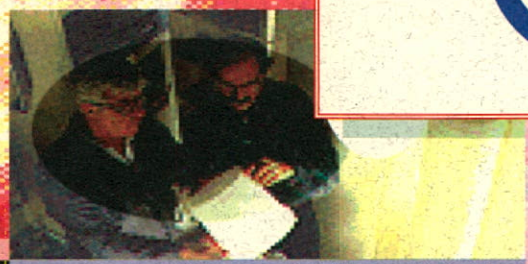
Imperial Oil

Esso



Chemicals

Products

Resources

ESSO

Annual Report to Shareholders 1991

Imperial Oil Limited

COMPANY PROFILE

Imperial Oil Limited, one of Canada's largest corporations, has been a leading member of the country's petroleum industry for more than a century. Its mission is to create shareholder value through the development and sale of hydrocarbon energy and related products. Imperial is the country's largest producer of crude oil and third-largest producer of natural gas. It is also the largest refiner and marketer of petroleum products – sold primarily under the Esso brand – with a coast-to-coast supply network. As well, the company is a major supplier of petrochemicals and fertilizers.

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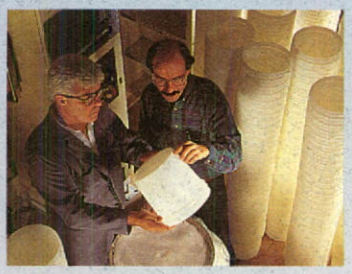


HIGHLIGHTS

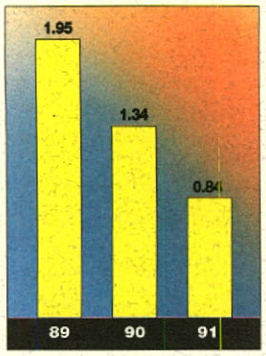
Falling product demand and lower resource prices lent new urgency to Imperial's cost-cutting measures as 1991 progressed. Debt-reduction targets were met, and a cash reserve was established. Toward year-end, a major change in corporate organization was launched.

FINANCIAL HIGHLIGHTS (1)

	1991	*1990*	*1989*
Net earnings (millions of dollars)	162	256	350
Cash provided from operating activities	833	692	830
Capital and exploration expenditures	574	668	6199
Return on average capital employed (percent)	2.3	3.5	4.8
Return on average shareholders' equity	2.4	3.7	5.7
Total debt as a percentage of capital	28.1	31.0	38.2
Per-share information (dollars)			
Net earnings	0.84	1.34	1.95
Cash provided from operating activities	4.31	3.63	4.63
Dividends	1.80	1.80	1.80

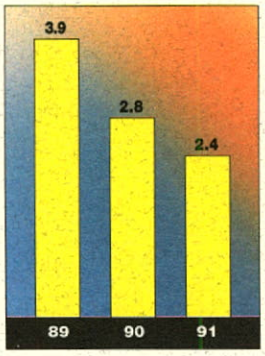
(1) EARNINGS RESTATED: At the end of 1991, the company changed to the last-in, first-out (LIFO) method of inventory valuation and adopted new Canadian accounting guidelines for site-restoration costs. Additional information is contained in note 1 to the consolidated financial statements.

EARNINGS PER SHARE
(dollars)



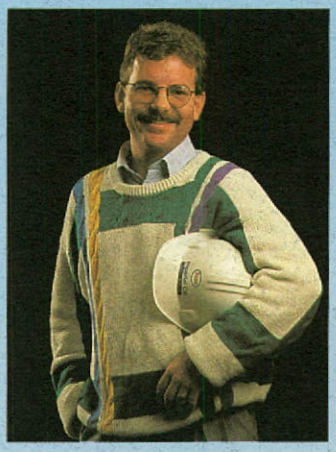
Weak markets and lower oil prices caused earnings to fall to unacceptable levels.

DEBT
(billions of dollars)



During the third quarter, the company reached its debt target of $2.4 billion.

The leading edge



For Imperial employees across Canada, the dominant theme of 1991 was expense reduction and efficiency improvement. For Gary Bunio, a quality engineer in the Red Deer, Alta., office of the resources group, a major project was finding ways to cut the amount of time between when oil is discovered and when it's produced. By reducing the number of steps in the development process, says Bunio, his group has been able to cut development time in half and development costs by one third. Features on other employees with leading-edge ideas begin on page 7.

DECISIVE RESPONSES *to a* DIFFICULT YEAR

"The elements of the business that lay within our control, such as cost containment, were effectively managed, but these were more than offset by a combination of unfavorable external forces"

Arden R. Haynes
Chairman and chief executive officer

Beyond question, 1991 turned out to be a dismal year for Canada's oil industry, and your company suffered accordingly. In some respects we had the most difficult year in memory, if not in our entire history. The elements of the business that lay within our control, such as cost containment, were effectively managed, but these were more than offset by a combination of unfavorable external forces.

Historically, poor results in one segment of our business have generally been offset by better results in another, but this was not the case in 1991. The continuing recession affected virtually all areas of our operations, as it did nearly every sector of the North American economy.

The petroleum-product segment of our business was the hardest hit. Demand for gasoline and other fuels fell dramatically, exacerbating the problem of refinery overcapacity and leading to severe competition for volume and market share among refiners. In many instances the resulting pressure on prices made it impossible to recover costs in the marketplace. Markets for petrochemical and agricultural-chemical products also remained weak, putting additional pressure on sales and profit margins in this part of our business.

It also turned out to be a difficult year for our natural-resource operations. As was to be expected, crude-oil prices declined from 1990, when they reached unusually high levels as a result of the crisis in the Persian Gulf. Prices for natural gas suffered very severely because of continuing oversupply and, indeed, reached their lowest level since 1975. And while the Syncrude plant had a very good operating year, our heavy-oil operations at Cold Lake, Alta., fared badly as a result of the substantially lower prices for heavy oil that prevailed most of the year.

These disappointing operating results were masked somewhat by our company's adoption of a different method of inventory valuation and by the gains realized from asset sales. On the whole, however, it was a year we would prefer to forget.

Despite the discouraging external circumstances, we can look back on some notable internal accomplishments, guided by the same strategies we have pursued for several years: to maintain our financial flexibility; to sustain our inventory of investment opportunities; and to maximize the value of our core assets through cost-reduction and productivity improvement.

The drive to reduce costs produced measurable results, with payroll expenses declining from the previous year as people left the organization. Total staff reductions in 1991 amounted to about 2,800, or 19 percent. Our program of improving our asset inventory by selling nonstrategic assets at satisfactory prices continued, despite an overloaded market.

The year also saw us meet the commitments regarding debt reduction that we outlined in detail in previous annual reports. Our cash generation remained strong, providing us with a year-end cash balance of more than $280 million. Thus our financial strength and flexibility was restored in 1991, despite its being a devastating year for profits caused by factors over which we had little control.

DEMAND AND PRICES WILL REMAIN WEAK

The current trends to oversupply and low prices in our business are likely to persist for some time, and it would be unrealistic to look for any sudden turnaround. So far as the immediate future is concerned, we see few indications at this time of any substantial improvement in the external environment. For a number of reasons, 1992 and the years immediately following are likely to be difficult ones for Canada's oil industry.

First, as we all know, the economic recession has proved to be more

"We can look back on some notable internal accomplishments, guided by the strategies we have pursued for several years: to maintain our financial flexibility; to sustain our inventory of investment opportunities; and to maximize the value of our core assets through cost-reduction and productivity improvement"

"While efforts in the past to reduce costs have been effective, it is obvious that the business outlook we now anticipate requires step changes within the corporation to meet the challenges of the future"

persistent than expected, and recovery is likely to be slow. Under such circumstances petroleum demand will likely remain weak, and continued pressure can be expected on prices for petroleum products. International crude-oil prices are also likely to remain weak – and will perhaps weaken further – as a result of increased Middle East supply as production from Kuwait and Iraq is resumed. Prices for natural gas, at least in the near term, will continue to suffer from oversupply. And much the same situation exists in the chemical business.

While efforts in the past to reduce costs have been effective, it is obvious that the business outlook we now anticipate requires step changes within the corporation to meet the challenges of the future. Early in 1992 I announced a number of sweeping operational and organizational changes designed to meet these challenges.

In response to the declining market for petroleum products we intend to close about 1,000 of our 4,600 service stations and sales and distribution terminals over the next several years and to increase the productivity of the remaining ones. We also plan to respond to the oversupply that currently exists in petroleum products by reducing our refining capacity. To survive in this environment each of our refineries will have to rank among the most cost-competitive in North America.

We have also made a major shift in the management of our former freestanding operations – Esso Chemical Canada, Esso Petroleum Canada and Esso Resources Canada Limited – which have been reorganized as divisions of Imperial. The previous organization, established more than a decade ago, was designed to take maximum advantage of growth opportunities. We believe that the new structure, focused on the fundamentals of cost efficiency, is more suited to the realities of the current competitive marketplace. Corporate support functions for these divisions will be centralized at corporate headquarters. These moves will reduce our work force by another 1,700 employees.

The company also intends to withdraw progressively from activities that are either unprofitable or unlikely to provide an adequate return or that are not strategic to our main operations. In our chemical portfolio, for example, most of our future efforts will be focused on our core petrochemical business. At this time we do not see our polyvinyl chloride and fertilizer operations fitting into this category.

GROWTH IS STILL THE GOAL

Your management is convinced that these prompt and decisive changes are necessary to restore the company's operating profitability and to ensure its ongoing strength in the face of changing market conditions. Historically, our company has always been organized for growth, and that remains a long-term objective. At the same time, our continued success will depend on how effectively we adapt to the external environment. This is likely to be characterized by, on the one hand, a further reduction in North American demand for petroleum products because of efficiency and conservation measures and, on the other, a continuing oversupply of crude

oil on international markets and of natural-gas supplies in North America. This combination of negative factors makes it timely for us as a company to review both the way in which we are organized and the scope of our business.

The changes we have implemented do not indicate any change in our company's strategic objectives or a modification of our mission. Rather, they represent a tactical response to market conditions.

In the immediate future these changes will return the company to acceptable levels of profitability. Over a somewhat longer term our circumstances are bound to improve as the economy recovers, bringing some restoration of demand for petroleum products and an expected increase in prices and profit margins. At that time, our company will be better geared to capture the benefits of future opportunities because of the actions we have taken in the recent past. And the long-term opportunities, represented by our large reserve base and strong assets, hold considerable promise for the future.

Never before in our company's history have we been as trim and efficient as we are today. Increasingly, our drive to eliminate unnecessary or low-value work and improve productivity in every corner of our operations is showing up on the bottom line. When our current plans have been implemented, staff levels will be around what they were immediately following the Second World War. The intervening period has, of course, been one of immense growth for our company, including such landmarks as the discovery of the Leduc oil field in 1947, the development of the producing industry in western Canada and, most recently, the Texaco Canada acquisition.

DIFFICULT TIME FOR EMPLOYEES

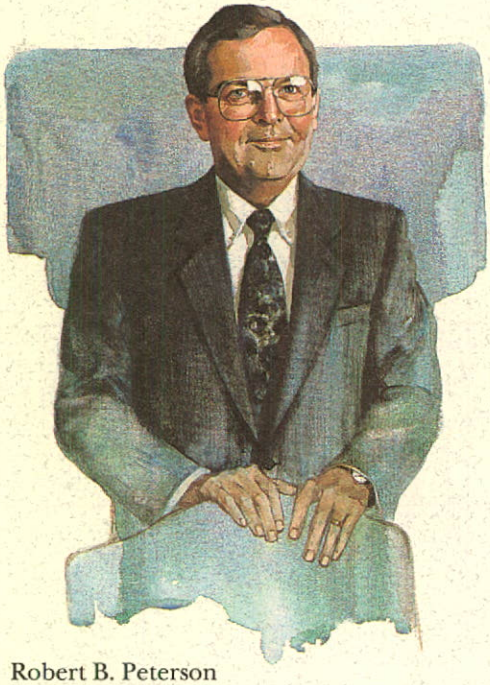
The past couple of years have been a particularly difficult time for Imperial employees. Even though most employees who left in 1991 did so voluntarily to take advantage of enhanced early-retirement and other incentive programs, it is impossible to avoid totally the disruptions such measures entail. The many actions your management has been forced to take in response to a difficult environment – from reduced staffing levels to salary constraints – have also had an impact on the company's remaining employees. Despite this, they have continued to make an outstanding contribution, and I would like to take this opportunity to thank them for their efforts on behalf of all our shareholders.

Arden R. Haynes

February 20, 1992

"Never before in our company's history have we been as trim and efficient as we are today. Increasingly, our drive to eliminate unnecessary or low-value work and improve productivity in every corner of our operations is showing up on the bottom line"

ECONOMIC SLUMP *affects* MARKETS, ALL OPERATIONS



Robert B. Peterson
President and chief operating officer

Poor economic conditions affected all areas of Imperial's operations in 1991. Demand for petroleum products fell sharply, and price competition intensified in all market segments. Crude-oil and natural-gas prices declined from last year, and petroleum and chemical markets remained weak. In the face of these difficulties, the company continued implementing wide-reaching programs to improve products and services while reducing costs and improving productivity.

Earnings from operations, excluding unusual gains and losses, were $90 million, compared with restated earnings of $285 million in 1990 (1989 – $317 million).

Under the accounting policies used in the previous year, 1991 operating results, excluding unusual gains and losses, would have been reported as a loss of $36 million, compared with a profit of $522 million in 1990 (1989 – a profit of $423 million).

Imperial's net earnings, including unusual gains and losses, were $162 million, compared with $256 million in 1990 (1989 – $350 million). The unusual gains and losses in 1991 included asset sales and work-force reduction, which contributed $72 million to the year's net earnings, compared with a loss of $29 million in 1990 (1989 – a gain of $33 million).

Discussion of earnings by business segment begins on page 8.

Also included in net earnings are corporate and other accounts, which recorded a charge of $240 million in 1991, compared with a restated charge of $157 million in 1990 (1989 – a charge of $195 million). A major component in both years was corporate-interest expense. In 1991 there was an after-tax charge of $77 million for work-force reduction. In the previous year the

company realized an after-tax gain of $208 million from the sale of its interest in Interhome Energy Inc. This gain was offset by an after-tax charge of $215 million for work-force reduction.

The company spent $90 million on research and development in Canada in 1991, down from $95 million the previous year (1989 – $82 million). Efforts focused on developing new products and technologies to strengthen the company's competitive position.

Imperial remained committed to the health and safety of its employees and the public, and to environmental protection in all parts of its business. Details about the company's wide range of environment, health and safety initiatives begin on page 22.

EARNINGS SUMMARY

millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
Earnings (loss) before reporting changes and unusual items	**(36)**	522	423	501	717
Reporting changes					
Inventory valuation	**173**	(209)	(54)	84	(21)
Site restoration	**(47)**	(28)	(52)	(12)	(8)
Restated earnings from operations before unusual items	**90**	285	317	573	688
Unusual items	**72**	(29)	33	–	29
Net earnings	**162**	256	350	573	717

SEGMENTED EARNINGS

Natural resources	**277**	431	326	143	424
Petroleum products	**123**	(42)	139	315	135
Chemicals	**2**	24	80	104	37
Corporate and other	**(240)**	(157)	(195)	11	121
Net earnings	**162**	256	350	573	717

EARNINGS SENSITIVITIES *after tax*

Each (U.S.) $1-a-barrel change in crude-oil prices	± $ 70 million
Each $0.10-a-thousand-cubic-feet change in natural-gas prices	± $ 12 million
Each one-cent difference in sales margins a litre of petroleum product	± $ 110 million
Each one-cent decrease (increase) in the value of the Canadian $ vs. the U.S. $	+ (-) $ 15 million

EMPLOYEES

	1991	*1990*	*1989*	*1988*	*1987*
Number of full-time employees at December 31	**11936**	14702	15248	12161	11627
Total payroll and benefits (millions of dollars) (1)	**1196**	1206	1094	901	837
Payroll and benefits per employee (thousands of dollars) (2)	**76.3**	68.5	63.5	63.7	57.6

(1) This includes both the company's payroll and benefit costs as well as its share of the Syncrude joint-venture payroll and benefit costs. It excludes work-force reduction costs.

