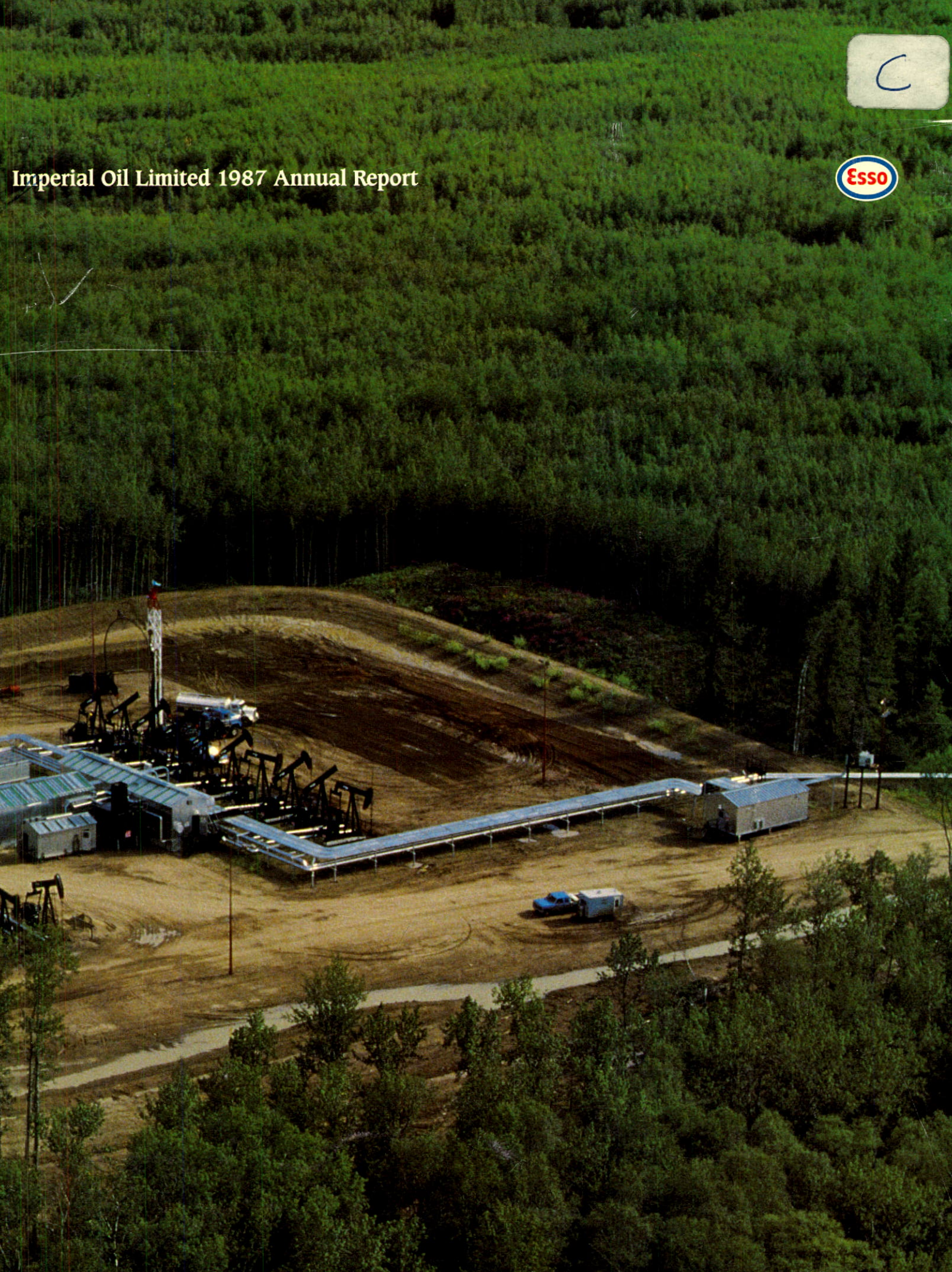


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Imperial Oil Limited 1987 Annual Report





Imperial Oil Limited, one of the largest companies in Canada, manages most of its business through three operating units.

Esso Resources Canada Limited, a wholly owned subsidiary based in Calgary, is the country's largest producer of crude oil, the leading developer of the Alberta oil sands and a growing producer of natural gas. It is also a coal producer and has interests in the mining industry.

Esso Petroleum Canada, a division of Imperial, supplies a major share of the Canadian market for petroleum products. It operates five refineries and a national marketing and distribution network.

Esso Chemical Canada, another division, is the largest producer of fertilizers in Canada and a key supplier of petrochemical products. It markets its products both domestically and internationally.

Cover

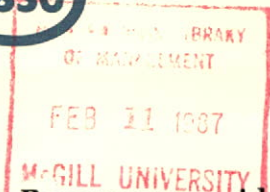
One of more than 70 clusters of wells at Imperial's heavy-oil project at Cold Lake, where bitumen is produced from the Alberta oil sands. In 1987 bitumen production at Cold Lake averaged 12 700 cubic metres (80 000 barrels) a day. (For more details on Cold Lake see page 10.)

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Investor information

For more information about Imperial, please phone the investor relations division at (416) 968-8145 or write to the division at 111 St. Clair Avenue West, Toronto, Canada M5W 1K3



Esso Resources president an "upstream" expert

K.T. (Terry) Koonce, president and chief executive officer of Esso Resources Canada Limited and a director of Imperial Oil, has been involved in oil and gas production and technology for most of his working life.

Born in Corpus Christi, Texas, Koonce graduated from Rice University in Houston with a B.Sc. and PhD in chemical engineering, and joined the Exxon Production Research Company (EPRC) in 1963. After various technical and management assignments at EPRC, he joined the production department of Exxon Company USA in 1976, moving to California in 1977 as Prudhoe Bay (Alaska) operations manager. He became western division manager of Exxon USA in 1980 and headquarters operations manager, responsible for oil and gas production operations in the western states, including Alaska, California and Texas, in 1983. He moved to Calgary and became a director as well as president and chief executive officer of Esso Resources in April 1985, and a director of Imperial Oil in August, 1986.

Terry Koonce and his wife Beverly have three children. Their daughter, Diana Walla, is married and lives in Tyler, Texas. Kenneth T. Jr. is attending law school in California. A younger son, Kelly, attends Western Canada High School in Calgary. Koonce senior enjoys tennis, skiing, hunting, jogging and joining Kelly in exercising with weights.

Koonce is a member of the board of governors and the executive committee of the Canadian Petroleum Association, a director of Exxon Production Research Company, a member and former director of the Society of Petroleum Engineers, and a member of the advisory council of the George R. Brown School of Engineering at Rice University. In 1987 he will be general chairman of the Calgary United Way campaign.

News about Imperial for shareholders

Esso "grass roots" campaign aids Rick Hansen

As Rick Hansen's Man in Motion World Tour enters its final, western Canadian phase, Esso dealers and agents are mounting a "grass roots" campaign to help this astounding Canadian athlete meet his goals of increasing awareness and raising funds for spinal cord research, rehabilitation and wheelchair sports.



Rick Hansen displays cheque from Sarnia-area Esso retailers.

In small towns and local communities along the route, Esso people are displaying banners

of welcome, organizing flag-waving, band-playing receptions and providing facilities ranging from collection baskets and coffee-wagons to courtesy cruisers and tanker trucks to refuel the vehicles accompanying Hansen on his historic tour.

Imperial Oil has been a major sponsor and supporter of the Man in Motion Tour from its early stages. During 1986 a major retail promotion linking Expo 86 and Hansen raised some \$46,000, which supplemented an earlier corporate contribution of \$40,000. Then, on Hansen's arrival in Canada, Esso and its retailers welcomed Hansen to Cornerbrook, Nfld., by contributing 2 cents for every litre of gasoline sold that day to the Man in Motion Tour Fund, an initiative later duplicated in several Ontario communities. To date, Imperial and Esso dealers and agents have raised, directly or indirectly, more than \$100,000 for Hansen's cause.

Redwater-based technology group has world fertilizer research mandate

The Redwater, Alta., based Agricultural Chemicals Technology Division of Esso Chemical Canada has world-wide responsibility for Exxon Chemical Company's agricultural chemicals research and development programs. In addition to providing technical service support for customers and process and design support for fertilizer plants around the world, the division conducts extensive short- and long-term research towards the development of new and improved chemical fertilizer products.

The division operates two research and development facilities — a "home base" laboratory at Redwater and another, under a cooperative arrangement, at Agriculture Canada's Research Station in Lethbridge, Alta. Cooperative research and development arrangements have also been made with universities, provincial governments and private industry agencies. A major current research thrust is to develop "controlled release" chemical fertilizers that will reduce fertilizer loss in soil and improve crop yields.

Esso discourages misfueling

Esso Petroleum Canada, through its membership of the Petroleum Association for Conservation of the Canadian Environment (PACE) and in co-operation with Environment Canada, has initiated a program to increase public, customer and employee awareness of the need to correctly fuel and properly maintain their automobiles.

"Misfueling" — using leaded gasoline in automobiles designed to run on unleaded — is a major environmental concern in Canada. Not only does misfueling generate an immediate increase in harmful exhaust emissions, but it can also inhibit the performance of an automobile, increasing fuel consumption and leading to expensive engine repairs.

PACE and Environment Canada are investing \$1 million over two years to communicate the message that misfueling and the resultant automobile emissions can contribute to environmental and health risks. In addition to its participation through PACE, Esso Petroleum will actively communicate the same message to employees, customers, dealers and Imperial shareholders through various company publications and other media.

Financial highlights

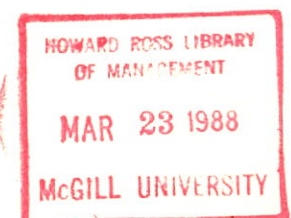
Operating earnings increased by 63 percent, reaching \$716 million, as results improved in all segments of the company. Capital expenditures reached a record level of \$1456 million, funded mainly from internal sources. Return on capital employed improved to 9.3 percent but remained below target. Regular dividends increased by 12½ percent in the fourth quarter to \$0.45 a share, bringing the annual rate to \$1.80 a share.

	1985	1986	1987
	millions of dollars		
Earnings			
From operations _____	694	440	716
After unusual items _____	644	285	745
Total funds provided from operating activities _____	1004	1067	943
Capital and exploration expenditures _____	1158	648	1456
	percentages		
Return on average capital employed			
before unusual items _____	10.0	6.3	9.3
Return on average shareholders' equity			
before unusual items _____	14.4	8.7	13.4
	dollars		
Per-share information			
Earnings from operations _____	4.27	2.69	4.37
Earnings after unusual items _____	3.97	1.74	4.55
Total funds provided from operating activities _____	6.19	6.52	5.76
Dividends _____	1.65	1.60	1.65

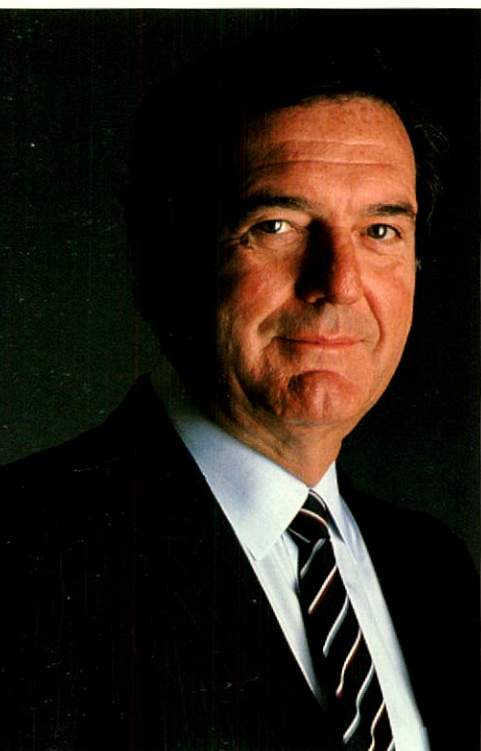
Strong recovery in earnings results from higher crude-oil prices and production and increased sales of petroleum and chemical products

Operating earnings per share (dollars)

83	2.12
84	3.24
85	4.27
86	2.69
87	4.37



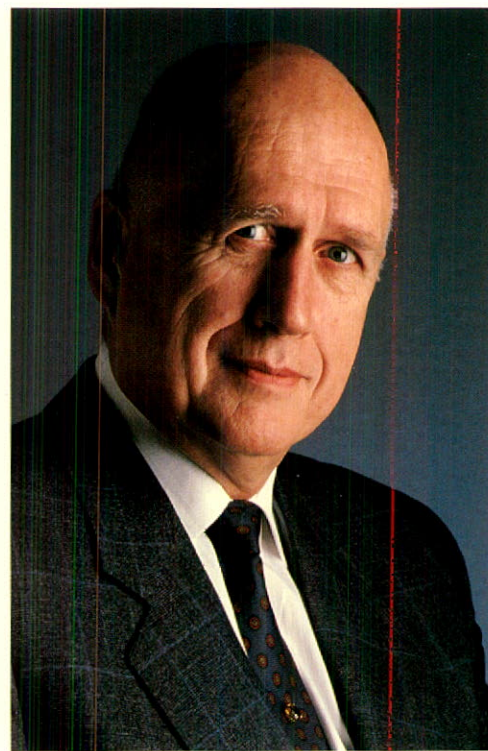
Letter to shareholders



Arden R. Haynes (left),
chairman, president and
chief executive officer



Robert B. Peterson (centre),
executive vice-president and
chief operating officer



William J. Young,
executive vice-president and
chief financial officer

Nineteen eighty-seven was an excellent year for Imperial, one that featured significant additions to shareholder value. Earnings recovered to record levels, dividends increased, productivity improved and investments for future growth reached an all-time high. The company also increased its reserves of crude oil for the sixth year in succession and expanded its reserves of natural gas significantly through a major acquisition. That growth was achieved while maintaining the company's sound financial position, including a very moderate ratio of debt to shareholders' equity. A good part of that success can be credited to the efforts of employees throughout the organization, who managed a larger business with a work force that was the smallest in four decades. Those internal efforts were aided by an external environment that was much more favorable for operating a petroleum business. Crude-oil prices strengthened considerably during the early part of the year and rose to more than (U.S.) \$20 a barrel in July before they weakened significantly during the second half of December. For the year as a whole, prices averaged more than (U.S.) \$18 a barrel. That was a considerable improvement from 1986, when prices fell below (U.S.) \$9 a barrel and averaged less than (U.S.) \$15 for the year.

“...one of the most encouraging aspects of 1987 was that it featured better results across virtually our entire organization...”

Markets for many of the petroleum products and petrochemicals the company manufactures also improved during the year. In fact, one of the most encouraging aspects of 1987 was that it featured better results across virtually our entire organization and was not based solely on the spectacular success of a single segment. The company's broadly based operating success is cause for considerable encouragement, especially after disappointing returns in 1986.

However, we do not view 1987 results as any reason for complacency. Our business plans will continue to be based on a firm understanding of the sobering fundamentals of current world markets and prices for crude oil.

One governing factor is world demand for petroleum, which over the longer term is expected to be flat or, at best, to expand at quite moderate rates. Canadian demand for oil is expected to follow a similar path.

Against a backdrop of moderate growth in world demand, there is today a very considerable surplus in global oil-production capacity, resting almost entirely in the hands of the countries that make up the Organization of Petroleum Exporting Countries (OPEC). The organization has had considerable difficulty managing that surplus in recent years, and the result has been an unusually high degree of volatility in world oil prices. Following several months of relative price stability during 1987, skepticism arose about OPEC's ability to implement a production agreement reached in December. That caused oil prices to fall significantly and has created renewed uncertainty about the near-term pricing outlook.

“...the most prudent course is to base our business plans on the assumption that crude-oil prices will remain low and volatile...”

Those latest developments have simply reinforced our belief that the most prudent course is to base our business plans on the assumption that crude-oil prices will remain low and volatile during 1988 and for several years beyond.

Another fundamental factor in our business planning is that the competition we face in virtually every facet of our business becomes ever more determined. Whether it's trying to sell Cold Lake bitumen to an international refiner now using heavy oil from other countries or trying to win gasoline customers in markets across Canada, the company faces competitors who have also experienced lean years throughout the 1980s.

Dealing in a buyers' market, facing strong competition and uncertainty about prices, we believe there are a number of guidelines we must follow to continue to achieve business success.

“...we will maintain our financial strength...”

First, we will maintain our financial strength, which, as the financial review beginning on page 22 indicates, improved appreciably during the latest year. Second, we will continue to strive for improvement in every part of our operation, with the goal of being among the lowest-cost producers in all our major markets. Third, we will continue to provide our customers with recognized quality and value in products and services. And finally, we will stress, in all of our business plans, the same degree of investment flexibility and selectivity that has demonstrated its effectiveness in our bitumen-recovery project at Cold Lake.

