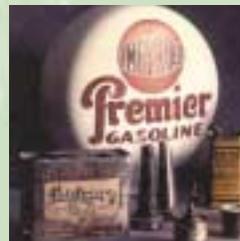




# A partner in the Canadian community

YESTERDAY, TODAY AND TOMORROW



## Contents

- 1 A letter from the chairman
- 2 Highlights
- 4 A commitment to the community
- 10 Caring for people's health and safety
- 12 Protecting the environment
- 16 Straightforward management systems
- 18 Developing Canada's potential
- 21 Improving the future through research
- 22 Employees make the difference
- 25 Strong financial performance

[www.imperialoil.ca](http://www.imperialoil.ca)

## Imperial Oil Limited

With operations across the country, Imperial Oil has been a leading member of the Canadian petroleum industry for more than 120 years. It is one of the country's largest producers of crude oil and a major producer of natural gas. It is also Canada's largest refiner and marketer of petroleum products and a major producer of petrochemicals.

Built on a tradition of integrity and caring, Imperial is committed to contributing to the well-being of Canadians by:

- ensuring that the health and safety of its employees, contractors and neighbours remains its number one priority
- operating in ways that are both environmentally and economically responsible
- maintaining high ethical standards in every area of its business
- supplying quality products that are vital to almost every aspect of daily life
- providing challenging employment opportunities from coast to coast in a work environment enriched by diversity
- supporting a wide range of educational, environmental and community initiatives
- sharing its expertise with the broader Canadian community.

### We welcome your comments

If you would like to comment on our corporate citizenship report, please write to us at:

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

### Our Web site

For more information about Imperial, including its history, operations, contributions and sponsorship programs and on-line publications, please visit our Web site ([www.imperialoil.ca](http://www.imperialoil.ca))

## A letter from the chairman



**At Imperial, we believe that the foundation of good corporate citizenship lies in doing our job well, fulfilling all our responsibilities with integrity, sensitivity and concern for both people and the environment**

From finding, processing and delivering the energy that generates heat, light and motive power for Canadians to producing a multitude of products essential to agriculture, food production, medicine, transportation and many other fields, Imperial's job is large and complex. Touching the lives of millions of people, it's one we undertake every day, in every part of the country.

However, we realize that there is more to doing our job well than supplying customers with excellent products and services. In addition, it means being a good neighbour – operating facilities in a safe and reliable manner. It means being a good employer – providing a diverse, challenging, rewarding, safe and healthy work environment. It means being a good customer for the thousands of Canadian businesses that supply Imperial with goods and services. And it means being a good investment for the more than 75,000 shareholders who hold Imperial stock directly, and for the hundreds of thousands of others who have an indirect stake in the company's performance through mutual or pension funds.

Doing our job well also means protecting the environment. Like other Canadians, we have children and grandchildren for whom we want to leave a legacy that includes a healthy environment. And we believe it is possible – and necessary – for this legacy to be founded on the dual goals of environmental protection and economic growth, ensuring both a clean, healthy environment and an economically sound future.

Imperial also realizes that Canadians define a successful company in terms of more than just products and profits. They expect a good company to make a contribution to the communities in which it operates. I'm proud to say Imperial has been doing just that for more than a century, and today is one of the country's largest corporate donors. Through the Imperial Oil Foundation alone, the company made contributions of \$6.7 million in 2002, largely focused on programs and organizations devoted to Canada's youth, especially in the area of education. Apart from this giving, Imperial also contributed more than \$1 million through its Aboriginal Scholarship program and support of such community activities as minor hockey.

Imperial and its current and retired employees are also major supporters of United Way-Centraide campaigns. And it gives me particular pleasure to report that during 2002, our combined donations to those campaigns totalled \$2.4 million, up 14 percent from the previous year.

But non-profit groups need more than funding; they need physical help as well. For this reason, Imperial encourages volunteerism among its employees, retirees and retailers across the country through programs that provide grants to the groups with which they volunteer.

Imperial also tries to make a difference by sharing its knowledge and ideas, contributing to the discussion on vital issues of the day. As a company with deep roots in Canada and many years of experience in the development of natural resources, Imperial has accumulated considerable expertise, and we believe it is our responsibility to share this expertise with the broader Canadian community.

This company has a long-standing commitment to good corporate governance. Our governance policy is continually reviewed and updated to ensure that it conforms not only with regulatory guidelines but with best practices. For example, the committee structure of the board of directors was recently modified – all committees are now composed solely of non-employee directors.

The following pages provide an update on the efforts that the corporation and its many dedicated people are making to translate our pledge of good corporate citizenship into tangible results for Canadians.