(2) 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.

The leading edge

When Imperial employees want to know what jobs are available throughout the company and how to be considered for those that interest them, they turn to a reference guide created by Judy Whalen, a human-resources assistant working in career-development planning. She tested a computer-software program for the company by producing the complete reference guide – text, charts and graphic illustration – at her personal computer. It was a tremendous learning experience, says Whalen, who knows her effort was well worth it every time an employee tells her the guide is just great.

LOW PRICES *curtail* NATURAL RESOURCE EARNINGS

The Syncrude oil-sands plant near Fort McMurray, Alta., achieved record production of 165 thousand barrels a day – a total of 60 million barrels in 1991. Imperial holds a 25-percent share in the operation.

Earnings from natural resources were $277 million in 1991, compared with restated earnings of $431 million for the previous year (1989 – $326 million).

These results include the after-tax effect of unusual gains and losses, notably a $149-million gain from asset sales in 1991, compared with a $32-million loss in 1990, when gains of $116 million from asset sales were more than offset by asset write-downs of $148 million (in 1989 the gain from divestments was $33 million).

Revenues were $2.2 billion, down from $3 billion in 1990 (1989 – $2.6 billion). The reasons for the revenue decline were lower prices for and reduced production of both crude oil and natural gas.

World crude-oil prices – which determine crude-oil prices in Canada –

FINANCIAL STATISTICS

millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
Earnings	277	431	326	143	424
Revenues	2244	2955	2639	1881	2163
Capital and exploration expenditures					
Exploration	120	111	314	122	66
Production	200	232	3570	680	978
Heavy oil	59	51	63	282	180
Coal and other	–	5	16	23	16
Total capital and exploration expenditures	379	399	3963	1107	1240
Capital employed at December 31	7042	7458	8315	5138	4312
Return on average capital employed (percent)	3.8	5.5	4.2	3.0	10.8

dropped in early 1991 with the resolution of the Persian Gulf war. The price of North Sea Brent crude oil, a widely followed world benchmark, averaged about (U.S.) $20 in 1991, compared with (U.S.) $23.50 in 1990.

WORLD OIL PRICE DOWN 15 PERCENT

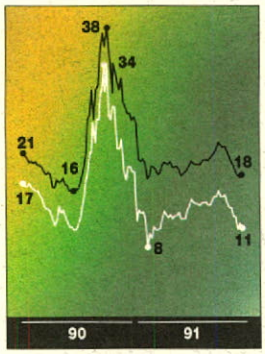
Prices for Canadian heavy crude oil weakened even more than light crude-oil prices in 1991, because of both international and regional market conditions. World heavy crude-oil prices declined disproportionately, because of a surplus of heavy crude oil in the wake of the Persian Gulf crisis. In North America, a surplus of heavy oil in traditional regional markets also contributed to weaker selling prices.

In 1991 the company's average realization on sales of crude oil and natural-gas liquids (NGLs) was down about 20 percent.

Imperial's results are very sensitive to changes in crude-oil prices. As a general rule, every (U.S.) $1-a-barrel increase in average crude-oil prices over a year improves the company's earnings by about $70 million. The other major variable is the exchange rate. For every one-cent reduction in the Canadian

CRUDE OIL AND NGLs

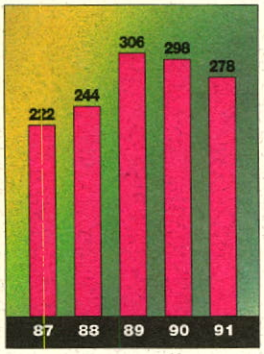
PRICES
(U.S. dollars a barrel)



● Light crude oil (Brent)
○ Heavy crude oil (Bow River-Bantry)

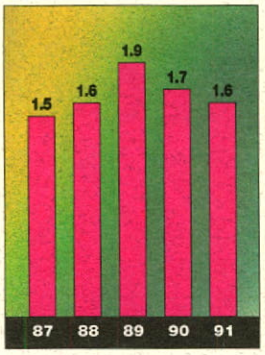
World oil prices were highly volatile during the Gulf crisis but remained relatively stable at lower levels in 1991.

NET PRODUCTION
(thousands of barrels a day)



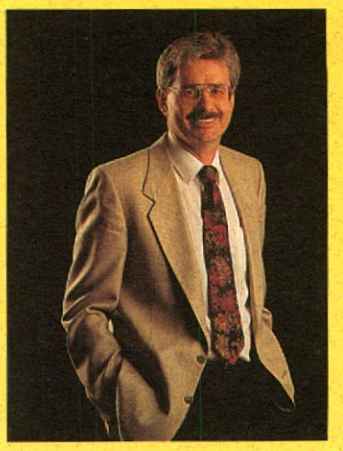
Crude-oil and natural-gas-liquid production fell by about seven percent because of natural reservoir decline and property sales.

NET PROVED RESERVES
(billions of barrels)



Reserves fell mainly because production was not replaced by discoveries.

The leading edge



Bill-paying home owners may sympathize with Richard Gallant, an electric-utilities specialist with the resources division in Calgary who is looking for ways to cut back on the company's $100-million annual electricity bill (75 percent of which is spent in the resource area). By promoting electrical conservation internally, forging new external partnerships with electrical-utility companies, and participating in regulatory reviews, Gallant saved close to $10 million in 1991– enough to offset inflation and utility-rate increases.

The leading edge

For Laureen Ingram and the team she leads in the reprographics and printing group in Calgary, cutting costs has meant doing and learning a variety of jobs – from photography to running a printing press. Being able to perform a number of tasks allows the group to supply work at lower cost, she says, and having an in-house service is also more convenient for their internal clients.

dollar versus its U.S. counterpart, earnings increase by about $15 million.

Natural-gas prices were at their lowest level in more than a decade, reflecting a continuing excess supply in North American markets. The company received an average selling price of $1.38 a thousand cubic feet in 1991, down from $1.55 a thousand cubic feet in 1990.

The company's net production of crude oil and NGLs was 278 thousand barrels a day in 1991, compared with 298 thousand barrels a day in 1990 (1989 – 306 thousand barrels a day.)

Net production of conventional oil declined to 124 thousand barrels a day in 1991 from 148 thousand barrels a day in 1990. The main reasons for the reduction were a natural decline in reservoir productivity, which is averaging about seven percent a year, and divestment of oil-producing properties. Properties divested in 1991 had net production of 12 thousand barrels a day and account for a reduction of about four thousand barrels a day in overall 1991 net production.

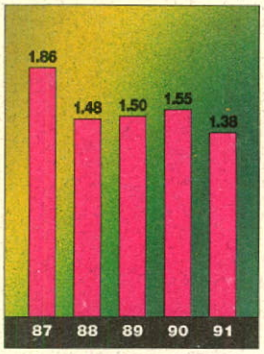
Average net production of Cold Lake bitumen was 75 thousand barrels a day, down from 85 thousand barrels a day the previous year (1989 – 85 thousand barrels a day). In the fourth quarter, production was reduced to 61 thousand barrels a day as higher-cost wells were shut in because of weak demand and lower prices. Production was further reduced when a major testing and repair program of eastbound oil pipelines limited the amount of oil shipped.

The company has decided to delay starting up phases 7 and 8 of Cold Lake until prices and market conditions are more favorable. The company expects markets for Canadian heavy oils to improve in the latter half of 1992, as new upgrading and refining capacity in Canada and the United States, designed to use heavy oil, begins operating.

The Syncrude oil-sands plant had an excellent operating year, achieving record annual output of 60 million barrels (165 thousand barrels a day). Imperial's share of production was 41 thousand barrels a day, up from 39 thousand barrels a day the previous year (1989 – 37 thousand barrels a day).

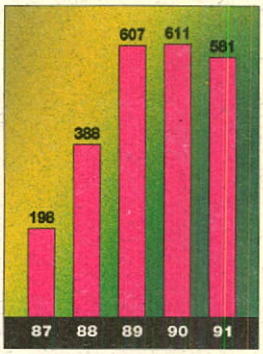
NATURAL GAS

AVERAGE PRICES
(dollars a thousand cubic feet)



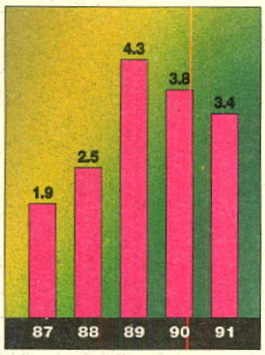
Gas prices fell to their lowest level in more than a decade because of North American oversupply.

SALES
(millions of cubic feet a day)



Poor markets prompted the company to forgo gas sales and shut in production.

NET PROVED RESERVES
(trillions of cubic feet)



The sale of producing properties was the main reason for the decline in gas reserves.

CRUDE OIL AND NGLs *thousands of barrels a day* (1,2)	*1991*		*1990*		*1989*		*1988*		*1987*	
	gross	*net*	*gross*	*net*	*gross*	*net*	*gross*	*net*	*gross*	*net*
Crude-oil production										
Conventional	159	124	184	148	192	159	121	105	117	98
Cold Lake	79	75	88	85	88	85	91	88	80	77
Syncrude	41	41	39	39	37	37	38	38	34	34
Total crude-oil production	279	240	311	272	317	281	250	231	231	209
NGLs available for sale	39	38	31	26	30	25	17	13	14	13
Total crude-oil and NGL production	318	278	342	298	347	306	267	244	245	222
Cold Lake sales including diluent		110		120		119		134		103
NATURAL GAS *millions of cubic feet a day* (1,2)										
Production (3)	641	550	639	537	643	534	399	316	246	191
Production available for sale (4)	445	365	498	397	498	389	272	189	233	177
Sales	581		611		607		388		198	
COAL *millions of tons annually*										
Net production		1.2		1.6		1.7		1.1		0.9

AVERAGE PRICES *dollars*	*1991*	*1990*	*1989*	*1988*	*1987*
Conventional crude-oil sales (a barrel) (5)	21.15	25.12	19.40	15.74	21.30
Natural-gas sales (a thousand cubic feet) (5)	1.38	1.55	1.50	1.48	1.86
Par crude-oil price at Edmonton (a barrel)	23.42	27.64	22.18	18.70	24.36
Alberta natural-gas market price (a thousand cubic feet) (5)	1.36	1.55	1.53	1.56	–

(1) Volumes a day are calculated by dividing total volumes (including Texaco Canada from February 24, 1989) for the year by the number of days in the year.
(2) Gross production is the company's share of production (excluding purchases) before deducting the shares of mineral owners or governments or both. Net production excludes those shares.
(3) Production of natural gas includes amounts used for internal consumption with the exception of amounts reinjected.
(4) Production available for sale excludes amounts used for internal consumption and amounts reinjected.
(5) These prices exclude all transportation costs.

Imperial's earnings from Syncrude operations declined to $33 million, compared with $61 million in 1990 (1989 – $16 million). The reduction in earnings was the result of lower oil prices.

Net production of natural gas available for sale was 365 million cubic feet a day in 1991, down from 397 million cubic feet a day the previous year (1989 – 389 million cubic feet a day). Total natural-gas sales from available production and purchases for resale were 581 million cubic feet a day in 1991, compared with 611 million cubic feet a day in 1990 (1989 – 607 million cubic feet a day). Under current market conditions, management strategy is to forgo sales and shut in production where prices are unsatisfactory.

RING BORDER PROJECT BEGINS PRODUCTION

In October the Ring Border natural-gas project, which covers an area of more than 1,000 square kilometres straddling the Alberta-British Columbia

The leading edge

Ron Quaife and Bear make a great team. Quaife, a senior environmental scientist in the resources group, invented a special non-toxic substance named Tekscent that can be injected into pipelines. Bear, a specially trained Labrador retriever, is able to sniff out the Tekscent to detect small pipeline leaks that even the most sophisticated equipment can't locate. Using dogs helps find leaks early, says Quaife, and is at least 50-percent cheaper than any competing technology. Bear and his colleagues have been unleashed on more than 60 jobs in Canada and the United States. Their track record to date is perfect.

The leading edge

Senior business systems adviser Margaret Gardiner led a team that eliminated duplication by integrating two separately developed databases, each containing partial information on the company's oil and gas leases and land contracts, into one improved system. The consolidation reduced personnel and maintenance expenses, but that's not all. Now the company has better data for the more than 300 people who use the system, says Gardiner, as well as a better system for managing the data.

border, began production of natural gas and NGLs. The company holds a 30-percent interest and has invested about $30 million in the project. The company's share of net production averaged 20 million cubic feet of natural gas an operating day and 300 barrels a day of NGLs.

Total operating expenses in natural resources were down by six percent. As part of cost cutting, in 1991 the number of employees in the resources division was reduced by about 1,500. In addition, the company continued to improve its mix of assets by divesting oil- and gas-producing properties. Proceeds were about $350 million, essentially the same as in the previous year.

Total capital and exploration expenditures were $379 million, compared with $399 million in 1990 (1989 – $3,963 million). Apart from the Ring Border project, capital expenditures focused mainly on modifications to existing facilities and on enhanced oil recovery. About $325 million in capital and exploration expenditures are planned for 1992, with the same focus.

The company's exploration expenditures in 1991 were $120 million, with activity focused on the western Canada basin, where the company participated in 39 exploratory wells.

In recent years, the company's exploration strategy has been based on the assessment that there are few remaining large undiscovered reservoirs of conventional oil in western Canada. As a result, it has concentrated on gas exploration and has sought to replace production of liquid hydrocarbons through heavy-oil development.

GAS OUTLOOK WEAK FOR NEXT SEVERAL YEARS

However, markets and prices for natural gas are expected to remain weak for several years. For that reason the company has reduced its exploration effort, focusing only on carefully selected areas with the potential to yield sizable, low-cost reserves.

At the end of 1991 Imperial's net proved reserves of crude oil and NGLs were 1,606 million barrels, a reduction of 137 million barrels from the end of 1990, or about eight percent. The main reasons for the reduction were production of 101 million barrels and sales of oil-producing properties, representing 26 million barrels, or about two percent, of net proved reserves.

Net proved reserves of natural gas at the end of 1991 were 3.4 trillion cubic feet, down about 11 percent from 3.8 trillion cubic feet at the beginning of the year. The main reasons for

PROVED RESERVES OF CRUDE OIL AND NATURAL GAS (1)

	Crude oil and NGLs millions of barrels								*Natural gas billions of cubic feet*	
	Conventional		*Cold Lake*		*Syncrude*		*Total*			
Year ended	*gross*	*net*	*gross*	*net*	*gross*	*net*	*gross*	*net*	*gross*	*net*
1987	609	500	947	772	340	217	1896	1489	2543	1914
1988	567	473	910	828	472	330	1949	1631	3113	2478
1989	930	784	876	795	458	315	2264	1894	5087	4258
1990	855	680	847	766	439	297	2141	1743	4730	3827
1991	**743**	**585**	**818**	**738**	**424**	**283**	**1985**	**1606**	**4184**	**3396**

(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.

The company's Norman Wells oil field, on the banks of the Mackenzie River 150 kilometres south of the Arctic Circle, was the company's largest single source of conventional-oil production in 1991, with a daily output of more than 10 percent of the company's net production.

