

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

Overview

The following discussion and analysis of Imperial's financial results, as well as the accompanying financial statements and related notes to consolidated financial statements to which they refer, are the responsibility of the management of Imperial Oil Limited.

The company's accounting and financial reporting fairly reflect its straightforward business model involving the extracting, refining and marketing of hydrocarbons and hydrocarbon-based products. The company's business involves the production (or purchase), manufacture and sale of physical products, and all commercial activities are directly in support of the underlying physical movement of goods.

Imperial, with its resource base, financial strength, disciplined investment approach and technology portfolio, is well-positioned to participate in substantial investments to develop new Canadian energy supplies. The company's integrated business model, with significant investments in Upstream, Downstream and Chemical segments, reduces the company's risk from changes in commodity prices. While commodity prices are volatile on a short-term basis depending upon supply and demand, Imperial's investment decisions are based on its long-term business outlook, using a disciplined approach in selecting and pursuing the most attractive investment opportunities. The corporate plan is a fundamental annual management process that is the basis for setting near-term operating and capital objectives, in addition to providing the longer-term economic assumptions used for investment evaluation purposes. Major investment opportunities are tested over a wide range of economic scenarios. Once major investments are made, a reappraisal process is completed to ensure relevant lessons are learned and improvements are incorporated into future projects.

The term "project" as used in this report can refer to a variety of different activities and does not necessarily have the same meaning as in any government payment transparency reports.

Business environment and risk assessment

Long-term business outlook

By 2040, the world's population is projected to grow to approximately nine billion people, or about 1.8 billion more people than in 2015. Coincident with this population increase, the company expects worldwide economic growth to average close to 3 percent per year. As economies and populations grow, and as living standards improve for billions of people, the need for energy will continue to rise. Even with significant efficiency gains, global energy demand is projected to rise by about 25 percent from 2015 to 2040. This demand increase is expected to be concentrated in developing countries (i.e., those that are not member nations of the Organization for Economic Cooperation and Development). Canada is expected to see flat to modest local energy demand growth through to 2040 and will continue to be a large supplier of energy exports to help meet rising global energy needs.

As expanding prosperity drives global energy demand higher, increasing use of energy-efficient technologies and practices as well as lower-emission fuels will continue to help significantly reduce energy consumption and emissions per unit of economic output over time. Substantial efficiency gains are likely in all key aspects of the world economy through 2040, affecting energy requirements for transportation, power generation, industrial applications and residential and commercial needs.

Energy for global transportation – including cars, trucks, ships, trains and airplanes – is expected to increase by about 25 percent from 2015 to 2040. The growth in transportation energy demand is likely to account for approximately 60 percent of the growth in liquid fuels demand worldwide over this period. Nearly all the world's transportation fleets will continue to run on liquid fuels, which are abundant, widely available, easy to transport and provide a large quantity of energy in small volumes.

Demand for electricity around the world is likely to increase approximately 60 percent from 2015 to 2040, led by a doubling of demand in developing countries. Consistent with this projection, power generation is expected to remain the largest and fastest-growing major segment of global energy demand. Meeting the expected growth in power demand will require a diverse set of energy sources. In 2015 coal-fired generation provided about 40 percent of the world's electricity, however by 2040 coal-fired generation is likely to decline

to less than 30 percent, in part as a result of policies to improve air quality as well as reduce greenhouse gas emissions to address the risks of climate change. From 2015 to 2040, the amount of electricity generated using natural gas, nuclear power, and renewables is likely to approximately double, and account for 90 percent of the growth in electricity supplies. By 2040, coal, natural gas and renewables are projected to each generate a similar share of electricity worldwide, although significant differences will exist across regions reflecting a wide range of factors including the cost and availability of energy types.

Liquid fuels provide the largest share of global energy supplies today due to their broad-based availability, affordability, ease of distribution and storage. By 2040, global demand for liquid fuels is expected to grow to approximately 112 million barrels of oil-equivalent per day, an increase of almost 20 percent from 2015. Globally, crude production from traditional conventional sources will likely decline slightly through 2040, with significant development activity mostly offsetting natural declines from these fields. However, this decline is expected to be more than offset by rising production from a wide variety of emerging supply sources – including tight oil, deep-water, oil sands, natural gas liquids and biofuels. The world's resource base is sufficient to meet projected demand through 2040 as technology advances continue to expand the availability of economic supply options. However, access to resources and timely investments will remain critical to meeting global needs with reliable, affordable supplies.

Natural gas is a versatile fuel, suitable for a wide variety of applications and it is expected to be the fastest-growing major fuel source from 2015 to 2040, meeting about 40 percent of energy demand growth. Global demand is expected to rise about 45 percent from 2015 to 2040, with about 45 percent of that increase in the Asia Pacific region. Helping meet these needs will lead to significant growth in supplies of unconventional gas - the natural gas found in shale and other rock formations that was once considered uneconomic to produce. In total, about 60 percent of the growth in natural gas supplies is expected to be from unconventional sources. However, it is expected conventionally-produced natural gas will remain the cornerstone of supply, meeting about two-thirds of global demand in 2040. Worldwide liquefied natural gas (LNG) trade will expand significantly, likely reaching more than 2.5 times the level of 2015 by 2040, with much of this supply expected to meet rising demand in Asia Pacific.

The world's energy mix is highly diverse and will remain so through 2040. Oil is expected to remain the largest source of energy with its share remaining close to one-third in 2040. Coal is currently the second largest source of energy, but it is likely to lose that position to natural gas in the 2025 to 2030 timeframe. The share of natural gas is expected to reach 25 percent by 2040, while the share of coal falls to about 20 percent. Nuclear power is projected to grow significantly, as many nations are likely to expand nuclear capacity to address rising electricity needs as well as energy security and environmental issues. Total renewable energy is likely to reach about 15 percent of total energy by 2040, with biomass, hydro and geothermal contributing a combined share of more than 10 percent. Total energy supplied from wind, solar and biofuels is expected to increase rapidly, growing over 200 percent from 2015 to 2040, when they will approach 4 percent of the world's energy.

The company anticipates that the world's available oil and gas resource base will grow not only from new discoveries but also from reserve increases in previously discovered fields. Technology will underpin these increases. The cost to develop and supply these resources will be significant. According to the International Energy Agency, the investment required to meet oil and natural gas supply requirements worldwide over the period 2016 to 2040 will be about US\$23 trillion (measured in 2015 dollars) or approximately US\$900 billion per year on average.

