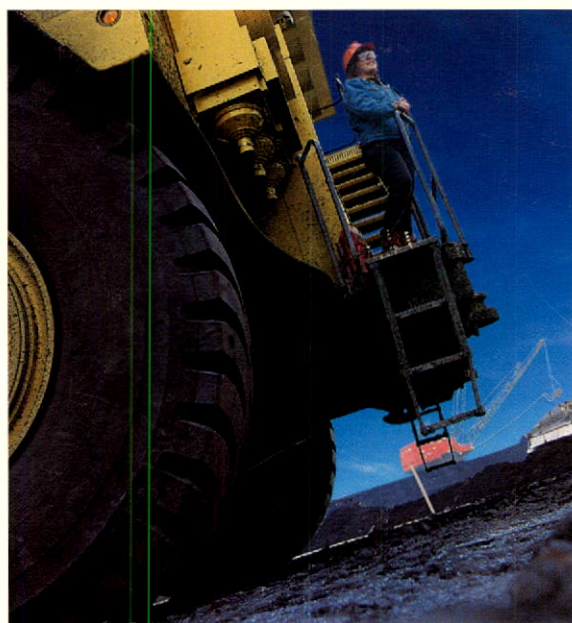




ANNUAL REPORT TO SHAREHOLDERS



Company Profile

Imperial Oil Limited is one of Canada's largest corporations and has been a leading member of the country's petroleum industry for more than a century. The company's mission is to create value for its shareholders through the development and sale of hydrocarbon energy and related products.

Imperial is the country's largest producer of crude oil and a major 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.

About the cover

Imperial's oil-sands interests at Cold Lake (top left) and Syncrude made a major contribution to earnings in 1995. The two projects, which now supply more than 15 percent of Canada's total production of crude oil, have enormous potential for future development.

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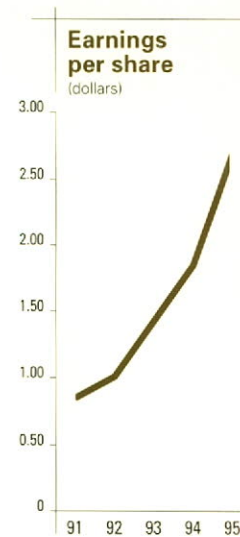
Highlights

| FINANCIAL HIGHLIGHTS ⁽¹⁾ | 1995 | 1994 | 1993 |
|--|--------------|-------------|-------------|
| Net earnings (millions of dollars) | 514 | 359 | 279 |
| Cash flow from earnings ⁽²⁾ | 1 296 | 1 067 | 1 166 |
| Cash from operating activities ⁽²⁾ | 1 642 | 783 | 1 438 |
| Capital and exploration expenditures | 570 | 540 | 538 |
| Return on average capital employed (ROCE) (percent) | 5.9 | 4.1 | 3.2 |
| Return on average shareholders' equity (percent) | 8.6 | 5.7 | 4.2 |
| Share price to earnings ratio (at December 31) | 18.5 | 25.0 | 31.1 |
| Share price to cash flow from earnings (at December 31) | 7.3 | 8.4 | 7.4 |
| Share price to cash from operating activities (at December 31) | 5.8 | 11.4 | 6.0 |
| Per-share information (dollars) | | | |
| Net earnings | 2.67 | 1.85 | 1.44 |
| Cash flow from earnings ⁽²⁾ | 6.73 | 5.50 | 6.01 |
| Cash from operating activities ⁽²⁾ | 8.53 | 4.04 | 7.42 |
| Dividends | 1.90 | 4.80 | 1.80 |

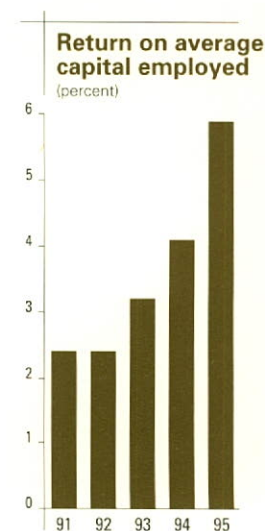
(1) Financial percentages and ratios in this and other tables throughout the annual report are defined on page 33.

(2) Cash flow from earnings and from operating activities are defined on page 29.

Net earnings increased for the fourth consecutive year, as production of heavy oil at Cold Lake reached record levels and chemical earnings rose to an all-time high. Regular quarterly dividends rose by 11 percent in the third quarter and a share-repurchase program was launched in June.



Imperial's 1995 earnings increased to \$2.67 a share, more than triple 1991 earnings.



Return on average capital employed, although steadily improving, is still below the company's target of double-digit returns.

Letter to Shareholders



R.B. (Bob) Peterson
Chairman, president and chief executive officer

Imperial's four priorities

Achieve excellence in execution by the most capable people.

Grow profitable sales volumes.

Achieve and maintain a first-quartile cost structure.

Improve the productivity of our asset mix through selective investment and divestment.

I can best summarize 1995 as a reasonably good year for both Imperial and its shareholders.

As a company, we continued to make substantial progress; earnings grew for the fourth consecutive year, producing our best financial results since 1988. Some parts of the business did particularly well: production of heavy oil at Cold Lake reached record levels; production of synthetic crude oil at Syncrude was also at an all-time high; our chemical business turned in record earnings; and we continued to reduce cash operating costs throughout our operations.

Shareholder returns continue to improve. Imperial's share price increased by about seven percent and earnings per share were higher. There was an increase in the regular dividend in the third quarter. Imperial's annualized dividend is now \$2 a share. In addition, the company initiated a share-repurchase program during the year.

The business climate in which Imperial found itself operating in 1995 was a mixed one for our industry. Canada's overall economy, which came off a year of strong growth in 1994, grew only moderately last year. Despite continuing strength in the export-driven sectors of the economy, the domestic economy remained relatively stagnant.

International crude oil prices, a significant factor affecting our business, were higher on average in 1995 than they were in 1994. However, prices have not shown any sustained increase in the last 10 years. In fact, international prices of crude oil were lower in 1995 than the average for the last 10 years, even without adjusting for inflation. This underlines the soundness of Imperial's view that we cannot look to higher resource prices for improved results but, rather, we must continue to trim our costs to remain competitive and profitable throughout a range of market conditions.

This stance allows us to take full advantage of any improvements in market conditions, such as happened in 1995 in prices for heavy crude oil. We saw substantial price improvement resulting from increased refinery demand worldwide for heavier grades of crude oil. These higher prices, coupled with record production, made the Cold Lake project a star performer in our natural-resource operations.

Markets for natural gas were generally weaker in 1995 as available supplies exceeded market demand. The situation was exacerbated in western Canada by a lack of sufficient export pipeline capacity to premium U.S. markets. As a consequence there was strong competition among producers, resulting in locally depressed prices.

Our chemical operations had an excellent year, with record earnings that were more than double 1994 results.

Conditions in the downstream segment of our business were characterized by modest growth in industry demand for petroleum products and weaker refinery margins. Refinery costs were also affected by higher raw material costs, as prices for the heavier grades of crude oil increased relative to lighter grades. However, overall, the benefits of these higher crude oil prices to our Cold Lake operations more than offset the negative impact on our refineries' cost structure. Imperial's

earnings from petroleum products were lower in 1995 compared with the previous year, reflecting generally weaker margins and lower sales volumes.

In chemicals, business conditions were strong worldwide. Very good demand for some products — such as polyethylene — resulted in higher margins, particularly in the first half of the year. Our chemical operations had an excellent year, with record earnings that were more than double 1994 results.

Looking to the near-term future, we do not expect any significant change in the fundamentals affecting our industry. Our business plans assume only modest growth in the Canadian economy this year, plentiful supplies and intense competition in all the markets we serve. Prices for crude oil and natural gas are expected to remain volatile, with no sustained increases likely.

Imperial's plans and programs continue to focus on improving those aspects of our business that we can control and that provide the surest basis for earnings growth. We intend to adhere to the four basic priorities that have served us well since 1991.

The first of these is to achieve excellence in execution by the most capable people. This priority is dedicated to enabling our employees to outperform the competition in every aspect of our business — from ensuring that the company's facilities are operated in a safe and environmentally responsible manner to providing our customers with quality products and services at the lowest possible cost.

This focus on operating excellence is supported by an ongoing program of continuously improving our management practices as well as the skills and effectiveness of the work force.

Our second priority remains to grow profitable sales volumes. The most significant opportunity in the near term is to increase production in our heavy oil operations at Cold Lake. In 1995, we initiated development of phases 9 & 10 at Cold Lake and this will continue in 1996. These two new phases and improvements in existing phases represent an investment of about \$240 million. By 1997, we expect net production of bitumen at Cold Lake to total about 110,000 barrels a day. Market opportunities for heavy oil are expected to grow. Planning is under way for two additional phases but, as in the past, we will ensure that production increases are geared to market demand.

In petroleum products, demand is not expected to grow very much in the relatively mature North American market. We will continue to concentrate on those products and markets

In 1995, we invested \$570 million... in 1996, we plan to invest about \$700 million.

that offer the highest profit potential, while reducing marginal business. Our strategy is to increase sales through higher-margin, Esso-branded channels, while reducing sales in less attractive export and wholesale markets. During 1995, Esso-branded sales increased to 72 percent of total sales, compared with 70 percent in 1994.

In chemicals, where sales volumes grew by six percent in 1995, our business plans include increasing our production capacity of polyethylene and polyvinyl chloride through low-cost expansion projects.

Our third priority — one that has been high on our agenda for a number of years — is to achieve and maintain a first-quartile cost structure. This means we must have lower unit costs than at least three-quarters of our competitors.

Independent benchmarking studies show that we have already made considerable progress in this regard. At Cold Lake, in our polyethylene business and in many parts of our marketing operations our costs are within the first quartile, and this is reflected in our 1995 results. Syncrude has also made steady progress toward its unit-cost targets.

However, there are still areas that require improvement. We need to be more cost competitive in our conventional oil and gas operations, in retail automotive marketing and in our refineries, despite having already achieved substantial savings over the past several years.

Our fourth priority is to improve the productivity of our asset mix, through selective investment in opportunities that offer the potential for high returns and through the divestment or closure of noncore and underperforming operations.

In 1995, we invested \$570 million, of which about \$330 million was spent in natural resources and the remainder in petroleum products and chemicals. In 1996, we plan to invest about \$700 million.

The company continued its divestment of marginal upstream properties in 1995, selling 77 noncore properties for a total of about \$100 million. In the downstream, we took a major step toward improving the productivity of our refining system by closing our loco refinery in British Columbia. Customers on the West Coast are now supplied from our Strathcona refinery in Edmonton.

We continued to dispose of unprofitable service-station outlets in 1995. Three hundred and thirty-nine sites were

closed, sold or debranded, while 21 new sites were opened. Our Tiger Express stores — which provide snacks and beverages, a fast-food outlet and a banking machine under one roof — have proved very popular with the public. In 1995, we doubled their number to 196 and plan to open more.

Despite the progress we've made so far, there is still room for improvement in the results of many business units.

The goal for each of our business units is to generate returns on capital employed of at least 10 percent as quickly as possible.

Imperial's return on average capital employed in 1995 was 5.9 percent, a figure well below the company's expectations. While returns in many parts of the business — such as our heavy oil operations, chemicals and various branded marketing operations — are satisfactory, improvements are required in the conventional oil and gas business, retail automotive marketing and refining. The goal for each of our business units is to generate returns on capital employed of at least 10 percent as quickly as possible. We are pursuing this target of double-digit returns very aggressively.

So far as Imperial's longer-term future is concerned, we have every reason for confidence.

In natural resources, we hold a strong position in the oil sands, where much of the industry's future in Canada must ultimately lie. We have a good position in natural gas, another key fuel of the future. We are an efficient, leading competitor in the petroleum products marketplace. We are well situated to take advantage of the potential of petrochemicals, with our world-class facilities in Sarnia. And we are in excellent financial shape, with our cash flow being very strong in 1995.

These strengths are supported by the skills, experience and dedication of our employees, who continue to demonstrate their ability to successfully meet the challenges and uncertainties of changing times. On behalf of our shareholders I would like to thank them for their ongoing strong contribution.

One of Imperial's longest-serving directors, Mrs. Muriel Kovitz, retires in 1996. First elected a director of Imperial in 1977, Mrs. Kovitz has served the company with distinction. On behalf of her fellow directors, shareholders and employees, I want to record our appreciation of Mrs. Kovitz's services and wish her well in the future.

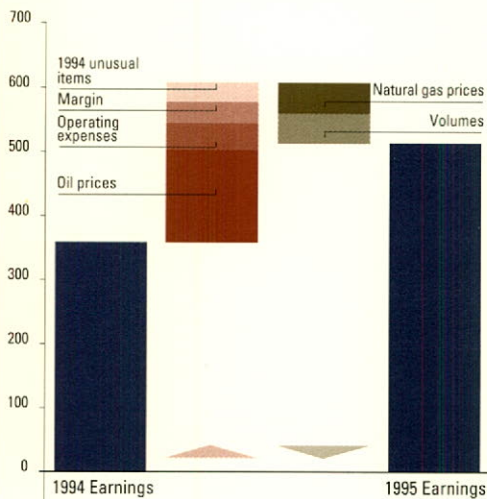


February 22, 1996

Review of Operations

Imperial Oil Earnings Analysis

(millions of dollars)



Earnings improved by 43 percent in 1995, mainly because of higher oil prices and stronger petrochemical markets, partly offset by lower natural gas prices and petroleum-product sales.

INTRODUCTION

Net earnings were \$514 million or \$2.67 a share, up 43 percent from \$359 million or \$1.85 a share in 1994 (1993 — \$279 million or \$1.44 a share).

There were no unusual items in 1995. That compared with after-tax charges of \$31 million in 1994 for work-force reductions in the natural-resource segment and \$54 million in 1993 for the closure of the company's loco refinery.

Earnings excluding unusual items were \$514 million, compared with \$390 million in 1994 (1993 — \$333 million).

A detailed discussion of results in the three main operating segments begins on page 8.

Corporate and other accounts recorded a charge to earnings of \$19 million, compared with a charge of \$72 million in 1994 (1993 — \$86 million). The lower charge resulted from favorable resolution of some of the company's outstanding income-tax issues, higher interest income and reduced pension expense.

| EMPLOYEES | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|-------|-------|-------|--------|--------|
| Number of full-time employees at December 31 | 7 821 | 8 252 | 9 470 | 10 152 | 11 936 |
| Total payroll and benefits (millions of dollars) ⁽¹⁾ | 751 | 779 | 875 | 918 | 1 196 |
| Payroll and benefits per employee (thousands of dollars) ⁽²⁾ | 77 | 76 | 73 | 74 | 76 |

(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.

Expenditures on research and development in Canada were \$58 million in 1995, down from \$61 million in 1994 (1993 — \$77 million). Those funds were used mainly for developing improved heavy-oil recovery methods and better lubricants. The company was awarded 12 original patents in 1995.

The lower 1995 expenditures resulted from a program to focus the efforts of Imperial's Sarnia research centre on lubricant-product research for all of North America, while transferring other activities to Exxon-affiliated laboratories in Louisiana and New Jersey.