“...management would like to stress that its commitment to prudent growth for Imperial remains undiminished.”

“As prices strengthen, Imperial’s opportunities for developing new economic reserves of crude oil should be substantial.”

Despite our belief that caution should be the watchword for the period immediately ahead of us, your management would like to stress that its commitment to prudent growth for Imperial remains undiminished.

During 1987, that commitment was underscored by a program of capital and exploration expenditures that, at \$1.5 billion, exceeded our previously highest level by more than 25 percent.

One of our most significant investments during the year was the purchase of the assets of Sulpetro Limited and the shares of an associated company, Sulbath Exploration Ltd. Included in the purchase were substantial proved reserves of natural gas, major gas-processing facilities and exploration lands that we believe hold considerable promise for further development. Imperial has never been a leading producer of natural gas, despite the fact that it has traditionally been Canada’s largest oil producer. This acquisition will considerably strengthen our position as a natural-gas producer and increase our reserves in anticipation of improved market opportunities for natural gas during the coming decade.

That does not mean that we see any reduction in the opportunities for Canadian oil development in coming years. In fact, we expect that the current weakness in oil prices should give way to greater strength within the next decade as production capacity in non-OPEC nations declines and world oil demand continues to increase moderately. As prices strengthen, Imperial’s opportunities for developing new economic reserves of oil should be substantial.

Part of that opportunity is contained in our oil-sands leases at Cold Lake. Another part is in the company’s share of leases in the Athabasca region of northern Alberta, where Imperial is a leading member of a group that is currently proposing to build a major new oil-sands mining plant. Other opportunities lie in using sophisticated recovery techniques to extract more oil from our existing conventional reservoirs in Western Canada. And yet others lie in Canada’s frontier regions, where the company’s efforts over the years have yielded some promising results, including the discovery of this country’s largest undeveloped gas field.

So there is still considerable potential for oil and gas development in this country, despite the current environment of low and volatile prices. And your company has both the human expertise and the financial capacity to play a significant role in developing that potential.

We also have, in common with the rest of the Canadian petroleum industry, the best climate for investment this country has seen for many years. The federal government has deregulated markets for both crude oil and natural gas, while governments at both the federal and provincial level have moved to reduce a tax and royalty burden that had become, by the beginning of the 1980s, both crippling and confiscatory. Further improvements, we believe, could flow from the ratification of a free-trade agreement with the United States, which could provide Canadian oil and gas producers with more secure access to a very promising market.

“During 1988, our capital spending could once again exceed \$1 billion...”

Those improvements have provided the underpinning for Imperial to proceed with a strong but flexible program of investments despite the uncertain environment. During 1988, our capital spending could once again exceed \$1 billion – assuming oil prices do not fall dramatically – with oil and gas development accounting for about three-quarters of the total.

Capital expenditures of that type and magnitude are, we believe, a clear indication of your management's resolve to maintain or improve Imperial's position as Canada's leading supplier of hydrocarbon energy and related products.

Another indication of our resolve to concentrate on energy-related endeavors was the sale, toward the end of 1987, of Building Products of Canada Limited. This transaction ended more than two decades of association between our two firms, and all of us at Imperial wish our friends at Building Products the best of success in their future endeavors.

Your management would also like to take this opportunity, on your behalf, to thank employees for their outstanding efforts during the year and for their contributions to the substantial additions that were made to shareholder value.

Arden R. Haynes

R B Peterson

A. J. Young

February 24, 1988

Review of operations

The successful year that Imperial enjoyed in 1987 can be attributed to a number of factors. These include higher average crude-oil prices than in 1986, increased crude-oil production, increased sales of petroleum and chemical products, improved efficiency throughout the company's operations and the continuing commitment of all employees. The company's three major areas of business – natural resources, petroleum products and chemicals – all showed increased earnings.

Imperial's overall earnings from operations in 1987 were \$716 million, an increase of \$276 million, or 63 percent, over 1986. In 1985 earnings from operations were \$694 million.

The company's return on average capital employed, before unusual items, was 9.3 percent in 1987, compared with 6.3 percent in 1986 and 10 percent in 1985.

In response to an improving business outlook, investment by Imperial in 1987 amounted to a record \$1456 million. Approximately half that amount went to the acquisition of the assets of Sulpetro Limited, a medium-sized producer of natural gas and crude oil in Western Canada, and the shares of an associated company, Sulbath Exploration Ltd. Exclusive of these acquisitions, Imperial's investments amounted to \$741 million in 1987, compared with \$648 million in 1986 and \$1158 million in 1985.

All segments of the company contribute to strong growth in earnings

Total earnings from operations (millions of dollars)



Continued commitment to environmental protection

In 1987 the company continued its commitment to environmental protection through further investments in facilities and equipment and by ensuring that all operations adhered to clearly defined environmental standards and procedures. During the year \$28 million was spent on facilities and equipment to protect the environment, bringing the total for the past five years to \$220 million.

Imperial's safety record continued to improve in 1987, with the company frequency rate for total recordable injuries decreasing by 25 percent. The frequency rate for lost-time accidents remained unchanged.

Natural resources

The largest contribution to the recovery in corporate earnings came from the company's natural resource operations, which generated earnings of \$432 million in 1987. This was an increase of 120 percent over 1986, when, as a result of the drop in crude-oil prices, they fell to \$196 million from \$542 million in 1985.

The major reasons for the gain in natural resource earnings were higher crude-oil prices, increased production of crude oil, natural gas and natural-gas liquids and reduced unit costs through continued productivity improvements. Earnings also benefited from a net reduction in tax and royalty rates by the federal government and by the governments of the producing provinces.

	1985	1986	1987
	millions of dollars		
Financial statistics			
Earnings	542	196	432
Revenues	2255	1680	2166
Capital employed at December 31	3106	3522	4312
Return on average capital employed (percent)	19.6	5.9	11.0
	thousands of m ³ /d		
Operating statistics			
Crude oil and natural-gas liquids (NGL) — net production			
Conventional	12.7	15.0	15.6
Cold Lake	4.4	9.5	12.3
Syncrude	4.5	5.2	5.4
NGL	1.4	1.6	2.0
Total crude oil and NGL produced	23.0	31.3	35.3
	millions of m ³		
Net reserves of crude oil and NGL	208.1	213.1	236.7
	millions of m ³ /d		
Natural gas — net production	4.0	4.3	5.6
	billions of m ³		
Net reserves of natural gas	40.6	41.4	54.2
	millions of tonnes annually		
Coal production	1.0	0.9	0.8

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.

Resource earnings recover sharply as crude-oil prices and production increase

Earnings from natural resources (millions of dollars)

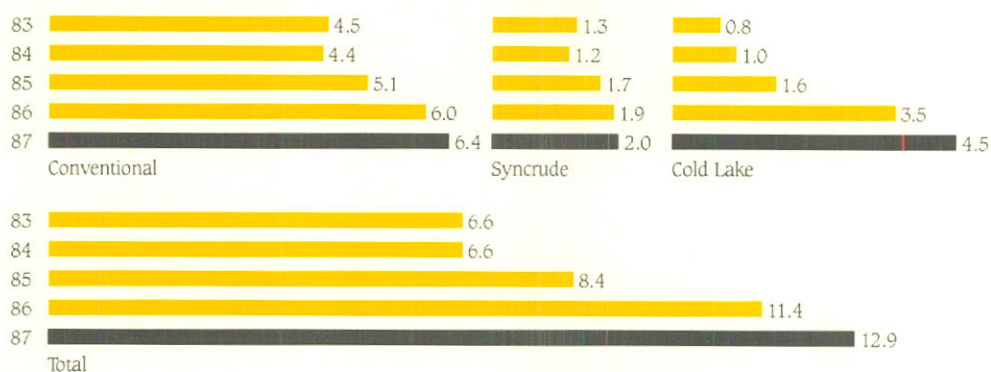


Natural resource revenues in 1987 were 29 percent higher than in 1986, primarily because the prices received for hydrocarbon liquids produced by Esso Resources improved by 24 percent (although they were still 40 percent below 1985 prices) and because net production increased by 13 percent.

The increase in production of hydrocarbon liquids was the result of additional output from Esso Resources' major areas of operation. The largest increase came from production of bitumen at Cold Lake, mainly because stages five and six of the project were, for the first time, in production for a full year. Cold Lake production also continued to benefit from an ongoing efficiency program.

Production increases led by Cold Lake; Syncrude achieves record output; conventional production increases slightly

Sources of annual net production of hydrocarbon liquids (millions of cubic metres)

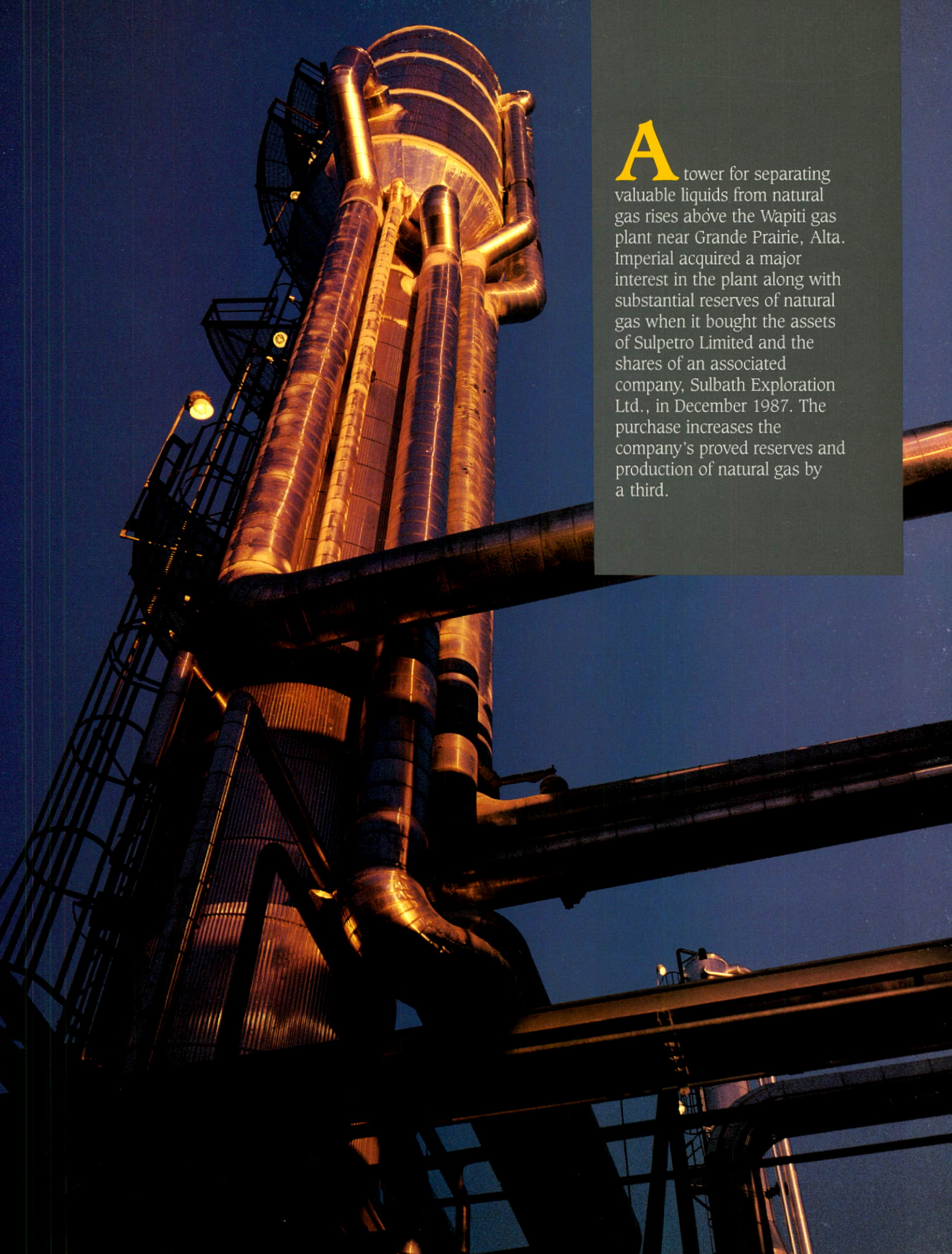


Gross bitumen production averaged 12 700 cubic metres (80 000 barrels) a day in 1987, 31 percent higher than in 1986. Demand for bitumen remained strong throughout most of the year. Construction of a further two stages of the Cold Lake project will be completed in early 1989, part of a planned \$325-million four-stage expansion. By 1991 total Cold Lake production is expected to reach 22 000 cubic metres (139 000 barrels) a day.

In other oil-sands operations, the Syncrude mining project, in which the company holds a 25-percent interest, had an outstanding year. Production of synthetic crude oil averaged a record 21 800 cubic metres (137 000 barrels) a day, while unit operating costs were reduced slightly. This production record was achieved despite an additional scheduled maintenance shutdown. Work on increasing the capacity of Syncrude to about 25 000 cubic metres (160 000 barrels) a day is continuing, with completion expected during 1988.

New oil-sands mining projects being studied

Currently being examined are two new oil-sands mining projects, the feasibility of which will depend heavily on crude-oil prices. At Syncrude, engineering studies are under way for a major expansion in the 1990s. Meanwhile, a consortium of companies, including Esso Resources, is holding preliminary discussions with the federal and Alberta governments on constructing an oil-sands mining plant on a bitumen-rich site at Kearl Lake, about 40 kilometres (25 miles) northeast of Syncrude. Esso Resources is acting as operator on behalf of the six participants and holds a 25-percent share of the project.



A tower for separating valuable liquids from natural gas rises above the Wapiti gas plant near Grande Prairie, Alta. Imperial acquired a major interest in the plant along with substantial reserves of natural gas when it bought the assets of Sulpetro Limited and the shares of an associated company, Sulbath Exploration Ltd., in December 1987. The purchase increases the company's proved reserves and production of natural gas by a third.

A major contributor to Imperial's proved reserves and production of crude oil in recent years has been the Cold Lake project, in which bitumen is being recovered from the Alberta oil sands on a staged-development basis (parts of stages one and two and five and six are seen in the foreground). In 1987 bitumen production increased by 31 percent.

Cold Lake

For nearly a quarter century, Imperial has been working on ways to tap the oil-sands deposits on its leases at Cold Lake, near the Alberta-Saskatchewan border, 300 kilometres (186 miles) northeast of Edmonton. The Cold Lake deposits are a huge storehouse of crude oil, containing an estimated 35 billion cubic metres (220 billion barrels) of bitumen. Imperial's leases alone contain about 6.5 billion cubic metres (40 billion barrels) and are considered to be among the best in the region in terms of reservoir quality.

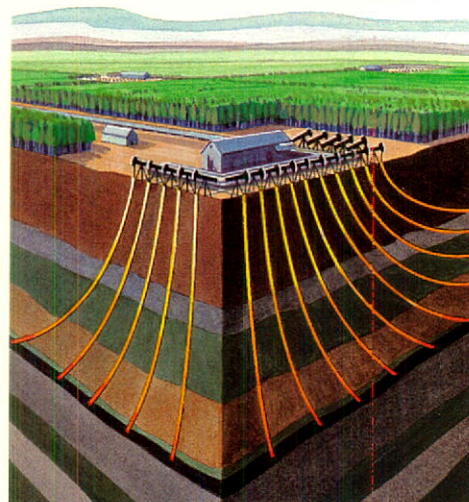
The challenge developers face is how to convert this very large resource base into commercial reserves and economic production.

The reason for the challenge can be found in the Cold Lake deposits themselves. Bitumen, in its natural state, is much thicker than conventional crude oil and exhibits roughly the same flow characteristics as cold molasses. The depth of the

deposits is another complicating factor. In the Athabasca region farther north, bitumen is buried at such shallow depths that it can be surface mined like coal and processed into a high-quality light crude oil. At Cold Lake, the deposits are too deep for surface mining.

In 1964, Imperial initiated a pilot project aimed at developing a method of tapping its prime Cold Lake deposits. In 1985 – 21 years and three pilot projects later – Imperial's subsidiary Esso Resources became the first company to recover deeply buried bitumen on a large-scale commercial basis.

Since then commercial production has been expanded in manageable stages. The most recent stages, announced in mid-1987, will help bring the project's total output to 22 000 cubic metres (139 000 barrels) a day by 1991, drawing on 175 million cubic metres (1.1 billion barrels) of bitumen reserves.