International accords and underlying regional and national regulations covering greenhouse gas emissions continue to evolve with uncertain timing and outcome, making it difficult to predict their business impact. Imperial's estimate of potential costs related to possible public policies covering energy-related greenhouse gas emissions are consistent with those outlined in ExxonMobil's long-term *Outlook for Energy*, which is used as a foundation for assessing the business environment and Imperial's investment evaluations.

The information provided in the long-term business outlook includes internal estimates and forecasts based upon internal data and analyses as well as publicly available information from external sources including the International Energy Agency.

Upstream

Imperial produces crude oil and natural gas for sale predominantly into the North American markets. Imperial's Upstream business strategies guide the company's exploration, development, production, research and gas marketing activities. These strategies include capturing material and accretive opportunities to

continually high-grade the resource portfolio, exercising a disciplined approach to investing and cost management, developing and applying high-impact technologies, pursuing productivity and efficiency gains, and growing profitable oil and gas production. These strategies are underpinned by a relentless focus on operational excellence, commitment to innovative technologies, development of employees and investment in the communities within which the company operates.

Imperial has a significant oil and gas resource base and a large inventory of potential projects. The company continues to evaluate opportunities to support the company's long-term growth. Actual volumes will vary from year to year due to the factors described in Item 1A. Risk factors.

Prices for most of the company's crude oil sold are referenced to West Texas Intermediate (WTI) and Western Canada Select (WCS) oil markets. In 2016, the average WTI and WCS crude oil prices, in U.S. dollars, were lower versus 2015. The upstream industry environment has been challenged in recent years with abundant crude oil supply causing crude oil prices to decrease to levels not seen since 2004. However, current market conditions are not necessarily indicative of future conditions. The markets for crude oil and natural gas have a history of significant price volatility. Imperial believes prices over the long term will continue to be driven by market supply and demand, with the demand side largely being a function of global economic growth. On the supply side, prices may be significantly impacted by political events, the actions of OPEC and other large government resource owners, and other factors. To manage the risks associated with price, Imperial evaluates annual plans and all major investments across a range of price scenarios.

Downstream

Imperial's Downstream serves predominantly Canadian markets with refining, logistics and marketing assets. Imperial's Downstream business strategies guide the company's activities. These strategies include targeting best-in-class operations in all aspects of the business, maximizing value from advanced technologies, capitalizing on integration across Imperial's businesses, selectively investing for resilient and advantaged returns, operating efficiently and effectively, and providing valued products and services to customers.

Imperial owns and operates three refineries in Canada, with aggregate distillation capacity of 423,000 barrels per day. Imperial's fuels marketing business across Canada serves customers through more than 1,700 Esso-branded retail sites, as well as wholesale and industrial operations through a network of primary distribution terminals.

Refining margins are largely driven by differences in commodity prices and are a function of the difference between what a refinery pays for its raw materials (primarily crude oil) and market prices for the range of products produced (primarily gasoline, heating oil, diesel oil, jet fuel and fuel oil). Crude oil and many products are widely traded with published prices, including those quoted on the New York Mercantile Exchange. Prices for these commodities are determined by global and regional marketplaces and are influenced by many factors, including supply/demand balances, inventory levels, industry refinery operations, import / export balances, currency fluctuations, seasonal demand, weather and political climate.

While demand remained strong in 2016, margins weakened as surplus distillate and gasoline production capacity created higher inventory. North American refineries have benefitted from cost-competitive feedstock and energy supplies, but that benefit decreased in 2016.

Imperial's long-term outlook is that the North American refining industry will remain subject to intense competition. Additionally, as described in more detail in Item 1A. Risk Factors, proposed carbon policy and other climate-related regulations, as well as the continued growth in biofuels mandates, could have negative impacts on the downstream business. Imperial's integration across the value chain, from refining to marketing, enhances overall value in both fuels and lubricants businesses.

The company supplies petroleum products to the motoring public through Esso-branded retail sites and independent marketers. In 2016, the company completed the sale of its remaining company-owned Esso-branded retail sites completing the conversion to a branded wholesaler operating model. On average during the year, there were more than 1,700 retail sites, which by the end of 2016 were all operating under a branded wholesaler model whereby Imperial supplies fuel to independent third parties who own and operate retail sites in alignment with Esso brand standards.

Chemical

In North America, unconventional natural gas continued to provide advantaged ethane feedstock for steam crackers and a favourable margin environment for integrated chemical producers. The company's strategy for its Chemical business is to reduce costs and maximize value by continuing the integration of its chemical plant in Sarnia with the refinery. The company also benefits from its integration within ExxonMobil's North American chemical businesses, enabling Imperial to maintain a leadership position in its key market segments.

Results of operations

Consolidated

millions of Canadian dollars	2016	2015	2014
Net income (loss)	2,165	1,122	3,785

2016

Net income in 2016 was \$2,165 million, or \$2.55 per-share on a diluted basis, including a gain of \$1.7 billion (\$2.01 per-share) from the sale of retail sites, versus net income of \$1,122 million or \$1.32 per-share in 2015. Downstream net income was \$2,754 million, up from \$1,586 million in 2015. Chemical net income was \$187 million. Upstream recorded a net loss of \$661 million in 2016, compared to a net loss of \$704 million in 2015.

2015

Net income in 2015 was \$1,122 million, or \$1.32 per share on a diluted basis, versus \$3,785 million or \$4.45 per share in 2014. Upstream recorded a net loss of \$704 million, compared to a net income of \$2,059 million in 2014. Downstream earnings decreased by \$8 million and Chemical earnings increased by \$58 million.

Upstream

millions of Canadian dollars	2016	2015	2014
Net income (loss)	(661)	(704)	2,059

2016

Upstream recorded a net loss of \$661 million in 2016, compared to a net loss of \$704 million in 2015. The loss in 2016 reflected lower realizations of about \$700 million, the impact of the northern Alberta wildfires of about \$155 million and higher depreciation expense of about \$120 million. These factors were partially offset by higher volumes of about \$320 million, the impact of a weaker Canadian dollar of about \$130 million, the favorable impact of lower royalties of about \$80 million, lower field operating costs of about \$80 million and lower energy cost of about \$50 million. The loss in 2015 reflected the impact associated with the Alberta corporate income tax rate increase of \$327 million.