NET EARNINGS BY SEGMENT

| millions of dollars | 1995 | 1994 | 1993 | 1992 | 1991 |
|---------------------|------|------|------|------|-------|
| Natural resources | 233 | 167 | 92 | 151 | 277 |
| Petroleum products | 186 | 212 | 238 | 94 | 123 |
| Chemicals | 114 | 52 | 35 | 14 | 2 |
| Corporate and other | (19) | (72) | (86) | (64) | (240) |
| Net earnings | 514 | 359 | 279 | 195 | 162 |

EARNINGS SENSITIVITIES

| | | |
|---|---------|-------------|
| after tax | | |
| Each \$1(U.S.)-a-barrel change in crude oil prices | \$ | 50 million |
| Each \$0.10-a-thousand-cubic-feet change in natural gas prices | \$ | 10 million |
| Each one-cent difference in sales margins a litre of petroleum products | \$ | 120 million |
| Each one-cent (U.S.) change a pound in polyethylene prices | \$ | 5 million |
| Each one-cent decrease (increase) in the value of the Canadian \$ vs the U.S. \$ | \$ +(-) | 15 million |

The number of full-time employees declined to 7,821 at year-end, compared with 8,252 at the end of 1994 (1993 — 9,470). The main reasons for the decline were a staff-reduction program in conventional oil and gas operations, the outsourcing of the company's retail and small-business credit-card operations, and the closure of the loco refinery.

Imperial hired 115 new employees in 1995, 60 of them as part of the company's ongoing program of campus recruitment.

The number of employees who enrolled in training programs aimed at building core skills increased by about 50 percent in 1995 and a new, corporate-wide management-development program was introduced.

Through the Imperial Oil Charitable Foundation, the company continued its long-standing program of support to the communities in which it operates. During 1995, \$6 million was contributed to about 600 organizations across Canada.

The company's charitable activities are focused mainly on programs that enhance the lives of young Canadians. Through the Esso Kids Program, Imperial provides funding for such initiatives as preventing childhood injuries, breakfast clubs, literacy programs for street kids and community programs for at-risk youth. Esso dealers and agents participate actively in awarding the Esso Medals of Achievement, 75,000 of which are given out every year to recognize good sportsmanship and fair play among young Canadian hockey players.

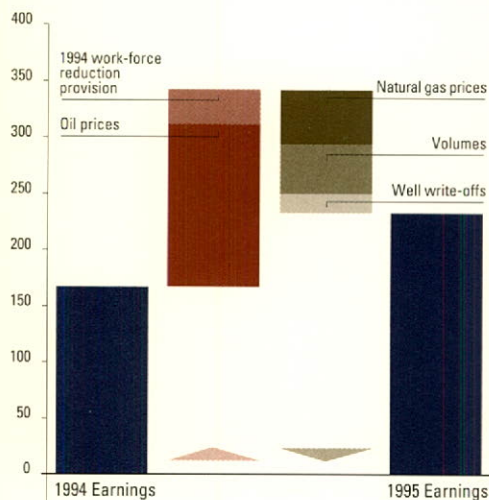
Natural Resources

Earnings from natural resources were \$233 million, up from \$167 million in 1994 (1993 — \$92 million). The increased earnings resulted from higher prices for crude oil, particularly for the heavy oil (bitumen) produced at Cold Lake. That was partly offset by much lower prices for natural gas.

There were no unusual items in 1995 and 1993, compared with an after-tax charge of \$31 million in 1994 for work-force-reduction programs. Earnings excluding unusual items were \$233 million, up from \$198 million in 1994 (1993 — \$92 million).

Natural Resources Earnings Analysis

(millions of dollars)



Natural-resource earnings increased because of higher oil prices, partly offset by lower prices for natural gas, lower production volumes and higher expenses for exploration well write-offs.

| NATURAL RESOURCES | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|--------------|-------------|-------------|-------------|-------------|
| Financial statistics (millions of dollars) | | | | | |
| Earnings | 233 | 167 | 92 | 151 | 277 |
| Revenues | 2 268 | 2 220 | 2 158 | 2 335 | 2 406 |
| Capital and exploration expenditures | | | | | |
| Exploration | 86 | 84 | 69 | 53 | 120 |
| Production | 80 | 138 | 221 | 162 | 200 |
| Heavy oil | 164 | 49 | 63 | 28 | 59 |
| Total capital and exploration expenditures | 330 | 271 | 353 | 243 | 379 |
| Capital employed at December 31 | 4 850 | 5 303 | 5 697 | 6 140 | 7 042 |
| Return on average capital employed (percent) | 4.6 | 3.0 | 1.6 | 2.3 | 3.8 |

Resource revenues increased marginally to \$2.3 billion from \$2.2 billion in 1994 (1993 — \$2.2 billion). Higher prices for crude oil were partly offset by much lower prices for natural gas.

World oil prices (all oil prices are in U.S. dollars unless otherwise noted) improved in 1995, as demand for petroleum products increased worldwide, particularly in the rapidly growing markets of the Asia-Pacific region. The annual price of Brent crude oil — a common benchmark for world oil prices, which is produced in the North Sea — averaged \$17 a barrel in 1995, compared with \$15.80 in 1994 (1993 — \$17).

The company's realizations on sales of conventional Canadian crude oil increased in line with international oil prices, rising to \$21.72 Canadian a barrel, or by about 12 percent, from \$19.46 Canadian in 1994 (1993 — \$19.58 Canadian).

Prices of heavier grades of crude oil rose more than prices of the lighter grades. Average realizations on the sale of blended bitumen from Cold Lake — the company's largest source of oil production — increased by about 20 percent.

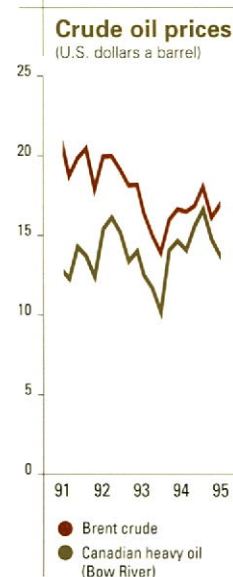
Average realizations on the sale of blended bitumen from Cold Lake — the company's largest source of oil production — increased by about 20 percent.

Canadian natural gas prices were 28 percent lower in 1995 than they were in 1994. Average industry realizations on the sale of natural gas, as reported by the Province of Alberta, were \$1.33 a thousand cubic feet (mcf), compared with \$1.84 an mcf in 1994 (1993 — \$1.69).

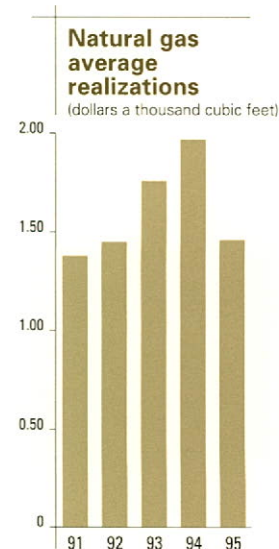
Canadian prices for natural gas are generally influenced by U.S. markets for natural gas. In 1995, however, the growth in natural gas production capacity in Canada exceeded the growth in export-pipeline capacity. That led to intense competition among producers in western Canada, and essentially disconnected Canadian markets from other markets in North America. The result was low Canadian prices for natural gas. Imperial is participating in the study of a new pipeline system, which could extend from northeastern British Columbia to the U.S. midwest and would increase export capacity.

AVERAGE REALIZATIONS AND PRICES

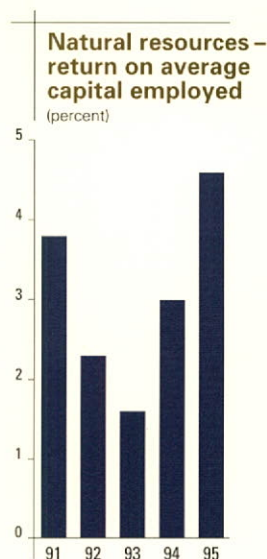
| dollars | 1995 | 1994 | 1993 | 1992 | 1991 |
|--------------------------------|--------------|-------|-------|-------|-------|
| Conventional crude oil | | | | | |
| realizations (a barrel) | 21.72 | 19.46 | 19.58 | 21.31 | 21.15 |
| Natural gas realizations | | | | | |
| (a thousand cubic feet) | 1.46 | 1.97 | 1.76 | 1.45 | 1.38 |
| Par crude oil price at | | | | | |
| Edmonton (a barrel) | 24.29 | 22.30 | 21.90 | 23.77 | 23.42 |
| Heavy crude oil price at | | | | | |
| Hardisty (Bow River, a barrel) | 20.82 | 18.18 | 17.14 | 18.64 | 15.41 |



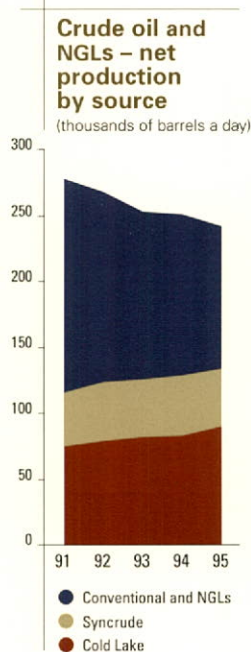
Higher average oil prices made a major contribution to 1995 earnings.



The company's gas realizations fell by 26 percent, as limited export-pipeline capacity created intense domestic competition.



ROCE remained below five percent, reflecting low gas prices and a unit-cost structure higher than industry leaders.



Oil production was down by four percent, as declining conventional production was partly offset by increased output from Cold Lake.

Imperial's average realizations on sales of natural gas were 10-percent higher than the industry average because the company has a diversified mix of sales contracts, some of which are indexed to U.S. gas prices, and because it reduced sales of gas to spot markets. Nonetheless, the company's average realizations fell by 26 percent to \$1.46 an mcf, compared with \$1.97 an mcf in 1994 (1993 — \$1.76).

NET PRODUCTION DOWN

Imperial's net production of crude oil and natural gas liquids (NGLs) was 242,000 barrels a day, down from 251,000 barrels in 1994 (1993 — 253,000).

CRUDE OIL AND NGLs — PRODUCTION AND SALES ^(1,2)

| thousands of barrels a day | 1995 | | 1994 | | 1993 | | 1992 | | 1991 | |
|---|-------|-----|-------|-----|-------|-----|-------|-----|-------|-----|
| | gross | net | gross | net | gross | net | gross | net | gross | net |
| Conventional crude oil | 105 | 82 | 115 | 93 | 120 | 96 | 135 | 106 | 159 | 124 |
| Cold Lake | 94 | 90 | 88 | 83 | 86 | 82 | 83 | 79 | 79 | 75 |
| Syncrude | 51 | 44 | 48 | 46 | 46 | 44 | 45 | 45 | 41 | 41 |
| Total crude oil production | 250 | 216 | 251 | 222 | 252 | 222 | 263 | 230 | 279 | 240 |
| NGLs available for sale | 30 | 26 | 32 | 29 | 31 | 31 | 39 | 38 | 39 | 38 |
| Total crude oil and NGL production | 280 | 242 | 283 | 251 | 283 | 253 | 302 | 268 | 318 | 278 |
| Cold Lake sales, including diluent ⁽³⁾ | | 128 | | 121 | | 118 | | 110 | | 110 |

NATURAL GAS — PRODUCTION AND SALES ^(1,2)

| millions of cubic feet a day | 1995 | | 1994 | | 1993 | | 1992 | | 1991 | |
|--|-------|-----|-------|-----|-------|-----|-------|-----|-------|-----|
| | gross | net | gross | net | gross | net | gross | net | gross | net |
| Production ⁽⁴⁾ | 522 | 426 | 542 | 445 | 621 | 509 | 539 | 463 | 586 | 503 |
| Production available for sale ⁽⁵⁾ | 377 | 281 | 385 | 286 | 441 | 328 | 401 | 325 | 445 | 365 |
| Sales | 440 | | 474 | | 522 | | 542 | | 581 | |

- (1) Volumes a day are calculated by dividing total volumes 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) Includes natural gas condensate added to the Cold Lake bitumen to facilitate transportation to market by pipeline.
- (4) Production of natural gas includes amounts used for internal consumption with the exception of amounts reinjected.
- (5) Production available for sale excludes amounts used for internal consumption and amounts reinjected.

Cold Lake

a valuable asset

Lower net production of conventional crude oil and Syncrude synthetic oil were only partly offset by increased production of Cold Lake bitumen. Increased Crown royalties were the major contributor to lower net production.

Net bitumen production at Cold Lake increased to 90,000 barrels a day from 83,000 barrels in 1994 (1993 — 82,000). That was mainly because of increased output from phases 7 & 8, which began production in late 1992.

Near the beginning of 1996, under the terms of the royalty agreement between the company and the Province of Alberta, the royalties charged on commercial bitumen production from Cold Lake increased from five percent of gross production to the greater of five percent of gross production or 30 percent of net revenues after deducting operating costs and capital expenditures. Under this provision, royalties at Cold Lake will vary with business conditions. If the new royalty calculation had applied in 1995, the effective royalty rate would have increased from five percent to about 12 percent of gross production, and net earnings would have been reduced by about \$35 million.

SYNCRUDE RESULTS IMPROVE

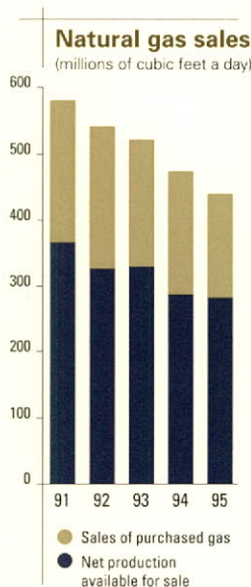
Syncrude, in which Imperial has a 25-percent interest, continued to increase production, reduce unit costs and improve business results. Gross production increased to 202,000 barrels a day from 191,000 barrels in 1994 (1993 — 184,000). Imperial's share of production net of royalty decreased to 44,000 barrels a day from 46,000 barrels in 1994 (1993 — 44,000) because of increased royalties resulting from higher oil prices.

Net production of natural gas fell to 426 million cubic feet a day in 1995, from 445 million cubic feet in 1994 (1993 — 509 million) because of reservoir decline and shut-in production in response to lower prices. Net production available for sale, after deducting internal consumption for steam generation at Cold Lake and other uses, decreased slightly to 281 million cubic feet a day from 286 million cubic feet in 1994 (1993 — 328 million). Sales volumes declined due to reduced purchases of gas for resale.

Production from the Cold Lake bitumen recovery operation represents a large and growing share of Imperial's total output of hydrocarbon liquids. Cold Lake's share has grown to 34 percent of total output in 1995 from 25 percent in 1991, and will increase even further by the end of 1997, when a current \$240-million investment program there is completed.

Cold Lake made an important contribution to Imperial's natural-resource earnings in 1995. In future, the performance of the Cold Lake operation is expected to make an even greater contribution to these earnings.

Imperial's strategy for developing its Cold Lake leases, which contain total proved and probable reserves of about one billion barrels of bitumen, emphasizes phased development so that growth in the supply of bitumen does not outpace growth in demand.



Gas sales declined due to lower purchases for resale and production shut-ins resulting from lower prices.

CASH OPERATING EXPENSES REDUCED

Total operating expenses were up because of exploratory well write-offs. Cash operating expenses were reduced by about two percent from 1994 levels. The decreases were primarily in conventional oil and gas operations, as 1995 saw the first full-year effect of a staff-reduction program introduced in 1994 to improve the competitiveness of those operations.

According to studies of industry operating costs, Imperial's unit costs of conventional oil and gas production remain higher than the best of its competitors. Despite the \$70 million in cost reductions already achieved in the last two years, measures to reduce costs further remain a top priority.

Imperial continued to reduce its holdings of marginal producing properties, while increasing its interests in core properties when attractive opportunities to do so arose.

In 1995, Imperial divested its interests in 77 properties, representing five million barrels of net proved oil reserves and 79 billion cubic feet (bcf) of net gas reserves. The company increased its interests in eight properties, representing 143 thousand barrels of net proved reserves of crude oil and NGLs and 12 bcf of gas reserves.