Sincerely,

Tim Hearn

Chairman, president and chief executive officer  
Imperial Oil Limited

# Highlights

## PROGRESS TODAY...



Three new phases were opened at the Cold Lake bitumen recovery operation, where closely spaced wells help to reduce Imperial's environmental footprint. The expansion includes a 170-megawatt cogeneration facility.



The Royal Canadian Mint introduced a \$100, 14-karat gold coin to commemorate Imperial's major oil strike at Leduc, Alta., in 1947.



Energy efficiency at the company's four refineries continues to improve. Today, they are about 40 percent more energy efficient than 30 years ago.

From Imperial's contributions to Canadian communities to major investments that will help ensure we leave a clean, healthy environment for our children, 2002 was a year of significant achievement for the company.

### SAFETY

- With a safety record that continues to be among the best in Canada, Imperial recorded its second-best year for safety performance.
- The Nobody Gets Hurt initiative, which is aimed at helping Imperial achieve its goal of zero workplace injuries and illnesses, was introduced throughout the company.

### ENVIRONMENT

- More than \$375 million was invested in projects aimed at protecting the environment and improving safety. This included a \$300-million investment in Imperial's four refineries as part of a multi-year project that will enable the company to eliminate virtually all sulphur from its gasoline before the end of 2003, and a substantial investment in the building of two cogeneration facilities, a \$250-million initiative that will significantly improve energy efficiency and reduce emissions.
- Recovering 99.7 percent of the solution gas produced with crude oil, Imperial once again had the best recovery rate of Alberta's 50 largest oil producers.

### COMMUNITY

Our total community giving was \$7.8 million.

- \$6.7 million was contributed through the Imperial Oil Foundation to more than 400 non-profit organizations throughout Canada, with a focus on youth and education.
- \$175,000 was given through the Esso Community Program, which supports Esso retailers in their community activities.

## A FUTURE OF PROMISE



Employees and retirees across the country participated in a variety of events to raise money for the United Way-Centraide.



Imperial opened three community offices in the Northwest Territories, enabling it to share information about the Mackenzie gas project with local residents. Other initiatives in the North included a \$350,000 contribution to improve the literacy skills of children.



A proud sponsor of Canada's men's and women's national hockey teams, Imperial shared the joy of the nation when both teams won gold at Salt Lake City.

- \$2.4 million was contributed to United Way-Centraide campaigns across the country, a 14-percent increase over 2001. Of that amount, employees and annuitants raised \$1.5 million, with the Imperial Oil Foundation contributing a further \$900,000.
- \$715,000 was provided to support amateur hockey.

## CORPORATE GOVERNANCE

- Building on a long-standing tradition of good corporate governance, Imperial made a number of changes to the nature and structure of its board of directors, reflecting existing and proposed requirements as well as best practices.
- The company's incentive compensation programs have historically been cash based and reported against earnings, a tradition that was reaffirmed in 2002.

## FINANCIAL PERFORMANCE

- Capital investments of \$1.6 billion were made to expand or improve operations across the country.
- Governments received \$1.3 billion in taxes and royalties directly from Imperial, which generated a further \$3 billion of government tax revenue through sales of products.
- With earnings of \$1.2 billion, Imperial met the primary responsibility of business to stakeholders – to remain financially successful.
- Medium-term notes issued by Imperial during the year received a Triple-A credit rating from Standard & Poor's Corporation.
- With total returns, including capital appreciation and dividends, of three percent, Imperial shares substantially outperformed the S&P/TSX composite index, which recorded a 12-percent loss. Over the last 10 years, the total annual return on Imperial shares has averaged 17 percent, compounded.
- The annual dividend payment increased to 84 cents a share, representing the eighth consecutive year of dividend growth.

---

## A commitment to the community

For more than 120 years, Imperial has remained profitable while at the same time contributing to the Canadian community in many and varied ways



### Supporting environmental education

Teaching children about conservation, biodiversity and the environment is vitally important, and our contributions to Canadian zoos are helping to do this.

With more than 5,000 animals, representing 460 species, and the largest collection of tropical and rare plants in Canada, the Toronto Zoo attracts children from a wide area. A supporter of the zoo's education program since 1999, Imperial announced a \$125,000 grant in 2002 to help build a new facility to support the zoo's environmental and conservation education programs.

In recent years, the company has also made contributions to help develop programs at both the Granby Zoo, near Montreal, and the Calgary Zoo.



A grant from Imperial is helping a wetlands society in Bonnyville, Alta., build a 10-kilometre walking trail, as well as a number of viewing stands where hikers can take a break while reading about the flora and fauna of the surrounding wetlands.