Bitumen (a type of very heavy oil depicted by the black underground band) is recovered from deeply buried sand deposits at Cold Lake using a method known as cyclic steam stimulation. Steam is pumped into the deposits for several weeks, softening the normally immobile bitumen so it can be pumped to the surface. Wells are drilled into the bitumen deposits at various angles from central locations, such as the one depicted on the cover, to maximize recovery while reducing surface disruption to a minimum.



As the project's output has increased, the challenge has shifted from developing technology for recovering Cold Lake bitumen to finding markets for the product. Although bitumen is almost ideally suited to making asphalt, that traditional market is relatively small and highly seasonal. The company is therefore devoting considerable effort to building markets among the many oil refiners who have installed the processing equipment needed to convert heavier hydrocarbons into lighter products such as gasoline.

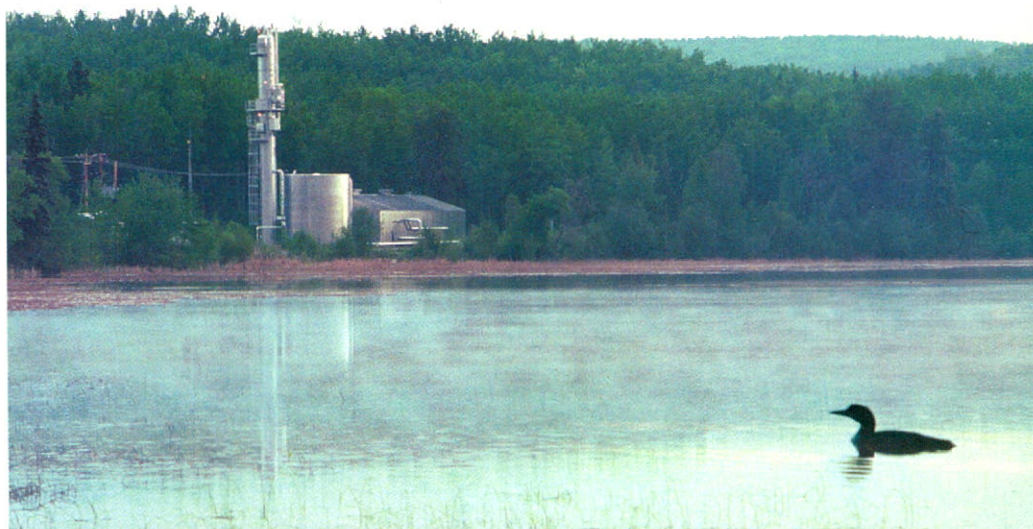
As a result of that effort, the company has secured new customers in the United States, Europe and the Far East. During 1987, new customers accounted for nearly one-third of Imperial's total bitumen sales. In addition, the company is processing greater quantities of bitumen in its own refineries and continuing to supply traditional markets in the United States.

As the scope of markets for bitumen broadens beyond initial expectations, the company believes that the most attractive economic returns can be achieved — at least in the immediate future — by selling the resource as diluted bitumen rather than building its own upgrader to convert it to light crude oil.

Selling major amounts of bitumen requires the acquisition of large quantities of the natural-gas liquids needed to dilute the product for shipment. The company is working to ensure that adequate

supplies of these liquids will be available at acceptable prices for the foreseeable future.

The promise of Alberta's buried oil sands is beginning to be realized on a major scale, after decades of research and experimentation. As the country's production of conventional oil diminishes during the 1990s, this huge resource, through Cold Lake and other projects, will undoubtedly make an increasing — and increasingly welcome — contribution to Canada's energy balance.



Norman Wells production sets record

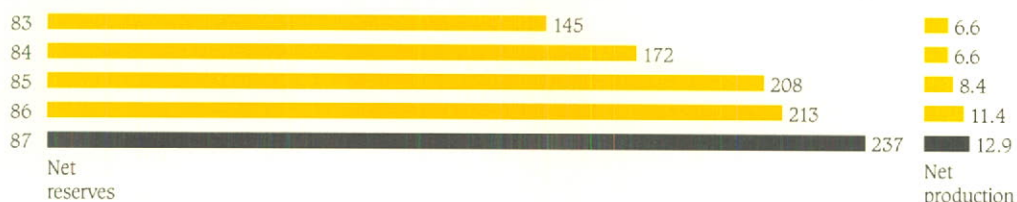
Gross production of conventional crude oil and natural-gas liquids also increased during 1987. Production from the Norman Wells field, in the Northwest Territories, reached record levels, averaging 4300 cubic metres (27 000 barrels) a day. At the same time, the company's substantial investment in enhanced recovery techniques has been successful in increasing production and ultimate recovery from mature oil fields, such as Judy Creek, in Alberta. Based on the encouraging results obtained to date, similar enhanced recovery projects are being considered for four additional fields.

Esso Resources was again the most active driller in Canada in 1987, participating in the drilling of a total of 620 exploration and development wells. Most of these were the result of development drilling at Cold Lake and Norman Wells; however, an active exploration program continued in the western provinces.

In the frontiers, Esso Resources participated in the drilling of three wells, all of which were dry. Technical evaluation of opportunities in the Mackenzie Delta/Beaufort Sea region continued in 1987, and a seismic program will be conducted in 1988. The company relinquished its interest in several exploration agreements in the Arctic Islands and off the East Coast during the year.

Reserves grow for the sixth consecutive year and now equal 18 years of current production

Reserves and annual production of hydrocarbon liquids (millions of cubic metres)



An important aspect of 1987 was yet another increase in the company's proved reserves of crude oil – it was the sixth successive year in which additions to reserves exceeded production. Since 1981 the company's crude-oil reserves have grown by 90 percent and its net (after royalties) annual production by 87 percent. This growing resource base is an immensely valuable corporate asset, and its development at relatively low cost has meant a significant addition to shareholder value.

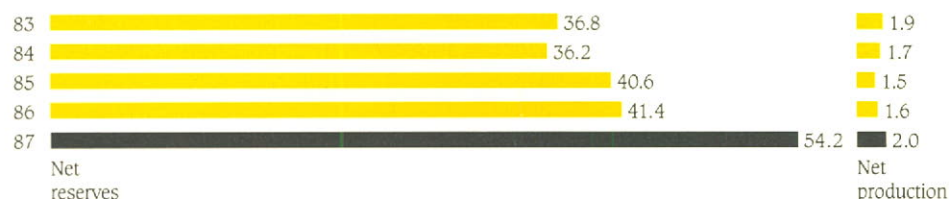
Natural-gas prices were lower in 1987 than the previous year because of strong competition, but the price decrease was essentially offset by an increase in sales volumes.

Increased focus on natural gas

Several moves were made during the year to strengthen the company's position as a producer of natural gas and to increase its reserves in anticipation of improved markets for natural gas in the future. The most significant of these actions was the purchase, in December, of the assets of Sulpetro as well as all of the shares of Sulbath Exploration. The cost of property, plant and equipment acquired was \$715 million. Dependent on future natural-gas prices, further payments may be required. The acquisition increased Esso Resources' proved reserves of natural gas by a third and will increase the company's natural-gas production by a similar amount in 1988.

Sulpetro purchase helps boost natural-gas reserves

Reserves and production of natural gas (billions of cubic metres)



Other activities in the natural-gas area included a decision to proceed with the development of the Obed natural-gas field, about 200 kilometres west of Edmonton, in which Esso Resources will have a two-third interest. Work on the project began in the summer of 1987, and production is expected to begin toward the end of 1988.

Late in 1987 the company initiated additional seismic investigation of its Taglu natural-gas field in the western Arctic, where about 91 billion cubic metres (3.2 trillion cubic feet) of natural gas were discovered in the early 1970s. While the marketing of Taglu gas is still many years away, the company is formulating plans for the development of this valuable resource.

Esso Resources is maintaining an exploration program to enhance its major coal resources in Western Canada. During 1987 the company's Byron Creek mine in British Columbia continued to service its long-term domestic thermal-coal contracts. It developed new export markets for metallurgical coal, while reducing exports of thermal coal because of depressed markets. The area of prospective coal properties under lease or licence to the company increased by about 45 percent in 1987, to 113 000 hectares (279 000 acres).

Esso Minerals Canada, a division of Esso Resources, also had a good year. Increases in the market prices of copper, gold and silver improved operating results from Les Mines Selbaie, a mining complex in northwestern Quebec in which the company has a 35-percent interest.

Esso Minerals continues to pursue an active exploration program and was involved in evaluating more than 50 prospects in 1987. At Musselwhite, a gold prospect in northwestern Ontario in which the company has a 24-percent interest, encouraging drilling results will be followed up, in 1988, by underground exploration.

In 1987 Esso Minerals sold its 50-percent working interest in a uranium property at Midwest Lake, Sask., for \$6 million, while retaining a future royalty interest.

Capital and exploration expenditures (millions of dollars)



Stronger metal prices improve mineral results

Capital expenditures jump to record level with Sulpetro purchase

In summary, 1987 was a very successful year for Imperial's natural resource activities. Earnings rebounded sharply and, in a difficult environment, Esso Resources was able to maintain substantial momentum throughout its operations, with capital and exploration expenditures (including the acquisition of Sulpetro) totaling \$1.2 billion.

Petroleum products

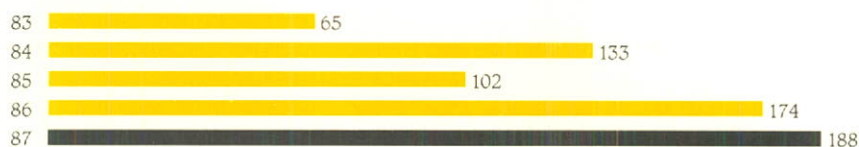
Earnings from petroleum products continued the improvement that began in 1986. They totaled \$188 million, compared with \$174 million in 1986 and \$102 million in 1985.

The improvement in 1987 earnings was mainly attributable to a seven-percent increase in sales volumes of petroleum products, particularly diesel fuel, heating oil and jet fuel. However, strong competition from both domestic and imported products caused an overall reduction in profit margins on most products, particularly during the fourth quarter, and price regulation in Nova Scotia had an adverse effect on margins in that province for a large part of the year.

	1985	1986	1987
	millions of dollars		
Financial statistics			
Earnings _____	102	174	188
Revenues _____	7265	5772	6241
Capital employed at December 31 _____	2589	2004	2183
Return on average capital employed (percent) _____	4.1	7.6	9.0
Operating statistics			
Sales of petroleum products (thousands of m ³ /d) _____	54.1	52.7	56.3
Refinery utilization as a percentage of total capacity _____	83	80	85

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

Earnings from petroleum products (millions of dollars)



Earnings increase as higher volumes offset lower margins



Essso Petroleum's Avitat flight centre in Vancouver has been rated as one of the best of its kind in North America. Providing hangar and servicing facilities for corporate and private aircraft as well as a wide range of personal services

for their passengers and crews, the Vancouver Avitat is one of five such centres located at major airports in Canada. In addition, the company provides refueling and other services at most Canadian airports.

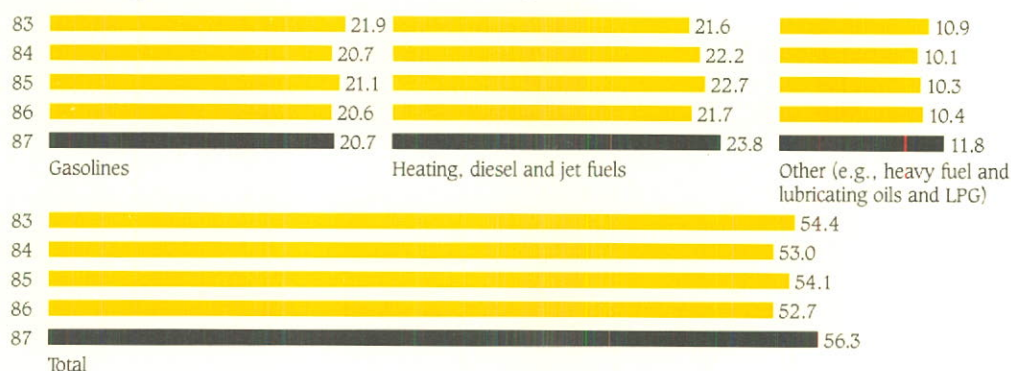
No Trouble Gasoline receives good customer response

Actions initiated by Esso Petroleum played a large role in improving the performance and value of this segment of the company. Customer response to an emphasis on improved service and enhanced facilities and to new and better products, such as Esso No Trouble Gasoline, contributed to a five-percent increase in sales of Esso brand gasoline. The company's most recent product offering came in the fall of 1987 with the introduction of Esso No Trouble Gasoline for Winter – developed at the company's Sarnia, Ont., research laboratories – that helps prevent carburetor icing and fuel-line freezing. By year's end this product had already met with good customer acceptance.

Other developments included the acquisition of the Canadian assets of Mr. Lube, a chain of quick-service automobile lubricating outlets. In a further move to provide better customer service and greater efficiency, the number of Esso service stations equipped with point-of-sale electronic credit-card facilities for gasoline purchases grew to more than 450 during 1987.

Sales volumes increase as some customers switch from imported products

Petroleum product sales (thousands of cubic metres per day)

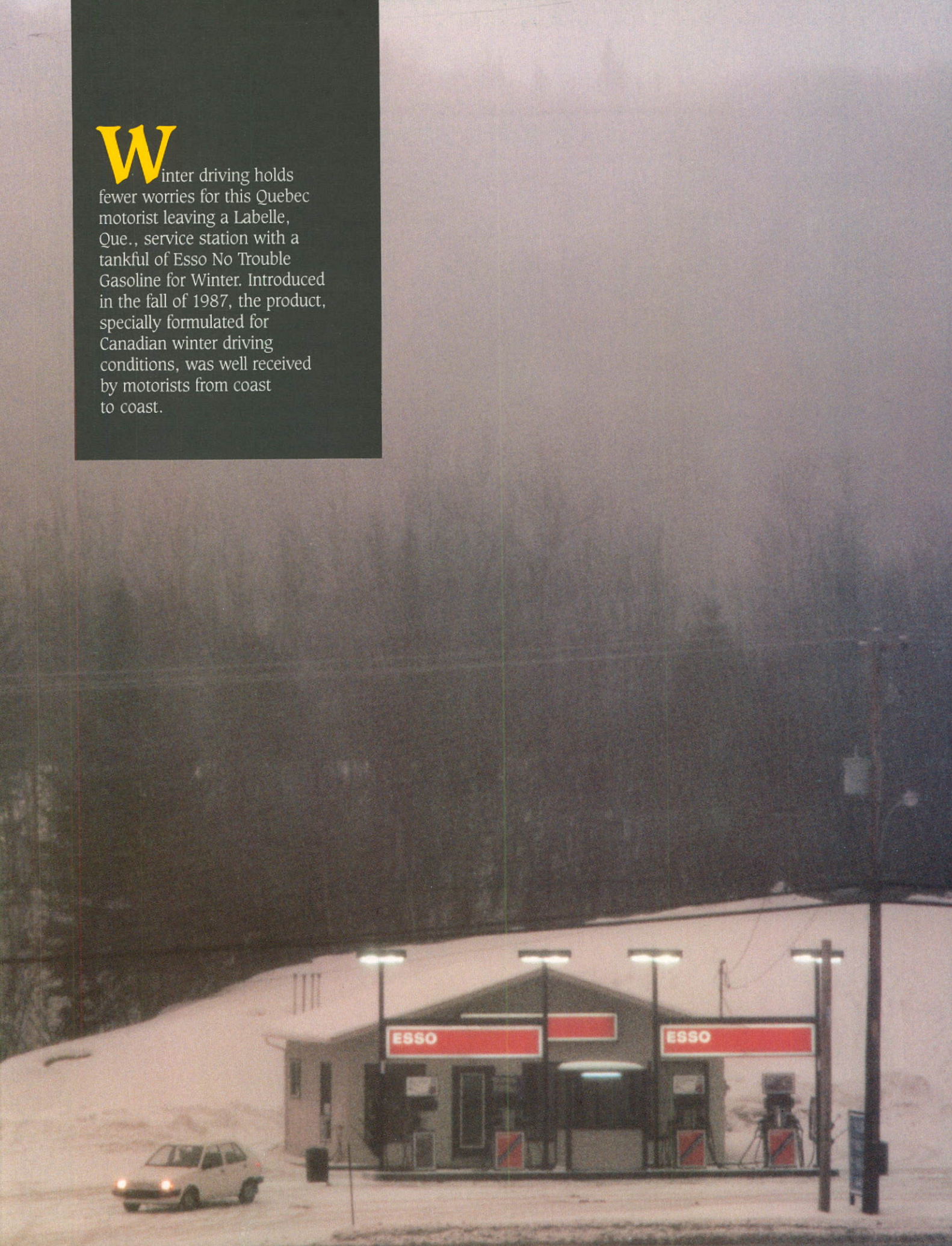


Although less visible to its customers, other improvements initiated by Esso Petroleum made substantial contributions to improved operating results in 1987.