Net cash proceeds were \$102 million, compared with \$115 million in 1994 (1993 — \$90 million).

CAPITAL AND EXPLORATION SPENDING INCREASED

Capital and exploration expenditures in 1995 were \$330 million, up from \$271 million in 1994 (1993 — \$353 million). The most important element in the increase was expenditures on phases 9 & 10 of the Cold Lake bitumen-recovery operation and on measures to improve the productivity of earlier phases. In 1995, the company invested \$108 million to drill 293 development wells at Cold Lake. Net bitumen production is expected to increase to 110,000 barrels a day in 1997 as a result of this investment program.

The company also participated in the drilling of 101 development wells to increase production and improve the productivity of the company's conventional oil and gas reserves.

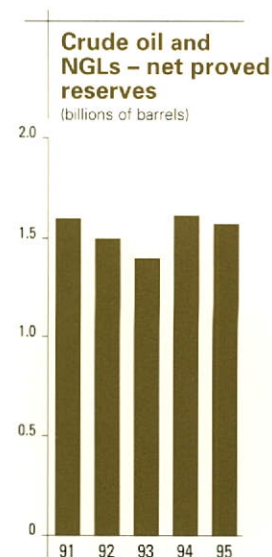
In recent years, Imperial's exploration strategy has been based on the assessment that there are few remaining large pools of undiscovered conventional oil in western Canada. As a result, it has concentrated on exploring for natural gas — for which there is still thought to be significant potential for major discoveries — while replacing production of liquid hydrocarbons through heavy-oil development.

Exploration expenditures totaled \$86 million, versus \$84 million in 1994 (1993 — \$69 million). The emphasis was on maintaining an inventory of exploration prospects and conducting initial drilling to test exploration plays. The company acquired interests in 19.4 thousand hectares of exploration land, principally in the Foothills and Plains regions of Alberta and northeastern British Columbia.

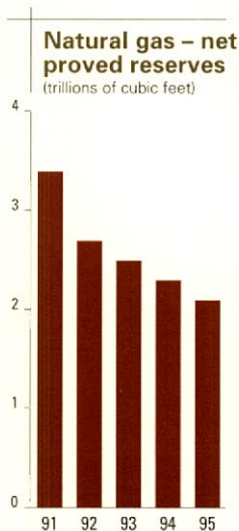
Imperial is a member of a consortium that was awarded an exploration licence in the Sable Island area.

The results of the 1995 exploration program were generally disappointing. Imperial participated in 28 exploration wells, the majority of which were directed toward extending reserves around existing fields. Activities to test new prospects did not progress as quickly as planned and the wells that were drilled were unsuccessful.

Imperial is a member of a consortium that, in 1995, was awarded an exploration licence in the Sable Island area of the Scotian Shelf off eastern Canada. The company also has a nine-percent interest in the Sable Offshore Energy Project, which is developing plans to produce about 400 million cubic feet a day of natural gas from six main fields in the same area. The gas would be marketed in eastern Canada and the northeastern United States. If this project proceeds, the consortium estimates that \$2 billion in capital will be required for offshore development, gathering systems and onshore processing facilities during the 25-year life of the project.



Proved oil reserves declined slightly, as production outpaced reserve additions from higher Cold Lake recovery rates.



Reserves of natural gas declined as a result of 1995 production and asset sales.

Capital and exploration expenditures for 1996 are expected to total about \$400 million. Roughly half that amount will be spent for oil-sands development. The remainder will be used to support production in core conventional-oil properties, as well as for the exploration for and development of natural gas reserves in Alberta and British Columbia.

PROVED RESERVES DECLINED

Net proved reserves of crude oil and natural gas liquids declined in 1995, as production more than offset reserve additions from improved recovery rates at Cold Lake. Net proved reserves of hydrocarbon liquids declined by 43 million barrels to 1,573 million barrels from 1,616 million barrels at the end of 1994 (1993 — 1,449 million).

In natural gas, reserves declined to 2.1 trillion cubic feet (tcf) at the end of 1995, down from 2.3 tcf at the end of 1994 (1993 — 2.5 tcf).

PROVED RESERVES OF CRUDE OIL AND NATURAL GAS ⁽¹⁾

| Year ended | Crude oil and NGLs (millions of barrels) | | | | | | | | Natural gas (billions of cubic feet) | |
|-------------|---|------------|------------|------------|------------|------------|--------------|--------------|---|--------------|
| | Conventional | | Cold Lake | | Syncrude | | Total | | gross | net |
| | gross | net | gross | net | gross | net | gross | net | | |
| 1991 | 743 | 585 | 818 | 738 | 424 | 283 | 1 985 | 1 606 | 4 184 | 3 396 |
| 1992 | 629 | 502 | 829 | 719 | 408 | 327 | 1 866 | 1 548 | 3 236 | 2 651 |
| 1993 | 555 | 444 | 798 | 691 | 392 | 314 | 1 745 | 1 449 | 3 053 | 2 505 |
| 1994 | 519 | 416 | 868 | 752 | 529 | 448 | 1 916 | 1 616 | 2 644 | 2 302 |
| 1995 | 442 | 362 | 898 | 779 | 511 | 432 | 1 851 | 1 573 | 2 487 | 2 118 |

(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.

Petroleum Products

Net earnings from petroleum products were \$186 million, down from \$212 million in 1994 (1993 — \$238 million).

There were no unusual items in 1995 or 1994 (1993 — negative \$54 million).

The decline in earnings was primarily the result of lower industry refining margins and reduced sales volumes, which more than offset improved refinery yields and higher overall marketing margins.

Revenues were \$7.9 billion, up by about six percent from \$7.5 billion the previous year (1993 — \$ 7.3 billion). That resulted from higher product prices partly offset by lower sales volumes. The increase in revenues was more than offset by higher raw-material costs.

COMPANY SALES DOWN

Canadian consumption of petroleum products, excluding chemical feedstocks, increased by about one percent in 1995, reflecting the modest growth in the domestic economy.

The company's total sales were 70.6 million litres a day, down from 72.0 million litres the previous year (1993 — 71.4 million).

Imperial's goal in petroleum products is to increase sales through higher-margin, Esso-branded channels while reducing sales to less attractive markets. During 1995, Esso-branded sales increased to 72 percent of total sales, compared with 70 percent in 1994.

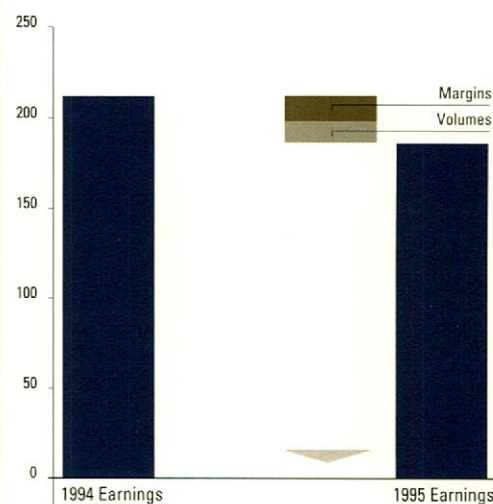
Total company sales of motor gasoline declined to 30.8 million litres a day from 31.2 million litres in 1994 (1993 — 31.4 million). About 40 percent of gasoline sales are to wholesale customers. Volumes to that segment of the business were down from the previous year. About 60 percent of the company's gasoline production is sold through Esso service stations. Sales through that higher-margin channel increased by about one percent from the previous year, compared with growth of less than one half of one percent in total Canadian sales of retail gasoline.

Sales of distillate products such as heating oil, diesel fuel and aviation fuel were 24.2 million litres a day, compared with 24.8 million litres in 1994 (1993 — 23.6 million).

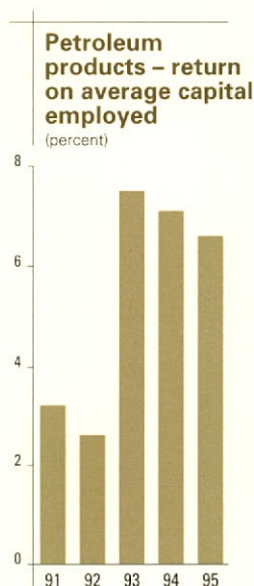
Diesel-fuel sales, which represent more than half of distillate sales, grew by just over one percent. That included large gains in expanding road-transport markets, offset by reduced sales to wholesalers and to lower-margin rail and marine segments.

Petroleum Products Earnings Analysis

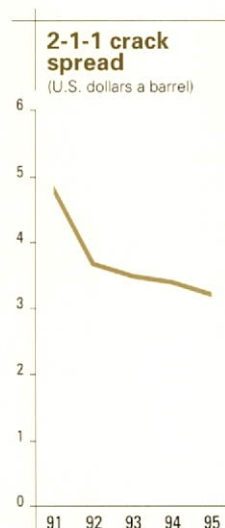
(millions of dollars)



Lower industry refining margins and reduced sales volumes were the main reasons for lower earnings in petroleum products.



ROCE fell to 6.6 percent, reflecting lower earnings.



Refining margins, as reflected in widely followed industry indicators (crack spreads), declined in 1995.

Sales of home-heating oil, which make up nearly one quarter of the company's distillate sales, fell by six percent in 1995 because of unusually warm conditions during the first three months of the year, compared with unusually cold conditions during the same period of 1994.

Sales of commercial aviation fuel grew by 12 percent, as the company increased its share of this rapidly growing market, offset in part by continuing declines in demand from the military for jet fuel.

New product introductions included more than 100 specialty lubricants that were aimed at improving the company's strong position in this high-value-added segment of the market for petroleum products.

SELLING PRICES HIGHER, MARGINS LOWER

While selling prices for petroleum products were generally higher in 1995 than in the previous year, the average margin between product prices and raw-material costs declined.

One reason was the low demand for home-heating oil during the early months of 1995, which created an industry surplus that severely depressed prices for distillate products in general. As well, European-sourced cargoes of gasoline depressed prices in certain eastern Canadian markets.

The cost of heavier grades of high-sulphur crude oil increased relative to lighter grades of low-sulphur crude oil in 1995. That eroded some of the relative advantage that Imperial's refineries enjoyed in 1994 because of their ability to process heavier, higher-sulphur feedstocks.

| PETROLEUM PRODUCTS | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|--------------|-------|-------|-------|-------|
| Financial statistics (millions of dollars) | | | | | |
| Earnings | 186 | 212 | 238 | 94 | 123 |
| Revenues | 7 896 | 7 452 | 7 338 | 7 633 | 8 141 |
| Capital expenditures | | | | | |
| Marketing | 116 | 93 | 82 | 52 | 64 |
| Refining and distribution | 93 | 133 | 71 | 59 | 91 |
| Total capital expenditures | 209 | 226 | 153 | 111 | 155 |
| Capital employed at December 31 | 2 727 | 2 920 | 3 027 | 3 358 | 3 765 |
| Return on average capital employed (percent) | 6.6 | 7.1 | 7.5 | 2.6 | 3.2 |

| PETROLEUM PRODUCTS | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|-------------|-------------|-------------|-------------|-------------|
| Sales volumes (millions of litres a day) ^(1,2) | | | | | |
| Gasolines | 30.8 | 31.2 | 31.4 | 30.9 | 31.2 |
| Heating, diesel and jet fuels | 24.2 | 24.8 | 23.6 | 25.0 | 26.7 |
| Heavy fuel oils | 6.3 | 6.4 | 6.2 | 7.2 | 7.3 |
| Liquefied petroleum gas, lube oils and other products | 9.3 | 9.6 | 10.2 | 9.9 | 9.6 |
| Total petroleum products | 70.6 | 72.0 | 71.4 | 73.0 | 74.8 |
| Total domestic sales of petroleum products (percent) | 94.1 | 93.9 | 94.5 | 91.5 | 89.0 |
| Refinery utilization (millions of litres a day) ⁽²⁾ | | | | | |
| Total refinery throughput ⁽³⁾ | 67.3 | 68.2 | 65.9 | 63.4 | 66.6 |
| Refinery capacity at December 31 | 78.4 | 85.4 | 85.4 | 85.4 | 85.4 |
| Utilization of total refinery capacity (percent) | 82 | 80 | 77 | 74 | 78 |

(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 for the year by the number of days in the year.

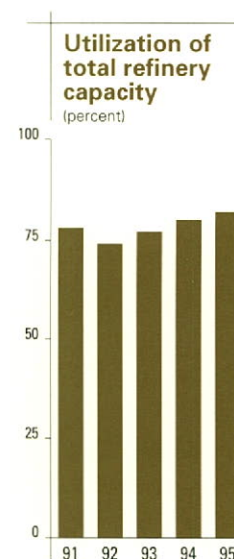
(3) Crude oil and feedstocks sent directly to atmospheric distillation units. One thousand litres is approximately 6.3 barrels.

Total operating expenses, excluding excise taxes, were unchanged. Operating costs included major expenses for a program to rationalize and refurbish the company's service-station network, which is expected to be largely completed by 1997. Also included are the costs of a project to reengineer key business processes, which is expected to be completed in 1997 as well.

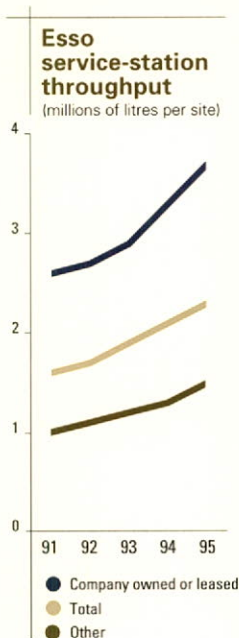
The utilization of the refining system increased in 1995. The Strathcona refinery near Edmonton began supplying all of the company's markets in British Columbia following the closure of the loco refinery at midyear. In addition, the company further integrated facilities at its Sarnia and Nanticoke refineries to reduce costs and streamline octane-production capacity.

SERVICE-STATION PRODUCTIVITY IMPROVED

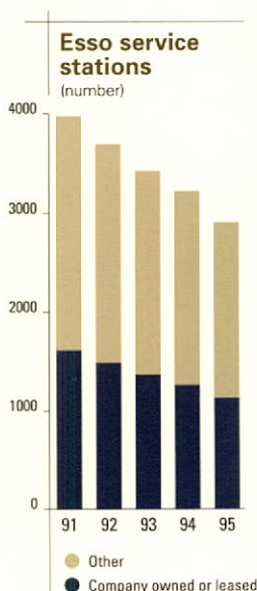
The company continued its program of improving the productivity of its service-station network by closing or divesting unproductive sites. In 1995, there was a net reduction of 198 dealer-owned retail sites. As well, 141 company-owned sites were closed or sold. Twenty-one new sites were



Refinery utilization improved to 82 percent of capacity in 1995.



The productivity of the Esso service-station network increased by 10 percent in 1995.



The company's program of rationalizing its service-station network made a major contribution to productivity in 1995.

opened in better locations, for a net reduction of 318 sites. That helped increase average sales for the entire Esso network to 2.3 million litres a year per site, up 10 percent from 1994. In addition, the company closed 48 low-productivity bulk plants, fertilizer sales facilities and Mr. Lube operations.

ADDITIONAL ISO 9000 REGISTRATIONS RECEIVED

During the year, the products segment received 10 additional registrations under the ISO 9000 quality-assurance system, which provides an internationally recognized way to manage and control work processes. That brought total registrations to 21, or 75 percent of the registrations needed to complete the program for all applicable functions in petroleum products.

Capital expenditures were \$209 million, down from \$226 million in 1994 (1993 — \$153 million). The decrease reflects fewer refinery projects than were undertaken in 1994.

Capital expenditures in 1995 were concentrated on continuing to upgrade the service-station network, improving refinery efficiency and reliability, improving the quality of refined products to meet new environmental standards, and converting the loco refinery to a distribution terminal.