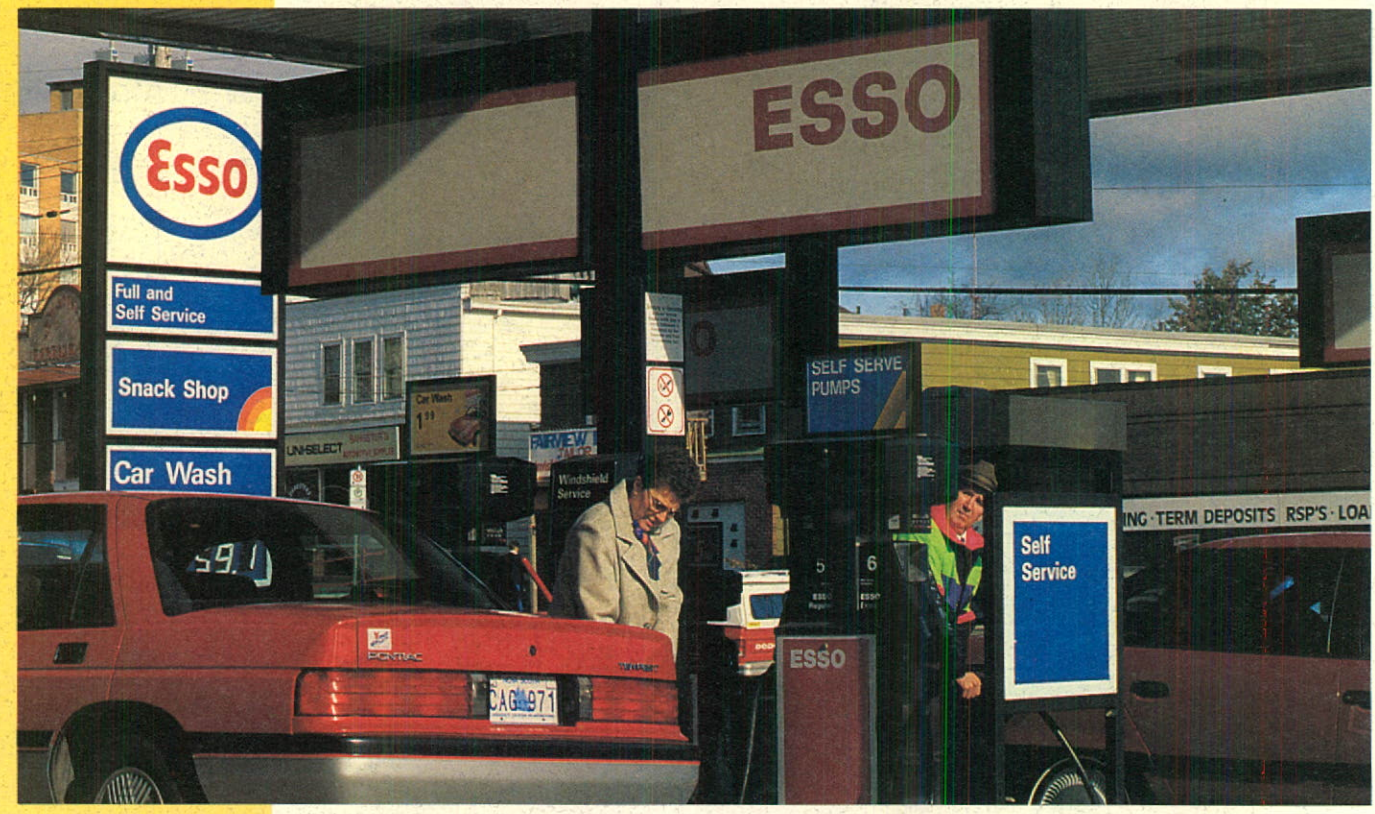
the reduction were the sale of natural-gas properties representing reserves of 251 billion cubic feet and net production of 201 billion cubic feet, which more than offset additions from discoveries of 38 billion cubic feet. Included in the sale of properties were interests in northeastern British Columbia representing 180 billion cubic feet of reserves.

Under an agreement with the governments of Alberta and Canada, engineering work was completed by year-end on the proposed OSLO oil-sands joint venture, in which Imperial holds a 25-percent interest. This project is now on hold until business conditions augur more favorably for development of this high-quality Athabasca oil-sands resource.

BITUMEN UPGRADER BEING STUDIED

During the year the company began evaluating options for increasing its processing of heavy oil, including the long-term commercial viability of building an upgrader to convert bitumen to light crude oil or other refinery feedstocks. This work will carry on in 1992.

LESS DEMAND, *declining* PRICES FOR PRODUCTS



In August Fairview Esso in Halifax became the first station in Nova Scotia to provide self-serve gasoline pumps. Previously, provincial laws had prohibited self-serve operations at stations in Nova Scotia. The laws were changed earlier in the year, and there are now 10 Esso stations providing a combination of self-serve and full-service pumps throughout the province.

Earnings from the petroleum-product segment were $123 million in 1991, compared with a restated loss of $42 million the previous year (1989 – a profit of $139 million).

The 1990 loss, as restated under the LIFO method of inventory valuation, primarily reflects the company's inability to recover through the sale of its products the higher cost of crude oil purchased in the second half of the year during the Persian Gulf crisis. The 1991 profit was recorded mostly in the first quarter of the year, when crude-oil costs fell more rapidly than product prices.

FINANCIAL STATISTICS					
millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
Earnings	123	(42)	139	315	135
Revenues	8031	9758	8414	5684	6241
Capital expenditures					
Marketing	89	103	1369	115	96
Refining	63	89	766	64	67
Total capital expenditures	152	192	2135	179	163
Capital employed at December 31	3727	3998	3954	1914	1766
Return on average capital employed (percent)	3.2	(1.1)	3.8	17.1	7.8
SALES VOLUMES *millions of litres a day* (1,2)					
Gasolines	31.2	32.1	31.9	19.5	20.5
Heating, diesel and jet fuels	26.7	29.1	31.1	23.7	24.0
Heavy fuel oils	7.3	9.7	8.6	5.2	4.0
Liquid petroleum gas, lube oils and other products	9.6	10.5	11.1	8.2	8.3
Total petroleum products	74.8	81.4	82.7	56.6	56.8
Total domestic sales of petroleum products (percent)	89.0	92.9	92.8	90.7	91.0
CRUDE-OIL UTILIZATION *millions of litres a day* (2)					
Total crude-oil and NGL net production	44.2	47.5	48.7	38.8	35.3
Net purchases from others	24.5	30.1	29.0	17.1	21.0
Total crude oil processed at company refineries	68.7	77.6	77.7	55.9	56.3
Refinery capacity at December 31	83.9	83.1	86.3	66.2	66.3
Refinery utilization as a percentage of total capacity	82	91	93	84	85

(1) Excludes sales made under purchase and sale agreements with other companies (see page 32, revenues).
(2) Volumes a day are calculated by dividing total volumes (including those from Texaco Canada from February 24, 1989) for the year by the number of days in the year.
One thousand litres is equal to approximately 6.3 barrels.

The reported results are significantly different than they would have been under the previous method of inventory valuation. Under that method the operating loss would have been attributed to 1991, when most of these high crude-oil costs would have been reported. The result would have been a 1991 loss of $100 million, compared with 1990 earnings of $208 million.

The large swing in earnings resulting from events in the Persian Gulf obscured the steady deterioration in the business climate for petroleum products that has occurred over the past two years.

Total Canadian sales of petroleum products dropped about six percent in 1991, bringing the total reduction since the start of the recession in 1990 to

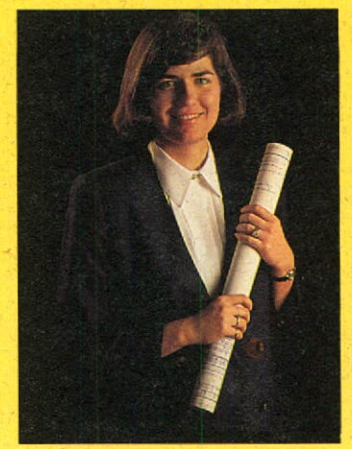
FALLING DEMAND LOWERS PRICES

about nine percent. As demand fell, an increasing surplus of refining capacity sparked intense competition and lowered selling prices in the marketplace.

In 1991 petroleum-product revenues were $8 billion, down from $9.8 billion in 1990 (1989 – $8.4 billion). The lower revenue reflects the combination of declining sales volumes and prices.

The company's sales volumes of petroleum products, at 74.8 million litres a day, were down eight percent from 81.4 million litres a day the previous year (1989 – 82.7 million litres a day). About a quarter of the decline resulted from the merger-related divestment of a refinery in Nova Scotia,

The leading edge



Helen Noehammer, a process design engineer in the refining and distribution area, thought preliminary design specifications could be simplified and still convey the information and cost estimates the company needs to assess whether a project goes ahead. She successfully put her theory into practice on a project to upgrade water handling at the Sarnia refining operations and is sharing the guidelines she developed with other engineering colleagues. Some projects will require elaborate specifications from the outset, says Noehammer, but for those that don't, simpler initial planning can avoid a lot of duplicated effort.

The leading edge

Gary Crawford, Bob Heath and Jim Parkinson (left to right) are among the "change leaders" at the company's Sarnia refinery who are working to move the plant into the top-efficiency ranks of North American refineries. These three are concentrating on changing work practices and on work redesign. Employees are becoming more flexible, says Parkinson, taking on different skills.

Near Beiseker, Alta., cattle rancher Joey Ternes unloads a 20-litre pail of Esso hydraulic fluid that can be returned for recycling to local Esso agent Barry Tetz. The new pail-recycling program could result in about a thousand tonnes of plastic being recycled rather than discarded.

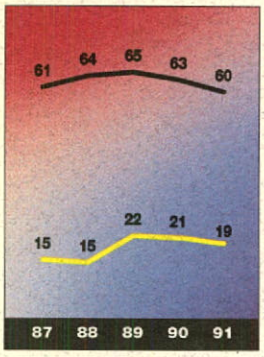
as well as distribution terminals and service stations throughout Canada.

Excluding the effect of divestments, 1991 sales volumes of gasoline, home-heating oil and diesel and jet fuels declined by about three percent; sales volumes of Esso brand gasoline fell by seven percent; and sales volumes of heavy fuel oil dropped by 23 percent, reflecting reduced demand from utility companies in Ontario and Quebec.

The outlook for petroleum products is for continuing flat-to-declining demand. In such an environment there will be continued downward pressure on prices, which is a critical issue in a business where a change of one cent a litre can translate into a change of $200 million in annual revenues.

To cope with this adverse business climate the company is withdrawing from unprofitable areas of business and

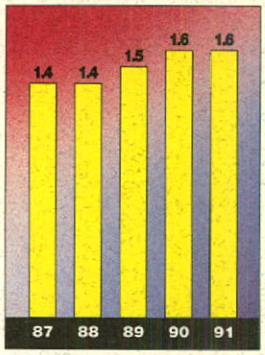
GASOLINE, HEATING, DIESEL AND JET FUEL SALES VOLUMES
(billions of litres)



— Total Canada
— Imperial domestic sales

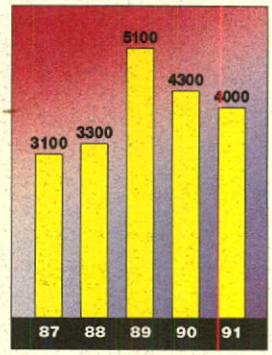
Imperial's share of the Canadian market for high-value products was 32 percent, down from the previous year.

BRANDED SERVICE-STATION THROUGHPUT
(millions of litres)



Despite falling gasoline sales, the company maintained its service-station productivity.

BRANDED AUTOMOTIVE RETAIL OUTLETS



A continued reduction in the number of Esso retail outlets is aimed at improving the efficiency of the company's marketing network.

concentrating on improving its overall cost structure to be competitive in a smaller marketplace.

Cost-reduction initiatives included eliminating duplication and low-value work and reducing staff. By year-end more than 1,000 employees had left the products division, and there was a significant reduction in contracted and overtime work. The full effect of these improvements is expected to be realized over the next two years.

Enhanced efficiency from restructuring the post-merger organization means the products division is now operating a business that is about a third bigger by volume with about the same staffing levels it had before the merger. And by eliminating low-volume and other marginal sites, Imperial has been able to maintain service-station productivity at an average of about 1.6 million litres sold per Esso station, despite declining demand for gasoline.

TAKING CARE OF CUSTOMERS

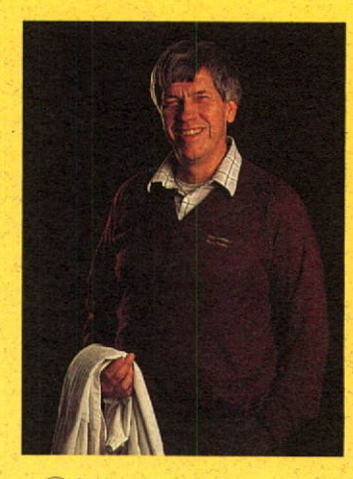
But some things don't change, and attention to customers tops the list. In 1991 the company revamped its Esso-brand positioning to build on the many strengths of its retail network to attract more customers. The "You're On Your Way With Esso" advertising campaign that began in mid-1990 has increased consumer awareness of the brand by 15 percent. In 1991 other services and consumer goods, such as automatic banking services and convenience foods, were offered at selected retail sites to accommodate a growing market of commuter shoppers.

A number of new Esso products and services were introduced during the year to meet customer expectations of quality and environmental protection.

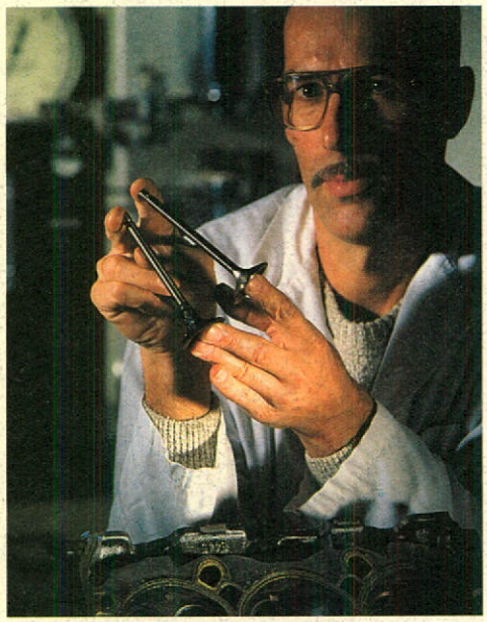
For example, all grades of Esso gasolines now contain IVC-400, an additive that enhances drivability

The company reaffirmed its commitment to the Quebec market when it moved into the new Tour Esso in Anjou, an eastern suburb of Montreal. Supervisor Christine Oneson and translator Dany Ginter are part of a small linguistic services group that annually translates thousands of documents – ranging from company publications such as this annual report to technical specification sheets – so that customers, shareholders, employees and other stakeholders can obtain information in the official language of their choice.

The leading edge



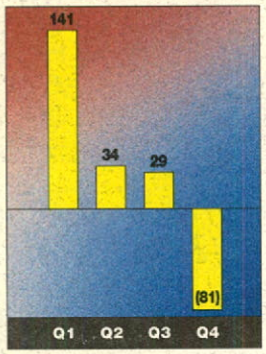
Sherman Parr received an excellence award from the company for implementing a new system of gas delivery to the Sarnia research laboratory. Parr, a research technologist, and his colleagues in the gas chromatograph lab, figured out a way to extend a pipeline to enable tanker trailers to deliver in bulk the gases used in lab work. The new system means employees no longer spend as much as an hour handling and hooking up replacement cylinders, whose contents were under pressures of up to 2,000 pounds each. And that, says Parr, not only saves time and money but makes their workplace safer.



A new detergent additive found in all grades of Esso gasoline helps keep intake valves – such as these held by technologist Joe Anjema – clean, preventing deposits that can cause poor starting, uneven or abrupt acceleration and excessive exhaust emissions.

by keeping engine intake valves cleaner. New heavy-duty diesel oils and hydraulic fluids that are manufactured from more than 50 percent re-refined oil were added to the Entech product line of engine oils.

1991 PETROLEUM-PRODUCT EARNINGS
(millions of dollars)



Product earnings fell steadily during the year, as falling demand intensified competition.

Reformulated gasoline that helps reduce summer smog was sold in the Greater Vancouver area for the second year, and vapor-recovery systems were installed at major distribution terminals there and in Toronto. These systems capture and recycle gasoline vapors normally released to the atmosphere during the transfer of products.