By doing its job well, Imperial does the most good for the most people. That job is finding and producing oil and natural gas and providing fuels and chemical products at competitive prices, safely and in an environmentally responsible manner. In doing its job well, Imperial helps fuel the Canadian economy. It provides jobs. It supplies energy and high-quality products that are essential to both industry and individuals. And it generates billions of dollars in local, provincial and national tax revenues.

Setting an example for responsible corporate citizenship by going about its job with honesty and adhering to the highest ethical standards is extremely important to Imperial, which considers its reputation for fair and ethical dealings in all of its relationships to be an important business asset.

### Tax payments help support social services

Imperial's support for communities takes many forms. In 2002, for example, governments received a total of \$4.3 billion from the company in the form of taxes and royalties (\$1.3 billion in direct payments and a further \$3 billion generated through sales of products). Nearly double the total amount of payments to company employees, dividends to shareholders, and business-reinvestment and research-development costs, these tax revenues and royalties help governments fund education, health care and other essential social services throughout Canada.

### A responsibility to share knowledge

With roots deeply planted in Canada and decades of experience in the development of natural resources,



### Math matters

Esso Math Camps, run by the Canadian Mathematical Society, give gifted math students from across the country the opportunity to go beyond the high-school curriculum. In addition to developing their skills, the students have the chance to prepare for national and international competitions against some of the world's best young mathematicians. Last year, students who had attended Esso Math Camps won gold, silver and bronze medals at the International Mathematical Olympiad in Glasgow, Scotland. In 2002, Imperial announced a three-year, \$105,000 grant to help fund the camps, which it has been supporting since 1999.

The company also supports a number of camps across the country designed to foster children's interest in science. Among these are the Manitoba Museum's Science Discovery Day Camps in Winnipeg and the Discovery Centre's Summer Science Camp in Halifax, both of which offer hands-on workshops and live science demonstrations.

Imperial can make a significant contribution to the advancement of public policy and believes it has a responsibility to share its knowledge in those areas where it has expertise.

The open exchange of ideas is a cornerstone of Canadian society, and in 2002, the company invested \$200,000 in memberships to organizations devoted to discussing and understanding issues affecting Canada. The company shares its perspective on public policy matters in a number of ways, including through its Web site.

### Working with neighbours

Our community involvement takes many forms. In the Northwest Territories, where the company is leading a project to develop trillions of cubic feet of natural gas in the Mackenzie River delta, for example, Imperial has opened community offices in Inuvik, Fort Simpson and Norman Wells to help build working relationships with neighbours. The offices offer information about the project, advance regional employment and business opportunities, and enable northerners to provide input into the project plan. The project itself provides for significant direct involvement by Aboriginal peoples, who are represented by the Mackenzie Valley Aboriginal Pipeline Corporation. Imperial has been involved in the development of a number of successful Aboriginal peoples' business ventures, including Shehtah Drilling in the Northwest Territories and Pimee Well Servicing in Alberta.

Our employees also get involved in their communities on an individual basis, either through personal interest

### Helping hospitals

In 2002, Imperial announced four major grants to health-care organizations.

- The Alberta Children's Hospital is receiving \$250,000 over five years to help fund the Southern Alberta Child & Youth Health Network and the Family & Community Resource Centre.
- The Capital Health Authority in Edmonton is receiving \$250,000 over five years for a program designed to help make school health services more accessible to children in inner-city schools and their families. Evidence suggests that increasing access to school health services, including those that lead to early detection of health and learning problems, can have a significant impact on a child's ultimate success in life.
- The Norfolk General Hospital in Simcoe, Ont., is receiving \$150,000 over three years to redevelop its emergency facility and to expand its library and health-education facilities.
- The Dartmouth General Hospital in Nova Scotia is receiving \$150,000 over five years for the construction and equipping of a pediatric room in its emergency department.

or in conjunction with company-sponsored activities. In Sarnia, for example, Len Carey, who works in the research department, served as chair of Lambton College's board of governors. And in Toronto, Jim Levins, who directs Imperial's corporate safety, health and environment programs, is chair of the Safe Communities Foundation, a company-supported organization that works to make communities safer. He is also on the board of the Imperial-sponsored Learning Partnership, which is dedicated to channelling business support for public education into focused programs for

1923

In 1923, a typhoid epidemic devastated the Northern Ontario town of Cochrane. When the seriousness of the epidemic was realized, Imperial sent two of its nurses, along with financial assistance, to the town. "What you are doing to relieve the distress in the Town of Cochrane is well worth commendation," wrote R.S. Taylor of the Canadian Red Cross Society in response to the support offered by Imperial. "If all companies interested were taking similar action, the situation at Cochrane would indeed be greatly relieved."