During the year, more than \$80 million was invested in the company-owned service-station network to build 21 new sites and upgrade more than 250 existing ones. Improvements included the addition of convenience stores, the installation of car washes and the availability, at a growing number of locations, of "Express Pay" service, which allows customers to pay for their purchases at the pumps.

ENTHUSIASTIC RESPONSE TO TIGER EXPRESS

At the heart of the company's convenience-store offering is the Tiger Express retailing concept, which combines the sale of brand-name snacks and beverages with a nationally recognized fast-food outlet and an automated banking machine. Tiger Express stores are aimed at providing friendly, one-stop convenience for people on the go.

Response to the Tiger Express offering has been enthusiastic. Based on that experience, the company increased the number of Tiger Express sites to 196 at the end of 1995 from 94 at the end of 1994. By the end of 1997, about 400 Tiger Express stores are expected to be operating in major centres across the country.

Capital expenditures in 1996 are expected to be about \$240 million. The money will be used to continue upgrading the company's service-station network and improving the profitability of refining operations.

Chemicals

The chemicals segment had the best year in its history in 1995. Several years of steady reductions in unit costs, combined with increased sales and higher prices for many petrochemicals, produced record earnings of \$114 million, more than double 1994 earnings of \$52 million (1993 — \$35 million).

Markets for petrochemical products were very strong, particularly during the first half of the year. Sales volumes for most core chemical products were higher than in the previous year.

The return on average capital employed from chemical operations increased to 40 percent in 1995 from 10 percent in 1994.

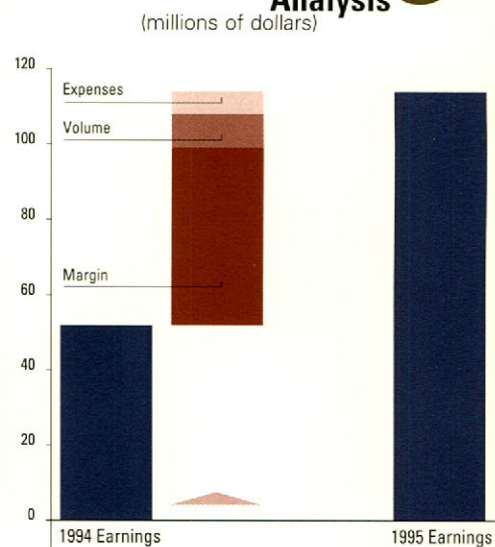
The return on average capital employed from chemical operations increased to 40 percent in 1995 from 10 percent in 1994.

Total chemical revenues increased to \$887 million from \$817 million in 1994. The main reason for the increase was higher product prices. Revenues of \$971 million in 1993 included a full year of fertilizer manufacturing; those operations were sold in early 1994.

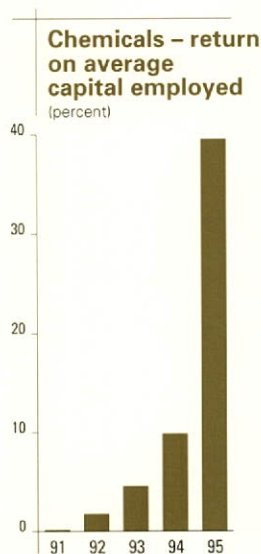
Average industry polyethylene prices were \$1,318 a tonne in 1995, up from \$978 a tonne in 1994 (1993 — \$813). Within that average, however, there was considerable volatility during the year. Polyethylene prices began 1995 at about \$1,340 a tonne and peaked at more than \$1,400 a tonne in February. By the end of the year they had fallen to about \$980 a tonne.

Prices for a number of other petrochemicals displayed a similar pattern, peaking during the first half of the year and then declining as the year progressed.

Chemicals Earnings Analysis



Strong markets for most petrochemicals, combined with increased sales and lower unit costs, propelled chemical earnings to a record \$114 million in 1995.



Record earnings and a reduction in capital employed through the 1994 sale of fertilizer assets produced significantly higher returns in chemicals.

Sales of petrochemicals increased to 3.1 thousand tonnes a day from 2.9 thousand tonnes in 1994 (1993 — 2.9 thousand). A number of business units achieved record sales, including polyethylene, Paramins additives for fuels and lubricants, and solvents. Higher sales of other products such as polypropylene and carbon-black feedstock also made a major contribution to the increased volumes.

Excluding costs associated with the fertilizer manufacturing business that was sold in early 1994, operating costs were down marginally from the previous year despite higher production and sales of petrochemicals.

The company continued to focus successfully on improving the cost-competitiveness of its operations. For example, independent benchmarking studies of industry costs recently confirmed that Imperial's polyethylene facility in Sarnia — the company's largest chemical-manufacturing operation — is well positioned among the industry leaders in North America.

| CHEMICALS | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|-------------|-------------|-------------|-------------|-------------|
| Financial statistics (millions of dollars) | | | | | |
| Earnings | 114 | 52 | 35 | 14 | 2 |
| Revenues | 887 | 817 | 971 | 886 | 841 |
| Capital expenditures | 13 | 24 | 24 | 31 | 23 |
| Capital employed at December 31 | 266 | 310 | 739 | 780 | 804 |
| Return on average capital employed (percent) | 39.6 | 9.9 | 4.6 | 1.8 | 0.2 |
| Sales volumes (thousands of tonnes a day) | | | | | |
| Polymer and basic chemicals | 2.0 | 1.8 | 1.9 | 1.9 | 1.6 |
| Performance products | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 |
| Total petrochemicals | 3.1 | 2.9 | 2.9 | 2.8 | 2.5 |

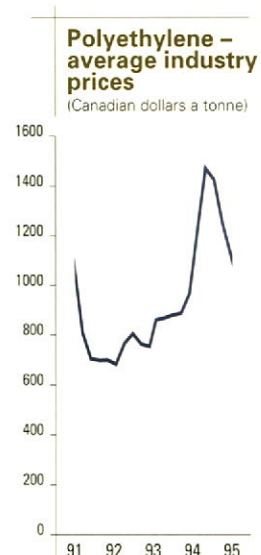
One tonne is approximately 1.1 short tons or 0.98 long tons.

The chemical segment received one additional registration under the ISO 9000 quality-assurance system during the year, in its aromatic-solvent business, bringing the total number to five. Two additional registrations are currently under way in the company's polyethylene and polyvinyl chloride operations. Those are expected to be completed in 1996, leaving the company's ethylene unit in Sarnia as the remaining applicable business unit to obtain ISO 9000 registration.

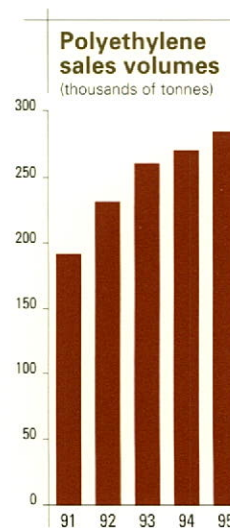
Planned capital expenditures are expected to increase significantly to about \$35 million in 1996.

Capital expenditures were \$13 million in 1995, down from \$24 million in 1994 (1993 — \$24 million). The funds were used to increase the efficiency of the polyethylene plant and to begin increasing the output of polyvinyl chloride, among other projects.

Planned capital expenditures are expected to increase significantly to about \$35 million in 1996. The money will be used mainly to increase production capacity for polyethylene by 20 percent and to complete the expansion of the polyvinyl chloride plant, which will increase its output by about 10 percent.



Polyethylene prices peaked early in 1995 and declined steadily as the year progressed.



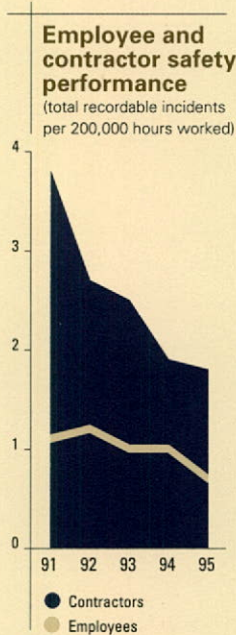
Production from Imperial's highly efficient Sarnia polyethylene plant continued to grow.

Environment, Health and Safety

The company is committed to environmental responsibility and to safeguarding the health and safety of employees, contractors, customers and the public. In 1995, the company made capital expenditures of \$74 million on environmental and safety-related projects.

The cornerstone of this commitment is Imperial's operations integrity management framework, which was introduced several years ago to provide a structured and disciplined approach to operating all company facilities safely and reliably. The goal of the framework is to prevent potentially harmful incidents such as fires, explosions, spills or leaks, and to ensure compliance with all safety and environmental laws and regulations. Annual assessments show continuing improvement in meeting the expectations of the framework, which are themselves continually reviewed and upgraded.

The company's safety performance, already among the best in Canadian industry, improved further in 1995.



Imperial's industry-leading safety performance improved again in 1995, but was marred by a contractor fatality.

The company's safety performance, already among the best in Canadian industry, improved further in 1995. The rate of safety-related incidents, having declined steadily for several years, went down by another 19 percent versus 1994. Among other accomplishments, petroleum-products marketing employees recorded more than eight million work hours without a lost-time incident, and Strathcona refinery more than four million work hours. There were also fewer lost-time incidents involving contractors than in any previous year, although this record was marred by one fatality.

Imperial also continued to reduce potential adverse impacts on the environment from its operations. Environmental compliance incidents in which substance releases temporarily exceeded government guidelines were reduced by 18 percent versus 1994.

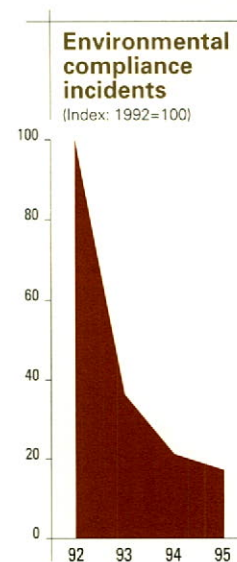
In spite of significant earlier gains in reducing potentially hazardous operating incidents such as spills and fires, a rising trend in such incidents through 1994 and 1995 is a cause for concern and is being actively addressed. During 1995, the company continued to simulate emergencies in order to test and improve its ability to respond to major incidents.

Imperial lowered ongoing emissions from its operations of substances on which it reports to the government under the National Pollutant Release Inventory program (NPRI). Imperial's most recent NPRI report, covering 1994, showed a 25-percent reduction of estimated emissions compared with the prior year's report. An extensive leak detection and repair program in the company's refineries and chemical plants will contribute to further reductions.

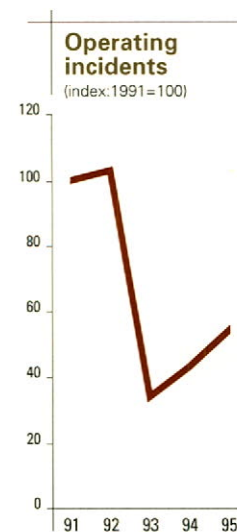
Imperial continued to remediate for reuse or sale surplus properties such as service stations, refineries, and oil and gas wells. Significant progress was made in working with governments to develop standards and guidelines for the cost-effective clean-up of surplus properties, and in improving technologies such as the biological remediation of contaminated soils as an alternative to removal and disposal at third-party locations.

Imperial was active in developing a petroleum-industry position on the reformulation of gasoline to address Canadian air-quality concerns. In 1995, Imperial also made an initial submission to Canada's Climate Change Voluntary Challenge and Registry Program, which is part of Canada's National Action Plan to stabilize greenhouse-gas emissions at 1990 levels by the year 2000. Imperial believes this program represents the appropriate public policy approach, given the substantial and widespread uncertainty that exists regarding the potential impact of human activity on the earth's climate.

In its submission, Imperial said it will implement cost-effective and economically viable initiatives that reduce emissions of greenhouse gases. It also noted that, based on current business plans, greenhouse-gas emissions from company operations by the year 2000 are forecast to be no higher than 1990 levels.



Incidents in which substance releases exceeded government guidelines were reduced by 18 percent from the previous year.



Despite significant earlier improvement, an increase in incidents such as spills and fires is a cause for concern.

Financial Review

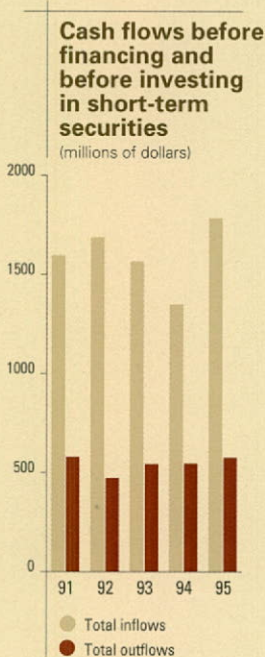
Imperial continued to use its strong financial position to create value for shareholders in 1995. The company's balance sheet and key financial ratios continued to improve.

A major initiative was the implementation of a share-repurchase program on June 19, 1995. Under the terms of the program the company can purchase up to five percent of its outstanding shares — a maximum of 9.69 million shares — during the 12 months following its commencement.

By December 31, 1995, \$236 million had been spent to purchase 4.83 million shares. The purchases have continued in 1996.

Exxon Corporation is participating in the program to maintain its ownership in Imperial at 69.6 percent, but may at any time inform the company of a change in its intention to participate.

The share-repurchase program enhances value for all shareholders. Reducing the number of shares outstanding means that each remaining share represents a larger proportion of the company's total assets, earnings and cash flow.



Cash inflows from operating activities and asset sales substantially exceeded outflows for capital and exploration expenditures.

The company's regular quarterly dividend was increased by 11 percent to 50 cents a share in the third quarter.

In another measure to enhance returns to shareholders, the company's regular quarterly dividend was increased by 11 percent to 50 cents a share in the third quarter. The higher dividends in the final two quarters of the year brought total dividends to \$1.90 a share in 1995. On an annualized basis, the higher dividend of \$2 a share represents a yield of 4.1 percent based on the year-end stock price of \$49 ³/₈.

Even with the share repurchases and the higher dividend, the company's balance of cash and short-term securities grew to \$1,842 million at the end of 1995, compared with \$1,268 million at the end of 1994 (1993 — \$1,479 million).

That increase underscores the company's very strong cash-generation capacity. Cash flow from earnings increased to \$1,296 million, compared with \$1,067 million in 1994 (1993 — \$1,166 million).

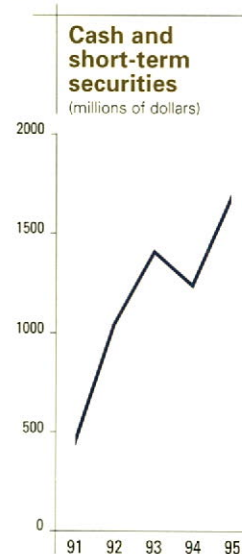
CASH FROM OPERATING ACTIVITIES GREW SUBSTANTIALLY

Cash provided from operating activities grew by an even greater percentage, to \$1,642 million from \$783 million in 1994 (1993 — \$1,438 million), as working-capital requirements were reduced during the year following an increase in 1994. One reason was that in 1994 the company made a large final payment for 1993 income taxes. As well, during the second quarter of 1995, Imperial sold its retail and small-business credit-card receivables. The final improvement to cash flow from operations resulted from an increase in accounts payable, which rose in part due to tax liabilities that are payable early in 1996.