Refinery improvements increase processing flexibility

Upgrading of refinery facilities and changes to refinery operations have provided the company with greater flexibility in supplying a full range of refined petroleum products, while processing a wide variety of grades and qualities of crude oil. This has enabled Esso Petroleum to take advantage of feedstock cost differentials. Improvements to the Sarnia refinery during the year, for example,

Winter driving holds fewer worries for this Quebec motorist leaving a Labelle, Que., service station with a tankful of Esso No Trouble Gasoline for Winter. Introduced in the fall of 1987, the product, specially formulated for Canadian winter driving conditions, was well received by motorists from coast to coast.

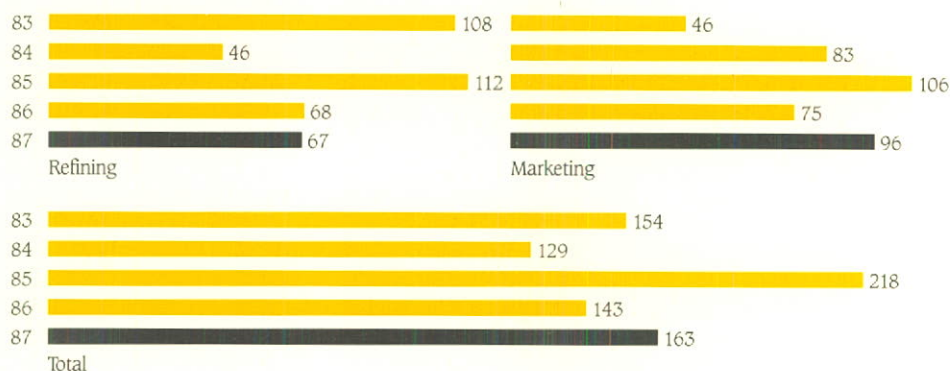


Efficiency remains the focus of refining investment; marketing spending enhances service-station network

Transportation and delivery network streamlined

allowed it to process an increased proportion of lower-cost heavy crude oils. The company's refineries processed a total of 31 different grades of crude oil during the year, including light domestic crudes, Cold Lake blend and very heavy offshore crudes.

Capital expenditures (millions of dollars)



The year 1987 also saw improvements in Esso Petroleum's transportation and delivery network from coast to coast. In the fall the company retired its 30-year-old coastal tanker, the *Imperial Quebec*, thereby improving the utilization of its remaining three-tanker fleet on the East Coast. In Montreal, work on the modernization of the terminal on the site of the former refinery continued. And in Kamloops, B.C., one of Canada's most modern bulk-product terminals was opened in mid-1987. Built at a cost of \$14 million, the terminal receives products by pipeline directly from Esso Petroleum's Strathcona refinery in Edmonton.


Capital expenditures by Esso Petroleum totaled \$163 million during the year.

The organizational restructuring of Esso Petroleum that began in 1986 was completed during 1987.

Chemicals

Earnings from the company's chemical operations totaled \$34 million in 1987 – double those of the previous year (1985 – \$3 million).

There was a marked increase in petrochemical earnings during the year. Sales volumes increased and profit margins improved, reflecting continuing strong demand for most products, greater efficiency and lower unit costs as petrochemical manufacturing facilities operated at or near capacity for most of the year.



As part of its commitment to meet customer needs, Esso Chemical is manufacturing custom grades of polyethylene resin for new applications, including rotational molding. In this process, resins are heated in a rotating mold to produce such products as toys and storage containers. At the plastics technology centre in Sarnia, Ont., employees Blair Graham and Jim Gilchrist test various formulations to ensure product quality for customers in this rapidly expanding business.

Chemicals	1985	1986	1987
	millions of dollars		
Financial statistics			
Earnings _____	3	17	34
Revenues _____			
Petrochemicals _____	491	496	539
Agricultural chemicals _____	314	284	293
Total revenues _____	805	780	832
Capital employed at December 31 _____	1008	947	890
Return on average capital employed (percent) _____	0.3	1.8	3.7
	thousands of tonnes per day		
Operating statistics			
Sales _____			
Petrochemicals _____	1.9	1.9	2.0
Agricultural chemicals _____	3.5	3.7	4.4

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

Earnings improvement results from strong petrochemical performance, offsetting poor fertilizer results

Earnings from chemicals (millions of dollars)



In polyethylene, which is used in the manufacture of many domestic products such as grocery bags and plastic containers, sales grew to record levels. They were particularly strong in domestic markets, as the company focused on meeting customer needs through a wide range of quality grades of product, both in pellet and granular form.

Record sales volumes and new standards of quality were also achieved in the manufacturing and marketing of polyvinyl chloride, a resin widely used in durable plastic products such as building siding, window trim and water and sewer pipes.

In the solvent segment of the petrochemical business, the introduction of new products and increased specialization allowed Esso Chemical to increase sales in a relatively mature market.

Although sales volumes increased in agricultural chemicals, prices suffered as a result of weak North American fertilizer markets. The increase in sales volumes in the face of reduced demand was attributable to new supply arrangements and to the introduction of new products. Two of the products, granular ammonium

New fertilizer products find ready acceptance

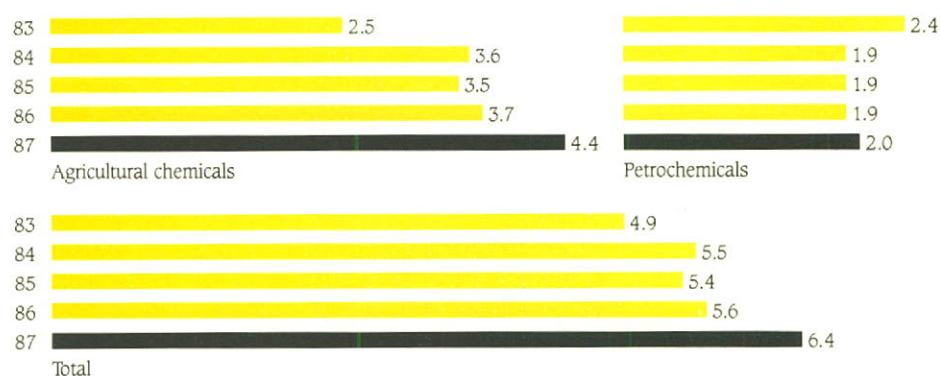
sulphate and ammonium nitrate, are improved fertilizers that have found ready acceptance among western farmers, and a third is an explosive-grade ammonium nitrate developed for the mining industry.

The environment for fertilizers shows some signs of improving in the wake of record Canadian grain sales and declining world grain inventories. Plant closures have reduced industry over-capacity, and Esso Chemical's commitment to offer new and better products to Canadian farmers, plus its reduced unit costs, place it in a very competitive position.

The year saw the completion of a major reorganization of Esso Chemical, directed toward greater efficiency and market repositioning. With a stronger customer orientation, modern plants, lower costs and a balanced product mix, the division is well positioned for the future.

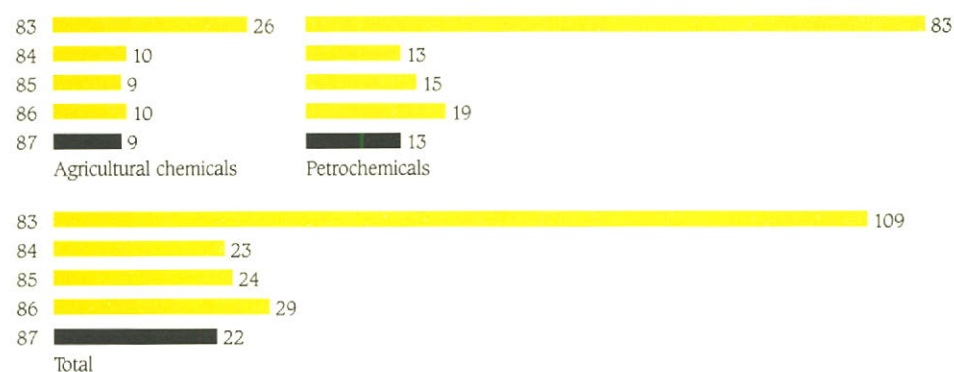
Sales volumes increase in both strong petrochemical and weak fertilizer markets

Sales volumes (thousands of tonnes per day)



Investment continues to be directed toward efficiency of operations

Capital expenditures (millions of dollars)



Financial review

Record earnings and healthy cash flow further strengthened Imperial's financial position during 1987.

That growing strength was reflected in the ratios commonly used to gauge a company's financial soundness. For example, Imperial's interest coverage improved significantly from an already healthy 7.7 in 1986 to 14.5 in 1987 (1985 – 9.1). The two main reasons for the improvement were considerably higher earnings and substantially lower interest costs. The lower interest costs resulted mainly from the company's decision, in 1986, to use cash reserves generated from operations to retire a (U.S.) \$200-million debenture issue that carried an interest rate of 15½ percent a year. That move alone reduced the company's interest costs by \$41 million during 1987.

Exceptionally strong ratio of earnings to interest expense results from improved earnings and a large debt retirement in 1986

Interest-coverage ratio



Debt remains low relative to shareholders' ownership despite record investment

Debt compared with shareholders' ownership (billions of dollars)



Although it made a major acquisition during the year (the Sulpetro assets), Imperial's ratio of debt to shareholders' equity, which compares the amount of capital that lenders have provided with the amount shareholders have invested in the company, did not change significantly. The company's total long-term debt and other long-term obligations increased by \$172 million, primarily because of the Sulpetro purchase. Shareholders' equity increased from \$5.1 billion in 1986 to \$5.6 billion; the increase was attributable to higher retained earnings, not to the issuance of new stock.

Major agencies upgrade credit rating

Imperial's stronger financial position was reflected in changes to the ratings commercial agencies assigned to the company's credit-worthiness during 1987. The largest and best known agencies in the United States and Canada upgraded the company's credit rating during the year, citing Imperial's demonstrated ability to manage the difficult conditions of the past few years as a major reason for the revisions. Canadian Bond Rating Service of Montreal was the first to upgrade its rating, followed by Standard and Poor's Corporation of New York, Moody's Investors Service, Inc. of New York and Dominion Bond Rating Service of Toronto.

Standard and Poor's gave the company its highest rating, making Imperial the only publicly traded company in Canada to hold a AAA assessment from that agency.

Those improvements in its credit rating should make it easier for the company to raise any capital required in future and, as well, should enable it to borrow at preferential rates.

Total revenues minus expenses and current taxes (often referred to as cash flow) strengthened to \$1249 million in 1987, from \$967 million in 1986 (1985 – \$1216 million). Revenues were up by nine percent during 1987, while expenses were down slightly. Current taxes rose because of higher corporate income and increases in fuel excise taxes.

Even though cash flow increased, total funds provided from operating activities fell to \$943 million in 1987, from \$1067 million in 1986 (1985 – \$1004 million). The reduction in total funds was mainly attributable to changes in operating working capital. Operating working capital increased by \$36 million in 1987, a reversal from 1986, when lower oil prices caused operating working capital to decrease by \$391 million (1985 – a decrease of \$56 million).

After several years of maintaining its regular dividends despite the impact of lower oil prices (in fact, with the exception of several years during the Second World War, the company has not reduced regular dividends since they were first introduced early in this century), Imperial increased its regular dividend by 12½ percent during the fourth quarter of 1987, from \$0.40 a share to \$0.45. The company is now paying dividends at an annual rate of \$1.80 a share. Total dividends for the year were \$270 million, compared with \$262 million in 1986 (1985 – \$268 million, when the company paid an extra dividend).

Capital and exploration expenditures reached a record \$1456 million in 1987, up from \$648 million in 1986 (1985 – \$1158 million). Of that amount, \$715 million was for the purchase of the assets of Sulpetro and the shares of Sulbath Exploration. Of the remainder, \$525 million was invested in natural resource operations, \$163 million in petroleum products, \$22 million in chemicals and \$31 million in other assets.

Most of that investment funding was obtained from internal sources. The only debt issued was \$200 million in conjunction with the Sulpetro purchase.

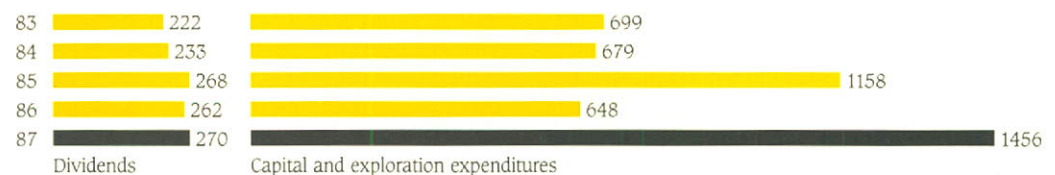
An additional \$122 million was obtained from the sale of Building Products of Canada, a wholly owned subsidiary of Imperial. The sale resulted in an after-tax capital gain of \$29 million.

**Regular dividend increases
by 12½ percent**

**Record investments funded
mainly from internal sources**

**Strong financial condition
permits dividend increase and
record capital expenditures**

Principal uses of cash flow (millions of dollars)



**Capital expenditures could
exceed \$1 billion in 1988**

Imperial's expenditures for 1988 could again exceed \$1 billion. While this expenditure program is large, the company's plans contain sufficient flexibility to modify spending if conditions warrant (e.g., if oil prices fall substantially). Although these expenditures can be financed from internal sources, the company would not hesitate to raise money on capital markets if that were considered desirable.

Funds available at the end of 1987 were \$484 million compared with \$656 million in 1986 and \$452 million in 1985. The reduction was attributable mainly to the company's record program of capital investment. In addition to those funds the company had unused lines of credit of \$734 million with five Canadian banks at December 31, 1987.

The company's payments into employee pension plans were \$48 million in 1987 (1986 — \$3 million; 1985 — \$30 million). The rate of return on the pension plan's assets was about five percent during the year despite the severe decline in stock prices in October. That was because the fund holds a diversified portfolio consisting of stocks, bonds, real estate and cash. Fund assets continue to exceed funding objectives established by its trustees.

The company has emerged from 1987 in a strong financial position. Its cash reserves are substantial, its financial ratios sound, and its credit rating excellent.

Financial section

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Glossary of terms

Average cost refers to a method of inventory valuation where the unit cost is a weighted average of the cost of the opening inventory and the cost of inventory produced or purchased, calculated on a monthly basis.

Capitalized cost is the cost of an item that will have an extended useful life and is consequently recorded as an asset on the statement of financial position. The capitalized cost is then allocated over time to expenses in the statement of earnings.

Deferred income taxes are the difference between income taxes deducted in calculating earnings according to conventional accounting practice and taxes currently payable under income-tax legislation. They result from certain deductions from income being recognized in different periods for tax and accounting purposes. The largest source of deferred income taxes is depreciation and amortization, where deductions are made earlier for tax purposes than for accounting purposes. Deferred income taxes are not a liability under the law.

Depreciation and amortization are terms describing the allocation of the capitalized cost of assets to expense over the periods of their useful lives. The amount deducted in the statement of earnings reflects one period's share of the cost of assets such as property, plant and equipment. Depreciation is applied to tangible assets and amortization to intangible assets such as petroleum and natural-gas rights.

Funds represent the total of cash and marketable securities, reduced by outstanding cheques and short-term notes payable.

Hedges are actions taken to offset the risk to the company of market fluctuations. The most common involve agreements to buy or sell foreign currency in the future at a set rate, so as to offset the risk of foreign-exchange-rate fluctuations.

Levies comprise the Petroleum Compensation Charge and the Canadian Ownership Special Charge.

Marketable securities are securities of the governments of Canada and the provinces, banks and other high-quality corporations. These securities are either short term with a fixed interest rate or are floating-rate securities, with rates dependent upon short-term interest rates.

Net realizable value is the estimated selling price of an asset, less the estimated costs of preparing the asset for sale and of selling it.

Operating working capital is working capital (the excess of current assets over current liabilities) less funds.

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

Other taxes consist of revenue taxes, such as the Petroleum and Gas Revenue Tax, and commodity, property and other taxes, which include fuel excise taxes and the federal sales tax.

Write-down refers to the downward adjustment of the recorded value of an asset. Normally this occurs when the recorded value is greater than the net realizable value.