The products division also set up a system to collect and recycle 20-litre plastic pails used in packaging products such as lubricating oils and hydraulic fluids. Ways are now being sought to increase the amount of recycled resin in these pails – working closely with the chemicals division for technical support – as well as to collect and recycle smaller containers.

Proposed legislation to further reduce the environmental impact of petroleum products is expected to have a major influence on their manufacture and sale in Canada. For example, potential regulatory changes in the formulations of diesel fuels and gasoline could require Imperial to invest an additional $500 million over the next five to eight years in new refining and other facilities to meet new standards. The company does not believe that the costs it is facing are proportionately higher than those of its competitors.

Capital expenditures were $152 million in 1991, down from $192 million in 1990 (1989 – $2,135 million). They were directed mainly at sustaining existing facilities and included $35 million for environmental protection. About $180 million in capital expenditures are planned in 1992, of which $40 million will be for environmental protection.

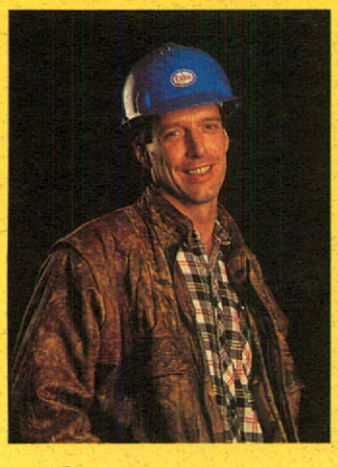
POOR MARKETS *offset* CHEMICAL PRODUCTION GAINS

Ken Dupuis (left) and Carlos Mota of the polyethylene technology group inspect prototype industrial plastic pails made from raw material the company supplies to manufacturers. In its Sarnia laboratory, the chemical division simulates the pail-manufacturing process to test the end product for quality and durability.

Earnings from the chemicals segment were $2 million in 1991, down from a restated $24 million the previous year (1989 – $80 million). Under the previous inventory valuation method, chemical operations would have recorded a loss of $5 million in 1991, compared with a profit of $28 million the previous year (1989 – $80 million).

In 1991 chemical revenues were $865 million, down from $915 million the previous year (1989 – $960 million). The decline was mainly the result of

The leading edge



In the chemical division, traditional work barriers are tumbling down as 16 process operators in the Sarnia Paramins unit put the team back into teamwork. The group has redesigned the way it works so that everybody knows how to do everybody else's job. The pay off, says group member Denis McNeil, comes from knowing the business better, feeling you really belong to it and being able to respond more effectively to customers.

lower prices for petrochemicals, which were only partly offset by increased sales volumes for polyvinyl chloride (PVC).

Sales volumes of the company's main petrochemical product, polyethylene, were about the same as last year. However, selling prices fell by about 30 percent, reflecting a surplus of worldwide production capacity during a period when overall demand declined.

In 1991 PVC sales and production volumes increased by about 40 percent as a result of expanded capacity. Reduced industry demand for PVC – particularly as the downturn continued in the construction and automotive industries – lowered prices by about 20 percent and offset much of the gain resulting from increased sales volumes.

Agricultural-chemical revenues were essentially unchanged despite about a 10-percent decline in demand for fertilizer in western Canada. The company was able to offset reduced sales in this market with increased sales volumes at stronger prices in other markets.

Operating expenses rose about three percent during the year, largely because of increased expenditures for plant maintenance in agricultural chemicals. The company continued cost-reduction programs, eliminating low-value work and improving unit-cost performance by debottlenecking existing facilities. By year-end the staff level had been reduced by about eight percent.

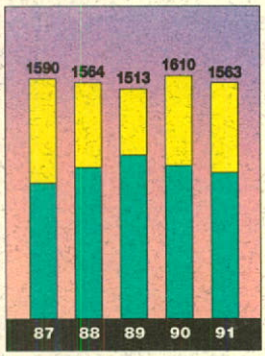
A concentrated focus on customers and product quality continued throughout the year, with many of the chemical business lines getting ready to meet new quality-certification requirements set by the International Standards Organization. New-product development has focused on environmental issues, product quality and customer needs.

The company's polyethylene business strategy is to move toward a narrower product slate that focuses on manufacturing resins used to make molded plastic products, such as pails and toys. During the year the company continued to investigate the extent to

POLYETHYLENE PRICE
(thousands of dollars a tonne)

Polyethylene prices fell 30 percent in 1991, reflecting a worldwide capacity surplus and declining demand.

FERTILIZER SALES
(thousands of tonnes)



Other markets
Western Canada

Reduced fertilizer sales in western Canada were offset by increased sales in other markets.

FINANCIAL STATISTICS					
millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
Earnings	**2**	24	80	104	37
Revenues	**865**	915	960	990	832
Capital expenditures	**26**	42	50	32	22
Capital employed at December 31	**842**	851	809	827	885
Return on average capital employed (percent)	**0.2**	2.9	9.8	12.1	4.1
SALES VOLUMES *thousands of tonnes a day*					
Petrochemicals	**2.4**	2.2	2.1	2.1	2.0
Agricultural chemicals	**4.3**	4.4	4.1	4.3	4.4

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

At Esso Ag Biologicals' research greenhouse on the University of Saskatchewan campus in Saskatoon, agronomist Kent Craig and research technician Beth Campbell are testing hundreds of strains of naturally occurring bacteria to pinpoint the ones that will allow more young cucumber plants to survive to maturity by fighting off fungus that attacks plant roots. These biological-disease controls help the environment by reducing the need for chemical fungicides.

which more recycled plastics could be incorporated into these products. The company is well positioned to benefit from improved market conditions and from greater access to large American markets that will result from falling tariffs.

In the fertilizer business, developmental work progressed on controlled-release fertilizer and biological products, both of which help plants use nutrients more effectively. These technologies have the added benefit of reducing the amount of unused nutrients that can remain in groundwater.

Capital expenditures in the chemicals division were $26 million in 1991, compared with $42 million in 1990 (1989 – $50 million). Expenditures in 1992 are expected to be about $35 million.

ENVIRONMENT, HEALTH *and* SAFETY HIGHLIGHTS

A newly installed system at Imperial's Finch Avenue terminal in north Toronto captures vapors that would otherwise escape to the atmosphere and contribute to urban smog. Driver Bryan Ford attaches the hose that will carry the vapor to a central recovery system, where it will be remixed with fuel. The company has spent $7 million to install vapor-recovery systems at its Finch terminal (Canada's largest) and its Lougheed terminal, near Vancouver, as well as to retrofit many of its tanker trucks and service stations to prevent vapor escape when fuel is transferred.

At Imperial, broad environmental, health and safety policies set the standard for excellence throughout the company, and these are backed-up by the organization and resources to see them implemented. The company's policies are reviewed by a committee of directors that also monitors the results of work carried out by 250 environment, health and safety personnel employed in company operations. The company's commitment to the health and safety of its employees and the public, and to environmental protection was demonstrated in numerous activities throughout the year, some of which are highlighted below.

- About $70 million was spent in 1991 on facilities and equipment to protect the environment.
- More than 650 environmental-compliance reviews were completed at all major plants and facilities, identifying actions required to ensure the company meets its own rigorous standards as well as government regulations.
- More than 800 employees have been trained extensively in emergency response. In 1991 two major crisis simulations were completed to test preparedness within the company.
- 348 underground fuel-storage tanks were replaced or upgraded in 1991. Since 1986, 1,500 tanks have been replaced or upgraded at service stations and other facilities, at a cost of $100 million.
- 130 surplus sites were restored for sale for non-petroleum uses. Since 1988 the company has cleaned up 300 sites as part of a 10- to 15-year program to restore more than 900 surplus sites currently owned or controlled by the company.

Chemical-division employees took part in training sessions when the industry-sponsored TransCAER safety train traveled to communities across the country, teaching safe loading and handling of chemical products.

- 200 surplus oil and gas wells were decommissioned as part of a 10-year, $60-million program that will see more than 3,000 wells safely taken out of service.
- $7 million was spent to improve air quality by recovering gasoline vapors from two major distribution terminals and more than 300 service stations in the Toronto and Vancouver areas.
- Reduced-emission gasolines were sold for the second year in the Vancouver area to help reduce locally created smog.
- New products included reformulated gasoline that helps keep engine intake valves clean to promote efficient combustion, "Entech" hydraulic and motor oils made from re-refined lubricants, and improved solvents for use by paint and adhesives manufacturers.

More than 800 employees have been trained extensively in emergency response. In 1991 two major crisis simulations were completed to test preparedness within the company

Employees and contractors in agricultural chemicals set an unprecedented company record of more than 1.5 million work hours without a recordable injury of any type

Imperial has a deep commitment to risk-reduction and emergency-response capability. It participates in five marine response cooperatives from coast to coast, including Pier Atlantic Limited, an oil-spill cooperative that opened in September in Dartmouth, N.S. Employees of Pier Atlantic are shown here in a simulated response situation, deploying part of the cooperative's more than $2 million in specialized equipment, which can handle spills of up to 10 thousand barrels.

- Employees and contractors in agricultural chemicals set an unprecedented company record of more than 1.5 million work hours without a recordable injury of any type.
- A recycling program for 20-litre plastic pails was started to increase the amount of Esso lubricant packaging that is reusable or recyclable.
- The company completed an inventory of its "greenhouse" gas emissions and continued studying ways to reduce them.
- $600,000 was contributed to environmental organizations and university research projects, including $250,000 pledged over five years to support a University of Alberta program in safety engineering and loss management, and $75,000 pledged over three years to sponsor a community-based environmental donations program called Alberta Ecotrust.

On January 1, 1992, the company implemented a new alcohol and drug policy to ensure that our ability to operate safely is not impaired by substance abuse in the workplace.

As well, the company continued extensive consultations with all levels of government and media on global warming and air-quality issues such as smog, furthering the company's commitment to contribute to sound public policy.

R B Peterson

FINANCIAL TARGETS MET *despite* POOR EARNINGS

R.A. Brenneman
Senior vice-president and chief financial officer

In keeping with a long-standing priority to maintain financial flexibility, Imperial ended 1991 with its balance sheet in excellent shape, despite the poor economic and business climate. Debt-reduction targets were met, and a cash reserve of more than $280 million was established.

As a result, the company has the financial strength and flexibility to withstand recessionary conditions and to take the necessary steps to restructure for future growth in earnings and return on capital employed.

The financial highlight of 1991 occurred in the third quarter, when the company's debt level reached $2.4 billion. That amount, plus guarantees to third parties (i.e., total debt), now accounts for less than 30 percent of the company's total capital structure. In conjunction with the cash reserve, it's a debt level that the company considers prudent and that is comparable with debt levels of Imperial's leading North American competitors.

As overall debt was reduced, the components were restructured to obtain the most favorable interest rates. By far the largest single component of the company's long-term debt is U.S.-dollar variable-rate notes. In August

"The company has the financial strength and flexibility to withstand recessionary conditions and to take the necessary steps to restructure for future growth in earnings and return on capital employed"

By reducing both debt and interest rates, Imperial lowered debt-related interest expense from $341 million, before tax, in 1990 to $203 million in 1991"

$225 million of that debt was refinanced to lock in low long-term rates. During 1991 the average interest rate paid on the company's debt was 7.6 percent, compared with nine percent the previous year.

By reducing both debt and interest rates, Imperial lowered debt-related interest expense from $341 million, before tax, in 1990 to $203 million in 1991. That reduction in interest expense allowed the company to maintain interest coverage at 2.2 times, despite the deterioration in earnings. Interest coverage on a cash-flow basis, which the company believes is a more appropriate measure of debt-handling ability, actually improved to 8.8 times in 1991, from 4.6 times in 1990.

INTEREST EXPENSE REDUCED

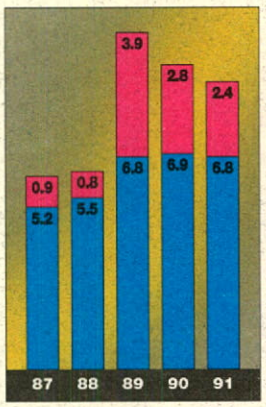
Another development in 1991 was the company's decision to change to the last-in, first-out (LIFO) method of inventory valuation for financial reporting purposes. The specific impacts of this change on the company's earnings and balance sheet in 1991 and prior years are described in the review of operations and in note 1 to the financial statements.

The change to LIFO will provide investors with a more consistent basis for comparing Imperial's results with those of other major North American oil companies, most of which use this method of inventory valuation.

The company's cash provided from operating activities was $833 million in 1991, compared with $692 million in 1990 (1989 – $830 million). The improvement resulted mainly from a reduction in the amount of capital required to finance accounts receivable, as crude-oil and product prices fell from the previous year, and to finance inventories, which were reduced from the previous year.

Dividends paid were $347 million, compared with $342 million the previous year (1989 – $309 million).

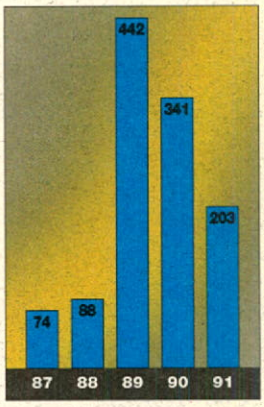
DEBT AND SHAREHOLDERS EQUITY
(billions of dollars)



Debt
Shareholders' equity

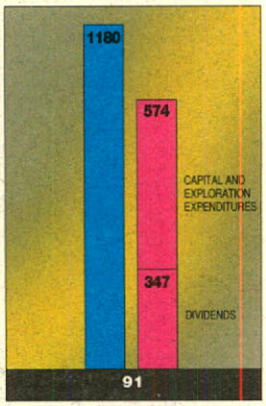
Debt has now fallen to a level the company considers prudent.

DEBT-RELATED INTEREST EXPENSE
(millions of dollars)



Debt reduction and restructuring have caused interest expense to fall by more than 50 percent since 1989.

CASH FLOWS
(millions of dollars)



Inflows
Outflows

The cash inflows from earnings and from changes in operating assets and liabilities more than covered dividends and capital spending.

FINANCIAL PERCENTAGES AND RATIOS (1)

	1991	*1990*	*1989*
Total debt as a percentage of capital (2)	**28.1**	31.0	38.2
Interest-coverage ratios			
Earnings basis	**2.2**	2.3	2.2
Cash-flow basis	**8.8**	4.6	4.7

(1) For definitions see page 33.
(2) Total debt includes guarantees relating to third-party debt.

DIVIDENDS REMAINED AT $1.80 A SHARE

The company's dividend payment remained constant at $1.80 a share for 1991. The growth in the total amount paid resulted from an increase in the number of shares outstanding. That increase resulted from the issuance of new treasury shares during the first half of the year to participants in the dividend reinvestment and share purchase plan.

Following the second-quarter dividend payment of 1991, the dividend reinvestment and share purchase plan was modified, because the company was approaching its target capital structure and thus did not need any more infusions of equity capital. Starting with the dividend payment on October 1, 1991, shareholders enrolled in the plan began receiving existing shares purchased on a stock exchange, rather than new treasury shares issued by the company.

A major use of cash was for capital and exploration expenditures, which totaled $574 million in 1991, compared with $668 million in 1990 (1989 – $6.2 billion, which included the purchase of Texaco Canada).

Imperial's planned 1992 capital and exploration expenditures are $635 million. The company expects to pay for its 1992 capital and exploration program entirely from internal sources.

Despite poor returns in 1991, the dedication to building and maintaining a strong financial position has left Imperial well positioned to cope ably with current recessionary conditions.

With a strong balance sheet and healthy reserve of cash, the company can continue to meet its commitments to shareholders and at the same time can proceed quickly with the major asset restructuring that is needed to ensure growth in cash flow and return on capital employed in the years to come.