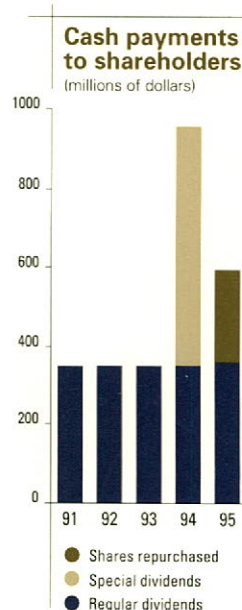
Capital and exploration expenditures were \$570 million, up from \$540 million in 1994 (1993 — \$538 million), but down from the \$650 million projected in last year's annual report. The reasons for the lower-than-expected spending were a deferral of certain natural-resource programs to accommodate environmental reviews, lower development drilling reflecting poor markets for natural gas and reduced capital spending on solvents for enhanced-oil-recovery projects.

Capital and exploration expenditures are expected to increase to about \$700 million in 1996. As in most recent years, that amount will be financed entirely from internally generated funds.

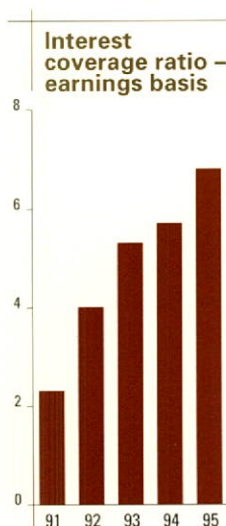
Imperial continued its policy of using financial derivatives only to reduce its exposure to risk on specific transactions. The company does not use derivative markets to speculate on the future direction of currency or commodity prices and does not sell forward any part of its natural-resource production. Over the course of the year, the company reduced its use of both commodity futures contracts and currency forwards. Interest and currency swap transactions continued to be used within limits to manage the interest-rate or currency exposure of the corporation's debt.



Imperial's strong cash flow caused cash and short-term securities to grow to more than \$1.8 billion.



A share-repurchase program was introduced and the regular dividend rate was increased in 1995, following a large special dividend payment in 1994.



Higher earnings and lower debt have caused interest coverage to strengthen steadily.

| FINANCIAL SUMMARY | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|-------------|-------------|-------------|-------------|-------------|
| Financial percentages and ratios ⁽¹⁾ | | | | | |
| Total debt as a percentage of capital | 28.2 | 28.9 | 26.9 | 28.7 | 28.0 |
| Interest coverage ratios | | | | | |
| Earnings basis | 6.8 | 5.7 | 5.3 | 4.0 | 2.3 |
| Cash-flow basis | 11.3 | 13.5 | 11.5 | 10.3 | 7.9 |

(1) See page 33 for definitions of these terms.

CONSERVATIVE FINANCIAL POSITION MAINTAINED

Even with increased cash distributions to shareholders and higher capital expenditures, Imperial maintains a conservative financial position. The company believes that is an appropriate stance given the volatility of the petroleum industry, and one that will enable it to take advantage of investment opportunities that may arise.

At year-end, total debt including financial guarantees represented about 28 percent of the company's capital structure, compared with 29 percent in 1994 (1993 — 27 percent).

Debt-related interest costs increased to \$160 million in 1995, from \$139 million in 1994 (1993 — \$132 million). The reason was higher average interest rates during the year. That increase was more than offset by rising interest income from the company's cash portfolio. The average interest on the company's debt was 7.0 percent, compared with 5.9 percent the previous year (1993 — 5.3 percent).

Imperial's ability to cover its interest obligations remained strong in 1995. On an earnings basis, interest coverage increased to 6.8 times in 1995, compared with 5.7 times in 1994 (1993 — 5.3 times). On a cash-flow basis, interest coverage was 11.3 times, compared with 13.5 times in 1994 (1993 — 11.5 times).

Management Report Auditors' 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 a 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 pages 46 and 47.

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.



R.B. Peterson



D.J. Cacchio

February 22, 1996

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, 1995, and the consolidated balance sheets as at December 31, 1995, and 1994. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 1995, and its financial position as at December 31, 1995, and 1994, in accordance with generally accepted accounting principles in Canada.



Chartered Accountants

1 First Canadian Place

Toronto, Ontario

February 22, 1996

Consolidated Statement of Earnings

millions of dollars

| For the years ended December 31 | 1995 | 1994 | 1993 | 1992 | 1991 |
|--|--------------|--------------|--------------|--------------|--------------|
| Revenues | | | | | |
| Operating revenues | 9 285 | 8 805 | 8 757 | 8 939 | 9 412 |
| Interest and investment income | 159 | 100 | 108 | 175 | 62 |
| Total revenues ^(a) | 9 444 | 8 905 | 8 865 | 9 114 | 9 474 |
| Expenses | | | | | |
| Exploration | 75 | 46 | 52 | 70 | 89 |
| Purchases of crude oil and products | 3 706 | 3 436 | 3 325 | 3 465 | 3 597 |
| Operating | 2 666 | 2 746 | 2 801 | 2 982 | 3 469 |
| Federal excise tax | 1 120 | 1 019 | 986 | 983 | 966 |
| Depreciation and depletion | 746 | 786 | 861 | 894 | 833 |
| Financing costs (11) | 208 | 172 | 177 | 166 | 216 |
| Total expenses | 8 521 | 8 205 | 8 202 | 8 560 | 9 170 |
| Unusual items (2) | — | (47) | (95) | (101) | (31) |
| Earnings before income taxes | 923 | 653 | 568 | 453 | 273 |
| Income taxes (7) | 409 | 294 | 289 | 258 | 111 |
| Net earnings | 514 | 359 | 279 | 195 | 162 |
| Per-share information (dollars) | | | | | |
| Net earnings | 2.67 | 1.85 | 1.44 | 1.01 | 0.84 |
| Dividends | 1.90 | 4.80 | 1.80 | 1.80 | 1.80 |

(a) Includes export revenues of \$983 million (1994 – \$826 million).

The summary of significant accounting policies, the glossary of terms and the notes, found on pages 31 through 40, are part of these consolidated financial statements.

Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation. There is no effect on earnings.

Consolidated Statement of Cash Flows

millions of dollars

inflow (outflow)

| For the years ended December 31 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|----------------|----------------|--------------|--------------|--------------|
| Operating activities | | | | | |
| Net earnings | 514 | 359 | 279 | 195 | 162 |
| Exploration expenses ^(a) | 75 | 46 | 52 | 70 | 89 |
| Depreciation and depletion | 746 | 786 | 861 | 894 | 833 |
| (Gain)/loss from asset sales and writedowns ⁽²⁾ | – | – | 55 | 101 | (94) |
| Deferred income taxes and other | (39) | (124) | (81) | (112) | 3 |
| Cash flow from earnings ^(b) | 1 296 | 1 067 | 1 166 | 1 148 | 993 |
| Receivables | 55 | (120) | 126 | 57 | 400 |
| Inventories and prepaids | 11 | (45) | 77 | 174 | 208 |
| Liabilities | 280 | (119) | 69 | 57 | (421) |
| Change in operating assets and liabilities ^(c) | 346 | (284) | 272 | 288 | 187 |
| Cash from operating activities | 1 642 | 783 | 1 438 | 1 436 | 1 180 |
| Investing activities | | | | | |
| Capital and exploration expenditures ^(a) | (570) | (540) | (538) | (467) | (574) |
| Proceeds from asset sales ^(c) | 135 | 559 | 122 | 245 | 410 |
| Marketable securities – net | 481 | 14 | (117) | (750) | (5) |
| Promissory notes of an Exxon Corporation subsidiary – net ⁽¹³⁾ | (1 191) | – | – | – | – |
| Cash from (used in) investing activities | (1 145) | 33 | (533) | (972) | (169) |
| Cash flow before financing activities | 497 | 816 | 905 | 464 | 1 011 |
| Financing activities | | | | | |
| Long-term debt and capital lease | 1 | – | – | – | 228 |
| Repayment of long-term debt | (40) | (82) | (216) | (78) | (410) |
| Short-term debt – net | – | – | – | (58) | (241) |
| Common shares issued (purchased) ⁽¹⁰⁾ | (236) | – | – | – | 111 |
| Dividends paid | (358) | (930) | (349) | (349) | (347) |
| Cash used in financing activities | (633) | (1 012) | (565) | (485) | (659) |
| Increase (decrease) in cash | (136) | (196) | 340 | (21) | 352 |
| Cash at beginning of year | 409 | 605 | 265 | 286 | (66) |
| Cash at end of year ^(d) | 273 | 409 | 605 | 265 | 286 |

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

(b) Includes dividends received from equity investments of \$14 million (1994 – \$11 million; 1993 – \$9 million).

(c) In 1994, proceeds from receivables and inventory that were sold with the fertilizer business were classified as proceeds from asset sales.

(d) Total cash and short-term securities at December 31, 1995, were \$1,842 million (1994 – \$1,268; 1993 – \$1,479 million).

Consolidated Balance Sheet

millions of dollars

At December 31

| | 1995 | 1994 | 1993 | 1992 | 1991 |
|--|---------------|---------------|---------------|---------------|---------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash | 273 | 409 | 605 | 265 | 286 |
| Marketable securities at amortized cost (3) | 378 | 859 | 874 | 757 | 7 |
| Promissory notes of an Exxon Corporation subsidiary (13) | 1 191 | — | — | — | — |
| Accounts receivable | 1 006 | 1 045 | 954 | 1 065 | 1 095 |
| Inventories of crude oil and products (14) | 385 | 384 | 402 | 468 | 604 |
| Materials, supplies and prepaid expenses | 90 | 100 | 129 | 140 | 178 |
| Total current assets | 3 323 | 2 797 | 2 964 | 2 695 | 2 170 |
| Investments and other long-term assets | 254 | 264 | 152 | 159 | 204 |
| Property, plant and equipment (1) | 8 170 | 8 538 | 9 389 | 9 965 | 10 760 |
| Goodwill | 305 | 329 | 356 | 373 | 400 |
| Total assets | 12 052 | 11 928 | 12 861 | 13 192 | 13 534 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Short-term debt | — | — | — | — | 58 |
| Accounts payable and accrued liabilities (13) | 1 508 | 1 297 | 1 222 | 1 373 | 1 514 |
| Income taxes payable | 418 | 284 | 436 | 247 | 110 |
| Total current liabilities | 1 926 | 1 581 | 1 658 | 1 620 | 1 682 |
| Long-term debt (4) | 1 971 | 1 977 | 2 030 | 2 222 | 2 356 |
| Other long-term obligations (5) | 1 097 | 1 148 | 1 149 | 1 137 | 1 007 |
| Commitments and contingent liabilities (8) | | | | | |
| Total liabilities | 4 994 | 4 706 | 4 837 | 4 979 | 5 045 |
| Deferred income taxes | 1 150 | 1 227 | 1 458 | 1 577 | 1 699 |
| Shareholders' equity | | | | | |
| Common shares at stated value (10) | 2 903 | 2 977 | 2 977 | 2 977 | 2 977 |
| Net earnings retained and used in the business | | | | | |
| At beginning of year | 3 018 | 3 589 | 3 659 | 3 813 | 3 999 |
| Net earnings for the year | 514 | 359 | 279 | 195 | 162 |
| Share purchases (10) | (162) | — | — | — | — |
| Dividends | (365) | (930) | (349) | (349) | (348) |
| At end of year | 3 005 | 3 018 | 3 589 | 3 659 | 3 813 |
| Total shareholders' equity | 5 908 | 5 995 | 6 566 | 6 636 | 6 790 |
| Total liabilities, deferred income taxes and shareholders' equity | 12 052 | 11 928 | 12 861 | 13 192 | 13 534 |

Approved by the directors


Chairman, president and
chief executive officer

Senior vice-president,
finance and administration

Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiaries. Intercompany accounts and transactions are eliminated. Significant subsidiaries included in the consolidated financial statements are:

- Imperial Oil Resources Limited
- Imperial Oil Resources N.W.T. Limited
- Imperial Oil Resources Ventures Limited
- McColl-Frontenac Petroleum Inc.

A significant portion of the company's activities in natural resources is conducted jointly with other companies. The accounts reflect the company's proportionate interest in such activities, including its 25-percent interest in the Syncrude joint venture.

INVENTORIES

Inventories are recorded at the lower of cost or net realizable value. The cost of crude oil and products is determined primarily using the LIFO (last-in, first-out) method. Costs include purchase costs and other applicable operating expenses. Selling and general administrative expenses are excluded.

INVESTMENTS

The principal investments in companies other than subsidiaries are accounted for using the equity method. These represent interests in nonpublicly-traded crude oil 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 other investments are recorded as income.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost.

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 life or 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. In general, refineries are depreciated over 25 years; other major assets, including chemical plants and service stations, are depreciated over 20 years.

Gains or losses on assets sold or otherwise disposed of are included in "depreciation and depletion" 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. The evaluation for impairment of goodwill is based on a comparison of the carrying values of goodwill and associated operating assets with the estimated undiscounted net cash flows from those operating assets.

SITE-RESTORATION COSTS

Provision for site-restoration costs (net of any expected recoveries) is made if they can be reasonably determined. This provision is based on engineering estimates of costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible use of the site. 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 approves the sale or closure of a facility.

FOREIGN-CURRENCY TRANSLATION

Monetary assets and liabilities receivable or payable in foreign currencies have been translated at the rates of exchange prevailing on December 31. Unrealized exchange gains and losses arising from the translation of long-term debt are deferred and amortized over the remaining term of the debt.

FINANCIAL INSTRUMENTS

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

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

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 and 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.

INTEREST COSTS

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

ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. *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.

Glossary of Terms

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

Cash represents cash in the bank and cash equivalents at cost, plus accrued interest. Cash equivalents are all highly liquid securities with a maturity of three months or less when purchased.

Debt represents amounts borrowed from external sources and capital leases. These amounts exclude unamortized foreign-exchange gains or losses on debentures and notes.

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.

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.

Deferred income taxes are the difference between income taxes deducted in calculating earnings in accordance with generally accepted accounting principles 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.

Per-share information is calculated by dividing the respective nominal amounts by the average number of shares outstanding, weighted monthly.

Financial Percentages and Ratios

| | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|------|------|------|------|------|
| Total debt as a percentage of capital (page 25) ⁽¹⁾ | 28.2 | 28.9 | 26.9 | 28.7 | 28.0 |
| Interest coverage ratio (page 25) | | | | | |
| -on an earnings basis ⁽²⁾ | 6.8 | 5.7 | 5.3 | 4.0 | 2.3 |
| -on a cash-flow basis ⁽³⁾ | 11.3 | 13.5 | 11.5 | 10.3 | 7.9 |
| Share price to earnings ratio (page 1) ⁽⁴⁾ | 18.5 | 25.0 | 31.1 | 40.2 | 47.6 |
| Share price to cash flow from earnings (page 1) ⁽⁵⁾ | 7.3 | 8.4 | 7.4 | 6.9 | 7.8 |
| Share price to cash from operating activities (page 1) ⁽⁶⁾ | 5.8 | 11.4 | 6.0 | 5.5 | 6.5 |
| Return on average capital employed (page 1) ⁽⁷⁾ | 5.9 | 4.1 | 3.2 | 2.4 | 2.4 |
| Return on average shareholders' equity (page 1) ⁽⁸⁾ | 8.6 | 5.7 | 4.2 | 2.9 | 2.4 |

(1) Debt (note 4) and guarantees to third parties (note 8b), divided by debt, guarantees to third parties and shareholders' equity (page 30).

(2) Net earnings (page 28), debt-related interest expense (note 11) and income taxes (page 28), divided by debt-related interest expense.

(3) Cash flow from earnings (page 29), income-tax payments (note 7) and debt-related interest expense, divided by debt-related interest expense.

(4) Closing share price at December 31 (page 44), divided by net earnings per share (page 28).

(5) Closing share price at December 31, divided by cash flow from earnings per share (page 1).