2015

Upstream recorded a net loss of \$704 million in 2015, compared to net income of \$2,059 million in the same period of 2014. Earnings in 2015 reflected lower crude oil and gas realizations of about \$3,790 million, a net charge of \$327 million associated with increased Alberta corporate income taxes, higher depreciation expense of about \$180 million, lower liquids and gas volumes of about \$80 million reflecting the impact of divested properties in the prior year and a net charge of about \$60 million associated with the inventory carrying value. These factors were partially offset by the impact of a weaker Canadian dollar of about \$770 million, the favourable impact of lower royalties of about \$700 million, higher volumes from Kearl and Cold Lake of about \$670 million and lower energy costs of about \$140 million.

Average realizations

Canadian dollars	2016	2015	2014
Bitumen realizations (per barrel)	26.52	32.48	67.20
Synthetic oil realizations (per barrel)	57.12	61.33	99.58
Conventional crude oil realizations (per barrel)	32.93	36.58	76.03
Natural gas liquids realizations (per barrel)	15.58	14.70	49.11
Natural gas realizations (per thousand cubic feet)	2.41	2.78	4.54

2016

West Texas Intermediate averaged US\$43.44 per barrel in 2016, down from US\$48.83 per barrel in 2015. Western Canada Select averaged US\$29.49 per barrel and US\$35.34 per barrel respectively for the same periods. The WTI / WCS differential widened to 32 percent in 2016, up from 28 percent in 2015. The Canadian dollar averaged US\$0.75 in 2016, a decrease of US\$0.03 from 2015.

Imperial's average Canadian dollar realizations for bitumen and synthetic crudes declined essentially in line with the North American benchmarks, adjusted for changes in the exchange rate and transportation costs. Bitumen realizations averaged \$26.52 for 2016, a decrease of \$5.96 per barrel from 2015. Synthetic crude realizations averaged \$57.12 per barrel, a decrease of \$4.21 per barrel from 2015.

2015

The average price for WTI, the main benchmark crude for North America, decreased by 47 percent compared to the same period in 2014. The company's average Canadian dollar realizations for synthetic crude oil and bitumen decreased about 38 and 52 percent in 2015 to \$61.33 and \$32.48 per barrel respectively, as the decline in benchmark crude and increased light-heavy differentials were partially offset by the weaker Canadian dollar. The company's average realizations on sales of natural gas of \$2.78 per thousand cubic feet in 2015 were lower by \$1.76 per thousand cubic feet, versus 2014.

Crude oil and NGLs - production and sales (a)

thousands of barrels per day	2016		2015		2014	
	gross	net	gross	net	gross	net
Bitumen	281	256	266	245	197	161
Synthetic oil (b)	68	67	62	58	64	60
Conventional crude oil	14	12	15	14	18	14
Total crude oil production	363	335	343	317	279	235
NGLs available for sale	1	1	1	1	3	2
Total crude oil and NGL production	364	336	344	318	282	237
Bitumen sales, including diluent (c)	374		349		259	
NGL sales	5		5		8	

Natural gas - production and production available for sale (d)

millions of cubic feet per day	2016		2015		2014	
	gross	net	gross	net	gross	net
Production (e) (f)	129	122	130	125	168	156
Production available for sale (g)		87		94		124

- (a) Barrels per day metric is calculated by dividing the volume for the period by the number of calendar days in the period. Gross production is the company's share of production (excluding purchases) before deduction of the mineral owners' or governments' share or both. Net production excludes those shares.
- (b) The company's synthetic oil production volumes were from the company's share of production volumes in the Syncrude joint venture.
- (c) Diluent is natural gas condensate or other light hydrocarbons added to crude bitumen to facilitate transportation to market by pipeline and rail.
- (d) Cubic feet per day metric is calculated by dividing the volume for the period by the number of calendar days in the period.
- (e) Gross production of natural gas includes amounts used for internal consumption with the exception of the amounts re-injected.
- (f) Net production is gross production less the mineral owners' or governments' share or both. Net production reported in the above table is consistent with production quantities in the net proved reserves disclosure.
- (g) Includes sales of the company's share of net production and excludes amounts used for internal consumption.

2016

Gross production of Cold Lake bitumen averaged 161,000 barrels per day in 2016, up from 158,000 barrels per day in 2015.

Gross production of Kearl bitumen averaged 169,000 barrels per day in 2016 (120,000 barrels Imperial's share) compared to 152,000 barrels per day (108,000 barrels Imperial's share) in 2015. The increase was the result of start-up of the expansion project.

During 2016, the company's share of gross production from Syncrude averaged 68,000 barrels per day, up from 62,000 barrels per day in 2015. Increased production reflects continued efforts to improve the reliability of operations, which more than offset the impact of the Alberta wildfires.

2015

Gross production of Cold Lake bitumen averaged 158,000 barrels per day in 2015, up from 146,000 barrels from the same period last year, with new production from Nabiye offsetting cycle timing of the base operations.

Gross production of Kearl bitumen averaged 152,000 barrels per day during 2015 (108,000 barrels Imperial's share) up from 72,000 barrels per day (51,000 barrels Imperial's share) in 2014, reflecting early start-up of the Kearl expansion project and improved reliability of the initial development.

During 2015, the company's share of gross production from Syncrude averaged 62,000 barrels per day, compared to 64,000 barrels in 2014.

Gross production of conventional crude oil averaged 15,000 barrels per day during 2015, compared to 18,000 barrels in 2014. The lower production volume was primarily due to the impact of properties divested during the first half of 2014.

Gross production of natural gas during 2015 was 130 million cubic feet per day, down from 168 million cubic feet in the same period last year, reflecting the impact of divested properties and natural reservoir decline.

Downstream

millions of Canadian dollars	2016	2015	2014
Net income (loss)	2,754	1,586	1,594

2016

Downstream net income was \$2,754 million, up from \$1,586 million in 2015. Earnings increased mainly due to a gain of \$1,841 million from the sale of retail sites and the general aviation business, the impact of a weaker Canadian dollar of about \$130 million, higher marketing sales volumes of \$50 million, partially offset by lower downstream margins of about \$910 million.