"The dedication to building and maintaining a strong financial position has left Imperial well positioned to cope ably with current recessionary conditions"

R.H. Brannon

CONSOLIDATED STATEMENT OF EARNINGS (a)

For the years ended December 31

millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
REVENUES					
Operating revenues	**9 180**	11 226	10 007	7 105	7 559
Interest and investment income	**62**	72	97	100	113
TOTAL REVENUES (2)	**9 242**	11 298	10 104	7 205	7 672
EXPENSES					
Exploration	**89**	94	129	123	77
Purchases of crude oil and products	**3 448**	4 269	3 476	2 370	2 930
Operating	**3 296**	3 302	3 074	2 271	2 130
Commodity and other taxes (10)	**1 042**	1 758	1 619	964	989
Depreciation and depletion	**833**	884	815	462	392
Interest (14)	**230**	345	457	102	83
TOTAL EXPENSES	**8 938**	10 652	9 570	6 292	6 601
UNUSUAL ITEMS (2,3)	**(31)**	(210)	22	–	38
EARNINGS BEFORE INCOME TAXES	**273**	436	556	913	1 109
INCOME TAXES (9)	**111**	180	206	340	392
NET EARNINGS	**162**	256	350	573	717
PER-SHARE INFORMATION (dollars)					
Net earnings (13)	**0.84**	1.34	1.95	3.50	4.38
Dividends	**1.80**	1.80	1.80	1.80	1.65

(a) Prior periods have been restated to reflect the reporting changes described in note 1.

The notes referred to on this and the following two pages are found in the notes to the consolidated financial statements, pages 34 to 40.

The summary of significant accounting policies and glossary of terms are found on pages 32 and 33.

CONSOLIDATED STATEMENT OF CASH FLOWS (a)

For the years ended December 31

millions of dollars inflow (outflow)	*1991*	*1990*	*1989*	*1988*	*1987*
OPERATING ACTIVITIES					
Cash flow provided from earnings (4)	**993**	673	1 206	1 320	1 185
Change in operating assets and liabilities (5)	**187**	361	(67)	(45)	(22)
Dividends paid	**(347)**	(342)	(309)	(293)	(260)
CASH PROVIDED FROM OPERATING ACTIVITIES	**833**	692	830	982	903
INVESTING ACTIVITIES					
Payments for capital and exploration expenditures	**(574)**	(678)	(871)	(976)	(741)
Payments for acquisitions (b)	**–**	–	(4 815)	(410)	(671)
Proceeds from sale of property, plant and equipment and other long-term assets	**410**	1 003	170	17	159
Short-term investments – net	**(5)**	–	94	91	20
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES	**(169)**	325	(5 422)	(1 278)	(1 233)
FINANCING ACTIVITIES					
Long-term debt issued	**228**	–	3 006	34	216
Repayment of long-term debt	**(410)**	(1 278)	(32)	(30)	(30)
Short-term debt – net	**(241)**	176	103	(17)	37
Common shares issued (13)	**111**	119	1 319	-	-
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES	**(312)**	(983)	4 396	(13)	223
INCREASE (DECREASE) IN CASH	**352**	34	(196)	(309)	(107)
CASH AT BEGINNING OF YEAR	**(66)**	(100)	96	405	512
CASH AT END OF YEAR	**286**	(66)	(100)	96	405

(a) Prior periods have been restated to reflect the reporting changes described in note 1.

(b) Payments for acquisitions represent the amounts paid in 1989 for Texaco Canada Inc.; in 1988 for certain assets of United Canso Oil & Gas Ltd. and Ocelot Industries Ltd.; and in 1987 for the assets of Sulpetro Limited. Minor acquisitions that are part of the ongoing business are included in the line "payments for capital and exploration expenditures".

CONSOLIDATED BALANCE SHEET (a)

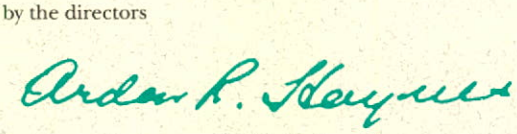
As at December 31

millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
ASSETS					
Current assets					
Cash	**286**	–	–	96	405
Marketable securities at cost	**7**	2	2	28	116
Accounts receivable	**1 052**	1 411	1 055	796	791
Inventories of crude oil and products (17)	**604**	801	785	399	467
Materials, supplies and prepaid expenses	**178**	189	182	149	144
Income taxes recoverable	–	–	–	71	13
Total current assets	**2 127**	2 403	2 024	1 539	1 936
Investments and other long-term assets	**245**	296	523	364	368
Property, plant and equipment (2)	**10 760**	11 378	12 206	7 494	6 720
Goodwill	**400**	432	478	10	10
TOTAL ASSETS	**13 532**	14 509	15 231	9 407	9 034
LIABILITIES					
Current liabilities					
Outstanding cheques, less cash	–	66	100	–	–
Short-term debt	**58**	299	123	20	37
Accounts payable and accrued liabilities (16)	**1 471**	1 655	1 397	923	1 005
Income taxes payable	**110**	421	27	–	–
Total current liabilities	**1 639**	2 441	1 647	943	1 042
Long-term debt (7)	**2 325**	2 526	3 817	805	823
Other long-term obligations (6)	**1 079**	992	827	618	568
Commitments and contingent liabilities (8)					
TOTAL LIABILITIES	**5 043**	5 959	6 291	2 366	2 433
DEFERRED INCOME TAXES	**1 699**	1 685	2 107	1 556	1 396
SHAREHOLDERS' EQUITY					
Common shares (13)	**2 977**	2 866	2 746	1 426	1 424
Net earnings retained and used in the business					
At beginning of year as restated	**3 999**	4 087	4 059	3 781	3 334
Net earnings for the year	**162**	256	350	573	717
Dividends	**(348)**	(344)	(322)	(295)	(270)
At end of year	**3 813**	3 999	4 087	4 059	3 781
TOTAL SHAREHOLDERS' EQUITY	**6 790**	6 865	6 833	5 485	5 205
TOTAL LIABILITIES, DEFERRED INCOME TAXES AND SHAREHOLDERS' EQUITY	**13 532**	14 509	15 231	9 407	9 034

(a) Prior periods have been restated to reflect the reporting changes described in note 1.

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

Approved by the directors



Chairman and chief executive officer

Senior vice-president and chief financial officer

MANAGEMENT REPORT

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

Management has developed and maintains an extensive system of internal control that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the company's operating and financial results and that the company's assets are safeguarded. The company's internal audit department reviews and evaluates the adequacy of and compliance with the company's internal controls. As well, it is the policy of the company to maintain the highest standard of ethics in all its activities.

Imperial's board of directors has approved the information contained in the financial statements. The board fulfills its responsibility regarding the financial statements mainly through its audit committee, details of which are provided on page 46.

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

Arden R. Haynes

R B Peterson

R. H. Brannon

AUDITORS' REPORT

To The Shareholders of Imperial Oil Limited

We have audited the consolidated statements of earnings and of cash flows of Imperial Oil Limited for each of the three years in the period ended December 31, 1991, and the consolidated balance sheet as at December 31, 1991 and 1990. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the company for each of the three years in the period ended December 31, 1991, and its financial position as at December 31, 1991 and 1990 in accordance with generally accepted accounting principles in Canada.

Price Waterhouse

Chartered Accountants
1 First Canadian Place
Toronto, Ontario
February 20, 1992

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiaries. Intercompany accounts and transactions have been eliminated. A list of significant subsidiaries is shown on page 43. A significant portion of the company's activities in the natural resource sector 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 or net realizable value. The cost of crude oil and products is primarily determined using the LIFO (last-in, first-out) method.

INVESTMENTS

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including related preoperational and design costs of major projects, are recorded at cost. Cost for property, plant and equipment of acquired companies is the fair market value to the company at the date of acquisition.

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

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

Maintenance and repair costs are expensed as incurred. Improvements that increase or prolong the service capacity of an asset are capitalized.

Investment-tax credits and other similar grants are treated as a reduction of the capitalized cost of the asset to which they apply. Depreciation and depletion (the allocation of the cost of assets to expense over the period of their useful lives) are calculated using the unit-of-production method for producing properties. Depreciation of other plant and equipment is calculated using the straight-line method, based on the estimated service life of the asset. Major assets, including refineries, chemical plants and service stations, are depreciated over 20 years.

Provision for site-restoration costs (net of any expected recoveries) is made if they can be reasonably determined. This provision is based on current estimates, standards and technology. For natural resource assets, accruals are made over the useful life of the asset using the unit-of-production method. For other assets, a provision is made at the time management decides either to close or sell a facility or if a contractual obligation exists.

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

GOODWILL

Goodwill is charged to earnings on a straight-line basis over the period of expected continuing value, to a maximum of 20 years. The amortization of goodwill is included in depreciation and depletion expense.

REVENUES

Certain purchases and sales of crude oil and products are undertaken to improve the company's operating efficiency. Some of the company's crude-oil production is sold and other types of crude oil are purchased to optimize refining operations. Product purchase/sale agreements with other companies help the company to meet its supply requirements while reducing transportation and other costs. Such sales and purchases are offset 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 and the federal goods and services tax. Crown royalties are also excluded.

In order to encourage investment, the province of Alberta 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 royalties. 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 hedges against foreign-currency exposures, are offset against the associated losses and gains 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 take-or-pay contracts for future delivery of natural gas are recorded as deferred revenue. These amounts are included in sales revenue when the gas is delivered.

Capital employed is total assets less current liabilities excluding short-term debt and the current portion of long-term debt.

Cash represents cash in bank and cash equivalents, which are all highly liquid securities with a maturity of three months or less when purchased.

Debt represents amounts borrowed from external sources (including amounts assumed as a result of acquisitions). These amounts consist of short-term debt and long-term debt (including long-term debt due within one year).

Total debt is the sum of debt borrowed from external sources and guarantees relating to third-party debt.

Deferred income taxes refer to 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 depletion, where deductions are made earlier for tax purposes than for accounting purposes. Deferred income taxes are not a liability under the law.

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.

Marketable securities are securities of the governments of Canada and the provinces, banks and other corporations with a maturity of longer than three months when purchased. 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 assets and liabilities consist of current assets and liabilities together with other long-term assets and certain other long-term obligations.

FINANCIAL PERCENTAGES AND RATIOS

Total debt as a percentage of capital

$$= \frac{\text{debt + guarantees to third parties}}{\text{debt + guarantees to third parties + shareholders' equity}}$$

Measures financial strength. Lower percentages indicate greater financial strength.

Interest coverage ratios

Earnings basis

$$= \frac{\text{net earnings + interest expense + income taxes}}{\text{interest expense}}$$

Cash-flow basis

$$= \frac{\text{cash provided from operating activities before dividend payments + income-tax payments + before-tax debt-related interest expense}}{\text{before-tax debt-related interest expense}}$$

Show the company's current ability to afford its level of debt.

Price to earnings ratio

$$= \frac{\text{closing share price as at December 31}}{\text{net earnings per share}}$$

Indicates what investors generally think about the company's prospects.

Price to cash flow ratio

$$= \frac{\text{closing share price as at December 31}}{\text{cash provided from operating activities per share before dividend payments}}$$

As above.

Return on average capital employed

$$= \frac{\text{net earnings + after-tax interest expense}}{\text{average capital employed}}$$

Measures the productivity of the company's assets.

Return on average shareholders' equity

$$= \frac{\text{net earnings}}{\text{average shareholders' equity}}$$

Shows the return earned by shareholders on their investment in the company.

1. REPORTING CHANGES

In 1991 the company changed its method of accounting for inventories to the last-in, first-out (LIFO) method. Previously the cost of crude oil at refineries and of products was determined using the average-cost method while crude oil in transit was valued at actual cost. During periods of fluctuating crude-oil prices, the LIFO method of inventory valuation reflects these changes in the statement of earnings as they occur. The adoption of the LIFO method has been applied retroactively, and prior periods have been restated.

The effect on 1991 and prior years' inventories, net earnings and net earnings per share was:

millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
			increase (decrease)		
Inventories	**(389)**	(687)	(345)	(275)	(415)
Net earnings	**173**	(209)	(54)	84	(21)
Net earnings per share (dollars)	**0.89**	(1.09)	(0.30)	0.51	(0.12)

Also in 1991 the company adopted the new recommendations of the Canadian Institute of Chartered Accountants, requiring that provisions be made for site-restoration costs. For natural resource assets, accruals are made over the useful life of the asset. For other assets, a provision is made at the time management decides either to close or sell a facility or if a contractual obligation exists. Previously, provision was made for cleanup costs where there was a contractual agreement or the site was closed and there was a management approved site-restoration plan. The change in the method of providing for site-restoration costs has been applied retroactively, and prior periods have been restated.

The effect on 1991 and prior years' other long-term obligations, net earnings and net earnings per share was:

millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
			increase (decrease)		
Other long-term obligations	**304**	242	237	160	141
Net earnings	**(47)**	(28)	(52)	(12)	(8)
Net earnings per share (dollars)	**(0.24)**	(0.15)	(0.29)	(0.07)	(0.05)

The combined effect on 1991 and prior years' retained earnings at the beginning of the year, net earnings and net earnings per share for the two reporting changes was:

millions of dollars	*1991*	*1990*	*1989*	*1988*	*1987*
			increase (decrease)		
Retained earnings at beginning of year	**(586)**	(349)	(243)	(315)	(286)
Net earnings	**126**	(237)	(106)	72	(29)
Net earnings per share (dollars)	**0.65**	(1.24)	(0.59)	0.44	(0.17)

2. BUSINESS SEGMENTS

millions of dollars
Revenues
External
Intersegment sales
Total revenues
Earnings before the items listed below
Depreciation and depletion
Unusual items (note 3)
Gain from divestments
Work-force reduction provisions
Offshore Beaufort write-off
Byron Creek coal mine write-down
Total unusual items
Earnings before income taxes
Income taxes
Current
Deferred
Total income taxes
Net earnings
Property, plant and equipment
Cost
Accumulated depreciation and depletion
Net property, plant and equipment
Total assets
Total capital employed
Capital and exploration expenditures
Acquisition of Texaco Canada
Other
Total capital and exploration expenditures

The information in the above tables is presented as though each segment were a separate business activity. Intersegment sales are made essentially at prevailing market prices. The consolidated figures exclude all intersegment transactions. The company operates its business in Canada, through the following industry segments:

Natural resources			Petroleum products			Chemicals			Corporate and other			Consolidated		
1991	*1990*	*1989*	*1991*	*1990*	*1989*	*1991*	*1990*	*1989*	*1991*	*1990*	*1989*	*1991*	*1990*	*1989*
553	822	814	7823	9515	8274	827	871	911	39	90	105	9242	11298	10104
1691	2133	1825	208	243	140	38	44	49	14	16	12	–	–	–
2244	2955	2639	8031	9758	8414	865	915	960	53	106	117	9242	11298	10104
824	1465	1084	469	238	491	57	94	185	(213)	(267)	(411)	1137	1530	1349
(526)	(556)	(532)	(229)	(245)	(214)	(56)	(55)	(54)	(22)	(28)	(15)	(833)	(884)	(815)
94	118	22	–	14	–	–	–	–	–	244	–	94	376	22
–	–	–	–	–	–	–	–	–	(125)	(350)	–	(125)	(350)	–
–	(141)	–	–	–	–	–	–	–	–	–	–	–	(141)	–
–	(95)	–	–	–	–	–	–	–	–	–	–	–	(95)	–
94	(118)	22	–	14	–	–	–	–	(125)	(106)	–	(31)	(210)	22
392	791	574	240	7	277	1	39	131	(360)	(401)	(426)	273	436	556
189	416	246	38	208	193	17	36	64	(147)	(68)	(240)	97	592	263
(74)	(56)	2	79	(159)	(55)	(18)	(21)	(13)	27	(176)	9	14	(412)	(57)
115	360	248	117	49	138	(1)	15	51	(120)	(244)	(231)	111	180	206
277	431	326	123	(42)	139	2	24	80	(240)	(157)	(195)	162	256	350
10093	10227	10441	4544	4480	4415	1269	1247	1204	401	382	366	16307	16336	16426
3045	2688	2176	1750	1599	1441	579	524	469	173	147	134	5547	4958	4220
7048	7539	8265	2794	2881	2974	690	723	735	228	235	232	10760	11378	12206
7529	8174	8808	4783	5437	5185	934	969	936	286	(71)	302	13532	14509	15231
7042	7458	8315	3727	3998	3954	842	851	809	352	62	637	11963	12369	13715
–	–	3432	–	–	1896	–	–	–	–	–	–	–	–	5328
379	399	531	152	192	239	26	42	50	17	35	51	574	668	871
379	399	3963	152	192	2135	26	42	50	17	35	51	574	668	6199

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

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

Chemicals consists of the manufacturing and marketing of various hydrocarbon-based chemicals and chemical products, including fertilizers.