(6) Closing share price at December 31, divided by cash from operating activities per share (page 1).

(7) Net earnings and after-tax interest expense (interest expense at basic corporate tax rate, note 7), divided by average capital employed (note 1).

(8) Net earnings, divided by average shareholders' equity.

Notes to the Consolidated Financial Statements

1. BUSINESS SEGMENTS

| millions of dollars | Natural resources ^(a) | | | Petroleum products | | |
|--|----------------------------------|--------------|--------------|--------------------|--------------|--------------|
| | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 |
| Revenues | | | | | | |
| External | 757 | 786 | 795 | 7 700 | 7 275 | 7 146 |
| Intersegment sales | 1 511 | 1 434 | 1 363 | 196 | 177 | 192 |
| Total revenues ^(b) | 2 268 | 2 220 | 2 158 | 7 896 | 7 452 | 7 338 |
| Expenses | | | | | | |
| Purchases of crude oil and products ^(b) | 412 | 426 | 423 | 4 571 | 4 205 | 4 041 |
| Operating and other expenses ^(b) | 891 | 873 | 920 | 2 758 | 2 653 | 2 585 |
| Depreciation and depletion ^(c) | 494 | 508 | 567 | 216 | 202 | 200 |
| Total expenses | 1 797 | 1 807 | 1 910 | 7 545 | 7 060 | 6 826 |
| Unusual items ^(note 2) | — | (47) | — | — | — | (95) |
| Earnings before income taxes | 471 | 366 | 248 | 351 | 392 | 417 |
| Income taxes ^(note 7) | | | | | | |
| Current | 350 | 318 | 262 | 178 | 204 | 173 |
| Deferred | (112) | (119) | (106) | (13) | (24) | 6 |
| Total income taxes | 238 | 199 | 156 | 165 | 180 | 179 |
| Net earnings | 233 | 167 | 92 | 186 | 212 | 238 |
| Cash flow from earnings | 696 | 616 | 616 | 404 | 404 | 513 |
| Capital and exploration expenditures | 330 | 271 | 353 | 209 | 226 | 153 |
| Property, plant and equipment | | | | | | |
| Cost | 9 378 | 9 294 | 9 437 | 4 414 | 4 361 | 4 436 |
| Accumulated depreciation and depletion | 4 196 | 3 775 | 3 438 | 2 072 | 1 988 | 1 942 |
| Net property, plant and equipment | 5 182 | 5 519 | 5 999 | 2 342 | 2 373 | 2 494 |
| Total assets | 5 543 | 5 924 | 6 260 | 3 923 | 4 027 | 3 972 |
| Total capital employed | 4 850 | 5 303 | 5 697 | 2 727 | 2 920 | 3 027 |

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

| millions of dollars | 1995 | 1994 |
|-----------------------------------|-------|-------|
| Total revenues | 1 295 | 1 433 |
| Total expenses | 1 117 | 1 197 |
| Net earnings, after income taxes | 39 | 76 |
| Total current assets | 207 | 251 |
| Long-term assets | 3 659 | 4 053 |
| Total current liabilities | 415 | 416 |
| Other long-term obligations | 182 | 179 |
| Cash flow from earnings | 373 | 393 |
| Cash from operating activities | 405 | 436 |
| Cash used in investing activities | (134) | (177) |

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

(c) Includes \$27 million of goodwill charged to earnings in 1995 (1994 – \$27 million; 1993 – \$26 million). The accumulated amortization of goodwill at December 31, 1995, is \$166 million (1994 – \$140 million; 1993 – \$117 million).

| Chemicals | | | Corporate and other | | | Consolidated | | |
|-----------|-------|-------|---------------------|-------|-------|--------------|--------|--------|
| 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 |
| 834 | 759 | 827 | 153 | 85 | 97 | 9 444 | 8 905 | 8 865 |
| 53 | 58 | 144 | 10 | 12 | 21 | — | — | — |
| 887 | 817 | 971 | 163 | 97 | 118 | 9 444 | 8 905 | 8 865 |
| 466 | 455 | 528 | 2 | — | — | 3 706 | 3 436 | 3 325 |
| 214 | 245 | 328 | 231 | 243 | 236 | 4 069 | 3 983 | 4 016 |
| 18 | 53 | 60 | 18 | 23 | 34 | 746 | 786 | 861 |
| 698 | 753 | 916 | 251 | 266 | 270 | 8 521 | 8 205 | 8 202 |
| — | — | — | — | — | — | — | (47) | (95) |
| 189 | 64 | 55 | (88) | (169) | (152) | 923 | 653 | 568 |
| 77 | 115 | 42 | (119) | (112) | (69) | 486 | 525 | 408 |
| (2) | (103) | (22) | 50 | 15 | 3 | (77) | (231) | (119) |
| 75 | 12 | 20 | (69) | (97) | (66) | 409 | 294 | 289 |
| 114 | 52 | 35 | (19) | (72) | (86) | 514 | 359 | 279 |
| 132 | 77 | 78 | 64 | (30) | (41) | 1 296 | 1 067 | 1 166 |
| 13 | 24 | 24 | 18 | 19 | 8 | 570 | 540 | 538 |
| 580 | 579 | 1 213 | 602 | 575 | 528 | 14 974 | 14 809 | 15 614 |
| 319 | 300 | 629 | 217 | 208 | 216 | 6 804 | 6 271 | 6 225 |
| 261 | 279 | 584 | 385 | 367 | 312 | 8 170 | 8 538 | 9 389 |
| 400 | 416 | 853 | 2 186 | 1 561 | 1 776 | 12 052 | 11 928 | 12 861 |
| 266 | 310 | 739 | 2 283 | 1 814 | 1 740 | 10 126 | 10 347 | 11 203 |

The company operates its businesses in Canada in the following industrial segments:

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

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 prior to April 1994.

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

2. UNUSUAL ITEMS

There were no unusual items in 1995. In 1994, there was a \$47-million (\$31 million after tax) charge mainly to cover the cost of work-force reductions of 500 people in the natural resources division in 1994 and 1995. The charge also included the company's 25-percent share of work-force reductions at Syncrude Canada Limited. By December 31, 1995, 460 people had left the company (including 148 voluntary departures). Costs of \$24 million have been charged against the provision and the remaining balance is expected to be used in 1996.

In 1993, a \$95-million (\$54 million after tax) charge was made for the writedown of refinery assets and for dismantling, site restoration and employee-related costs resulting from the shutdown of refining operations at loco, near Vancouver. The loco refinery was shut down at midyear. The provision remaining at December 31, 1995, was \$35 million, and relates to dismantling and site restoration activities that are expected to commence in 1996.

Unusual items prior to 1993 include gains or losses on the divestment of assets resulting from the 1989 acquisition of Texaco Canada Inc.

3. MARKETABLE SECURITIES

| millions of dollars | 1995 | 1994 |
|-------------------------------------|------------|------------|
| Government of Canada treasury bills | 376 | 857 |
| Other securities | 2 | 2 |
| Total marketable securities | 378 | 859 |

The securities were purchased with the intent that they be held to maturity. The average yield on securities in 1995 was 7.2 percent (1994 – 5.5 percent).

4. LONG-TERM DEBT

| LONG-TERM DEBT | | | 1995 | 1994 |
|--|--|---------------|---------------------|--------------|
| issued | maturity date | interest rate | millions of dollars | |
| Sinking-fund debentures ^(a) | | | | |
| 1979 | September 15, 2009 (1995 – nil; 1994 – \$30 million (U.S.)) | 9 ¾ | – | 41 |
| 1989 | October 15, 2019 (1995 – \$222 million (U.S.); 1994 – \$222 million (U.S.)) | 8 ¾ | 303 | 312 |
| Total sinking-fund debentures | | | 303 | 353 |
| Other debentures and notes ^(a) | | | | |
| 1983 | January 3, 1997 | 5 | 24 | 24 |
| 1989 | December 15, 1999 ^(b) | 9 7/8 | 215 | 215 |
| 1989 | September 1, 2004 (1995 – \$1,000 million (U.S.); 1994 – \$1,000 million (U.S.)) ^(c) | Variable | 1 364 | 1 401 |
| 1991 | August 20, 2001 (1995 – \$200 million (U.S.); 1994 – \$200 million (U.S.)) | 8.3 | 273 | 280 |
| Total debentures and notes | | | 2 179 | 2 273 |
| Capital leases | | | 3 | 2 |
| Long-term debt (at period-end exchange rates) | | | 2 182 | 2 275 |
| Foreign-exchange loss on U.S. \$ debt ^(d) | | | 211 | 298 |
| Total long-term debt ^{(e)(f)} | | | 1 971 | 1 977 |

(a) No principal payments are due on sinking-fund debentures within the next five years; \$24 million of principal payments on other debentures and notes are due in 1997, and \$215 million are due in 1999.

(b) \$150 million of this debenture has both a U.S.-dollar currency swap and an interest-rate swap transaction matched with it – see note 6(b). The average effective interest rate on this \$150 million was 8.2 percent in 1995 (1994 – 6.6 percent).

(c) 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 1995 was 5.9 percent (1994 – 4.2 percent).

(d) This deferred cost is being amortized to earnings over the remaining life of the debt.

(e) At December 31, 1995, the company had \$651 million of uncommitted unused lines of credit available for short-term financing.

(f) The estimated fair value of the long-term debt at December 31, 1995, is \$2,279 million (1994 – \$2,295 million).

5. OTHER LONG-TERM OBLIGATIONS

| millions of dollars | 1995 | 1994 |
|--|--------------|--------------|
| Employee retirement benefits (note 9) | 548 | 579 |
| Site restoration ^(a) | 432 | 425 |
| Other obligations | 117 | 144 |
| Total other long-term obligations | 1 097 | 1 148 |

(a) Total site restoration also includes \$58 million in current liabilities (1994 – \$42 million).

6. FINANCIAL DERIVATIVES

Derivatives are only used to reduce specific risk exposures of the company and are not held for trading purposes. Derivatives with leveraged features are not used. This policy is implemented as follows:

(a) Crude oil and product (energy) derivatives, and foreign-exchange forwards

The impact of price and foreign-exchange fluctuations on purchases and sales is mitigated by selling and buying energy derivatives (primarily futures contracts) and foreign-exchange forward contracts. Energy derivative transactions are conducted on the New York Mercantile Exchange or the International Petroleum Exchange, and are normally settled on a one- to six-month basis. Foreign-exchange forward contracts are transacted with banks of the highest credit standing on terms that are normally less than 45 days. Gains or losses on these contracts are recognized in earnings as a component of the related physical transaction.

At December 31, 1995, there were no energy derivative contracts outstanding to offset purchase commitments (1994 – \$16 million offsetting 735,000 barrels), and there were \$3 million of contracts outstanding to offset fixed-price product sales commitments to customers on 93,000 barrels of crude oil and products (1994 – \$3 million offsetting 133,000 barrels). At December 31, 1995, there were no foreign-exchange forward contracts outstanding to offset exchange fluctuations on purchase commitments (1994 – \$51 million). At December 31, 1995 and 1994, gains or losses on open energy and foreign-exchange forward contracts, based on the difference between contract and December 31 prices, were minimal. In 1995, losses of \$17 million were realized on closed energy derivatives to offset gains on physical positions (1994 – \$28 million loss; 1993 – \$21 million gain); gains and losses on foreign-exchange forwards were minimal in each year.

(b) Interest and currency swap transactions

The company is a party to a currency and an interest-rate swap that are matched to \$150 million of the 9⁷/₈-percent (Canadian) debenture, effectively converting this to a \$126-million (U.S.), floating-interest-rate debt (see note 4b). At the end of the currency swap, the company will receive \$150 million (Canadian) and pay \$126 million (U.S.). In the interim, the currency swap involves the payment in U.S. dollars and the receipt in Canadian dollars of fixed-interest-rate amounts. The interest-rate swap involves interest payments and receipts, both in U.S. dollars.

The U.S.-dollar exposure created by the currency swap partially offsets the U.S.-dollar-based, crude oil component of revenues. The swaps are with counterparties of the highest credit standing.

Settlement of the swaps at December 31, 1995, would have resulted in a loss of \$16 million (Canadian) (1994 – \$37 million). A foreign-exchange loss of \$22 million on the currency swap (1994 – \$27 million) has been deferred and is being amortized as a financing cost over the remaining life of the debenture (see note 11). At December 31, 1995, the unamortized loss was \$13 million (1994 – \$21 million). A \$6-million increase in the market value (1994 – \$10-million decrease) of the interest-rate component of the swaps, based on bond yields for instruments with similar terms to maturity, is not recorded in the financial statements because it is the company's intent to hold the swaps until maturity of the 9⁷/₈-percent debenture. In 1995, the effect of the amounts paid and received on the swaps was to reduce interest expense by \$1 million to achieve an average rate of 8.2 percent (1994 – \$3 million reduction to 6.6 percent; 1993 – \$6 million reduction to 5.4 percent).

7. INCOME TAXES

| millions of dollars | 1995 | 1994 | 1993 |
|---|-------------|--------------|--------------|
| Summary of income-tax calculations | | | |
| Earnings before income taxes | 923 | 653 | 568 |
| Deduct earnings from equity investments | 15 | 13 | 15 |
| Adjusted earnings | 908 | 640 | 553 |
| Basic corporate-tax rate (percent) | 44.7 | 44.6 | 44.7 |
| Income taxes at basic rate | 406 | 286 | 247 |
| Increases (decreases) resulting from | | | |
| Nondeductible payments to governments | 94 | 91 | 90 |
| Resource allowance | (107) | (87) | (80) |
| Manufacturing and processing credit | (35) | (43) | (27) |
| Nondeductible depreciation and amortization | 66 | 67 | 62 |
| Other | (15) | (20) | (3) |
| Income-tax expense | 409 | 294 | 289 |
| Effective income-tax rate (percent) | 45.0 | 45.9 | 52.3 |
| Increases (decreases) in deferred income taxes | | | |
| from timing differences | | | |
| Depreciation | (50) | (152) | (90) |
| Pensions and severance payments | 26 | 14 | 3 |
| Successful drilling, injectants and land acquisitions | (40) | (69) | (49) |
| LIFO inventory valuation | (13) | (24) | 42 |
| Other | – | – | (25) |
| Deferred income-tax expense | (77) | (231) | (119) |
| Current income-tax expense | 486 | 525 | 408 |

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 \$351 million in 1995 (1994 – \$676 million; 1993 – \$223 million).

8. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1995, the company had commitments for noncancellable operating leases and other long-term agreements that require the following minimum future payments:

| millions of dollars | 1996 | 1997 | 1998 | 1999 | 2000 | after 2000 |
|--|------|------|------|------|------|------------|
| Operating leases ^{(a)(c)} | 55 | 42 | 34 | 28 | 19 | 85 |
| Other long-term agreements ^{(b)(c)} | 255 | 239 | 235 | 236 | 222 | 607 |

(a) Total rental expense incurred for operating leases in 1995 was \$111 million (1994 – \$115 million; 1993 – \$112 million).

(b) Total payments under long-term agreements were \$301 million in 1995 (1994 – \$295 million; 1993 – \$205 million). As part of an agreement with Interprovincial Pipe Line (NWL) 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, 1995, was \$137 million.

(c) Operating lease commitments related to joint-venture activities are not material; payments under other long-term agreements related to joint-venture activities are approximately \$50 million a year.

As a condition of its 1989 acquisition of Texaco Canada, the company committed to the Government of Canada 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 these commitments.