2015

Downstream net income was \$1,586 million, compared to \$1,594 million in the same period of 2014. Earnings decreased due to the impact of lower refinery margins of about \$590 million and higher operating costs of about \$70 million mainly associated with the Edmonton rail terminal. These factors were partially offset by the favourable impact of a weaker Canadian dollar of about \$390 million, higher fuels marketing margins and volumes of about \$170 million, lower energy costs of about \$80 million and a 2015 gain of \$17 million from the sale of assets.

Refinery utilization

thousands of barrels per day (a)	2016	2015	2014
Total refinery throughput (b)	362	386	394
Refinery capacity at December 31	423	421	421
Utilization of total refinery capacity (percent)	86	92	94

Sales

thousands of barrels per day (a)	2016	2015	2014
Gasolines	261	247	244
Heating, diesel and jet fuels	170	170	179
Heavy fuel oils	16	16	22
Lube oils and other products	37	45	40
Net petroleum product sales	484	478	485

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

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

2016

Refinery throughput averaged 362,000 barrels per day in 2016, compared to 386,000 barrels per day in 2015. Capacity utilization decreased to 86 percent from 92 percent in 2015, reflecting the more significant scope of turnaround maintenance activity in the current year. Petroleum product sales were 484,000 barrels per day in 2016, up from 478,000 barrels per day in 2015. Sales growth was driven by the company's focus on establishing long-term supply agreements.

2015

Total refinery throughput was 386,000 barrels per day. Refinery throughput was 92 percent of capacity in 2015, 2 percent lower than the previous year. The lower rate was primarily a result of planned maintenance. Total net petroleum sales decreased to 478,000 barrels per day, compared with 485,000 barrels in 2014.

Chemical

millions of Canadian dollars	2016	2015	2014
Net income (loss)	187	287	229

Sales

thousands of tonnes	2016	2015	2014
Polymers and basic chemicals	697	735	741
Intermediate and others	211	210	212
Total petrochemical sales	908	945	953

2016

Chemical net income was \$187 million, compared to \$287 million in the same period of 2015, mainly due to weaker margins across all major product lines and lower volumes.

2015

Chemical net income was a record \$287 million in 2015, an increase of \$58 million over the same period in 2014, primarily due to the impact of a weaker Canadian dollar, lower feedstock costs and higher sales of polyethylene.

Corporate and Other

millions of Canadian dollars	2016	2015	2014
Net income (loss)	(115)	(47)	(97)

2016

In 2016, net income effects from Corporate and Other were negative \$115 million, versus negative \$47 million in 2015, primarily due to higher share-based compensation charges, the absence of the impact from the Alberta tax rate increase in 2015 and lower capitalized interest.

2015

In 2015, net income effects from Corporate and Other were negative \$47 million, compared to negative \$97 million in 2014, primarily due to lower share-based compensation charges and the impact of the Alberta corporate income tax rate increase.

Liquidity and capital resources

Sources and uses of cash

millions of Canadian dollars	2016	2015	2014
Cash provided by (used in)			
Operating activities	2,015	2,167	4,405
Investing activities	1,947	(2,884)	(4,562)
Financing activities	(3,774)	705	100
Increase (decrease) in cash and cash equivalents	188	(12)	(57)
Cash and cash equivalents at end of year	391	203	215

The company issues long-term debt from time to time and maintains a commercial paper program. However internally generated funds cover the majority of its financial requirements. Cash that may be temporarily surplus to the company's immediate needs is carefully managed through counterparty quality and investment guidelines to ensure that it is secure and readily available to meet the company's cash requirements and to optimize returns.

Cash flows from operating activities are highly dependent on crude oil and natural gas prices, as well as petroleum and chemical product margins. In addition, to provide for cash flow in future periods, the company needs to continually find and develop new resources, and continue to develop and apply new technologies to existing fields in order to maintain or increase production.

The company's financial strength enables it to make large, long-term capital expenditures. Imperial's portfolio of development opportunities and the complementary nature of its business segments help mitigate the overall risks for the company and its cash flows. Further, due to its financial strength, debt capacity and portfolio of opportunities, the risk associated with delay of any single project would not have a significant impact on the company's liquidity or ability to generate sufficient cash flows for its operations and fixed commitments.

Funding of registered retirement plans complies with federal and provincial pension regulations, and the company makes contributions to the plans based on an independent actuarial valuation completed at least once every three years, or more, depending on funding status. The most recent valuation of the company's registered retirement plans was completed as at December 31, 2013. As a result of the valuation, the company contributed \$163 million to the registered retirement plans in 2016. Future funding requirements are not expected to affect the company's existing capital investment plans or its ability to pursue new investment opportunities.

Cash flow from operating activities

2016

Cash flow generated from operating activities was \$2,015 million in 2016, compared with \$2,167 million in 2015, reflecting lower earnings, excluding the gain on retail sites and the general aviation business.

2015

Cash flow generated from operating activities was \$2,167 million, compared with \$4,405 million in 2014. Lower cash flow was due to lower earnings.

Cash flow from investing activities

2016

Investing activities generated net cash of \$1,947 million in 2016, compared with cash used in investing activities of \$2,884 million in 2015, reflecting proceeds from asset sales and the completion of major upstream growth projects.

2015

Cash used in investing activities of \$2,884 million, compared with \$4,562 million in 2014, mainly reflecting the decline in additions to property, plant and equipment.

Cash flow from financing activities

2016

Cash used in financing activities was \$3,774 million in 2016, compared with cash provided by financing activities of \$705 million in 2015. Cash from operating activities and proceeds from the asset sales were used to reduce outstanding debt.

At the end of 2016, total debt outstanding was \$5,234 million, compared with \$8,516 million at the end of 2015.

The company repaid debt of \$1,505 million from existing long-term loan facilities and \$1,749 million from short-term loan facilities.

In October 2016, the company decreased the amount of its unused committed long-term line of credit from \$500 million to \$250 million and extended the maturity date to November 2018.

In December 2016, the company decreased the amount of its unused committed short-term line of credit from \$500 million to \$250 million and extended the maturity date to December 2017.

During 2016, the company did not make any share repurchases except those to offset the dilutive effects from the exercise of share-based awards. The company will continue to evaluate its share repurchase program in the context of its operating performance and overall capital project activities.

Dividends paid in 2016 were \$492 million. The per-share dividend paid was \$0.58, up from \$0.53 in 2015.

2015

Cash provided by financing activities was \$705 million, compared with \$100 million in 2014.

The company drew on existing loan facilities of \$1,206 million.