Corporate and other includes assets and liabilities that do not specifically relate to business segments – primarily cash, marketable securities, various investments, long-term debt and consolidating adjustments. Net earnings in this category include income and gains from investments, interest expense on financing activities and consolidating adjustments.

3. UNUSUAL ITEMS

The before-tax earnings/(loss) from unusual items was $(31) million in 1991 (1990 – $(210) million; 1989 – $22 million). (See note 2.)

The after-tax impact of the unusual items was:

millions of dollars	*1991*	*1990*	*1989*
Gain from divestments (a)			
Natural resources	149	116	33
Petroleum products	–	10	–
Corporate and other (b)	–	208	–
Total gain from divestments after income taxes	149	334	33
Work-force reduction provisions (c)	(77)	(215)	–
Offshore Beaufort write-off (d)	–	(70)	–
Byron Creek coal mine write-down (e)	–	(78)	–
Total unusual items after income taxes	72	(29)	33

(a) Since the acquisition of Texaco Canada in February 1989, the company has sold certain assets to improve the efficiency of its operations, to meet commitments made to the government of Canada and to reduce the debt incurred in the acquisition.

(b) Represents the 1990 sale of the company's interest in Interhome Energy Inc.

(c) On February 4, 1992, the company announced that it will reduce its work force by 1700 employees and that it intends to rationalize its operations over the next several years. A provision was made in the 1991 financial statements for the cost of the work-force reduction. No provision was made with respect to the rationalization, as detailed plans had not been finalized.

In the fourth quarter of 1990 provision was made to cover the cost of programs to reduce the company's work force through the end of 1991.

(d) In 1990 the company wrote off previously capitalized offshore Beaufort costs, because of the lack of any current exploration drilling plans, the long development lead times involved and other uncertainties.

(e) In 1990 the company wrote down the Byron Creek coal mine to reflect the value of that resource.

4. CASH FLOW PROVIDED FROM EARNINGS

millions of dollars	*1991*	*1990*	*1989*
Net earnings	162	256	350
Exploration expenses (a)	89	94	129
Noncash items included in earnings			
Depreciation and depletion (b)	833	884	815
Gain from divestments	(94)	(376)	(22)
Offshore Beaufort write-off	–	141	–
Byron Creek coal mine write-down	–	95	–
Deferred income taxes	14	(412)	(57)
Other	(11)	(9)	(9)
Total cash flow provided from earnings (c)	993	673	1206

(a) Exploration expenses have been deducted in arriving at net earnings. For the purpose of the consolidated statement of cash flows they are reclassified and included in investing activities.

(b) Includes $38 million of goodwill charged to earnings in 1991 (1990 – $59 million; 1989 – $40 million).

(c) Includes dividends received from equity investments of $13 million (1990 – $21 million; 1989 – $31 million).

5. CHANGE IN OPERATING ASSETS AND LIABILITIES

millions of dollars inflow (outflow) of cash	*1991*	*1990*	*1989*
Receivables	400	(401)	131
Inventories and prepaids	208	(68)	(6)
Liabilities (a)	(421)	830	(192)
Total change in operating assets and liabilities	187	361	(67)

(a) Includes $(16) million related to the work-force reduction provisions (1990 – $345 million).

6. OTHER LONG-TERM OBLIGATIONS

millions of dollars	*1991*	*1990*
Deferred revenue on take-or-pay gas contracts	38	57
Employee retirement-income benefits (note 11)	435	363
Other post-employment benefits (note 12)	172	165
Site restoration (note 1)	320	270
Deferred foreign-exchange gain on long-term debt	31	37
Other obligations	83	100
Total other long-term obligations	1079	992

7. LONG-TERM DEBT

Year of issue	Maturity date	Rate of interest	1991 Millions of dollars	1990 Millions of dollars
Sinking-fund debentures				
1972	February 15, 1992	7 ¾	–	10
1974	August 15, 1994	10 ¾	–	28
1974	December 31, 1994	10 ¾	–	29
1975	February 15, 1995	9 ¾	30	30
1979	September 15, 2009 (1991 – U.S. $89 million; 1990 – U.S. $119 million)	9 ¾	103	138
1989	October 15, 2019 (1991 – U.S. $222 million; 1990 – U.S. $300 million)	8 ¾	257	348
Total sinking-fund debentures			390	583
Other debentures and notes				
1983	March 31, 1993	12	51	51
1983	January 3, 1997	5	24	24
1989	December 15, 1999	9 ¾	297	297
1989	September 1, 2004 (1991 – U.S. $1100 million; 1990 – U.S. $1300 million) (a)	Variable	1271	1508
1991	August 20, 2001 (1991 – U.S. $200 million)	8.3	231	–
Total debentures and notes			2264	2463
Capital leases (b)			61	63
Total long-term debt (c)			2325	2526

(a) This debt bears interest based primarily on U.S. commercial paper interest rates and may be repaid in part or in full at any time before maturity without premium. The average effective rate for 1991 was 5.9 percent (1990 – 8 percent).

(b) Capital lease principal payments made during 1991 were $2 million (1990 – $3 million; 1989 – $5 million). Imputed interest on capitalized leases will be $39 million during the next five years and $72 million beyond five years and over the remaining life of the leases.

(c) Minimum future principal payments:

	Sinking-fund debentures	Other debentures and notes	Capital leases
	millions of dollars		
1992	10	–	2
1993	–	51	1
1994	–	–	1
1995	30	–	1
1996	–	–	1

At December 31, 1991, the company had $724 million of uncommitted unused lines of credit available for short-term financing.

8. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1991, the company had commitments for non-cancellable operating leases and other long-term agreements that require the following minimum future payments.

	Operating leases (a)	Other long-term agreements (b)
	millions of dollars	
1992	58	143
1993	50	132
1994	40	108
1995	32	99
1996	26	97
after 1996	109	680

(a) Total rental expense incurred for operating leases in 1991 was $144 million (1990 – $141 million; 1989 – $122 million).

(b) Total payments under long-term agreements were $234 million in 1991 (1990 – $227 million; 1989 – $202 million). As part of an agreement with Interprovincial Pipe Line (NW) Ltd. for the construction of a pipeline to the company's Norman Wells oil field, Imperial agreed to minimum pipeline charges to the year 2010, sufficient to service the debt associated with the pipeline. These amounts are included in the above table. The amount of that debt outstanding at December 31, 1991, was $189 million.

In addition, the company has provided other long-term guarantees totaling $76 million.

The company has made certain undertakings to the government of Canada related to its 1989 purchase of Texaco Canada. The company committed to invest, through December 31, 1992, a minimum of 70 percent of its cash flows from oil and gas operations before debt servicing in those operations, providing that economic opportunities exist. The company also agreed to continue to supply agreed volumes of gasoline to independent marketers in Ontario and Quebec for periods of up to 10 years. The company is in compliance with the above and by the end of 1991 had substantially fulfilled its commitment on the sale of assets.

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

The company provides in its financial statements for site-restoration costs (see the summary of significant accounting policies on page 32). Provision is not made with respect to those manufacturing, distribution and marketing facilities for which estimates of these future costs can not be reasonably determined. These are primarily currently operated sites. These costs (net of any expected recoveries) are not expected to have a material effect on the company's consolidated financial position.

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

9. INCOME TAXES

millions of dollars	*1991*	*1990*	*1989*
Summary of income-tax calculations			
Earnings before income taxes	273	436	556
Deduct			
Earnings from equity investments	10	21	40
Adjusted earnings	263	415	516
Basic corporate tax rate (percent)	43.8	43.6	42.0
Income taxes at basic rate	115	181	217
Increases (decreases) resulting from			
Nondeductible payments to governments	124	169	123
Resource allowance	(103)	(173)	(141)
Depletion allowance	(4)	(13)	(25)
Manufacturing and processing credit	11	–	(5)
Nondeductible depreciation and amortization	54	125	73
Gain on divestments	(103)	(125)	(22)
Other	17	16	(14)
Income-tax expense	111	180	206
Effective income-tax rate (percent)	42.2	43.4	39.9
Increases (decreases) in deferred income taxes from timing differences			
Depreciation	(77)	(154)	63
Pensions	(24)	(101)	(17)
Successful drilling, injectants and land acquisitions	(30)	10	(11)
Revaluation of Texaco Canada inventory on acquisition	–	–	(40)
LIFO inventory valuation	163	(152)	(27)
Site restoration	(26)	(16)	(25)
Other	8	1	–
Deferred income-tax expense	14	(412)	(57)
Current income-tax expense	97	592	263

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

Cash income-tax payments, after deducting investment tax credits, were $407 million in 1991 (1990 – $190 million; 1989 – $504 million).

10. NET PAYMENTS TO GOVERNMENTS

millions of dollars	*1991*	*1990*	*1989*
Current income taxes (note 9)	97	592	263
Commodity and other taxes			
Federal sales tax (a)	–	556	521
Fuel excise tax	912	1075	977
Property and other taxes	130	127	121
Total commodity and other taxes	1042	1758	1619
Goods and services tax (GST) collected (a)	705	–	–
GST input tax credits (a)	(531)	–	–
Other consumer taxes collected on behalf of governments	1209	1476	1271
Crown royalties	291	375	294
Payroll taxes included in expenses	42	37	27
Total paid or payable to governments	2855	4238	3474
Less investment tax credits and other receipts	20	30	27
Net payments to governments	2835	4208	3447
Net payments to			
Federal government	1183	2041	1666
Provincial governments	1543	2072	1687
Local governments	109	95	94
Net payments to governments	2835	4208	3447

(a) Effective January 1, 1991, the federal sales tax on manufacturers was eliminated. It was replaced by the federal goods and services tax (GST), a new tax on consumers. The GST rules require that the company collect tax on its sales to the consumer and pay tax on its purchases from suppliers. The amounts paid to suppliers, input-tax credits, are deducted from the amounts collected from the consumer when payments are remitted to the federal government.

11. EMPLOYEE RETIREMENT-INCOME BENEFITS

Retirement-income benefits are company-paid and cover almost all employees. Benefits are based on years of service and final average earnings. The company's related obligations are met through funded registered retirement plans and through unfunded supplementary benefits that are paid directly to most surviving spouses and certain retirees. The data below include funded benefits provided through the Imperial Oil retirement plan, the McColl-Frontenac retirement plan and the company's share of the Syncrude retirement plan, and unfunded benefits.

Pension expense and obligations for both the funded and unfunded benefits are determined in accordance with generally accepted accounting principles and actuarial procedures. The process includes making certain assumptions, which are described in (a).

Annual pension expense

millions of dollars	*1991*	*1990*	*1989*
Pension expense before work-force reduction provisions	134	94	89
Pension expense of work-force reduction provisions (c)	35	156	–
Total pension expense	169	250	89

Assets of the retirement plans are held primarily in equity, fixed-income and money-market securities, real estate and resource properties. Company contributions to the retirement plans are based on independent actuarial valuations and are made in accordance with government regulations. These contributions amounted to $72 million in 1991 (1990 – $60 million).

Funded status of the company's obligations at December 31

millions of dollars	*1991*	*1990*
Funded retirement plans		
Market value of assets	1812	1725
Accumulated earned benefit obligation (b)	1679	1597
Assets excess	133	128
Additional unearned benefit obligation (b)	401	450
Unfunded obligation	268	322
Unfunded supplementary retirement income obligations (b)	291	278
Net unfunded obligations	559	600
The net unfunded obligations consist of		
Long-term liability (note 6)	435	363
Current liability	12	12
Prepaid pension cost	(41)	(51)
Unrecorded obligations – net	153	276
Total	559	600

Unrecorded obligations are amortized over the expected average remaining service of employees, which is currently 17 years (1990 – 16 years).

(a) For each of the past three years, the discount rate, long-term return on plan assets and the rate of pay increases were assumed to be 8.5 percent, 8.5 percent and 6 percent respectively. Both the obligation and expense data presented are sensitive to these assumptions, as the following table shows for 1991.

millions of dollars	*Projected benefit obligation (b)*	*Pension expense*
As calculated using company's assumptions	2371	134
Impact of one-percent change in:		
– rate of return and discount rate	269	32
– pay increases	97	21

(b) Retirement-benefit obligations consist of earned and unearned amounts. The accumulated earned-benefit obligation is based on the benefit formula, service to date and current pay; the additional unearned-benefit obligation is the extra amount that results from projected pay increases to the date of retirement. The unfunded supplementary retirement obligations include both the earned and unearned amounts on a combined basis. The total is called the projected benefit obligation.

(c) These amounts are part of the work-force reduction provisions described in note 3.

12. OTHER POST-EMPLOYMENT BENEFITS

The company shares the cost of certain health-care and life-insurance benefits for almost all retired employees and surviving spouses. The liability for this cost has been recorded for employees' service to date and for retirees. The annual charge to earnings is based on service provided in the year; cash payments are charged to the liability.

In 1991 other post-employment benefits expense was $17 million (1990 – $21 million; 1989 – $14 million).

Amounts recognized at December 31

millions of dollars	*1991*	*1990*
Long-term liability (note 6)	172	165
Current liability	9	10

13. COMMON SHARES

number of shares	*1991*	*1990*	*1989*
Authorized (a)	225 000 000	225 000 000	225 000 000
Issued at December 31 (a)			
Class A	–	191 496 994	189 326 608
Class B	–	256 743	366 979
Common shares	193 841 431	–	–
Total	193 841 431	191 753 737	189 693 587
Transactions during the year			
Issues (b)	–	–	24 791 453
Dividend reinvestment and share purchase plan (c)	2 083 535	2 049 562	1 173 604
Class B stock dividends (d)	4 159	10 588	25 049
Total	2 087 694	2 060 150	25 990 106

(a) In 1991 a special shareholders' resolution amending the articles of the corporation was passed such that the authorized, issued and unissued Class A convertible shares and Class B convertible shares were changed into Common shares on a share-for-share basis. Both Class A and Class B shares ranked equally in all respects including voting privileges.

(b) In 1989 shares valued at $1254 million were issued as part of the initial financing of the Texaco Canada acquisition and as part of a subsequent restructuring of the financing.

(c) The dividend reinvestment and share purchase plan enables shareholders to reinvest their cash dividends in additional common shares and also to invest between $50 and $5000 each calendar quarter in common shares. Funds directed to the plan are used to buy existing shares on a stock exchange. From May 1989 to July 1991 the company offered a five-percent discount on its dividend reinvestment option of the plan and issued new shares to those participating in the plan. In 1991 the shares issued were valued at $111 million (1990 – $119 million; 1989 – $65 million).

(d) Holders of Class B shares received a stock dividend with values substantially equivalent to the cash dividend on Class A shares. During 1991 the stock dividends issued were valued at $0.2 million (1990 – $0.7 million; 1989 – $1.3 million).

Earnings per share are calculated on the monthly weighted average number of shares outstanding during the year (1991 – 193 199 000; 1990 – 190 872 000; 1989 – 179 243 000).

14. INTEREST EXPENSE

millions of dollars	*1991*	*1990*	*1989*
Long-term debt			
Debentures and notes	184	305	288
Capital leases	8	11	10
Short-term notes	11	25	144
Other	27	4	15
Total interest expense	230	345	457

Cash interest payments in 1991 were $252 million (1990 – $356 million; 1989 – $415 million).

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs in 1991 were $109 million (1990 – $91 million; 1989 – $71 million) before investment-tax credits earned on these expenditures of $15 million (1990 – $13 million; 1989 – $13 million). The net costs are included in expenses.