The company's commitments in connection with financial derivatives are discussed in note 6. 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 accounting policy on page 32). Provision is not made with respect to those manufacturing, distribution and marketing facilities for which estimates of these future costs cannot 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. EMPLOYEE RETIREMENT BENEFITS

Retirement benefits, which cover almost all retired employees and their surviving spouses, include retirement-income and certain health-care and life-insurance benefits. Retirement-income benefits are company-paid and are based on years of service and final average earnings. They are met through funded registered retirement plans and through unfunded supplementary benefits that are paid directly to recipients. The company shares in the cost of health-care and life-insurance benefits.

The expense and obligations for both funded and unfunded benefits are determined in accordance with generally accepted accounting principles and actuarial procedures. The process for determining retirement-income expense and related obligations includes making certain long-term assumptions. For 1995, the discount rate, return on plan assets and the rate of pay increases were assumed to be 10.0 percent, 10.0 percent and 5.0 percent, respectively. For 1994 and 1993, the assumed rates were 8.5 percent, 8.5 percent and 5.0 percent, respectively. The change in assumptions favorably impacted 1995 earnings by \$36 million after tax.

The data below include the company's share of the Syncrude retirement-income benefits.

Annual expense

| millions of dollars | 1995 | 1994 | 1993 |
|--|-----------|------------|------------|
| Retirement-income expense before work-force-reduction provision | 28 | 70 | 96 |
| Other retirement-benefit expense | 25 | 25 | 20 |
| | 53 | 95 | 116 |
| Retirement-income expense portion of work-force-reduction provision ^(a) | – | 9 | – |
| Total expense | 53 | 104 | 116 |

(a) This amount is part of the work-force-reduction provision described in note 2.

Obligations at December 31

| millions of dollars | 1995 | 1994 |
|--|------------|------------|
| Actuarial present value of retirement-income obligations | | |
| Benefits based on service to date and present pay levels | | |
| Registered-plan benefits | 1 596 | 1 816 |
| Supplementary benefits | 282 | 326 |
| Total accumulated benefit obligation | 1 878 | 2 142 |
| Additional benefits related to projected pay increases | 236 | 256 |
| Total projected benefit obligation | 2 114 | 2 398 |
| Funded assets at market value ^(a) | 2 054 | 1 881 |
| Net obligations for retirement-income benefits | 60 | 517 |
| Obligation for other retirement benefits | 221 | 221 |
| Net obligations | 281 | 738 |
| The net obligations consist of | | |
| Long-term liability (note 5) | 548 | 579 |
| Current liability | 29 | 29 |
| Unrecorded obligations/(assets) – net ^(b) | (296) | 130 |
| Total | 281 | 738 |

(a) Assets of the retirement plans are held primarily in equity, fixed-income and money-market securities. Company contributions to the retirement plans are based on independent actuarial valuations and are made in accordance with government regulations. These contributions amounted to \$42 million in 1995 (1994 – \$89 million).

(b) Unrecorded obligations/(assets) are amortized over the expected average remaining service of employees, which is currently 13 years (1994 – 14 years).

| Additional information regarding retirement benefits follows: | Obligations at | Annual |
|---|----------------|---------|
| millions of dollars | Dec. 31 | expense |
| As calculated using company's assumptions | 2 335 | 53 |
| Impact of one-percent change in | | |
| Rate of return and discount rate | 230 | 45 |
| Pay increases | 85 | 20 |

10. COMMON SHARES

| number of shares | 1995 | 1994 | 1993 |
|-----------------------|-------------|-------------|-------------|
| Authorized | 225 000 000 | 225 000 000 | 225 000 000 |
| Issued at December 31 | 189 010 521 | 193 841 431 | 193 841 431 |

Exxon Corporation's ownership interest in Imperial Oil Limited at December 31, 1995, was 69.6 percent, unchanged from 1994 and 1993.

On June 19, 1995, the company implemented a share-repurchase program under which it may purchase, in a 12-month period, up to 9,692,067 of its outstanding shares (five percent of the total at that date), less any shares purchased by the employee savings plan (114,575 to December 31, 1995). Exxon Corporation is participating in the program to maintain its ownership at 69.6 percent, but may at any time inform the company of a change in its intention to participate.

At December 31, 1995, purchases under this program had reduced the number of issued shares by 4,830,910 at a cost of \$236 million. The excess of the purchase cost over the stated value of shares repurchased has been recorded as a distribution of retained earnings.

11. FINANCING COSTS

| millions of dollars | 1995 | 1994 | 1993 |
|---|------|------|------|
| Interest expense | | | |
| Debt-related interest | 160 | 139 | 132 |
| Other interest | 15 | 4 | 15 |
| Total interest expense | 175 | 143 | 147 |
| Foreign-exchange expense on long-term debt ^(a) | 33 | 29 | 30 |
| Total financing costs | 208 | 172 | 177 |

(a) See Foreign-Currency Translation, page 32.

Cash interest payments in 1995 were \$175 million (1994 – \$138 million; 1993 – \$148 million).

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs in 1995 were \$74 million (1994 – \$73 million; 1993 – \$82 million) before investment tax credits earned on these expenditures of \$8 million (1994 – \$10 million; 1993 – \$15 million). The net costs are included in expenses, due to the uncertainty of future benefits.

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

In 1995, the company entered into agreements with a wholly-owned subsidiary of Exxon Corporation under which the company can purchase Canadian-dollar discounted promissory notes at competitive Canadian interest rates. The notes are recorded at cost plus accrued interest and the company may demand prepayment of a note at any time. Accrued interest receivable at December 31, 1995, was \$32 million. In 1995, the company earned interest income of \$54 million on notes purchased under the agreements.

Revenues and expenses of the company also include the results of other transactions with Exxon in the normal course of operations. These were conducted on terms as favorable as they would have been with unrelated parties, and primarily consisted of the purchase and sale of crude oil, petroleum and chemical products, as well as transportation, technical and engineering services.

The amounts paid or received have been reflected in the following categories in the statement of earnings:

| millions of dollars | 1995 | 1994 | 1993 |
|-------------------------------------|------|-------|------|
| Operating revenues | 300 | 284 | 263 |
| Purchases of crude oil and products | 316 | 1 035 | 995 |
| Operating expenses | 58 | 88 | 120 |

Current amounts due to Exxon at December 31, 1995, with respect to the above transactions were \$48 million (1994 – \$47 million; 1993 – \$20 million).

14. INVENTORIES OF CRUDE OIL AND PRODUCTS

In 1995, net earnings included an after-tax gain of \$4 million (1994 – \$4-million loss; 1993 – \$6-million gain) attributable to the effect of changes in LIFO inventories. The replacement cost of inventories was estimated to exceed their LIFO carrying values at December 31, 1995, by \$496 million (1994 – \$451 million).

15. NET PAYMENTS TO GOVERNMENTS

| millions of dollars | 1995 | 1994 | 1993 |
|---|--------------|--------------|--------------|
| Current income taxes (note 7) | 486 | 525 | 408 |
| Federal excise tax | 1 120 | 1 019 | 986 |
| Property taxes included in expenses | 116 | 115 | 117 |
| Payroll and other taxes included in expenses | 42 | 41 | 44 |
| Goods and services tax (GST)/Quebec sales tax (QST) collected | 814 | 705 | 737 |
| GST/QST input tax credits | (473) | (417) | (449) |
| Other consumer taxes collected on behalf of governments | 1 474 | 1 380 | 1 310 |
| Crown royalties | 314 | 240 | 237 |
| Total paid or payable to governments | 3 893 | 3 608 | 3 390 |
| Less investment tax credits and other receipts | 8 | 14 | 15 |
| Net payments to governments | 3 885 | 3 594 | 3 375 |
| Net payments to: | | | |
| Federal government | 1 803 | 1 638 | 1 556 |
| Provincial governments | 1 966 | 1 841 | 1 702 |
| Local governments | 116 | 115 | 117 |
| Net payments to governments | 3 885 | 3 594 | 3 375 |

Supplemental Oil and Gas Information

The information on pages 41 through 43 is provided in accordance with the United States' Statement of Financial Accounting Standards (SFAS) No. 69 "Disclosure about Oil and Gas Producing Activities." Additional information required by SFAS No. 69 is included in *Form 10-K*.

RESULTS OF OPERATIONS

| | Oil and gas | | | Syncrude | | | Total | | |
|------------------------------|-------------|------------|-----------|-----------|-----------|-----------|------------|------------|------------|
| millions of dollars | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 |
| Sales to customers | 464 | 459 | 456 | — | — | 1 | 464 | 459 | 457 |
| Intersegment sales | 957 | 910 | 907 | 383 | 363 | 335 | 1 340 | 1 273 | 1 242 |
| Total sales ⁽¹⁾ | 1 421 | 1 369 | 1 363 | 383 | 363 | 336 | 1 804 | 1 732 | 1 699 |
| Production expenses | 498 | 545 | 552 | 263 | 264 | 265 | 761 | 809 | 817 |
| Exploration expenses | 75 | 46 | 52 | — | — | — | 75 | 46 | 52 |
| Depreciation and depletion | 458 | 466 | 528 | 32 | 39 | 38 | 490 | 505 | 566 |
| Income taxes | 204 | 174 | 149 | 36 | 24 | 12 | 240 | 198 | 161 |
| Results of operations | 186 | 138 | 82 | 52 | 36 | 21 | 238 | 174 | 103 |

CAPITAL AND EXPLORATION EXPENDITURES

| | Oil and gas | | | Syncrude | | | Total | | |
|---|-------------|------------|------------|-----------|-----------|-----------|------------|------------|------------|
| millions of dollars | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 | 1995 | 1994 | 1993 |
| Property costs ⁽²⁾ | | | | | | | | | |
| Proved | 8 | 15 | 12 | — | — | — | 8 | 15 | 12 |
| Unproved | 4 | 19 | 11 | — | — | — | 4 | 19 | 11 |
| Exploration costs | 82 | 65 | 58 | — | — | — | 82 | 65 | 58 |
| Development costs | 192 | 135 | 250 | 42 | 36 | 22 | 234 | 171 | 272 |
| Total capital and exploration expenditures | 286 | 234 | 331 | 42 | 36 | 22 | 328 | 270 | 353 |

PROPERTY, PLANT AND EQUIPMENT

| | Oil and gas | | Syncrude | | Total | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| millions of dollars | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 |
| Property costs ⁽²⁾ | | | | | | |
| Proved | 2 736 | 2 798 | 8 | 8 | 2 744 | 2 806 |
| Unproved | 136 | 151 | 4 | — | 140 | 151 |
| Producing assets | 5 110 | 5 063 | 964 | 933 | 6 074 | 5 996 |
| Support facilities | 120 | 149 | 105 | 102 | 225 | 251 |
| Incomplete construction | 90 | 9 | 7 | 3 | 97 | 12 |
| Total cost | 8 192 | 8 170 | 1 088 | 1 046 | 9 280 | 9 216 |
| Accumulated depreciation and depletion | 3 818 | 3 434 | 346 | 315 | 4 164 | 3 749 |
| Net property, plant and equipment | 4 374 | 4 736 | 742 | 731 | 5 116 | 5 467 |

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

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

NET PROVED DEVELOPED AND UNDEVELOPED RESERVES ⁽¹⁾

| | Crude oil and NGLs millions of barrels | | | | Natural gas billions of cubic feet |
|--|---|-------------|-------------|--------------|---------------------------------------|
| | Conventional | Cold Lake | Syncrude | Total | |
| Beginning of year 1993 | 502 | 719 | 327 | 1 548 | 2 651 |
| Revisions of previous estimates and improved recovery | 3 | 2 | 3 | 8 | 17 |
| Sale of reserves in place | (14) | — | — | (14) | (51) |
| Discoveries and extensions | — | — | — | — | 76 |
| Production | (47) | (30) | (16) | (93) | (188) |
| End of year 1993 | 444 | 691 | 314 | 1 449 | 2 505 |
| Revisions of previous estimates and improved recovery | 14 | 91 | 28 | 133 | (1) |
| Sale of reserves in place | (1) | — | — | (1) | (57) |
| Discoveries and extensions | 3 | — | 123 | 126 | 17 |
| Production | (44) | (30) | (17) | (91) | (162) |
| End of year 1994 | 416 | 752 | 448 | 1 616 | 2 302 |
| Revisions of previous estimates and improved recovery | (18) | 60 | — | 42 | (53) |
| Sale of reserves in place | (5) | — | — | (5) | (79) |
| Discoveries and extensions | 9 | — | — | 9 | 104 |
| Production | (40) | (33) | (16) | (89) | (156) |
| End of year 1995 | 362 | 779 | 432 | 1 573 | 2 118 |

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

Reserves of natural gas are calculated at a pressure of 14.73 pounds per square inch at 60 degrees Fahrenheit.

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 relevant year. Reserves of crude oil at Cold Lake are those estimated to be recoverable from the existing experimental pilot plants and commercial stages 1 through 10. 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, July 1988 and September 1994 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 through 10 of Cold Lake, net proved reserves are based on the company's best estimate of average royalty rates over the life of each project. Actual future royalty rates may vary with production, price and costs.

Reserves data do not include crude oil and natural gas discovered in the Beaufort Sea – Mackenzie Delta, the Arctic Islands and the Sable

Island area, or the reserves contained in oil sands other than those attributable to Syncrude, the Cold Lake pilot area and stages 1 through 10 of Cold Lake production operations.

In 1995, Imperial's net proved reserves of crude oil and NGLs decreased by 43 million barrels, while proved reserves of natural gas decreased by 184 billion cubic feet. Production in 1995 totaled 89 million barrels of crude oil and 156 billion cubic feet of natural gas. Revision of previous estimates and improved recovery added 42 million barrels of crude oil and decreased natural gas by 53 billion cubic feet. Sales of reserves accounted for a

decrease of five million barrels of crude oil and 79 billion cubic feet of natural gas. Discoveries and extensions totaled nine million barrels of crude oil and 104 billion cubic feet of natural gas in 1995.

Higher recovery rates at Cold Lake, based on improved technology and greater production experience, and applied to undeveloped acreage within the first 10 commercial phases, account for the increase in Cold Lake reserves of crude oil. Exploration did not provide sufficient additions to reserves to offset the effects of divestments and production.

WELLS DRILLED ⁽¹⁾

| | 1995 | | 1994 | | 1993 | | 1992 | | 1991 | |
|--------------------------------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|
| | gross | net | gross | net | gross | net | gross | net | gross | net |
| Exploratory | | | | | | | | | | |
| Conventional | 28 | 17 | 36 | 16 | 35 | 20 | 10 | 6 | 40 | 24 |
| Development | | | | | | | | | | |
| Conventional | 101 | 49 | 327 | 123 | 228 | 90 | 100 | 26 | 58 | 23 |
| Heavy oil | 293 | 293 | 15 | 15 | 115 | 115 | 23 | 23 | 6 | 6 |
| Total wells drilled | | | | | | | | | | |
| Exploratory | 28 | 17 | 36 | 16 | 35 | 20 | 10 | 6 | 40 | 24 |
| Development | 394 | 342 | 342 | 138 | 343 | 205 | 123 | 49 | 64 | 29 |
| Total wells in progress | 9 | 4 | 8 | 4 | 14 | 6 | 8 | 4 | 4 | 3 |

LAND HOLDINGS ⁽¹⁾

| millions of acres | 1995 | | 1994 | | 1993 | | 1992 | | 1991 | |
|--|------------|------------|------------|------------|------------|------------|-------------|------------|-------------|------------|
| | gross | net | gross | net | gross | net | gross | net | gross | net |
| Western provinces | | | | | | | | | | |
| Conventional | 5.3 | 2.7 | 5.9 | 2.9 | 6.9 | 3.2 | 8.2 | 3.7 | 9.5 | 4.5 |
| Heavy oil | 1.1 | 0.5 | 1.1 | 0.5 | 1.0 | 0.4 | 1.0 | 0.4 | 1.8 | 0.6 |
| Northern areas ⁽²⁾ | 0.9 | 0.3 | 0.9 | 0.3 | 1.0 | 0.4 | 1.3 | 0.5 | 1.7 | 0.7 |
| Atlantic offshore | 0.9 | 0.7 | 0.9 | 0.7 | 0.9 | 0.7 | 0.9 | 0.7 | 1.0 | 0.7 |
| Total oil and gas land holdings | 8.2 | 4.2 | 8.8 | 4.4 | 9.8 | 4.7 | 11.4 | 5.3 | 14.0 | 6.5 |

(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.