At the end of 2015, total debt outstanding was \$8,516 million, compared with \$6,891 million at the end of 2014.

In March 2015, the company extended the maturity date of its existing \$500 million 364-day short-term unsecured committed bank credit facility to March 2016. The company did not draw on the facility.

In July 2015, the company increased the capacity of its existing floating rate loan facility with an affiliated company of ExxonMobil from \$6.25 billion to \$7.75 billion. All terms and conditions of the agreement remained unchanged.

In August 2015, the company extended the maturity date of its existing \$500 million long-term bank credit facility to August 2017. The company did not draw on the facility.

Cash dividends of \$449 million were paid in 2015 compared with \$441 million in 2014. Per-share dividends paid in 2015 totalled \$0.53, up from \$0.52 in 2014.

Subsequent to December 31, 2015 and up to February 10, 2016, the company increased its total debt by \$328 million by drawing on an existing facility. The increased debt was used to supplement normal operations and capital projects.

Financial percentages and ratios

	2016	2015	2014
Total debt as a percentage of capital (a)	17	27	23
Interest coverage ratio – earnings basis (b)	21	20	61

(a) Current and long-term debt (page 55) and the company's share of equity company debt, divided by debt and shareholders' equity (page 55).

(b) Net income (page 53), debt-related interest before capitalization, including the company's share of equity company interest, and income taxes (page 53), divided by debt-related interest before capitalization, including the company's share of equity company interest.

Debt represented 17 percent of the company's capital structure at the end of 2016.

Debt-related interest incurred in 2016, before capitalization of interest, was \$121 million, compared with \$102 million in 2015. The average effective interest rate on the company's debt was 1.5 percent in 2016, compared with 1.3 percent in 2015.

The company's financial strength, as evidenced by the above financial ratios, represents a competitive advantage of strategic importance. The company's sound financial position gives it the opportunity to access capital markets in the full range of market conditions and enables the company to take on large, long-term capital commitments in the pursuit of maximizing shareholder value.

The company does not currently make use of any derivative instruments to offset exposures associated with hydrocarbon prices, currency exchange rates and interest rates that arise from existing assets, liabilities and forecasted transactions. The company does not engage in speculative derivative activities nor does it use derivatives with leveraged features.

Commitments

The following table shows the company's commitments outstanding at December 31, 2016. It combines data from the consolidated balance sheet and from individual notes to the consolidated financial statements, where appropriate.

millions of Canadian dollars	Note reference	Payment due by period				Total
		2017	2018 to 2019	2020 to 2021	2022 and beyond	
Long-term debt (a)	14	-	54	4,478	500	5,032
- Due in one year		27				27
Operating leases (b)	13	139	129	4	3	275
Firm capital commitments (c)		48	31	71	-	150
Pension and other post-retirement obligations (d)	4	277	125	131	1,170	1,703
Asset retirement obligations (e)	5	55	218	184	1,015	1,472
Other long-term purchase agreements (f)		844	1,467	1,233	4,716	8,260

(a) Long-term debt includes a long-term loan from an affiliated company of ExxonMobil of \$4,447 million and capital lease obligations of \$612 million, \$27 million of which is due in one year. The payment by period for the related party long-term loan is estimated based on the right of the related party to cancel the loan on at least 370 days advance written notice.

(b) Minimum commitments for operating leases, shown on an undiscounted basis, covers primarily storage tanks, rail cars and marine vessels.

(c) Firm capital commitments represent legally-binding payment obligations to third parties where agreements specifying all significant terms have been executed for the construction and purchase of fixed assets and other permanent investments. In certain cases where the company executes contracts requiring commitments to a work scope, those commitments have been included to the extent that the amounts and timing of payments can be reliably estimated. Firm capital commitments related to capital projects, shown on an undiscounted basis.

(d) The amount by which the benefit obligations exceeded the fair value of fund assets for pension and other post-retirement plans at year-end. The payments by period include expected contributions to funded pension plans in 2017 and estimated benefit payments for unfunded plans in all years.

- (e) Asset retirement obligations represent the fair value of legal obligations associated with site restoration on the retirement of assets with determinable useful lives.
- (f) Other long-term purchase agreements are non-cancelable, or cancelable only under certain conditions and long-term commitments other than unconditional purchase obligations. They include primarily raw material supply and transportation services agreements. The lower 2016 balance reflects a reduction of transportation service agreements totalling \$2.7 billion. In addition, about \$636 million of unconditional purchase obligation that existed at year-end 2015 no longer met the conditions for classification as unconditional purchase obligations and are now reported as other long-term purchase agreements.

Unrecognized tax benefits totaling \$106 million have not been included in the company's commitments table because the company does not expect there will be any cash impact from the final settlements as sufficient funds have been deposited with the Canada Revenue Agency. Further details on the unrecognized tax benefits can be found in note 3 to the financial statements on page 65.

Litigation and other contingencies

As discussed in note 9 to the consolidated financial statements on page 74, a variety of claims have been made against Imperial and its subsidiaries. Based on a consideration of all relevant facts and circumstances, the company does not believe the ultimate outcome of any currently pending lawsuits against the company will have a material adverse effect on the company's operations, financial condition, or financial statements taken as a whole.

Additionally, as discussed in note 9, Imperial was contingently liable at December 31, 2016, for guarantees relating to performance under contracts of other third-party obligations. These guarantees do not have a material effect on the company's operations, financial condition, or financial statements taken as a whole.

There are no events or uncertainties beyond those already included in reported financial information that would indicate a material change in future operating results or financial condition.

Capital and exploration expenditures

millions of Canadian dollars	2016	2015
Upstream (a)	896	3,135
Downstream	190	340
Chemical	26	52
Other	49	68
Total	1,161	3,595

(a) Exploration expenses included.

Total capital and exploration expenditures were \$1,161 million in 2016, a decrease of \$2,434 million from 2015.

For the Upstream segment, capital expenditures were \$896 million, compared with \$3,135 million in 2015. Investments were primarily in support of completion of upstream projects.

Planned capital and exploration expenditures in the Upstream segment are forecast at about \$600 million for 2017. Investments are mainly planned for sustaining activity.

For the Downstream segment, capital expenditures were \$190 million in 2016, compared with \$340 million in 2015. In 2016, investments were primarily in support of downstream sustaining activity.