Consolidated statement of earnings

For the years	1985	1986	1987
	millions of dollars		
Revenues			
Crude oil (2)	548	249	427
Natural gas	148	149	144
Petroleum products (3)	6761	5356	5672
Chemicals	762	732	780
Other operating revenues	448	478	539
Interest and investment income (4)	137	100	113
Total revenues	8804	7064	7675
Expenses			
Exploration	85	116	77
Purchases of crude oil and products (3)	4036	3030	2900
Extracting, processing and manufacturing	1187	1153	1176
Marketing and administration	939	882	943
Interest (8)	126	104	83
Total expenses	6373	5285	5179
Revenues less expenses	2431	1779	2496
Depreciation and amortization	322	343	392
Earnings before taxes and levies	2109	1436	2104
Income taxes (5)	324	253	399
Other taxes and levies (5)	1091	743	989
Total taxes and levies	1415	996	1388
Earnings from operations	694	440	716
Unusual items (11)	(50)	(155)	29
Earnings after unusual items	644	285	745
	dollars		
Per-share information			
Earnings from operations (14)	4.27	2.69	4.37
Earnings after unusual items (14)	3.97	1.74	4.55
Dividends (a)	1.65	1.60	1.65

(a) The 1985 amount included an extra dividend of five cents per share.

The notes referred to on this and the following two pages are found in the notes to the financial statements, pages 32 to 38.

The summary of accounting policies is found on pages 30 and 31.

Consolidated statement of changes in financial position

For the years

1985 1986 1987

millions of dollars
inflows (outflows)

Funds provided from operating activities

Revenues less expenses other than exploration	2516	1895	2573
Current taxes and levies (5)	(1300)	(928)	(1324)
Work-force reduction programs (11)	—	(29)	—
Change in operating working capital	56	391	(36)
Dividends	(268)	(262)	(270)
Total funds provided from operating activities	1004	1067	943

Investment of funds

Capital and exploration expenditures	(1158)	(648)	(1456)
Proceeds from sale of property, plant and equipment	50	53	37
Proceeds from sale of Building Products of Canada Limited (11)	—	—	122
Other	(37)	5	(13)
Total investment of funds	(1145)	(590)	(1310)

Inflow (outflow) of funds before external financing	(141)	477	(367)
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External financing

Long-term debt and other obligations, after repayments	7	19	194
Retirement of 15½-percent debentures (11)	—	(315)	—
Common shares issued (14)	76	23	1
Total external financing	83	(273)	195

Inflow (outflow) of funds	(58)	204	(172)
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Increase (decrease) in funds by component

Cash, including short-term deposits	62	(10)	120
Marketable securities	(130)	213	(255)
Short-term notes	10	1	(37)
Total increase (decrease) in funds	(58)	204	(172)

The glossary of terms and the summary of accounting policies are found on pages 26 and 30 respectively.

Consolidated statement of financial position

As at December 31

1986 1987 change

millions of dollars

Current assets

Cash, including short-term deposits	—	44	44
Marketable securities at cost, which approximates market value	732	477	(255)
Accounts receivable (3)	664	791	127
Amounts receivable from Exxon Corporation and affiliates (17)	6	—	(6)
Inventories of crude oil and products	819	882	63
Materials, supplies and prepaid expenses	135	147	12
Taxes recoverable	62	—	(62)
Total current assets	2418	2341	(77)

Current liabilities

Outstanding cheques, less cash	76	—	(76)
Short-term notes	—	37	37
Accounts payable and accrued liabilities (3)	765	847	82
Amounts owing to Exxon Corporation and affiliates (17)	—	17	17
Taxes payable	—	54	54
Dividends payable	66	74	8
Total current liabilities	907	1029	122

Total working capital 1511 1312 (199)

Investments and other long-term assets (7)	414	407	(7)
Property, plant and equipment at cost, less accumulated depreciation and amortization (6)	5816	6730	914
Total capital employed	7741	8449	708

Sources of capital employed

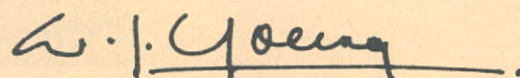
Long-term debt (9)	668	823	155
Other long-term obligations (10, 17)	366	383	17
Commitments and contingent liabilities (12)			
Deferred income taxes	1617	1677	60
Shareholders' equity			
Common shares (14)	1423	1424	1
Earnings retained and used in the business:			
At beginning of year	3644	3667	23
Earnings for the year	285	745	460
Dividends	(262)	(270)	(8)
At end of year	3667	4142	475
Total shareholders' equity	5090	5566	476
Total sources of capital employed	7741	8449	708

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

Approved by the board



Chairman, president and
chief executive officer



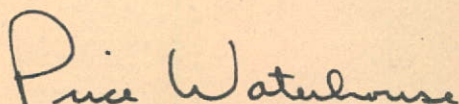
Executive vice-president and
chief financial officer

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, 1987 and the consolidated statement of financial position as at December 31, 1986 and 1987. 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, 1987 and its financial position as at December 31, 1986 and 1987 in accordance with generally accepted accounting principles in Canada consistently applied.



Chartered Accountants
Toronto-Dominion Centre
Toronto, Ontario
February 22, 1988

Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Imperial Oil Limited and all its subsidiary companies. Intercompany accounts and transactions are 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 are recorded at the lower of cost and net realizable value. The cost of crude oil at refineries and products is primarily determined using the average-cost method. Crude oil in transit is valued at actual cost.

Investments

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

Other investments are recorded at cost. The only income recorded by Imperial is the dividends from these investments.

The percentage owned by Imperial of each of its principal investments is shown on page 39. The amount at which all investments are recorded is shown in note 7 on page 33.

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.

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. Crown royalties are also excluded from the consolidated statement of earnings.

In order to encourage investment, the Alberta government has reduced the amount of royalties payable during the early years of certain projects by allowing for the deduction of certain capital costs in determining the royalty. The result is an increase in the company's share of production, which is accounted for as additional income.

Translation of foreign currencies

Gains and losses on forward-exchange contracts, which are effective hedges against 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 from the translation of long-term debt are amortized over the remaining term of the debt.

Interest costs

Interest costs are included in expenses as incurred.

Natural-gas take-or-pay 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.

Retirement plans and post-employment benefits

The company's pension plans cover almost all employees. Pension 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 amounts contributed by the company to the plans are established according to accepted actuarial procedures. Prior to 1986, the amount paid by the company into the pension plans was also the pension expense for the year. In 1986 the Canadian Institute of Chartered Accountants published new standards for accounting for pension plans. As a result, starting in 1986, the amount expensed is determined on the accrual basis, which reflects the service of employees for the year rather than the amount contributed by the company to the plans.

The company shares the cost of certain health-care and life-insurance benefits for retired employees. Almost all of the company's employees become eligible for these benefits when they retire from the company. The liability for these costs and the related charge to earnings are recognized in the year an employee retires. This related liability is reduced each year by the annual cash costs of the benefits. This method was adopted in 1985, and as a result a liability has been recorded for employees who retired before 1985. This initial liability was not charged to earnings in 1985 but was deferred and is being amortized over a 17-year period.

Notes to the financial statements

1. Sulpetro acquisition

On December 17, 1987, the company acquired the assets of Sulpetro Limited, an Alberta-based company engaged in the exploration, development and production of crude oil, natural gas and natural-gas liquids. All of the shares of Sulbath Exploration Ltd., an associated company, were also acquired. The acquisition cost was \$715 million for property, plant and equipment and \$13 million for associated working capital. This was financed by \$483 million cash, a gas-indexed note (see note 9(a)) and the assumption of certain liabilities.

2. Crude-oil revenues

The company supplements its own production to meet its refining needs by buying crude oil and selling any unused quantities. Those sales, which amounted to \$919 million in 1987, are excluded from reported revenues and purchases (1986 - \$990 million; 1985 - \$1693 million).

3. Petroleum product purchase/sale agreements

Purchase/sale agreements with other companies help the company meet its supply requirements while reducing transportation and other costs. Sales under those agreements are not included in revenues but are offset against the related purchases. In 1987 sales under those agreements amounted to \$782 million (1986 - \$819 million; 1985 - \$934 million). Accounts-receivable and accounts-payable balances with each company relating to such purchase/sale agreements have been offset.

4. Interest and investment income

	1985	1986	1987
	millions of dollars		
Interest on marketable securities and short-term deposits	69	47	65
Earnings (after income taxes) from equity investments	38	35	33
Other interest and investment income	30	18	15
Total interest and investment income	137	100	113
Dividends received from equity investments	22	22	23

5. Taxes and levies

	1985	1986	1987
	millions of dollars		
Current and deferred income taxes			
Federal	246	178	298
Provincial	78	75	101
	324	253	399
Revenue taxes			
Petroleum and Gas Revenue Tax	125	7	—
Commodity, property and other taxes			
Federal sales tax	360	385	381
Fuel excise taxes	145	261	522
Property and other taxes	89	90	86
Levies			
Petroleum Compensation Charge	321	—	—
Canadian Ownership Special Charge	51	—	—
Total taxes and levies	1415	996	1388
Less deferred income taxes	115	68	64
Current taxes and levies	1300	928	1324

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

Summary of income-tax calculations

	1985	1986	1987
	millions of dollars		
Earnings before taxes and levies	2109	1436	2104
Deduct:			
Taxes and levies, other than income taxes	1091	743	989
Earnings from equity investments	38	35	33
Adjusted earnings	980	658	1082
Basic corporate tax rate (percent)	47.1	50.2	49.9
Income taxes at basic rate	462	330	540
Additions to income taxes as a result of nondeductible payments to governments; primarily Crown royalties and Petroleum and Gas Revenue Tax	156	58	68
	618	388	608
Allowable deductions from income taxes as a result of:			
Resource allowance	120	81	119
Depletion allowance	85	18	57
Manufacturing and processing credit	6	16	13
Inventory allowance	21	3	—
Other (a)	62	17	20
Income taxes	324	253	399
Effective income-tax rate (percent)	33.1	38.4	36.9
Increases (decreases) in deferred income taxes resulting from timing differences			
Capital cost allowance	75	(13)	79
Successful drilling	35	57	1
Land-acquisition costs	(23)	(5)	13
Enhanced oil recovery injectants	23	33	10
Other	5	(4)	(39)
Net increase in deferred income taxes (b)	115	68	64
Current income taxes (b)	209	185	335

(a) In 1985 the company sold interests in certain producing properties, with the right to reacquire them. These interests were reacquired in 1986. As a result of deductions allowed for these transactions, no additional income tax was payable. This item includes \$42 million in respect of these transactions in 1985 and \$10 million in 1986.

(b) Changes in income taxes as a result of unusual items recorded in 1985, 1986 and 1987 are not included.

6. Property, plant and equipment

	Cost		Accumulated depreciation and amortization	
	1986	1987	1986	1987
	millions of dollars			
Natural resources				
Exploration and production	2903	3851	1019	1135
Heavy oil	1524	1700	216	279
Coal and other minerals	203	204	23	32
	4630	5755	1258	1446
Petroleum products	2657	2790	1202	1307
Chemicals	1117	1140	322	371
Other	313	272	119	103
Total property, plant and equipment	8717	9957	2901	3227
Less accumulated depreciation and amortization	2901	3227		
Net investment	5816	6730		

7. Investments and other long-term assets

	1986	1987
	millions of dollars	
Investments		
Recorded at equity value		
With quoted market value (a)	200	208
Without quoted market value	22	22
Recorded at cost	5	5
Total investments	227	235
Long-term receivables	49	50
Deferred foreign-exchange loss on long-term debt	45	25
Deferred post-employment benefit charge (b)	42	39
Other	51	58
Total investments and other long-term assets	414	407

(a) This amount represents Imperial's investment in Interprovincial Pipe Line Limited. Imperial owns 8.597 million shares (22 percent) of Interprovincial; the original cost to Imperial was \$18 million. The market value of these shares at December 31, 1987, was \$371 million (1986 — \$344 million).

(b) See summary of significant accounting policies. Total charges to earnings in 1987 for post-employment benefits amounted to \$16 million (1986 — \$19 million; 1985 — \$12 million).

8. Interest expense

	1985	1986	1987
	millions of dollars		
Long-term debt	107	84	63
Short-term notes	2	3	3
Capitalized leases	12	11	10
Other	5	6	7
Total interest expense	126	104	83

9. Long-term debt

Year of issue	Maturity date	Rate of interest	1986 millions of dollars	1987
Debentures				
1968	Jan. 2, 1988	7 ³ / ₈	12	—
1969	Aug. 15, 1989	8 ¹ / ₂	7	6
1972	Feb. 15, 1992	7 ³ / ₄	17	16
1974	Aug. 15, 1994	10 ⁵ / ₈	60	54
1975	Feb. 15, 1995	9 ³ / ₄	65	60
1979	Sept. 15, 2009			
	(1987—U.S. \$226 million;			
	1986—U.S. \$226 million)	9 ³ / ₄	312	294
Total sinking-fund debentures			473	430
1983	Mar. 31, 1993	12	125	125
1987	June 30, 1993 (a)	10.724	—	200
Total debentures (b)			598	755
Capitalized leases (b)			70	68
Total long-term debt			668	823

(a) This note bears interest at a base rate of 10.724 percent per annum on the \$200 million face value, as well as a bonus interest rate based primarily on future natural-gas prices (together not to exceed 20.724 percent per annum). At the time of the transaction this note was recorded at its estimated fair market value of \$216 million and the premium was included in other long-term obligations.

(b) Future principal payments and imputed interest:

	Principal payments		Imputed interest
	Sinking-fund debentures	Capitalized leases	Capitalized leases
millions of dollars			
1988	11	4	10
1989	17	4	10
1990	13	2	9
1991	13	1	8
1992	20	1	8

Amount of imputed interest on capitalized leases beyond 1992 96

Unused lines of credit with major Canadian banks totaled \$734 million at December 31, 1987 (1986 — \$696 million).

10. Other long-term obligations

	1986	1987
	millions of dollars	
Deferred revenue on take-or-pay gas contracts	61	78
Post-employment benefits (a)	58	61
Pension related obligations (note 16)	144	137
Other obligations	103	107
Total other long-term obligations	366	383

(a) See summary of significant accounting policies.

11. Unusual items

	1985	1986	1987
	millions of dollars		
Building Products of Canada Limited	—	—	29
Work-force reduction programs	—	(90)	—
Retirement of debentures	—	(65)	—
Deferral of producing profits	(45)	—	—
Granduc mine	(5)	—	—
Total unusual items	(50)	(155)	29

Building Products of Canada Limited — In the fourth quarter of 1987 the company sold its wholly owned subsidiary Building Products of Canada Limited. The proceeds from the sale exceeded the book value and resulted in the recording of a gain of \$29 million, after income tax of \$9 million.

Work-force reduction programs — In 1986 the company announced plans to reduce its work force, mainly through two voluntary programs that offered eligible employees enhanced pension benefits for early retirement and offered others lump-sum payments for leaving the company. The staff reduction and associated reorganization resulted in a charge to earnings of \$90 million, after income-tax credits of \$81 million.

Retirement of debentures — In 1986, the company took steps to retire its (U.S.) \$200 million issue of 15¹/₂ percent sinking-fund debentures due December 1, 2011. The total cost of retiring the debt was (Canadian) \$315 million, which came from existing cash reserves. The premium paid for the retirement of the debentures, as well as a foreign-exchange loss arising from the transactions, resulted in a loss of \$65 million, or \$0.40 per share, after income-tax credits of \$10 million.

Deferral of producing profits — The company's 1985 earnings were adjusted to reflect a one-time, noncash decrease of \$45 million, after income-tax credits of \$42 million, resulting from the June 1, 1985, 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. With the removal of this requirement, the profit on company-produced crude oil used in the manufacture of petroleum products is deferred until the products are sold to the customer. This change had a one-time impact on earnings but had 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 their estimated net realizable value. The closure of the mine was completed in 1985 and the amount of the write-down was increased by \$5 million, after income-tax credits of \$3 million, mainly as a result of 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, does not significantly affect the company's consolidated financial position.

Pending lawsuits against the company would not, in the opinion of counsel, result in any financial liability that would significantly affect the company's consolidated financial position and earnings.

13. Research and development costs

Research and development costs in 1987 were \$68 million (1986 — \$79 million; 1985 — \$79 million) before investment tax credits earned on these expenditures of \$11 million (1986 — \$12 million; 1985 — \$10 million). The net costs are included in expenses.

14. Common shares

	1985	1986	1987
	number of shares		
Authorized (Class A and B)	200 000 000	200 000 000	200 000 000
Issued at December 31 (a)			
Class A	161 879 023	162 505 798	162 665 275
Class B	1 301 915	1 140 174	1 008 379
Total	163 180 938	163 645 972	163 673 654

Transactions during the year:

Dividend reinvestment and share purchase plan (b)

Number of shares issued	1 545 879	422 621	—
	millions of dollars		
Amount	73.0	20.4	—

Class B stock dividends paid

Number of shares issued	59 976	42 413	27 682
	millions of dollars		
Amount	3.0	1.9	1.7

(a) Both Class A and Class B shares are convertible on a share-for-share basis and rank equally in all respects, including voting privileges. 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 enables shareholders to reinvest their cash dividends in additional Class A shares at an average market price. Until early 1986 shareholders reinvesting in the shares did so at a five-percent discount. Shareholders can also invest between \$50 and \$5000 each calendar quarter in additional Class A or Class B shares at an average market price. Since early 1986, funds directed to the plan have been used to buy existing shares on a stock exchange rather than new shares from the company.