16. TRANSACTIONS WITH EXXON CORPORATION AND AFFILIATED COMPANIES (EXXON)

The amounts paid and received by the company on transactions with Exxon in 1991 were $1237 million and $519 million respectively (1990 – $1397 million and $427 million; 1989 – $748 million and $380 million). The terms of the transactions were as favorable as they would have been with unrelated parties. The transactions primarily were the purchase and sale of crude oil, petroleum and chemical products. Transportation, technical and engineering services were also performed and received. Current amounts due to Exxon at December 31, 1991, were $35 million (1990 – $91 million; 1989 – $53 million).

In 1991 Exxon acquired 1 452 300 shares as part of the share issues described in note 13 (1990 – 1 434 030 shares; 1989 – 18 152 352 shares). These shares were acquired at the same prices as shares issued to other shareholders. Exxon's ownership interest in Imperial Oil Limited at December 31, 1991, was 69.6 percent, unchanged from December 31, 1990.

17. INVENTORIES OF CRUDE OIL AND PRODUCTS

The replacement cost of inventories was estimated to exceed their LIFO carrying values at December 31, 1991, by $529 million (1990 – $1075 million).

18. INTERNATIONAL ACCOUNTING STANDARDS AND UNITED STATES ACCOUNTING PRINCIPLES

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

The information on pages 41 and 42 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 resources segment.

Changes in United States Securities and Exchange Commission regulations now permit certain data to be included in the Form 10-K. Accordingly, additional information required by SFAS No. 69 and a description of the differences between the generally accepted accounting principles in Canada and those accepted in the United States as they apply to the company are now included in the Form 10-K.

RESULTS OF OPERATIONS (1)

	Oil and gas			*Syncrude*			*Total*		
millions of dollars	*1991*	*1990*	*1989*	*1991*	*1990*	*1989*	*1991*	*1990*	*1989*
Sales to customers	400	668	648	–	–	–	400	668	648
Intersegment sales	1124	1528	1179	345	376	293	1469	1904	1472
Total sales (2)	1524	2196	1827	345	376	293	1869	2572	2120
Production expenses	669	719	641	259	253	241	928	972	882
Exploration expenses (3)	118	256	149	–	–	–	118	256	149
Depreciation and depletion (4)	374	384	469	25	26	24	399	410	493
Income taxes	110	363	275	16	29	6	126	392	281
Results of operations	253	474	293	45	68	22	298	542	315

CAPITAL AND EXPLORATION EXPENDITURES (1)

	Oil and gas			*Syncrude*			*Total*		
millions of dollars	*1991*	*1990*	*1989*	*1991*	*1990*	*1989*	*1991*	*1990*	*1989*
Property costs (5)	13	11	2534	–	–	–	13	11	2534
Exploration costs	107	100	161	–	–	–	107	100	161
Development costs	221	246	1220	38	37	32	259	283	1252
Total capital and exploration expenditures	341	357	3915	38	37	32	379	394	3947

PROPERTY, PLANT AND EQUIPMENT (1)

	Oil and gas		*Syncrude*		*Total*	
millions of dollars	*1991*	*1990*	*1991*	*1990*	*1991*	*1990*
Property cost (5)						
Proved	3151	3241	–	–	3151	3241
Unproved	301	302	–	–	301	302
Producing assets	5310	5331	862	843	6172	6174
Support facilities	86	135	98	28	184	163
Incomplete construction	130	129	9	68	139	197
Total cost	8978	9138	969	939	9947	10077
Accumulated depreciation and depletion	2700	2366	210	194	2910	2560
Net property, plant and equipment	6278	6772	759	745	7037	7517

(1) The data reflect the purchase of Texaco Canada on February 23, 1989, and its financial results since that date.

(2) 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 are at prices estimated to be obtainable in a competitive, arm's-length transaction. Total sales exclude the sale of natural gas and natural-gas liquids purchased for resale.

(3) Includes $141 million offshore Beaufort write-off in 1990.

(4) Net of $94 million gain from divestments in 1991 (1990 – $118 million).

(5) "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.

NET PROVED DEVELOPED AND UNDEVELOPED RESERVES (1)

	Crude Oil				Natural Gas
millions of barrels	*Conventional*	*Cold Lake*	*Syncrude*	*Total*	*billions of cubic feet*
Beginning of year 1989	473	828	330	1631	2478
Revisions of previous estimates and improved recovery	58	(2)	(1)	55	452
Purchase of reserves in place	299	–	–	299	1464
Discoveries and extensions	21	–	–	21	58
Production	(67)	(31)	(14)	(112)	(194)
End of year 1989	784	795	315	1894	4258
Revisions of previous estimates and improved recovery	(14)	2	(4)	(16)	(197)
Sale of reserves in place	(30)	–	–	(30)	(173)
Discoveries and extensions	4	–	–	4	135
Production	(64)	(31)	(14)	(109)	(196)
End of year 1990	680	766	297	1743	3827
Revisions of previous estimates and improved recovery	**(11)**	**(1)**	**1**	**(11)**	**(17)**
Sale of reserves in place	**(26)**	**–**	**–**	**(26)**	**(251)**
Discoveries and extensions	**1**	**–**	**–**	**1**	**38**
Production	**(59)**	**(27)**	**(15)**	**(101)**	**(201)**
End of year 1991	**585**	**738**	**283**	**1606**	**3396**

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

All reported reserves of crude oil and natural gas are located in Canada. Reserves of crude oil include condensate and natural-gas liquids. Conventional and Cold Lake crude-oil and natural-gas reserve estimates are based on geological and engineering data, which have demonstrated with reasonable certainty that these reserves are recoverable in future years from known reservoirs under economic and operating conditions existing at December 31 of the year. Reserves of crude oil at Cold Lake are those estimated to be recoverable from the existing experimental pilot plants and stages 1 to 10 of the Cold Lake production project. The calculation of reserves of crude oil at Syncrude is based on the company's participating interest in the production permit granted in October 1979 and as amended in January 1985 and July 1988 by the province of Alberta.

Net proved reserves are determined by deducting the estimated future share of mineral owners or governments or both. For conventional crude oil (excluding enhanced oil recovery projects), oil from the Cold Lake pilots and natural gas, net proved reserves are based on estimated future royalty rates representative of those existing at December 31 of the year. Actual future royalty rates may vary with production and price. For enhanced oil-recovery projects, Syncrude and stages 1 to 10 of the Cold Lake production project, net proved reserves are based on the company's best estimate of average royalty rates over the life of each project. Actual future royalty rates may vary with production, price and costs.

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 oil sands other than those attributable to Syncrude, the Cold Lake pilot area and stages 1 to 10 of the Cold Lake production project.

Imperial's net proved reserves of crude oil and natural gas decreased by 137 million barrels and 431 billion cubic feet respectively. Production in 1991 totaled 101 million barrels of crude oil and 201 billion cubic feet of natural gas, or about half of the total 1991 reserve decrease, in oil-equivalent barrels. Sales of reserves accounted for an additional 26 million barrels of crude oil and 251 billion cubic feet of natural-gas reserve decrease. Revisions to previous estimates resulting from technical analysis and accounting adjustments accounted for the other significant change to the reserves base. While exploration continued to provide additions to conventional reserves, they were not sufficient to offset the effects of divestments and production.

Natural-gas reserves are calculated at a pressure of 14.73 pounds per square inch at 60 degrees Fahrenheit.

WELLS DRILLED (1)

	1991		1990		1989		1988		1987	
	gross	*net*	*gross*	*net*	*gross*	*net*	*gross*	*net*	*gross*	*net*
Western provinces										
Exploratory										
Conventional	39	23	51	32	35	23	30	14	32	16
Heavy oil	–	–	–	–	12	3	100	92	40	29
Development										
Conventional	58	23	93	35	134	48	215	114	210	103
Heavy oil	6	6	–	–	–	–	266	266	311	311
Northern areas and Atlantic offshore (2)										
Exploratory	1	1	1	1	3	1	–	–	3	1
Development	–	–	–	–	–	–	6	4	24	16
Total wells drilled										
Exploratory	40	24	52	33	50	27	130	106	75	46
Development	64	29	93	35	134	48	487	384	545	430
Total wells in progress	4	3	11	5	7	3	7	3	11	6

LAND HOLDINGS (1)

millions of acres	1991		1990		1989		1988		1987	
	gross	*net*	*gross*	*net*	*gross*	*net*	*gross*	*net*	*gross*	*net*
Oil and gas										
Canada										
Western provinces										
Conventional	9.5	4.5	11.5	5.5	12.5	5.9	9.1	4.0	7.7	3.1
Heavy oil	1.8	0.6	1.8	0.6	1.9	0.6	1.8	0.7	1.8	0.7
Northern areas (2)	1.7	0.7	2.1	0.7	2.4	1.0	2.8	1.2	4.4	2.0
Atlantic offshore	1.0	0.7	1.1	0.8	1.1	0.8	–	–	2.3	1.7
International										
Malaysia	–	–	2.2	0.4	2.2	0.4	–	–	–	–
Total oil and gas land holdings	14.0	6.5	18.7	8.0	20.1	8.7	13.7	5.9	16.2	7.5
Coal	0.2	0.2	0.2	0.2	1.0	1.0	1.0	1.0	1.0	1.0

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

(2) Northern areas encompass the Arctic Islands, the Yukon and the Northwest Territories, including the Beaufort Sea–Mackenzie Delta region.

SIGNIFICANT SUBSIDIARIES AT DECEMBER 31, 1991 (a)

Atlas Supply Company of Canada Limited
Beaverhill Resources Limited
Byron Creek Collieries (1983) Limited
Cascade Fertilizers (1990) Limited
Devon Estates Limited
Esso Resources Canada Limited
Esso Resources (1989) Ltd.
Esso Resources Enterprises Ltd.
Esso Resources N.W.T. Limited
Esso Resources Ventures Limited
The Imperial Pipe Line Company, Limited
McColl-Frontenac Petroleum Inc.
Metro Fuel Co. Ltd.
Mr. Lube Canada Inc.
Winnipeg Pipe Line Company Limited

(a) See page 32, principles of consolidation.

SHARE OWNERSHIP, TRADING AND PERFORMANCE (1)

	1991	*1990*	*1989*	*1988*	*1987*
Share ownership					
Average number outstanding, weighted monthly (thousands)	193 199	190 872	179 243	163 691	163 664
Number of shares outstanding at December 31 (thousands)	193 841	191 754	189 694	163 703	163 674
Shares held in Canada at December 31 (percent)	25.3	22.6	22.6	21.7	21.0
Number of shareholders at December 31 (2)	22 468	22 908	24 344	24 953	26 118
Number of shareholders registered in Canada	19 648	19 903	21 172	21 730	22 805
Shares traded (thousands) (3)	34 267	37 154	38 033	31 161	41 957
Share prices (dollars) (3)					
High	61 ⅛	67 ⅜	64 ⅛	63 ½	81 ½
Low	38 ¾	53 ¼	48 ⅜	45	48 ¼
Close at December 31	40	58 ⅜	64	50	55 ⅜
Earnings per share (dollars)	0.84	1.34	1.95	3.50	4.38
Price to earnings ratio at December 31 (3)	47.6	43.8	32.8	14.3	12.7
Price to cash-flow ratio at December 31 (3)	6.5	10.8	10.1	6.4	7.8
Dividends (4)					
Total (millions of dollars)	348	344	322	295	270
Per share (dollars)	1.80	1.80	1.80	1.80	1.65

(1) The data have been adjusted as described in note 1 to the consolidated financial statements.

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

(3) Data for all periods prior to July 1991 are for Class A shares.

(4) The fourth-quarter dividend has been paid on January 1 of the succeeding year.

	1991				1990			
		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) (1)								
Total revenues	2334	2296	2269	2343	2588	2662	2787	3261
Total expenses	2055	2243	2174	2466	2471	2534	2644	3003
Unusual items	57	(6)	18	(100)	110	253	16	(589)
Earnings before income taxes	336	47	113	(223)	227	381	159	(331)
Income taxes	140	42	28	(99)	95	100	105	(120)
Net earnings	196	5	85	(124)	132	281	54	(211)
Segmented earnings (1)								
Natural resources	96	–	92	89	159	35	142	95
Petroleum products	141	34	29	(81)	30	68	(66)	(74)
Chemicals	2	6	(6)	–	1	14	–	9
Corporate and other	(43)	(35)	(30)	(132)	(58)	164	(22)	(241)
Net earnings	196	5	85	(124)	132	281	54	(211)

(1) The data have been adjusted as described in note 1 to the consolidated financial statements. The adjustments included above are as follows.

Financial data								
Total expenses	(138)	(125)	(5)	46	29	(69)	213	211
Unusual items	–	(6)	–	(1)	–	–	–	–
Earnings before income taxes	138	119	5	(47)	(29)	69	(213)	(211)
Income taxes	57	51	(4)	(15)	(11)	26	(73)	(89)
Net earnings	81	68	9	(32)	(18)	43	(140)	(122)
Segmented earnings								
Natural resources	–	(4)	–	(2)	–	(4)	(4)	(9)
Petroleum products	136	81	3	(36)	(14)	52	(165)	(137)
Chemicals	–	1	1	5	–	–	–	(4)
Corporate and other	(55)	(10)	5	1	(4)	(5)	29	28
Net earnings	81	68	9	(32)	(18)	43	(140)	(122)
Per-share information (dollars) (2)								
Net earnings	1.02	0.03	0.44	(0.64)	0.69	1.47	0.28	(1.10)
Cash from operating activities	0.19	1.32	0.86	1.94	(0.70)	0.88	1.68	1.75
Dividends (declared quarterly)	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45
Share prices (dollars) (3)								
Toronto Stock Exchange								
High	61 ⅛	57 ⅜	56 ⅞	53 ½	65 ¼	62 ⅝	67 ⅜	65 ⅞
Low	54	53	51 ¼	38 ¾	58 ⅛	54	53 ¼	57 ¼
Close	54 ⅛	53 ⅜	53 ¼	40	61 ⅜	54 ⅝	66 ⅜	58 ⅝
American Stock Exchange ($U.S.)								
High	52 ¾	49 ¾	49	47	56	53 ⅜	59 ⅜	57
Low	46 ⅝	45 ¾	44 ¾	33 ⅜	49	45 ⅞	46	49 ¼
Close	46 ⅝	46 ¾	47	34 ¾	52 ½	47	57 ¼	50 ⅝
Shares traded (thousands) (4)	9 374	10 860	6 202	7 831	7 261	10 224	11 734	7 935

(2) 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.

(3) Imperial's shares are listed on the Montreal, Toronto and Vancouver stock exchanges and are admitted to unlisted trading on the American Stock Exchange in New York. The symbol on these exchanges for Imperial's Common shares is IMO. Share prices were obtained from stock-exchange records.

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

Imperial's board of directors has the primary responsibility for the long-term strategic governance of the corporation in the interest of all shareholders. The relatively small number of board members facilitates a close working partnership and provides an effective forum for the resolution of a broad range of issues of concern to the company. Imperial elected its first three nonemployee directors in 1977, and each of these directors is still serving. The five nonemployee directors are chosen not only for their business and professional skills but for their regional diversity, which the company regards as essential for a corporation doing business from coast to coast in Canada.

The importance that Imperial attaches to the well-being of the communities in which it operates is reflected in the structure of some of its committees. Its contributions committee meets regularly to oversee the company's contributions program, and in 1990 a committee was established to review the company's performance in its care for the environment and the health and safety of employees and the public.