Share Ownership, Trading and Performance

| | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---------|---------|---------|---------|---------|
| Share ownership | | | | | |
| Average number outstanding, weighted monthly (thousands) | 192 511 | 193 841 | 193 841 | 193 841 | 193 199 |
| Number of shares outstanding at December 31 (thousands) | 189 011 | 193 841 | 193 841 | 193 841 | 193 841 |
| Shares held in Canada at December 31 (percent) | 18.2 | 21.2 | 24.5 | 26.5 | 25.3 |
| Number of registered shareholders at December 31 ⁽¹⁾ | 20 181 | 20 778 | 21 388 | 22 010 | 22 468 |
| Number of shareholders registered in Canada | 17 505 | 18 253 | 18 805 | 19 290 | 19 648 |
| Shares traded (thousands) ⁽²⁾ | 48 594 | 44 417 | 37 336 | 31 848 | 34 267 |
| Share prices (dollars) ⁽²⁾ | | | | | |
| High | 53 1/2 | 48 3/4 | 50 1/4 | 48 1/8 | 61 1/8 |
| Low | 45 1/8 | 40 1/8 | 40 1/8 | 37 3/4 | 38 3/4 |
| Close at December 31 | 49 3/8 | 46 1/4 | 44 3/4 | 40 5/8 | 40 |
| Earnings per share (dollars) | 2.67 | 1.85 | 1.44 | 1.01 | 0.84 |
| Price ratios at December 31 ⁽²⁾ | | | | | |
| Share price to earnings ratio | 18.5 | 25.0 | 31.1 | 40.2 | 47.6 |
| Share price to cash flow from earnings | 7.3 | 8.4 | 7.4 | 6.9 | 7.8 |
| Share price to cash from operating activities | 5.8 | 11.4 | 6.0 | 5.5 | 6.5 |
| Dividends declared ⁽³⁾ | | | | | |
| Total (millions of dollars) | 365 | 930 | 349 | 349 | 348 |
| Per share (dollars) | 1.90 | 4.80 | 1.80 | 1.80 | 1.80 |

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

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

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

Information for security holders outside Canada

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

The withholding tax is reduced to 10 percent on dividends paid to a corporate resident of the United States who owns at least 10 percent of the voting shares of the corporation. The 10-percent withholding tax rate will be reduced to six percent for 1996 and five percent thereafter.

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

Valuation day prices

For capital-gains purposes, Imperial's common shares were quoted at \$31.50 a share on December 31, 1971, and \$45.875 on February 22, 1994.

Quarterly Financial and Stock Trading Data

| | 1995 | | | | 1994 | | | |
|---|--------------------|---------------|---------------|---------------|--------------------|---------------|---------------|---------------|
| | three months ended | | | | three months ended | | | |
| | Mar. 31 | Jun. 30 | Sept. 30 | Dec. 31 | Mar. 31 | Jun. 30 | Sept. 30 | Dec. 31 |
| Financial data (millions of dollars) | | | | | | | | |
| Total revenues | 2 227 | 2 485 | 2 379 | 2 353 | 2 074 | 2 200 | 2 336 | 2 295 |
| Total expenses | 2 014 | 2 210 | 2 123 | 2 174 | 1 907 | 2 143 | 2 028 | 2 127 |
| Unusual items | — | — | — | — | — | (40) | (7) | — |
| Earnings before income taxes | 213 | 275 | 256 | 179 | 167 | 17 | 301 | 168 |
| Income taxes | 86 | 119 | 118 | 86 | 75 | 22 | 130 | 67 |
| Net earnings | 127 | 156 | 138 | 93 | 92 | (5) | 171 | 101 |
| Segmented earnings (millions of dollars) | | | | | | | | |
| Natural resources | 60 | 83 | 55 | 35 | (7) | 18 | 99 | 57 |
| Petroleum products | 27 | 52 | 56 | 51 | 118 | (12) | 71 | 35 |
| Chemicals | 37 | 36 | 26 | 15 | (2) | 9 | 20 | 25 |
| Corporate and other | 3 | (15) | 1 | (8) | (17) | (20) | (19) | (16) |
| Net earnings | 127 | 156 | 138 | 93 | 92 | (5) | 171 | 101 |
| Per-share information (dollars) | | | | | | | | |
| Net earnings | 0.66 | 0.80 | 0.72 | 0.49 | 0.47 | (0.02) | 0.88 | 0.52 |
| Cash flow from earnings | 1.66 | 1.66 | 1.81 | 1.60 | 1.58 | 0.64 | 1.83 | 1.45 |
| Dividends (declared quarterly) | 0.45 | 0.45 | 0.50 | 0.50 | 0.45 | 3.45 | 0.45 | 0.45 |
| Share prices (dollars) ⁽¹⁾ | | | | | | | | |
| Toronto Stock Exchange | | | | | | | | |
| High | 50 3/4 | 53 1/2 | 51 1/4 | 49 7/8 | 48 1/8 | 48 1/4 | 44 3/4 | 48 3/4 |
| Low | 45 1/8 | 48 | 47 3/4 | 46 3/8 | 44 1/2 | 40 1/8 | 40 1/4 | 43 |
| Close | 49 3/4 | 51 | 50 | 49 3/8 | 44 7/8 | 40 1/2 | 42 7/8 | 46 1/4 |
| American Stock Exchange (\$U.S.) | | | | | | | | |
| High | 36 3/8 | 39 | 37 3/8 | 37 1/8 | 36 | 35 | 33 1/8 | 35 7/8 |
| Low | 32 | 35 1/8 | 35 1/8 | 33 3/4 | 32 1/4 | 29 | 29 1/8 | 31 3/4 |
| Close | 35 5/8 | 37 1/8 | 37 1/4 | 36 1/8 | 32 3/8 | 29 1/4 | 32 1/8 | 33 |
| Shares traded (thousands) ⁽²⁾ | 9 536 | 12 005 | 13 073 | 13 980 | 9 492 | 11 233 | 10 171 | 13 521 |

(1) Imperial's shares are listed on the Montreal and Toronto 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.

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

Corporate Governance

The following statement addresses the principal matters relating to the company's corporate governance practices as required by The Toronto Stock Exchange and the Montreal Exchange. It has been prepared by the nominations and corporate governance committee of the board of directors and has been approved by the board of directors.

Mandate of the board

The board is responsible for the stewardship of the company. In fulfilling its mandate, the board, among other matters, oversees major corporate plans, including strategic, management development and succession, and business development. The board monitors the integrity of internal controls, management information systems and systems to identify principal risks to the company's businesses, as well as reviewing interim and annual financial results.

Composition of the board

The board of directors is composed of nine directors. Four directors are employees of the company and five are not employees.

The four employee directors are considered to be related to the company. They are the chairman, president and chief executive officer, and the three senior vice-presidents of the company. The board believes that their extensive knowledge of the company's business is beneficial to the other directors and their participation as directors enhances the effectiveness of the board.

The board believes that all five nonemployee directors are unrelated to the company. Each of them is independent of management and none of them has any interest, business or other relationship that could or could reasonably be perceived to materially interfere with his or her ability to act in the best interests of the company.

The company has a significant shareholder, Exxon Corporation, which holds 69.6 percent of the outstanding voting shares of the company. The board believes that the investment of minority shareholders in the company is fairly reflected on the board.

Decisions requiring board approval

In addition to those matters that must by law be approved by the board, management is required to seek board approval for major transactions. The board of

directors has delegated to senior management the authority to enter into various types of transactions, subject to specified limitations. Management is also required to consult with the board before entering into any venture that is outside of the company's existing businesses.

Board's expectations of management

The board expects management to propose and, after board approval, execute the company's strategic direction, long-term plans, goals and targets, and to be accountable for the company's financial and competitive performance. It also expects management to provide the board with timely, complete and accurate information on the business operations of the company, and to provide for the development of senior executives, and plan for their succession. As well, it expects the company's resources to be managed in a manner consistent with enhancing the value of the company, within the law, and with consideration for ethics and corporate social responsibility.

Independent functioning of the board

The board of directors does not have a chairman separate from the chief executive officer.

The board believes that there are a number of structures and processes in place to facilitate the functioning of the board independently of management. The board has a majority of unrelated directors. The committee chairpersons are unrelated directors. Each committee has a majority of unrelated directors. The agendas of the board and its committees are not set by management alone, but also by the board as a whole and by each committee. A significant number of agenda items are mandatory and recurring. Board meetings are scheduled at least one full year in advance. Any director may call a meeting of the board or a meeting of a committee of which the director is a member. The board meets 10 times a year. There is a board-prescribed flow of financial, operating and other corporate information to all directors. Periodically, the unrelated directors hold meetings in the absence of the related directors.

The board has not implemented a system to enable an individual director to engage an outside adviser at the expense of the company; however, the board has concluded that provision of such advice can be dealt with on a case-by-case basis when requested by a director.

Description of the board committees, their mandates and their activities

The board has four committees: the audit committee, the environment, health and safety committee, the executive resources committee and the nominations and corporate governance committee.

Audit Committee

J.B. (Bruce) Buchanan, chair

The audit committee, composed of the unrelated directors and Mr. Cacchio, 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 attend and participate in all meetings. The committee met seven times in 1995.

Environment, Health and Safety Committee

W.A. (Bill) Macdonald, chair

The environment, health and safety committee, composed of the unrelated directors and Mr. Peterson, reviews policies and programs for corporate environmental, health and safety matters. The committee 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 four times in 1995.

Executive Resources Committee

P. (Pierre) Des Marais II, chair

The executive resources committee, composed of the unrelated directors and Mr. Peterson, 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 four times in 1995.

Nominations and Corporate Governance Committee

R.J. (Dick) Currie, chair

The nominations and corporate governance committee, composed of the unrelated directors and Mr. Peterson, recommends to the directors the slate of director candidates to be proposed for election by the

shareholders at the annual meeting. It assesses the effectiveness of the board as a whole, of committees of the board and of individual directors, and is responsible for developing the company's approach to corporate governance issues. It also monitors the board's guidelines for the selection and tenure of directors and recommends specific director candidates when vacancies are expected. The committee met three times in 1995.

Procedures in place for recruiting new directors and performance-enhancing measures

The nominations and corporate governance committee annually considers a list of potential nominees for directorships, assesses all incumbent directors against the criteria for continued board membership and considers their suitability for recommendation for election by the shareholders.

Each board committee is charged with assessing its mandate and its effectiveness, and performs this function at least once a year.

The board annually visits company operating sites.

Measures for receiving shareholder feedback and dealing with shareholder concerns

The company has an investor relations group that communicates with and responds to inquiries from institutional investors, individual investors and the financial community.

Imperial annually solicits questions and comments from shareholders by way of comment cards that are mailed to shareholders in connection with the annual meeting. The comments received are reviewed by senior management and those requiring a response are answered individually.

Imperial Oil Charitable Foundation

M. (Muriel) Kovitz, chair

The board of directors of the Imperial Oil Charitable Foundation, composed of the unrelated directors of the company and Mr. Baldwin, has assumed the activities of the former contributions committee of the board. Imperial's contributions program is aimed at enhancing the quality of Canadian life through support for education, health, welfare, community services, culture and sport. The directors met five times in 1995.

Directors, Officers and Senior Management

DIRECTORS

D.D. (Doug) Baldwin

Senior vice-president, resources division
Imperial Oil Limited
Calgary, Alberta

J.B. (Bruce) Buchanan

Chairman
Vancouver Foundation
Vancouver, British Columbia

D.J. (Dan) Cacchio

Senior vice-president,
finance and administration
Imperial Oil Limited
Toronto, Ontario

R.J. (Dick) Currie

President
Loblaw Companies Limited
Toronto, Ontario

P. (Pierre) Des Marais II

President and chief executive officer
UniMédia Inc.
Montreal, Quebec

B.J. (Brian) Fischer

Senior vice-president,
products and chemicals division
Imperial Oil Limited
Toronto, Ontario

M. (Muriel) Kovitz

President
Murko Investments Ltd.
Calgary, Alberta

W.A. (Bill) Macdonald

President
W.A. Macdonald Associates Inc.
Toronto, Ontario

R.B. (Bob) Peterson

Chairman, president and
chief executive officer
Imperial Oil Limited
Toronto, Ontario

SENIOR MANAGEMENT AND OFFICERS

R.B. (Bob) Peterson

Chairman, president and
chief executive officer

D.D. (Doug) Baldwin

Senior vice-president,
resources division

D.J. (Dan) Cacchio

Senior vice-president,
finance and administration

B.J. (Brian) Fischer

Senior vice-president,
products and chemicals division

J.F. (John) Kyle

Vice-president and treasurer

R.C. (Ron) Walker

Vice-president and general counsel

P.A. (Paul) Smith

Comptroller

J. (John) Zych

Corporate secretary



This report is printed on 50-percent recycled paper that includes 20-percent post-consumer waste and has been printed and bound to facilitate recycling.



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

Information for Investors

HEAD OFFICE

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

TRANSFER AGENTS

The company's transfer agents are:

The Trust Company of Bank of Montreal
105 Saint-Jacques Street
Montreal, Quebec H2Y 1L6
Telephone: 514-877-2584

Harris Trust Company of New York
77 Water Street
New York, New York 10005
Telephone: 212-701-7673

FOR MORE INFORMATION

About your shares

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 24 hours a day.

In Canada call: 1-800-267-9515

In the United States call: 1-800-388-1518

The Trust Company of Bank of Montreal can also be reached through these lines.

Employees with shares in the Imperial Oil savings plan should contact the company's benefits helpline.

About the company

To receive the following documents, you can leave a message with your request at (416) 968-5076. The material will be mailed to you within three business days.

- Annual and interim reports
- Form 10-K
- *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)

For other financial information, write to the investor relations manager at Imperial's head office.

In addition, investors with access to a computer and modem can use Imperial's Investor Instant Information Service (4IS). If you wish to access the computer-based information service, the number is (416) 968-8465 (up to 9600 baud modem) (N-8-1) or, if you require assistance, please call the investor communications coordinator at (416) 968-8145.

THE ANNUAL MEETING

The annual meeting of shareholders will be held on Friday, April 19, 1996, at 11 a.m. local time at: Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada

The annual meeting record date was March 11, 1996.

DIVIDEND PAYMENTS

Imperial has a long record of uninterrupted dividend payments. Anyone who is an 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 1996, the record date was March 4, and the payment date is April 1.

Shareholders may have their dividends deposited directly into accounts held at financial institutions in Canada that provide electronic funds transfer services. To arrange direct-deposit service, contact the transfer agent.

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

Shareholders can also invest between \$50 and \$5,000 each calendar quarter in additional shares at an average market price.

SHAREHOLDER ACCOUNT MATTERS

To change your address, transfer shares, eliminate multiple mailings, elect direct deposit of cash dividends, enrol in the dividend-reinvestment and share-purchase plan or make other shareholder account inquiries, please contact The Trust Company of Bank of Montreal. United States resident shareholders may transfer their shares through Harris Trust Company of New York.

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.



Imperial Oil

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