Planned capital expenditures for the Downstream segment in 2017 are \$350 million and focus on improving the reliability and efficiency of Imperial's operations, as well as enhancing the company's environmental and safety performance.

Total capital and exploration expenditures for the company in 2017 are expected to be about \$1 billion. Actual spending could vary depending on the progress of individual projects.

Market risks and other uncertainties

Crude oil, natural gas, petroleum product and chemical prices have fluctuated in response to changing market forces. The impacts of these price fluctuations on earnings from Upstream, Downstream and Chemical operations have varied. Industry crude oil and natural gas commodity prices and petroleum and chemical

product prices are commonly benchmarked in U.S. dollars. The majority of Imperial's sales and purchases are related to these industry U.S. dollar benchmarks. As the company records and reports its financial results in Canadian dollars, to the extent that the Canadian / U.S. dollar exchange rate fluctuates, the company's earnings will be affected. The company's potential exposure to commodity price and margin, and Canadian / U.S. dollar exchange rate fluctuations is summarized in the earnings sensitivities table below, which shows the estimated annual effect, under current conditions, on the company's after-tax net income.

In the competitive downstream and chemical environments, earnings are primarily determined by margin capture rather than absolute price levels on products sold. Refining margins are a function of the difference between what a refiner pays for its raw materials (primarily crude oil) and the market prices for the range of products produced. These prices in turn depend on global and regional supply / demand balances, inventory levels, refinery operations, import / export balances and weather.

Imperial is exposed to changes in interest rates, primarily on its debt which carries floating interest rates. The impact of a quarter percent change in interest rates affecting Imperial's debt would not be material to earnings, cash flow or fair value. Imperial has access to significant capacity of long-term and short-term liquidity. Internally generated funds are expected to cover the majority of financial requirements, supplemented by long-term and short-term debt as needed.

At this time Imperial is a net consumer of natural gas. It is used in Imperial's Upstream operations and refineries. A decrease in the value of natural gas reduces Imperial's operating expenses, thereby increasing Imperial's earnings.

Earnings sensitivities (a)

millions of Canadian dollars, after tax

One dollar (U.S.) per barrel change in crude oil prices (b)	+ (-)	100
Ten cents per thousand cubic feet decrease (increase) in natural gas prices	+ (-)	5
One dollar (U.S.) per barrel change in refining 2-1-1 margins (c)	+ (-)	140
One cent (U.S.) per pound change in sales margins for polyethylene	+ (-)	8
One cent decrease (increase) in the value of the Canadian dollar versus the U.S. dollar	+ (-)	85

(a) Each sensitivity calculation shows the impact on net income resulting from a change in one factor, after tax and royalties and holding all other factors constant. These sensitivities have been updated to reflect current conditions. They may not apply proportionately to larger fluctuations.

(b) Impact on Upstream earnings only, after tax and royalties.

(c) The 2-1-1 crack spread is an indicator of the refining margin generated by converting two barrels of crude oil into one barrel of gasoline and one barrel of diesel.

The sensitivity of net income to changes in the Canadian dollar versus the U.S. dollar increased from 2015 year-end by about \$10 million (after tax) a year for each one-cent change. The increase was primarily the result of higher production volumes.

The global energy markets can give rise to extended periods in which market conditions are adverse to one or more of the company's businesses. Such conditions, along with the capital-intensive nature of the industry and very long lead times associated with many of the company's projects, underscore the importance of maintaining a strong financial position. Management views the company's financial strength as a competitive advantage.

In general, segment results are not dependent on the ability to sell and / or purchase products to / from other segments. Instead, where such sales take place, they are the result of efficiencies and competitive advantages of integrated refinery / chemical complexes. Additionally, intersegment sales are at market-based prices. The products bought and sold between segments can also be acquired in worldwide markets that have substantial liquidity, capacity and transportation capabilities. About 65 percent of the company's intersegment sales are crude oil produced by the Upstream and sold to the Downstream. Other intersegment sales include those between refineries and the chemical plant related to raw materials, feedstocks and finished products.

The company has an active asset management program in which underperforming assets are either improved to acceptable levels or considered for divestment. The asset management program includes a disciplined, regular review to ensure that all assets are contributing to the company's strategic objectives. The

result is an efficient capital base, and the company has seldom had to write-down the carrying value of assets, even during periods of low commodity prices.

Industry bitumen production may be subject to limits on transportation capacity to markets. A significant portion of the company's upstream production is bitumen. To mitigate uncertainty associated with the timing of industry pipeline projects and pipeline capacity constraints, the company has developed rail infrastructure.

The demand for crude oil, natural gas, petroleum products and petrochemical products correlates closely with general economic growth rates. The occurrence of recessions or other periods of low or negative economic growth will typically have a direct adverse impact on the company's financial results. In challenging economic times, the company follows the proven approach to continue to focus on the business elements within its control and take a long-term view. Technology improvements have played and will continue to play an important role in the economics and the environmental performance of current operations and future developments.

Risk management

The company's size, strong capital structure and the complementary nature of the Upstream, Downstream and Chemical businesses reduce the company's enterprise-wide risk from changes in commodity prices and currency rates. The company's financial strength and debt capacity give it the opportunity to advance business plans in the pursuit of maximizing shareholder value in the full range of market conditions. As a result, the company does not currently make use of derivative instruments to mitigate the impact of such changes. The company does not engage in speculative derivative activities or derivative trading activities nor does it use derivatives with leveraged features. Although the company does not engage in speculative derivative activities or derivative trading activities, it maintains a system of controls that includes a policy covering the authorization, reporting and monitoring of derivative activity.

Critical accounting estimates

The company's financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The company's accounting and financial reporting fairly reflect its straightforward business model. Imperial does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. The company's significant accounting policies are summarized in note 1 to the consolidated financial statements on page 58.

Oil and gas reserves

Evaluations of oil and natural gas reserves are important to the effective management of upstream assets. They are an integral part of investment decisions about oil and gas properties such as whether development should proceed.

The estimation of proved reserves, which is based on the requirement of reasonable certainty, is an ongoing process based on rigorous technical evaluations, commercial and market assessments and detailed analysis of well information such as flow rates and reservoir pressure declines. The estimation of proved reserves is controlled by the company through long-standing approval guidelines. Reserve changes are made within a well-established, disciplined process driven by senior level geoscience and engineering professionals, assisted by the reserves management group which has significant technical experience, culminating in reviews with and approval by senior management and the company's board of directors. Notably, the company does not use specific quantitative reserve targets to determine compensation. Key features of the reserve estimation process are covered in "Disclosure of reserves" in Item 1.