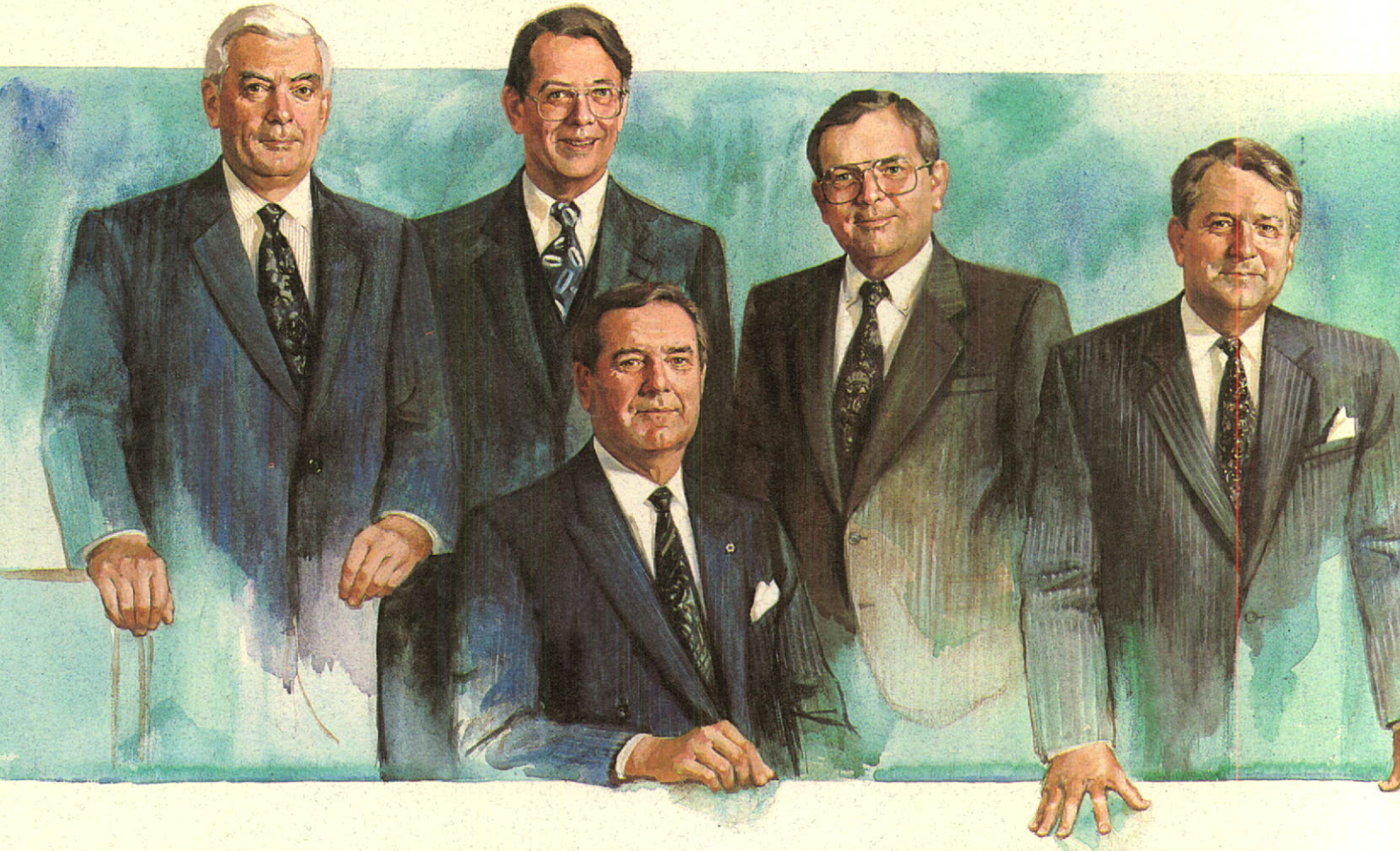
The long-term commitment of Imperial's directors to the corporation and its many stakeholders is reflected in the fact that, over the past 10 years, attendance at all meetings has averaged more than 92 percent. In 1991, attendance was 95 percent for directors' meetings and 99 percent for committee meetings.

COMMITTEES OF DIRECTORS

AUDIT COMMITTEE

J.B. (Bruce) Buchanan, chair

The committee, composed of the five nonemployee directors and Mr. Peterson, reviews the company's annual and quarterly financial statements, accounting practices and business and financial controls. The internal audit program and its findings are reviewed with the committee. It also recommends to the directors the external auditors to be appointed by the shareholders at each annual meeting, reviews their audit work plan and approves their fees. The shareholders' auditors, Price Waterhouse, attend and participate in all meetings. The committee met seven times in 1991.



P. (Pierre) Des Marais II
President and
chief executive officer
UniMédia Inc.
Montreal, Quebec
Director since 1977

W.A. (Bill) Macdonald
Partner
McMillan, Binch
Toronto, Ontario
Director since 1977

A.R. (Arden) Haynes
Chairman and
chief executive officer
Imperial Oil Limited
Director from 1974 to 1978 and since 1982

R.B. (Bob) Peterson
President and
chief operating officer
Imperial Oil Limited
Director since 1984

W.R.K. (Bill) Innes
Senior vice-president
products division
Imperial Oil Limited
Director since 1988

CONTRIBUTIONS COMMITTEE

M. (Muriel) Kovitz, chair

The committee, composed of the five nonemployee directors and Mr. Brenneman, examines policies and programs related to the contributions program and recommends an annual budget for adoption by the directors. The company's contributions program is aimed at enhancing the quality of Canadian life through support for education, health, welfare, community services, culture and sport. The committee met five times in 1991.

ENVIRONMENT, HEALTH AND SAFETY COMMITTEE

W.A. (Bill) Macdonald, chair

The committee, composed of the five nonemployee directors and Mr. Haynes, reviews policies and programs for corporate environmental, health and safety matters. The committee also oversees the company's performance in this area and monitors compliance with regulatory and corporate standards in the company's operations. It also monitors trends and reviews current and emerging policy in these areas. The committee met seven times in 1991.

EXECUTIVE RESOURCES COMMITTEE

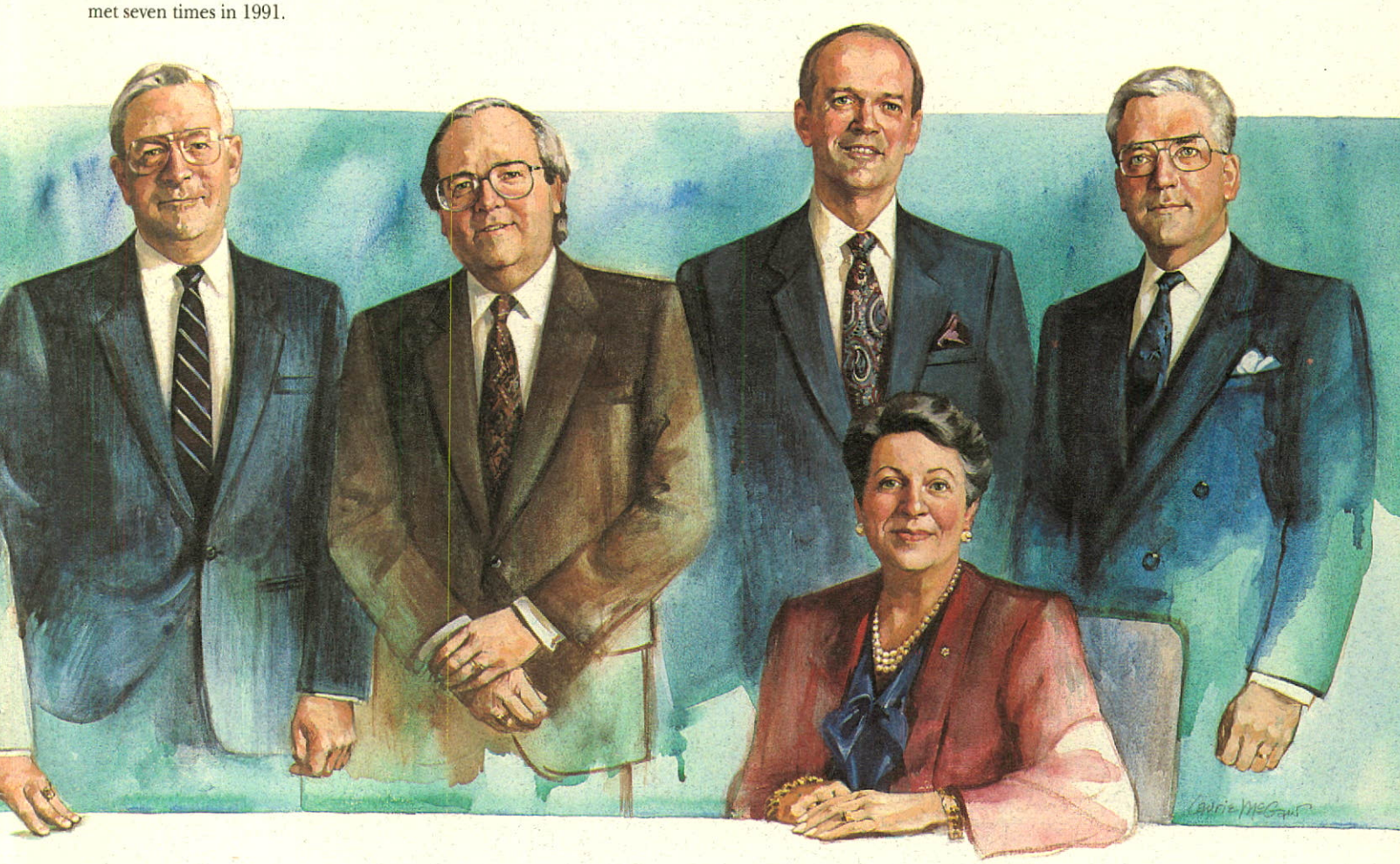
P. (Pierre) Des Marais II, chair

The committee, composed of the five nonemployee directors and Mr. Haynes, is responsible for decisions on the compensation of senior management above the level of vice-president and for reviewing the executive development system, including specific succession plans for senior management positions. It also reviews corporate policy on compensation. The committee met twice in 1991.

NOMINATIONS COMMITTEE

R.J. (Dick) Currie, chair

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 once in 1991.



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

Director since 1979

R.J. (Dick) Currie
President
Loblaw Companies
Limited
Toronto, Ontario

Director since 1987

R.A. (Ron) Brenneman
Senior vice-president
and chief financial officer
Imperial Oil Limited

Director since 1989

M. (Muriel) Kovitz
President
Murko Investments Ltd.
Calgary, Alberta

Director since 1977

D.D. (Doug) Baldwin
Senior vice-president
resources division
Imperial Oil Limited

Director since 1988

OUR SERVICES TO SHAREHOLDERS

Imperial strives to provide its shareholders and interested investors with a variety of services and informative publications. We have dedicated staff to respond to shareholders' requests for information or assistance with estate settlements, share transfers and dividend cheques.

FOR MORE INFORMATION

Toll-free number

If you have a question about dividend payments, dividend reinvestment, lost dividend cheques, settling an estate or transferring or replacing share certificates, you can use Imperial's toll-free service to obtain information.

Automated information is available 24 hours a day for shareholders with a touch-tone phone. Shareholders with rotary-dial phones and those who prefer to speak directly to our staff can call toll-free during regular business hours.

In Canada: 1-800-267-9515
In the United States: 1-800-388-1518

The annual and interim reports are important sources of information for shareholders. We can provide further information on request:

- **Information for Investors** – A factbook that describes the company and its operations in detail, it also includes the most current financial information and executive speeches.
- **Form 10-K** – Filed each year with Canadian and United States securities commissions and administrators.
- **Imperial's Investor Instant Information Service,** or **4IS** – This can provide on-line information to those with access to a computer and modem. If you wish access to the computer-based information service, please call the investor communications administrator at (416) 968-8145.

THE ANNUAL MEETING

The annual meeting of shareholders will be held in the Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada, on Tuesday, April 21, 1992, at 11 a.m. local time. The annual meeting record date is March 13, 1992.

HOW TO TRANSFER SHARES

To transfer Imperial shares, contact the company's head office or the principal offices of our transfer agents: Montreal Trust Company, in St. John's, Charlottetown, Halifax, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver; and American Transtech Inc., Wall, New Jersey. American Transtech, however, has advised us that it is withdrawing from the stock-transfer business on March 31, 1992. Shareholders will be advised when a new U.S. transfer agent is selected.

IF YOU MOVE

Please notify the company's investor relations manager in writing if you have changed your address – mail the notification to Imperial's head office.

TO INCREASE YOUR SHAREHOLDINGS

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

DIVIDEND PAYMENTS

Imperial has a long record of uninterrupted dividend payments. Anyone who is a registered owner of shares on the record date is paid the dividend. Record dates normally fall in the last month of each calendar quarter – i.e., March, June, September and December. The dividend payment date is normally the first day of the following month. For the first quarter of 1992 the record date was March 2, and the payment date is April 1.

INFORMATION FOR SECURITY HOLDERS OUTSIDE CANADA

Cash dividends paid to shareholders resident in countries with which Canada has an income-tax convention are usually subject to 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.

There is no Canadian tax on gains from selling shares or debt instruments owned by nonresidents not carrying on business in Canada. Interest paid to nonresidents who are dealing at arm's length with the company on debt obligations issued after June 23, 1975, is not subject to withholding tax if the debt obligation is issued for a period of at least five years. Interest paid to nonresidents on debt obligations issued before June 24, 1975, is generally subject to withholding tax. The withholding rate is 25 percent, reduced to 15 percent if the recipient is a resident of the United States or another 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 DU RAPPORT

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

FOR INFORMATION about publications, shares, dividends or other matters, please contact the investor relations manager at the company's head office:

Imperial Oil Limited
Investor Relations
111 St. Clair Avenue West, Toronto, Canada M5W 1K3
Telephone: (416) 968-5076 Fax: (416) 968-4272

Imperial's vision is to be a premier corporation by achieving superior business results and by meeting the wide-ranging expectations of the millions of Canadians who have a direct or indirect stake in the company's business.

One of its primary means of achieving that vision is by providing customers with what they consider to be valuable goods and services at highly competitive prices.

Imperial also believes that as a premier company it should provide its shareholders – the vast majority of whom are Canadian – with total returns in dividends and capital appreciation that are comparable with, or better than, investments in competing companies.

The company believes that its employees have a right to a safe and stimulating work environment, where they can progress toward mutually agreed-upon objectives in ways that provide reasonable scope for their own job satisfaction and personal development.

Imperial believes that its long-term business success depends on responding effectively to the environmental concerns of Canadians. To that end, it plays an active and constructive role in discussions about environmental-policy development. It also works to ensure that its facilities are designed and operated to minimize environmental risks – particularly discharges of hazardous emissions and waste and oil spills. It also strives to ensure that its products are shipped and used in an environmentally responsible manner.

The company's overall approach to environmental protection is to do what it can, as soon as it can, where the need is greatest and where its efforts will have the most beneficial effect.

The company's vision of good corporate citizenship extends beyond its own walls. Imperial has long been one of the country's major corporate donors to education, health and culture. Imperial has been designated a "caring company" by the Imagine campaign, which is an initiative of the Canadian Centre for Philanthropy aimed at encouraging greater volunteerism in our society.

Imperial maintains the highest standards of integrity in all its business practices. It has had a written code of ethics for more than 20 years and regularly reviews its policies on ethics.

To maximize the benefit of its activities to Canada's economy, the company pursues an active program to identify and support Canadian suppliers. In 1991 more than 80 percent of the goods and services Imperial purchased came from Canadian sources.

SENIOR MANAGEMENT AND OFFICERS

A.R. (Arden) Haynes
Chairman
and chief executive officer

R.B. (Bob) Peterson
President and
chief operating officer

R.A. (Ron) Brenneman
Senior vice-president and
chief financial officer

D.D. (Doug) Baldwin
Senior vice-president
resources division

B.J. (Brian) Fischer
Senior vice-president
chemicals division

W.R.K. (Bill) Innes
Senior vice-president
products division

D.J. (Dan) Cacchio
Vice-president
and comptroller

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

R.C. (Ron) Walker
Vice-president
and general counsel

J. (John) Zych
Corporate secretary

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This report is printed on 50 percent recycled paper and has been printed and bound in a way that facilitates recycling.

A Caring Company IMAGINE

Imperial has been designated a "caring company" by the "Imagine" campaign.