and during 1985 purchased approximately 85 percent of the goods and services it required—at a cost of about \$2 billion—from Canadian sources.

Imperial is the largest corporate contributor in Canada; in 1985 it donated more than \$6 million to Canadian education, health care, culture and sports.