Earnings per share are calculated on the monthly weighted average number of shares outstanding during the year (1987 — 163 664 000; 1986 — 163 611 000; 1985 — 162 320 000).

15. Business segments

millions of dollars	Natural resources			Petroleum products			Chemicals			Other investments			Consolidated		
	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987
Revenues															
Sales to customers _____	758	487	661	6919	5459	5844	758	732	774	369	386	396	8804	7064	7675
Intersegment sales _____	1497	1193	1505	346	313	397	47	48	58	18	19	17	—	—	—
Total revenues _____	2255	1680	2166	7265	5772	6241	805	780	832	387	405	413	8804	7064	7675
Earnings before taxes and levies _____	1016	319	731	1048	1004	1283	7	33	69	38	80	21	2109	1436	2104
Income taxes _____	328	96	278	29	145	163	(3)	10	28	(30)	2	(70)	324	253	399
Other taxes and levies _____	146	27	21	917	685	932	7	6	7	21	25	29	1091	743	989
Earnings from operations _____	542	196	432	102	174	188	3	17	34	47	53	62	694	440	716
Capital employed															
Segment assets _____	3663	3708	4671	3531	2521	3013	1064	1006	993	1150	1558	1363	9196	8648	9478
Less current liabilities _____	557	186	359	942	517	830	56	59	103	(17)	290	299	1326	907	1029
Total capital employed _____	3106	3522	4312	2589	2004	2183	1008	947	890	1167	1268	1064	7870	7741	8449
Depreciation and amortization _____	177	180	202	100	103	114	48	50	53	(3)	10	23	322	343	392
Capital and exploration expenditures _____	885	457	1240	218	143	163	24	29	22	31	19	31	1158	648	1456

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

The Imperial Oil retirement plan covers almost all employees. It is funded by the company based on actuarial valuation, the most recent being November 30, 1987. The company's share of the pension plan for the Syncrude joint venture is included in the table below.

Funded status at December 31	1985	1986	1987
	millions of dollars		
Market value of assets _____	1296	1319	1293
Accumulated benefit obligation (a) _____	898	1067	1050
Assets excess _____	398	252	243
Unearned benefit obligation (a) _____	328	222	241
Surplus _____	70	30	2

The surplus is credited to expense over the average remaining service life of employees, which is currently 17 years.

The amount contributed by the company to the plans was \$48 million in 1987 (1986 - \$3 million; 1985 - \$30 million).

In addition, the company has other pension related obligations that are unfunded and paid directly by the company. These actuarially determined obligations amounted to \$295 million at December 31, 1987. Of this amount, \$146 million has been expensed by the company in the current year and prior years and the remainder will be expensed over future years.

Annual pension expense

In accordance with new accounting standards, which came into effect in 1986, the pension expense for the funded and unfunded plans is calculated on the accrual basis rather than the cash basis used in prior years. (See summary of significant accounting policies.)

	1985	1986	1987
	millions of dollars		
Current service cost _____	—	33	29
Net interest cost _____	—	5	17
Plan amendment amortization _____	—	1	1
Expense for 1985 based on funding method _____	34	—	—
Pension expense before 1986 early-retirement program _____	34	39	47
Expense of 1986 early-retirement program (b) _____	—	109	—
Total pension plan expense _____	34	148	47

Assumptions

The measurement of the retirement obligation and expense involves making assumptions about economic and other factors over an extended future period. The following provides the most significant assumptions and their impact.

	1985	1986	1987
	percent		
Rate of return on the plan's assets _____	7.0	8.5	8.5
Salary escalation rate _____	5.0	6.0	6.0
	millions of dollars		
Impact of a one-percent increase in rate of return on:			
Total benefit obligation (a) _____			150
Annual expense _____			15
Impact of a one-percent increase in salary escalation on:			
Total benefit obligation (a) _____			20
Annual expense _____			5

(a) The total benefit obligation is the amount the pension fund needs to have invested at the assumed rate of return (currently 8.5 percent) in order to be able to pay pensions for service rendered to date. The amount of an annuitant's pension is based on length of service and on average earnings during the final three years of employment. This total benefit obligation has two parts. The accumulated benefit obligation is based on current salaries; the unearned benefit obligation is the estimated additional amount that results from salary escalation by the time of retirement.

(b) This amount is part of the work-force reduction programs included in unusual items (note 11).

Other information

	1987
	millions of dollars
Amounts that will be amortized as a company expense over future periods:	
Unrecorded net unfunded liability existing at January 1, 1986 _____	5
Unrecorded prior service cost _____	128
Unrecorded net loss _____	14
Amounts previously expensed and recorded as a liability in the consolidated statement of financial position in anticipation of funding in the future:	
Long-term (note 10) _____	137
Current _____	9

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

The net amount of payments by the company resulting from transactions with Exxon in 1987 was \$209 million (1986 – \$35 million; 1985 – \$244 million). 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, 1987, were \$17 million (1986 – \$6 million due from Exxon; 1985 – \$49 million due to Exxon). At December 31, 1987, other long-term obligations owing to Exxon were nil (1986 – \$7 million; 1985 – \$7 million).

In 1987, Exxon did not acquire any shares under the company's dividend reinvestment and share purchase plan described further in note 14 (1986 – 298 984 shares; 1985 – 1 509 122 shares). Exxon's ownership interest in Imperial Oil at December 31, 1987, was 69.6 percent (1986 – 69.6 percent).

18. United States accounting principles and International Accounting Standards

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and conform in all significant respects to International Accounting Standards. A description of the differences between the accounting principles generally accepted in Canada and those accepted in the United States as they apply to the company appears on page 50.

Subsidiaries and principal investments at December 31, 1987

Subsidiary companies (a)

Atlas Supply Company of Canada Limited
 Beaverhill Resources Limited
 Byron Creek Collieries (1983) Limited
 Champlain Oil Products Limited
 Chinchaga Resources 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
 Metro Fuel Co. Ltd.
 Nisku Products Pipe Line Company Limited
 Northwest Company, Limited
 107580 Canada Inc.
 139675 Canada Ltd.
 151742 Canada Inc.
 156971 Canada Limited
 158437 Canada Ltd.
 158585 Canada Limited
 158883 Canada Inc.
 159129 Canada Inc.
 Servacar Ltd.
 Sulbath Exploration Ltd.
 Taglu Enterprises Limited
 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. _____	35.0
Interprovincial Pipe Line Limited _____	21.7
Montreal Pipe Line Limited _____	32.0
Rainbow Pipe Line Company, Ltd. _____	33.3
Tecumseh Gas Storage Limited _____	50.0

(b) See page 30, Investments.

Supplemental information (unaudited)

Additional information for security holders is provided on pages 46 to 53. Since the company uses capital markets in the United States, these pages include information that conforms with the financial reporting practices of that country.

The information reported on pages 46 to 49 is provided in accordance with the United States' Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities." This statement requires specific disclosure about oil and gas activities only; accordingly, the data exclude information about coal and mineral activities reported in the natural resource segment.

Five-year summary

Financial

Percentages and ratios

	1983	1984	1985	1986	1987
Return on average					
Capital employed (1)					
Before unusual items	6.1	8.4	10.0	6.3	9.3
After unusual items	5.4	8.4	9.4	4.3	9.7
Shareholders' equity					
Before unusual items	8.1	11.8	14.4	8.7	13.4
After unusual items	7.1	11.8	13.4	5.6	14.0
Debt as a percentage of					
Capital employed (2)	17.4	16.2	15.5	13.4	14.3
Debt plus shareholders' equity (2)	21.8	20.5	19.5	16.9	17.8
Interest coverage (3)	7.3	8.9	9.1	7.7	14.5
Reinvestment					
percentage (4)	106.2	93.8	114.0	55.3	138.9
Current ratio (5)	2.4	2.3	2.2	2.7	2.3

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 the capitalized-leases interest expense.

(2) Debt consists of long-term debt, capitalized leases and other long-term obligations.

(3) Interest coverage is total interest expense divided into the sum of consolidated earnings from operations, total interest expense and consolidated income taxes on earnings from operations.

(4) Reinvestment percentage is the total investment of funds in the year divided by the total funds provided from operating activities.

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

Consolidated statement of earnings

	1983	1984	1985	1986	1987
	millions of dollars				
Revenues					
Crude oil	777	830	548	249	427
Natural gas	185	185	148	149	144
Petroleum products	6231	6366	6761	5356	5672
Chemicals	694	753	762	732	780
Other operating revenues	412	454	448	478	539
Interest and investment income	108	167	137	100	113
Total revenues	8407	8755	8804	7064	7675
Expenses					
Exploration	81	63	85	116	77
Purchases of crude oil and products	4107	4073	4036	3030	2900
Extracting, processing and manufacturing	1056	1068	1187	1153	1176
Marketing and administration	781	879	939	882	943
Interest	121	126	126	104	83
Total expenses	6146	6209	6373	5285	5179
Revenues less expenses	2261	2546	2431	1779	2496
Depreciation and amortization	235	260	322	343	392
Earnings before taxes and levies	2026	2286	2109	1436	2104
Income taxes	424	478	324	253	399
Other taxes and levies	1266	1288	1091	743	989
Total taxes and levies	1690	1766	1415	996	1388
Earnings from operations	336	520	694	440	716
Unusual items	(42)	—	(50)	(155)	29
Earnings after unusual items	294	520	644	285	745

Consolidated statement of changes in financial position

	1983	1984	1985	1986	1987
	millions of dollars inflows (outflows)				
Funds provided from operating activities					
Revenues less expenses other than exploration	2342	2609	2516	1895	2573
Current taxes and levies	(1545)	(1612)	(1300)	(928)	(1324)
Work-force reduction programs	—	—	—	(29)	—
Change in operating working capital	139	(56)	56	391	(36)
Dividends	(222)	(233)	(268)	(262)	(270)
Total funds provided from operating activities	714	708	1004	1067	943
Total investment of funds	(758)	(664)	(1145)	(590)	(1310)
Inflow (outflow) of funds before external financing	(44)	44	(141)	477	(367)
External financing					
Long-term debt and other obligations, after repayments	121	(30)	7	19	194
Retirement of 15½ percent debentures	—	—	—	(315)	—
Common shares issued	60	74	76	23	1
Total external financing	181	44	83	(273)	195
Inflow (outflow) of funds	137	88	(58)	204	(172)

Consolidated statement of financial position

	1983	1984	1985	1986	1987
	millions of dollars				
Capital employed					
Funds	422	510	452	656	484
Operating working capital	1259	1315	1162	855	828
Investments and other long-term assets	450	511	576	414	407
Property, plant and equipment (net)	4660	4974	5680	5816	6730
Total capital employed	6791	7310	7870	7741	8449
Sources of capital employed					
Long-term debt	1011	1006	982	668	823
Other long-term obligations	169	178	237	366	383
Deferred income taxes	1380	1534	1607	1617	1677
Shareholders' equity	4231	4592	5044	5090	5566
Total sources of capital employed	6791	7310	7870	7741	8449
Total assets	7969	8678	9196	8648	9478
Capital and exploration expenditures (after deducting incentives)					
	1983	1984	1985	1986	1987
	millions of dollars				
Natural resources					
Exploration	47	48	97	81	66
Production	246	209	315	187	978
Heavy oil	102	231	379	133	180
Coal and other minerals	30	23	94	56	16
Total natural resources	425	511	885	457	1240
Petroleum products					
Marketing	46	83	106	75	96
Refining	108	46	112	68	67
Total petroleum products	154	129	218	143	163
Chemicals	109	23	24	29	22
Other investments	11	16	31	19	31
Total capital and exploration expenditures	699	679	1158	648	1456

Five-year summary Financial

Imperial Oil Limited

Net payments to governments

	1983	1984	1985	1986	1987
	millions of dollars				
Taxes and levies					
Income taxes (1) _____	424	478	324	253	399
Revenue taxes _____	170	150	125	7	—
Commodity, property and other taxes _____	504	534	594	736	989
Levies (2) _____	592	604	372	—	—
Total taxes and levies _____	1690	1766	1415	996	1388
Add:					
Current taxes on unusual items _____	(15)	—	(3)	(33)	10
Consumer taxes collected on behalf of governments (3) _____	608	615	593	543	668
Crown royalties _____	492	404	377	153	170
	2775	2785	2382	1659	2236
Less deferred income taxes _____	145	154	115	68	64
Total paid or payable to governments _____	2630	2631	2267	1591	2172
Receipts from governments					
Oil-import compensation (2) _____	149	105	57	—	—
Syncrude crude-oil-price compensation (2) _____	86	83	60	—	—
Investment tax credits _____	24	44	71	99	70
Incentive programs _____	8	9	17	9	7
Syncrude expansion studies _____	—	—	—	—	10
Total received or receivable from governments _____	267	241	205	108	87
Net payments to governments _____	2363	2390	2062	1483	2085
Net payments to					
Federal government (3) _____	1161	1258	980	625	1087
Provincial governments _____	1143	1067	1016	790	928
Local governments _____	59	65	66	68	70
Net payments to governments _____	2363	2390	2062	1483	2085

(1) Under a federal government program encouraging taxpayers to support Canadian scientific research, the company made payments to Canadian companies in lieu of income-tax payments to the government. Those payments provided the company with

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

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

(3) Data for the years 1984 to 1986 have been restated.

Financial information by segment

	1983	1984	1985	1986	1987
	millions of dollars				
Revenues					
Natural resources _____	1718	1740	2255	1680	2166
Petroleum products _____	6702	6816	7265	5772	6241
Chemicals _____	742	807	805	780	832
Other investments _____	311	385	387	405	413
Intersegment sales _____	(1066)	(993)	(1908)	(1573)	(1977)
Total revenues _____	8407	8755	8804	7064	7675
Earnings from operations					
Natural resources _____	272	324	542	196	432
Petroleum products _____	65	133	102	174	188
Chemicals _____	(10)	22	3	17	34
Other investments _____	9	41	47	53	62
Total earnings from operations _____	336	520	694	440	716
Capital employed					
Natural resources _____	2094	2423	3106	3522	4312
Petroleum products _____	2553	2444	2589	2004	2183
Chemicals _____	1123	1014	1008	947	890
Other investments _____	1021	1429	1167	1268	1064
Total capital employed _____	6791	7310	7870	7741	8449
	percent				
Return on average capital employed					
Natural resources _____	13.1	14.3	19.6	5.9	11.0
Petroleum products _____	2.6	5.3	4.1	7.6	9.0
Chemicals _____	(0.9)	2.1	0.3	1.8	3.7
Total company					
Before unusual items _____	6.1	8.4	10.0	6.3	9.3
After unusual items _____	5.4	8.4	9.4	4.3	9.7

Five-year summary

Operating

Imperial Oil Limited

Wells drilled (1)	1983		1984		1985		1986		1987	
	gross	net	gross	net	gross	net	gross	net	gross	net
Western provinces										
Exploratory										
Conventional	44	21	34	17	77	36	54	23	32	16
Heavy oil	37	9	77	16	57	45	57	45	40	29
Development										
Conventional	118	60	362	117	397	137	318	90	210	103
Heavy oil	206	206	349	346	554	550	97	95	311	311
Northern areas and Atlantic offshore (2)										
Exploratory	10	3	10	2	13	4	14	7	3	1
Development	30	20	38	26	35	22	13	8	24	16
Total wells drilled										
Exploratory	91	33	121	35	147	85	125	75	75	46
Development	354	286	749	489	986	709	428	193	545	430
Total wells in progress	16	8	30	17	40	14	21	10	11	6
Land holdings (1)	1983		1984		1985		1986		1987	
	gross	net	gross	net	gross	net	gross	net	gross	net
millions of hectares										
Oil and gas										
Western provinces										
Conventional	2.8	1.0	2.7	1.0	2.6	1.0	2.6	1.0	3.2	1.2
Heavy oil	0.7	0.3	0.7	0.3	0.7	0.3	0.7	0.3	0.7	0.3
Northern areas (2)	10.5	3.8	9.6	3.5	8.7	2.6	5.0	1.4	1.8	0.8
Atlantic offshore	4.4	3.6	4.0	3.3	2.5	1.9	1.6	1.0	0.9	0.7
Other provinces (3)	1.9	0.4	1.9	0.4	1.9	0.4	—	—	—	—
Total oil and gas land holdings	20.3	9.1	18.9	8.5	16.4	6.2	9.9	3.7	6.6	3.0
Minerals										
Coal	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.4
Other minerals	0.5	0.3	0.3	0.1	0.6	0.3	0.7	0.4	0.6	0.3

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) This represents seismic options in the province of Quebec.