Oil and natural gas reserves include both proved and unproved reserves.

- Proved oil and natural gas reserves are determined in accordance with Securities and Exchange Commission requirements. Proved reserves are those quantities of oil and natural gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible under existing economic and operating conditions and government regulations. Proved reserves are determined using the average of first-of-month oil and natural gas prices during the reporting year.

Proved reserves can be further subdivided into developed and undeveloped reserves. Proved developed reserves include amounts which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves include amounts expected to be recovered from new wells on undrilled proved acreage or from existing wells where a relatively major expenditure is required for completion. Proved undeveloped reserves are recognized only if a development plan has been adopted indicating that the reserves are scheduled to be drilled within five years, unless specific circumstances support a longer period of time.

The percentage of proved developed reserves was 77 percent of total proved reserves at year-end 2016, a reduction from 88 percent in 2015. Although the company is reasonably certain that proved reserves will be produced, the timing and amount recovered can be affected by a number of factors including completion of development projects, reservoir performance, regulatory approvals and significant changes in long-term oil and natural gas prices.

- Unproved reserves are quantities of oil and natural gas with less than reasonable certainty of recoverability and include probable reserves. Probable reserves are reserves that, together with proved reserves, are as likely as not to be recovered.

Revisions can include upward or downward changes in previously estimated volumes of proved reserves for existing fields due to the evaluation or re-evaluation of already available geologic, reservoir or production data; new geologic, reservoir or production data; or changes in the average of first-of-the-month prices and year-end costs that are used in the estimation of reserves. Revisions can also result from significant changes in either development strategy or production equipment / facility capacity.

As a result of low prices during 2016, under the U.S. Securities and Exchange Commission definition of proved reserves, certain quantities of bitumen that qualified as proved reserves in prior years did not qualify as proved reserves at year-end 2016. Amounts no longer qualifying as proved reserves include the entire 2.5 billion barrels of bitumen at Kearl and approximately 0.2 billion barrels of bitumen at Cold Lake. Among the factors that would result in these amounts being recognized again as proved reserves at some point in the future are a recovery in average price levels, a further decline in costs, and / or operating efficiencies. Under the terms of certain contractual arrangements or government royalty regimes, lower prices can also increase proved reserves attributable to Imperial. The company does not expect the downward revision of reported proved reserves under the U.S. Securities and Exchange Commission definitions to affect the operation of the underlying projects or to alter its outlook for future production volumes.

Unit-of-production depreciation

The calculation of unit-of-production depreciation is a critical accounting estimate that measures the depreciation of upstream assets. Oil and natural gas reserve quantities are used as the basis to calculate unit-of-production depreciation rates for most upstream assets. Depreciation is calculated by taking the ratio of asset cost to total proved reserves or proved developed reserves applied to the actual cost of production. The volumes produced and asset cost are known, while proved reserves are based on estimates that are subject to some variability.

In the event that the unit-of-production method does not result in an equitable allocation of cost over the economic life of an upstream asset, an alternative method is used. The straight-line method is used in limited situations where the expected life of the asset does not reasonably correlate with that of the underlying reserves. For example, certain assets used in the production of oil and natural gas have a shorter life than the reserves, and as such, the company uses straight-line depreciation to ensure the asset is fully depreciated by the end of its useful life.

To the extent that proved reserves for a property are entirely de-booked and that property continues to produce, assets will be depreciated using a unit-of-production method based on reserves determined at the most recent SEC price which results in a quantity of proved reserves greater than zero, appropriately adjusted for production and technical changes. The effect of this approach on the company's 2017 depreciation expense versus 2016 is anticipated to be immaterial.

Impact of oil and gas reserves and prices and margins on testing for impairment

The company tests assets or groups of assets for recoverability whenever events or circumstances indicate that the carrying amounts may not be recoverable.

Among the events or changes in circumstances which could indicate that the carrying value of an asset or asset group may not be recoverable are the following:

- A significant decrease in the market price of a long-lived asset;
- A significant adverse change in the extent or manner in which an asset is being used or in its physical condition including a significant decrease in the company's current and projected reserve volumes;
- A significant adverse change in legal factors or in the business climate that could affect the value, including a significant adverse action or assessment by a regulator;
- An accumulation of project costs significantly in excess of the amount originally expected;
- A current-period operating loss combined with a history and forecast of operating or cash flow losses; and
- A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

The company performs asset valuation analyses on an ongoing basis as a part of its asset management program. These analyses and other profitability reviews assist the company in assessing whether the carrying amounts of any of its assets may not be recoverable.

In general, Imperial does not view temporarily low prices or margins as an indication of impairment. Management does not believe that lower prices are sustainable if energy is to be delivered with supply security to meet global demand over the long term. Although prices will occasionally drop significantly, industry prices over the long term will continue to be driven by market supply and demand. On the supply side, industry production from mature fields is declining, but this is being offset by production from new discoveries and field developments. OPEC production policies also have an impact on world oil supplies. The demand side is largely a function of global economic growth. Because the lifespans of the company's major assets are measured in decades, the value of these assets is predominantly based on long-term views of future commodity prices and production costs. During the lifespan of these major assets, the company expects that oil and gas prices will experience significant volatility, and consequently these assets will experience periods of higher earnings and periods of lower earnings, or even losses. In assessing whether the events or changes in circumstances indicate the carrying value of an asset may not be recoverable, the company considers recent periods of operating losses in the context of its longer-term view of prices. While near-term prices are subject to wide fluctuations, longer term price views are more stable and meaningful for purposes of assessing future cash flows.

When the industry experiences a prolonged and deep reduction in commodity prices, the market supply and demand conditions may result in changes to the company's long-term price or margin assumptions it uses for its capital investment decisions. To the extent those changes result in a significant reduction in the mid-point of its long-term oil and natural gas price or margin ranges, the company may consider that situation, in conjunction with other events and changes in circumstances such as a history of operating losses, as an indicator of potential impairment for certain assets.