Five-year summary

Operating

Crude oil supply and utilization

	1983		1984		1985		1986		1987	
	gross	net	gross	net	gross	net	gross	net	gross	net
thousands of m ³ /d										
Crude oil production (1)										
Conventional	16.0	10.7	15.4	10.6	16.7	12.7	18.0	15.0	18.5	15.6
Cold Lake	2.3	2.1	2.9	2.7	4.5	4.4	9.7	9.5	12.7	12.3
Syncrude	4.4	3.7	3.4	3.3	5.1	4.5	5.2	5.2	5.4	5.4
Total crude oil production	22.7	16.5	21.7	16.6	26.3	21.6	32.9	29.7	36.6	33.3
Natural-gas liquids (NGL)	2.1	1.5	2.0	1.5	1.7	1.4	1.9	1.6	2.3	2.0
Total crude oil and NGL production	24.8	18.0	23.7	18.1	28.0	23.0	34.8	31.3	38.9	35.3
Net purchases from others		42.1		39.9		31.8		21.6		21.0
Total purchases and production		60.1		58.0		54.8		52.9		56.3
Total crude oil processed at company refineries (2)		60.1		58.0		54.8		52.9		56.3
Refinery capacity at December 31		66.2		65.8		65.7		66.0		66.3
Refinery utilization as a percentage of total capacity (2)		78		88		83		80		85

Natural gas

	1983		1984		1985		1986		1987	
	gross	net	gross	net	gross	net	gross	net	gross	net
millions of m ³ /d										
Production (1)	6.9	5.2	6.6	4.8	5.5	4.0	5.3	4.3	7.2	5.6
Sales	7.5		7.0		5.8		4.9		5.6	

Coal

Coal	1983	1984	1985	1986	1987
	net	net	net	net	net
millions of tonnes annually					
Production	1.0	1.3	1.0	0.9	0.8

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 production is the company's share of production (excluding purchases) before deducting the shares of mineral owners or governments or both. Net production excludes these shares. Production of natural gas includes amounts subsequently consumed at Cold Lake and in enhanced oil recovery projects.

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

Sales volumes	1983	1984	1985	1986	1987
Petroleum products (1)					
thousands of m ³ /d					
Gasolines	21.9	20.7	21.1	20.6	20.7
Heating, diesel and jet fuels	21.6	22.2	22.7	21.7	23.8
Heavy fuel oils	4.1	3.7	3.4	3.4	3.9
Liquid petroleum gas, lube oils and other products	6.8	6.4	6.9	7.0	7.9
Total petroleum products	54.4	53.0	54.1	52.7	56.3
Total domestic sales of petroleum products (percent)	92.8	91.1	90.4	90.2	91.0

Chemicals

thousands of tonnes per day

Petrochemicals	2.4	1.9	1.9	1.9	2.0
Agricultural chemicals	2.5	3.6	3.5	3.7	4.4

Average sale prices	1983	1984	1985	1986	1987
dollars					
Crude oil and NGL (per m ³)(2)	189.55	192.43	197.48	90.88	113.27
Natural gas (per thousand m ³)	89.47	97.94	91.83	70.29	65.81

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.

Employees	1983	1984	1985	1986	1987
Number at December 31 (3)	14 732	14 331	14 834	12 516	11 627
Total payroll and benefits (millions of dollars)(4)	825	854	914	900	837
Payroll and benefits per employee (dollars)(5)	46 500	49 800	51 800	55 200	56 100

(1) Does not include sales made under purchase and sale agreements with other companies (see note 3 to the audited financial statements).

(2) This is a weighted average of sales prices for conventional and Cold Lake crude oil, and natural-gas liquids.

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

(4) This includes both the company's payroll and benefits as well as its share of the Syncrude joint-venture payroll and benefit costs.

(5) These are calculated by dividing the total payroll and benefits for full-time company employees by the monthly average number of full-time company employees.

Supplemental information

Oil and gas exploration and production activities

millions of dollars	Oil and gas		Syncrude		Total	
	1986	1987	1986	1987	1986	1987
Capitalized costs						
Property costs (1, 2)						
Proved	142	538	—	—	142	538
Unproved	207	313	—	—	207	313
Producing assets	2786	3298	681	689	3467	3987
Support facilities	122	127	—	—	122	127
Incomplete construction	376	430	113	156	489	586
Total capitalized costs	3633	4706	794	845	4427	5551
Accumulated depreciation and amortization	1121	1276	114	138	1235	1414
Net capitalized costs	2512	3430	680	707	3192	4137
Proportional interest in net capitalized costs of Interprovincial Pipe Line Limited (IPL) (3)	272	281	—	—	272	281

Costs incurred

millions of dollars	Oil and gas			Syncrude			Total		
	1985	1986	1987	1985	1986	1987	1985	1986	1987
Property costs (2)	21	4	725	—	—	—	21	4	725
Exploration costs	76	77	56	—	—	—	76	77	56
Development costs	613	255	384	80	65	59	693	320	443
Proportional interest in costs incurred by IPL (3)	—	—	32	—	—	—	—	—	32
Results of operations									
Sales to customers	572	409	571	—	—	—	572	409	571
Intersegment sales	851	558	749	415	241	301	1266	799	1050
Total sales (4)	1423	967	1320	415	241	301	1838	1208	1621
Production expenses	374	400	439	216	198	194	590	598	633
Exploration expenses	79	123	72	—	—	—	79	123	72
Depreciation and amortization	106	122	160	25	28	28	131	150	188
Petroleum and Gas Revenue Tax	106	7	—	19	—	—	125	7	—
Income taxes	308	126	272	55	(9)	17	363	117	289
Results of operations	450	189	377	100	24	62	550	213	439
Proportional interest in results of operations of IPL (3)	—	—	11	—	—	—	—	—	11

(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) The 1987 data reflect the purchase of the assets of Sulpetro Limited and the acquisition of the shares of Sulbath Exploration Ltd., an associated company.

(3) References to IPL on pages 46 to 48 refer to the company's ownership interest in the oil and gas exploration and production

activities of Interprovincial Pipe Line Limited. The 1986 data for costs incurred and results of operations have not been reported, because IPL acquired these oil and gas exploration and production activities (through its acquisition of Home Oil Company Limited) in December 1986.

(4) Sales of crude oil to consolidated affiliates are at market value, using posted field prices. The value of sales of natural-gas liquids to consolidated affiliates is at prices estimated to be obtainable in a competitive, arm's-length transaction. Total sales exclude the sale of natural gas and natural-gas liquids purchased for resale.

Net reserves of crude oil and natural gas (1)

	Crude oil				Natural Gas
	Conventional	Cold Lake millions of m ³	Syncrude	Total	billions of m ³
Net proved developed and undeveloped					
Beginning of year 1985	81.8	62.7	27.3	171.8	36.2
Revisions of previous estimates and improved recovery	1.2	1.0	—	2.2	4.4
Purchase (sale) of reserves in place	(0.1)	—	—	(0.1)	—
Discoveries and extensions	2.1	27.6	12.9	42.6	1.5
Production	(5.1)	(1.6)	(1.7)	(8.4)	(1.5)
End of year 1985	79.9	89.7	38.5	208.1	40.6
Revisions of previous estimates and improved recovery	3.1	11.7	—	14.8	0.8
Purchase (sale) of reserves in place	0.1	—	—	0.1	0.9
Discoveries and extensions	1.5	—	—	1.5	0.7
Production	(6.0)	(3.5)	(1.9)	(11.4)	(1.6)
End of year 1986	78.6	97.9	36.6	213.1	41.4
Revisions of previous estimates and improved recovery	2.2	(7.6)	—	(5.4)	0.5
Purchase (sale) of reserves in place	3.8	—	—	3.8	13.9
Discoveries and extensions	1.2	36.9	—	38.1	0.4
Production	(6.4)	(4.5)	(2.0)	(12.9)	(2.0)
End of year 1987	79.4	122.7	34.6	236.7	54.2
Net proved developed					
End of year 1984	67.9	16.4	27.3	111.6	31.1
End of year 1985	74.5	61.5	34.7	170.7	33.2
End of year 1986	75.1	97.9	32.8	205.8	33.7
End of year 1987	75.7	99.7	30.8	206.2	44.3
Proportional interest in net proved developed and undeveloped reserves of IPL					
End of year 1985	—	—	—	—	—
End of year 1986	3.0	—	—	3.0	4.8
End of year 1987	3.1	—	—	3.1	4.8
Gross proved reserves (1)					
End of year 1984	106.5	75.2	40.4	222.1	51.2
End of year 1985	97.6	109.0	58.0	264.6	54.8
End of year 1986	95.4	118.4	56.1	269.9	55.6
End of year 1987	96.9	150.5	54.1	301.5	72.0

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

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 participating interest in the production permit granted in

Supplemental information

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 eight 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 governments' 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 eight 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 six of the Cold Lake production project have been recognized as proved developed. The 1987 drilling program identified some lower-quality sections of the reservoir in the area associated with the first six stages of the Cold Lake project. Accordingly, proved reserves have been reduced by 7.6 million cubic metres in 1987.

Offsetting this reduction, two revisions were made increasing proved reserves by 36.9 million cubic metres. The first revision is an extension of the Cold Lake stages one to six developed area to take advantage of surplus plant capacity made available through minor plant enhancements. The second is the recognition of proved reserves for stages seven and eight of the project. At the end of 1987, Cold Lake stages seven and eight were considered undeveloped and amounted to 23.0 million cubic metres.

The acquisition of interests in a number of areas has made a significant contribution to proved reserves. Conventional crude-oil reserves increased by 3.8 million cubic metres and natural-gas reserves by 13.9 billion cubic metres. The increase is largely attributable to the purchase of the assets of Sulpetro Limited and the shares of Sulbath Exploration Ltd., an associated company.

Reserve data do not include crude oil and natural gas discovered in the Beaufort Sea/Mackenzie Delta and the Arctic Islands or the reserves contained in the oil sands other than those attributable to Syncrude, the Cold Lake pilot area and stages one to eight of the Cold Lake production project.

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

Oil and gas producing activities

	1985	1986	1987
	millions of dollars		
Present value of estimated future net cash flows discounted at 10 percent			
Future cash flows (a) _____	31862	18301	20738
Future production and development costs _____	(11109)	(10690)	(12409)
Future Petroleum and Gas Revenue Tax (b) _____	(389)	—	—
Future income taxes (c) _____	(9532)	(3650)	(4097)
Future net cash flows _____	10832	3961	4232
Discount of 10 percent for estimated timing of cash flows _____	(5810)	(1933)	(2190)
Discounted future net cash flows _____	5022	2028	2042
Proportional interest in discounted future net cash flows of Interprovincial Pipe Line Limited (IPL) _____	—	182	166

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. 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 of crude oil, including condensate and natural-gas

liquids, and natural gas on December 31 to the estimated future production of proved-oil and natural-gas reserves.

(b) The Petroleum and Gas Revenue Tax was eliminated in 1986.

(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.

Summary of changes in present value of estimated future net cash flows (1)

	1985	1986	1987
	millions of dollars		
Balance at beginning of year —	3248	5022	2028
Changes resulting from:			
Sales and transfers of oil and gas produced, net of production costs	(1163)	(687)	(764)
Net changes in prices, development costs and production costs (2)	(773)	(6498)	(68)
Extensions, discoveries, additions and improved recovery, less related costs (3)	1815	98	567
Previously estimated development costs incurred during the period	688	206	250
Revisions of previous quantity estimates (4)	1	351	(90)
Accretion of discount (5)	325	502	203
Net change in Petroleum and Gas Revenue Tax (6)	1149	342	—
Net change in income taxes (7)	(414)	2593	(169)
Change in production pattern (8)	146	99	85
Net change	<u>1774</u>	<u>(2994)</u>	<u>14</u>
Balance at end of year	5022	2028	2042

(1) The analysis of changes in present value of estimated future net cash flows for 1985 and 1986 has been revised to be consistent with the 1987 analysis.

(2) 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.

(3) 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.

(4) The 1987 decrease was primarily due to a downward revision to Cold Lake stages one to six recovery factors partially offset by an upward revision to various conventional pools.

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

(6) The net change in the Petroleum and Gas Revenue Tax was calculated by applying the tax rate 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 was considered a production tax and was shown as a reduction of net revenues. This tax was eliminated in 1986.

(7) 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.

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

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:

	1983	1984	1985	1986	1987
	millions of dollars				
Earnings as shown in financial statements —	294	520	644	285	745
Increase (decrease) in net earnings due to:					
Capitalized interest (1) —	21	24	10	(4)	(5)
Foreign exchange (2) —	(4)	(19)	(15)	33	11
Pensions — discount rate (5) —	—	—	—	—	8
Subtotal (4) —	311	525	639	314	759
Adjustment for amounts restated under Canadian GAAP —	(4)	13	(10)	—	—
Cumulative effect (3) —	—	—	—	(3)	—
Net earnings according to GAAP in the United States —	307	538	629	311	759

Earnings per share

	dollars				
Under accounting principles of					
Canada —	1.86	3.24	3.97	1.74	4.55
United States —	1.94	3.35	3.88	1.90	4.64
United States — after retroactive application (4) —	1.96	3.27	3.94	1.92	4.64

(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. In 1986, the retirement of a debt issue denominated in U.S. dollars resulted in a foreign-exchange loss under Canadian GAAP, but under the accounting practices of the United States this loss would have been recognized in prior years.

(3) A change in an accounting principle in Canada is to be applied retroactively and data of prior years are to be restated. In

the United States, the cumulative effect of the accounting-principle change on the amount of retained earnings at the beginning of the year in which the change is made is to be included in net income for that year. In 1986, the company changed its method of accounting for inventories of crude oil at refineries and products from the first-in, first-out method (FIFO) to the average-cost method.

(4) This is the pro forma effect of a change in accounting principle as if that change had been applied retroactively.

(5) The Statement of Financial Accounting Standards No. 87, Employer's Accounting for Pensions, requires the use of a current settlement rate in determining the obligations referred to in note 16 to the audited financial statements. The rate used under Canadian GAAP is based on management's best estimate of the future return on the plan assets and results in the obligation under U.S. GAAP being \$300 million lower and earnings being \$8 million higher.

Also required is the recording of a liability and an offsetting intangible asset if the benefit obligation, excluding future service and compensation increases, exceeds the fair market value of the plan assets. The company's surviving-spouse's benefit plan is an unfunded plan. Accordingly, under U.S. GAAP, an amount of approximately \$86 million would be added to assets and liabilities in the consolidated statement of financial position.

Other

Although the following methods of disclosure in the audited 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 audited financial statements, other than the retirement of debentures, 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) The general practice in the United States is to disclose earnings before income taxes and to report only income taxes as a separate item. Because of the tax structure for the Canadian oil and gas industry, the company reports earnings before all taxes and levies, which are then deducted to arrive at earnings from operations in the consolidated statement of earnings.

In December 1987, the Financial Accounting Standards Board issued a new accounting standard which requires an asset and liability approach to accounting and reporting for income taxes. Adoption of the new standard in 1987 would not have materially affected the financial position or earnings of the company.

Share ownership, trading and performance

Imperial Oil Limited

	1983	1984	1985	1986	1987
Share ownership, Class A and B					
Average number outstanding, weighted monthly (thousands) _____	158 472	160 376	162 320	163 611	163 664
Number of shares outstanding at December 31 (thousands) _____	159 590	161 575	163 181	163 646	163 674
Shares held in Canada at December 31 (percent) _____	26.8	26.9	25.3	22.5	21.0
Number of shareholders at December 31 (1)					
Total shareholders _____	41 571	37 237	33 664	31 164	26 118
Registered in Canada _____	<u>36 926</u>	<u>32 995</u>	<u>29 800</u>	<u>27 485</u>	<u>22 805</u>
Shares traded, Class A (thousands) _____	<u>19 516</u>	<u>23 604</u>	<u>24 905</u>	<u>38 899</u>	<u>41 961</u>
Share prices, Class A (dollars)					
High _____	41 ¹ / ₄	45 ¹ / ₂	55	51 ⁷ / ₈	81¹/₂
Low _____	26 ¹ / ₂	33 ⁵ / ₈	39 ⁷ / ₈	34 ³ / ₄	48¹/₄
Close at December 31 _____	<u>37¹/₈</u>	<u>42³/₈</u>	<u>51</u>	<u>51¹/₄</u>	<u>55⁵/₈</u>
Earnings per share (dollars)					
From operations _____	2.12	3.24	4.27	2.69	4.37
After unusual items _____	<u>1.86</u>	<u>3.24</u>	<u>3.97</u>	<u>1.74</u>	<u>4.55</u>
Price/earnings ratio, Class A at December 31 _____	<u>17.5</u>	<u>13.1</u>	<u>11.9</u>	<u>19.1</u>	<u>12.7</u>
Dividends					
Total (millions of dollars) (2) _____	222	233	268	262	270
Per share (dollars) (2)					
Cash _____	1.40	1.45	1.65	1.60	1.65
Stock _____	<u>1.40</u>	<u>1.45</u>	<u>1.65</u>	<u>1.60</u>	<u>1.65</u>

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

(2) Starting in 1985, the fourth-quarter dividend has been paid on January 1 of the succeeding year.

Shareholder composition

	Shareholders of record at Dec. 31, 1987	Registered (percent)		
		Canada	Foreign	Total
Class A _____	25 636	87.5	12.5	100
Class B _____	615	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.

Share ownership, trading and performance

Imperial Oil Limited

Quarterly financial and stock-trading data

	1986				1987			
	three months ended				three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Financial data (millions of dollars)								
Operating revenues	1869	1787	1666	1642	1608	1982	2037	1935
Investment and other income	26	27	22	25	27	26	37	23
Total revenues	1895	1814	1688	1667	1635	2008	2074	1958
Expenses, including income and other taxes	1757	1716	1612	1539	1478	1815	1856	1810
Earnings from operations	138	98	76	128	157	193	218	148
Unusual items	—	(155)	—	—	—	—	—	29
Earnings after unusual items	138	(57)	76	128	157	193	218	177
	1986				1987			
	three months ended				three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Per-share information (dollars)								
Earnings from operations	0.84	0.60	0.46	0.78	0.96	1.18	1.33	0.90
Earnings after unusual items	0.84	(0.34)	0.46	0.78	0.96	1.18	1.33	1.08
Dividends (declared quarterly)	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.45
Share prices (1)								
Toronto Stock Exchange								
High	51 ⁷ / ₈	46 ³ / ₄	47 ³ / ₈	51 ³ / ₄	70 ¹ / ₄	76	81 ¹ / ₂	77
Low	42 ¹ / ₄	37 ⁷ / ₈	34 ³ / ₄	44 ¹ / ₂	50 ¹ / ₄	63 ³ / ₈	71 ¹ / ₂	48 ¹ / ₄
Close	46 ⁷ / ₈	38	45 ⁷ / ₈	51 ¹ / ₄	66	73	75	55 ⁵ / ₈
American Stock Exchange (\$U.S.)								
High	37	33 ⁷ / ₈	34 ¹ / ₄	37 ³ / ₈	53 ³ / ₈	56 ⁷ / ₈	61 ⁵ / ₈	59
Low	29 ¹ / ₄	27	25 ¹ / ₈	32	36 ¹ / ₂	47 ¹ / ₄	54 ¹ / ₄	37
Close	33 ⁵ / ₈	27 ¹ / ₂	33 ¹ / ₄	37 ¹ / ₈	50 ³ / ₄	54 ⁷ / ₈	57 ¹ / ₄	43 ¹ / ₂
Shares traded (thousands)	8534	8363	12584	9418	14760	9078	8337	9786

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

Imperial's 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 the American Stock Exchange. The number of shares traded is based on transactions on all the above exchanges. 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.

Investor information

The company's head office mailing address is

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

For information about shares and dividends

please phone (416) 968-5076.

If you wish to transfer your Imperial Oil shares

you may contact the head office of Imperial Oil or the principal offices of our cotransfer agent, Montreal Trust Company, in St. John's, Charlottetown, Halifax, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver; or the Bank of New York, New York.

If you changed your address

please notify the company in writing and mail the notification to the investor relations division at the above address.

Shareholder and investor inquiries

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 at the above address or telephone (416) 968-8145.

Where Imperial's shares trade

Imperial's shares trade on the Toronto, Montreal and Vancouver stock exchanges as well as on the American Stock Exchange in New York. The symbol on these exchanges for Imperial's Class A shares is IMO A and for its Class B shares, IMO B.

Dividend reinvestment and share purchase plan

The company provides two ways for shareholders to add to their shareholdings at low cost through the dividend reinvestment and share purchase plan. The plan enables shareholders to reinvest their cash dividends in additional Class A shares at an average market price. Shareholders can also invest between \$50 and \$5000 per calendar quarter in additional Class A or Class B shares at an average market price.

The company has the option under the dividend reinvestment and share purchase plan either to issue new shares or to buy existing shares on a stock exchange. The funds are currently used to buy existing shares on a stock exchange.

General summary of tax consequences affecting foreign security holders

Cash dividends paid to shareholders resident in countries with which Canada has an income-tax convention are usually subject to Canadian nonresident withholding tax of 15 percent. The withholding tax is reduced to 10 percent on dividends paid to a resident of the United States who owns at least 10 percent of the voting shares of the corporation. Class B stock dividends paid 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 on debentures issued after June 23, 1975, is not subject to withholding tax. 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. The withholding rate is 25 percent, usually reduced to 15 percent if the recipient is a resident of a country with which Canada has an income-tax convention.

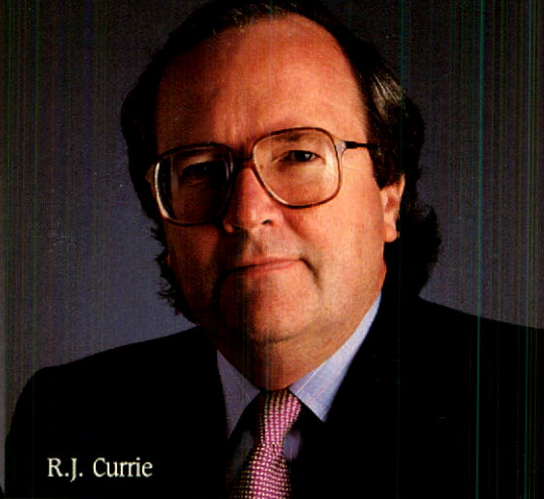
No estate taxes or succession duties are imposed by the government of Canada or provincial governments.

Version française des rapports

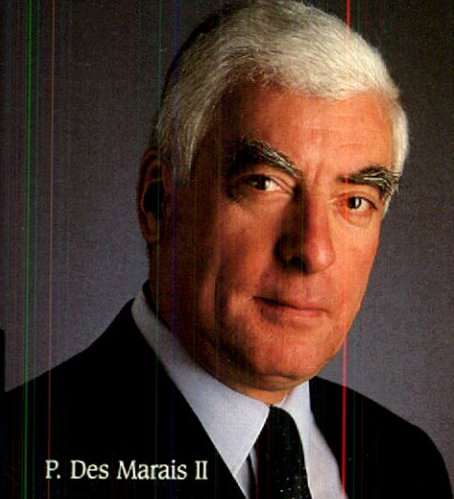
Pour obtenir en français les rapports de la Compagnie Pétrolière Impériale Ltée aux actionnaires, veuillez écrire à la division des Relations avec les investisseurs, Compagnie Pétrolière Impériale Ltée, 111 St. Clair Avenue West, Toronto, Canada M5W 1K3.



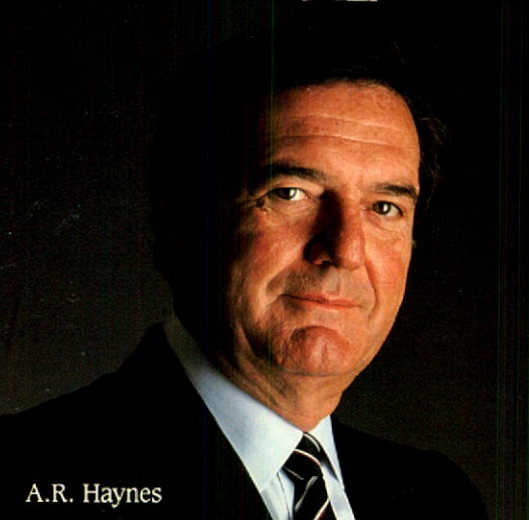
J.B. Buchanan



R.J. Currie

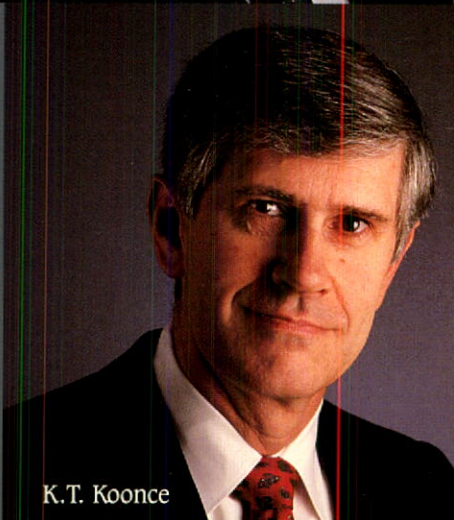


P. Des Marais II

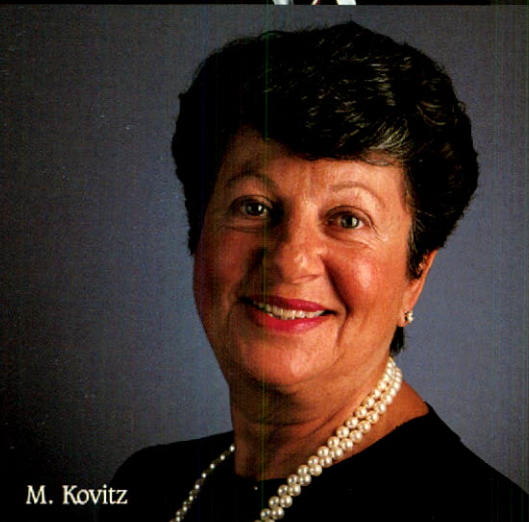


A.R. Haynes

The directors schedule 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 directors are legally required to act. There are 10 directors, and in 1987 their attendance at meetings of directors averaged 93.6 percent.



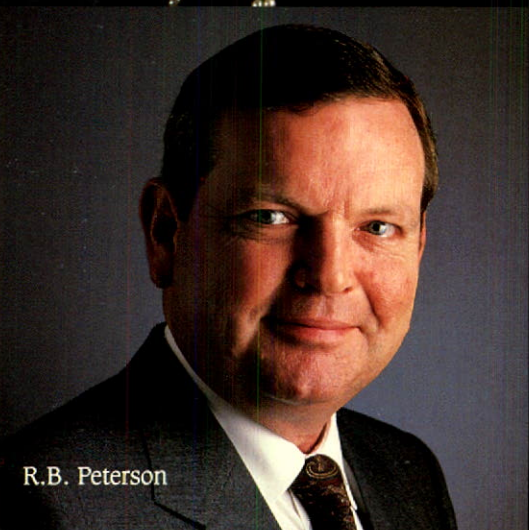
K.T. Koonce



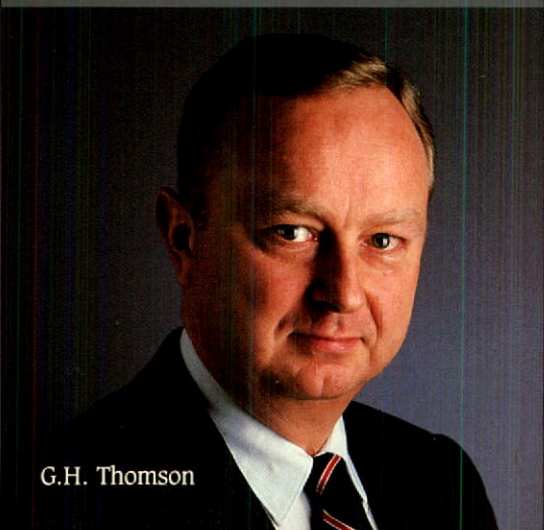
M. Kovitz



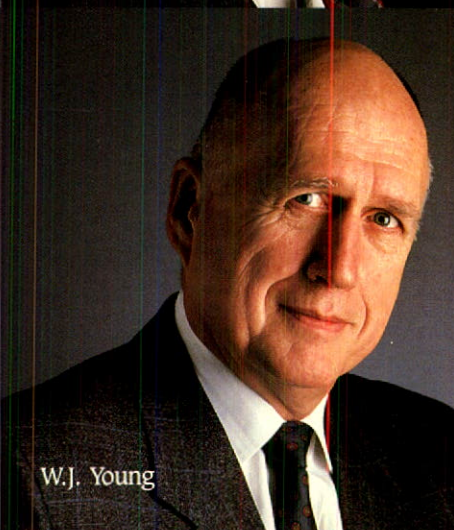
W.A. Macdonald



R.B. Peterson



G.H. Thomson



W.J. Young

The directors

J.B. Buchanan
Vice-chairman
British Columbia Packers Limited
Vancouver, British Columbia

R.J. Currie
President
Loblaw Companies Limited
Toronto, Ontario

P. Des Marais II
President
UNIMEDIA (1988) INC.
Montreal, Quebec

A.R. Haynes
Chairman, president and
chief executive officer
Imperial Oil Limited
Toronto, Ontario

K.T. Koonce (1)
President and chief executive officer
Esso Resources Canada Limited
Calgary, Alberta

M. Kovitz
President
Murko Investments Limited
Calgary, Alberta

W.A. Macdonald
Partner
McMillan, Binch
Toronto, Ontario

R.B. Peterson
Executive vice-president
and chief operating officer
Imperial Oil Limited
Toronto, Ontario

G.H. Thomson
President
Esso Petroleum Canada
Vice-president
Imperial Oil Limited
Toronto, Ontario

W.J. Young
Executive vice-president and
chief financial officer
Imperial Oil Limited
Toronto, Ontario

(1) Succeeded, January 31, 1988,
by W.R.K. Innes
President
Esso Chemical Canada
Vice-president
Imperial Oil Limited
Toronto, Ontario

Committees of directors

Meetings of committees are usually scheduled on the same day as meetings of directors. Attendance at all committee meetings in 1987 averaged 86.6 percent.

Audit committee W.A. Macdonald, *chairman*

The committee, composed of the five nonemployee 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 seven times in 1987.

Contributions committee M. Kovitz, *chairman*

The committee, composed of the five nonemployee directors and Mr. Young, examines policies and programs related to the contribution program and recommends an annual budget for adoption by the 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 four times in 1987.

Executive resources committee P. Des Marais II, *chairman*

The committee, composed of the five nonemployee directors and Mr. Haynes, is responsible for decisions on the compensation of senior management above the vice-president level and for reviewing the executive development system, including specific succession plans for senior management positions. It also reviews policy on corporate compensation. The committee met once in 1987.

Nominations committee A.R. Haynes, *chairman*

The committee, composed of the five nonemployee directors and Mr. Haynes, recommends to the 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 1987.

Senior management

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.R.K. Innes

President, Esso Chemical Canada

Vice-president, Imperial Oil Limited

K.T. Koonce (1)

President and chief executive officer

Esso Resources Canada Limited

G.H. Thomson

President, Esso Petroleum Canada

Vice-president, Imperial Oil Limited

A.F. Gomm (2)

Vice-president, operations planning and coordination

R.E. Landry

Vice-president

P.J. Levins

Vice-president, human resources

R.J. Michaelides

Vice-president, public affairs, and general secretary

W.P. Moher

Vice-president, organization

G.L. Munro

Vice-president, information systems and technology

A.L. Peterson

Vice-president, general services

C.C. Tatkon

Vice-president and treasurer

R.C. Walker

Vice-president and general counsel

A.B. Waugh

Vice-president, tax

W.D. West

Vice-president and comptroller

(1) Succeeded by D.D. Baldwin, January 31, 1988

(2) Succeeded by P.J. Dingle, January 1, 1988



Imperial Oil has been contributing to Canada's economic growth for more than a century. It serves its many shareholders, employees, customers, suppliers, the communities in which it operates and the general public through the responsible and efficient development of the country's natural resources and by providing quality and value in its products and services, primarily under the Esso brand.

The company maintains the highest standards of integrity in all its business practices. It pursues technical innovation and product development through one of the country's largest research programs, with \$53 million being spent on research and development in Canada in 1987.

It regards the protection of the environment as a key responsibility, and company policy is to expect that its activities be carried out with minimum disruption of the environment. In 1987 the company spent \$28 million on facilities and equipment to protect the environment.

Imperial maintains an ongoing contribution program aimed at enhancing the quality of Canadian life through the support of education, health, welfare, community services, sport and culture. The company is among the largest corporate contributors to such causes, with 1987 donations totaling \$6.8 million.

To maximize the benefit of its activities to the country's economy, Imperial pursues an active program to identify and support Canadian suppliers. In 1987 more than 80 percent of the goods and services it purchased came from Canadian sources.