In the upstream, the standardized measure of discounted cash flows included in the "Supplemental information on oil and gas exploration and production activities" is required to use prices based on the average of first-of-month prices. These prices represent discrete points in time and could be higher or lower than the company's long-term price assumptions which are used for impairment assessments. The company believes the standardized measure does not provide a reliable estimate of the expected future cash flows to be obtained from the development and production of its oil and gas properties or of the value of its oil and gas reserves and therefore does not consider it relevant in determining whether events or changes in circumstances indicate the need for an impairment assessment.

If events or circumstances indicate that the carrying value may not be recoverable, the company estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. In performing this assessment, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. Cash flows used in recoverability assessments are based on the company's assumptions which are developed in the annual planning and budgeting process, and are consistent with the criteria management uses to evaluate investment opportunities. These evaluations make use of the company's assumption of future crude oil and natural gas commodity prices, refining and chemical margins, volumes, costs, and foreign currency exchange rates. Volumes are based on projected field and facility production profiles, throughput, or sales. Where unproved reserves exist, an appropriately risk-adjusted amount of these reserves may be included in the evaluation.

An asset group is impaired if its undiscounted cash flows are less than the asset group's carrying value. Impairments are measured by the amount by which the carrying value exceeds fair value. Fair value is based on market prices if an active market exists for the asset group or discounted cash flows using a discount rate commensurate with the risk. Significant unproved properties are assessed for impairment individually, and valuation allowances against the capitalized costs would be recorded based on the estimated economic chance of success and the length of time that the company expects to hold the properties. Properties that are not individually significant are aggregated by groups and amortized based on development risk and average holding period.

Continued weakness in the upstream industry environment during 2016 led the company to perform an assessment of its major long-lived assets as part of Imperial's annual planning and budgeting process, similar to the exercise undertaken in late 2015. The assessment reflected long-term crude and natural gas prices which are consistent with the mid-point of the ranges that management uses to evaluate investment opportunities and which are in the range of long-term price forecasts published by third-party industry experts and government agencies. This assessment indicated that Imperial's major asset groups have future undiscounted cash flow estimates exceeding carrying values.

Supplemental information regarding oil and gas results of operations, capitalized costs and reserves is provided following the notes to consolidated financial statements.

Inventories

Crude oil, products and merchandise inventories are carried at the lower of current market value or cost (generally determined under the last-in, first-out method – LIFO).

Pension benefits

The company's pension plan is managed in compliance with the requirements of governmental authorities and meets funding levels as determined by independent third-party actuaries. Pension accounting requires explicit assumptions regarding, among others, the discount rate for the benefit obligations, the expected rate of return on plan assets and the long-term rate of future compensation increases. All pension assumptions are reviewed annually by senior management. These assumptions are adjusted only as appropriate to reflect long-term changes in market rates and outlook. The long-term expected rate of return on plan assets of 5.5 percent used in 2016 compares to actual returns of 5.5 percent and 7.7 percent achieved over the last 10- and 20-year periods respectively, ending December 31, 2016. If different assumptions are used, the expense and obligations could increase or decrease as a result. The company's potential exposure to changes in assumptions is summarized in note 4 to the consolidated financial statements on page 66. At Imperial, differences between actual returns on plan assets and the long-term expected returns are not recorded in pension expense in the year the differences occur. Such differences are deferred, along with other actuarial gains and losses, and are amortized into pension expense over the expected average remaining service life of employees. Employee benefit expense represented about 2 percent of total expenses in 2016.

Asset retirement obligations and other environmental liabilities

Legal obligations associated with site restoration on the retirement of assets with determinable useful lives are recognized when they are incurred, which is typically at the time the assets are installed. The obligations are initially measured at fair value and discounted to present value. Over time, the discounted asset retirement obligation amount will be accreted for the change in its present value, with this effect included in production and manufacturing expenses. As payments to settle the obligations occur on an ongoing basis and will continue over the lives of the operating assets, which can exceed 25 years, the discount rate will be adjusted only as appropriate to reflect long-term changes in market rates and outlook. For 2016, the obligations were discounted at 6 percent and the accretion expense was \$97 million, before tax, which was significantly less than 1 percent of total expenses in the year. There would be no material impact on the company's reported financial results if a different discount rate had been used.

Asset retirement obligations are not recognized for assets with an indeterminate useful life. Asset retirement obligations for these facilities generally become firm at the time the facilities are permanently shut down and dismantled. These obligations may include the costs of asset disposal and additional soil remediation. However, these sites have indeterminate lives based on plans for continued operations, and as such, the fair value of the conditional legal obligations cannot be measured, since it is impossible to estimate the future settlement dates of such obligations. For these and non-operating assets, the company accrues provisions for environmental liabilities when it is probable that obligations have been incurred and the amount can be reasonably estimated.

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

Suspended exploratory well costs

The company continues capitalization of exploratory well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the company is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. The facts and circumstances that support continued capitalization of suspended wells at year-end are disclosed in note 15 to the consolidated financial statements on page 78.

Tax contingencies

The operations of the company are complex, and related tax interpretations, regulations and legislation are continually changing. Significant management judgment is required in the accounting for income tax contingencies and tax disputes because the outcomes are often difficult to predict.

The benefits of uncertain tax positions that the company has taken or expects to take in its income tax returns are recognized in the financial statements if management concludes that it is more likely than not that the position will be sustained with the tax authorities. For a position that is likely to be sustained, the benefit recognized in the financial statements is measured at the largest amount that is greater than 50 percent likely of being realized. A reserve is established for the difference between a position taken or expected to be taken in an income tax return and the amount recognized in the financial statements. The company's unrecognized tax benefits and a description of open tax years are summarized in note 3 to the consolidated financial statements on page 65.

Recently issued accounting standards

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard, *Revenue from Contracts with Customers*. The standard establishes a single revenue recognition model for all contracts with customers, eliminates industry specific requirements and expands disclosure requirements. The standard will be adopted beginning January 1, 2018. The company expects to adopt the standard using the modified retrospective method, under which prior years' results are not restated, but supplemental information on the impact of the new standard is provided for in the 2018 results. Imperial continues to evaluate other areas of the standard. The impact from the standard is not expected to have a material effect on the company's financial statements.

In February 2016, the FASB issued a new standard, *Leases*. The standard requires all leases with an initial term greater than one year be recorded on the balance sheet as a lease asset and lease liability, with little change to the income and cash flow statements. The standard is required to be adopted beginning January 1, 2019, with early adoption permitted. Imperial is evaluating the standard and its effect on the company's financial statements and plans to adopt it in 2019.