On a more personal note, A.L. Hancock, a resident of the town, wrote: "I wish to thank you ... for your kindness and thoughtfulness in sending us two nurses and in supplying our home with pure milk and water during the epidemic of typhoid from which our town has so greatly suffered." Six members of Hancock's family of eight were afflicted with the illness. All, including the four pictured at right, recovered.



---

## A commitment to the community (continued)



### Working with Aboriginal communities

Imperial has a long history of working with Canada's Aboriginal peoples to develop mutually beneficial business, employment and educational opportunities.

For example, in Northern and Western Canada, the company funds scholarships for Aboriginal students to assist them in acquiring the academic qualifications and technical skills they need to compete for jobs in the oil and gas industry.

And in Southwestern Ontario, Imperial sponsors a number of educational programs aimed at building the math and science skills of students from the Six Nations of the Grand River, and also supports a program at Six Nations Polytechnic that enables mature students to boost their math and science marks so that they can meet university or technical-school entrance requirements.

The company also provides tuition funding for Aboriginal students attending Lambton and Mohawk community colleges. As well, the Nanticoke refinery provides job-shadowing and summer-employment opportunities for local First Nations students.



Imperial continued its tradition of supporting amateur hockey across Canada, providing \$715,000 to a variety of programs in 2002. Through the Esso Medals and Certificates of Achievement program, for example, the company supports young hockey players, recognizing dedication, effort and fair play. It is also a strong supporter of women's hockey and sponsors both the Canadian women's national hockey team and the Esso Women's National Hockey Championships.

### Contributing through others

Imperial also contributed \$425,000 through its partnerships in Syncrude Canada and the Sable Offshore Energy Project.

One of the many initiatives it supports through Syncrude (the Alberta oil sands consortium in which Imperial holds a 25-percent share) is Careers: The Next Generation. Syncrude is the founding partner of the initiative, which addresses the twin challenges of youth employability and a potential shortage of skilled workers in Alberta. Developing programs that provide opportunities for students to alternate periods of academic study with work placements, Careers has assisted hundreds of young people across the province.

Through the Sable project (the East Coast natural gas operation in which Imperial holds a nine-percent share) it is involved in such initiatives as a business-education partnership in Halifax with Joseph Howe Elementary School, which provides a number of important resources to the inner-city school.

The Sable project is also the prime corporate sponsor of the Stan Rogers Festival. Named in honour of the renowned Canadian folksinger, the annual music festival, held in Canso, N.S., draws thousands of people from across North America.

schools. These are just two of the hundreds of employees who are making a difference in their communities.

### Giving is an Imperial tradition

Imperial contributed \$7.8 million to increase the quality of life in Canadian communities in 2002, building on a tradition of corporate giving that began in 1894, when the company made its first donation to a Newfoundland seamen's mission.

Today, the majority of the company's community support is delivered through the Imperial Oil Foundation, which in 2002 contributed \$6.7 million to more than 400 organizations in Canada. The funds supported education, health, community services and the arts. Sixty percent was specifically directed to programs focused on youth and education – we believe that by supporting youth and education, we can make a contribution to preparing young people to be more successful in an increasingly global marketplace. Some of the organizations that receive support from the foundation are listed on the Imperial Web site.

In addition to the company's giving through the Imperial Oil Foundation and its funding of the Aboriginal Scholarship Program, individual operations directly support a number of local activities and events.



Helping to ensure that children are not hungry and therefore better able to learn, a number of employees from the Strathcona refinery helped provide hot lunches for 2,300 students in 14 schools through Edmonton's School Lunch Program. While most employees served lunches, one ran a course for young chefs, which taught children how to make nutritious, low-cost meals for their families.



A student studies the temperature of soil as part of a project funded by a University Research Award. The project, headed by Dr. Peter Kershaw of the University of Alberta, is examining the impact on subalpine tundra of crude oil spilled from the Canol pipeline, which was built during the Second World War to supply oil to Allies in the Pacific.

### A focus on math, science and technology

Imperial's vision in education is to contribute to building a lifelong learning system in Canada that ranks among the best in the world. Since we believe that Canada's future progress is predicated, in large part, on advances in science and technology, the company's educational support is focused on programs that enhance math, science and technology education.

At the university level, Imperial encourages research in areas of interest – including the environment – to its petroleum, chemical and energy resource development businesses through the University Research Awards program, which provides funding for specific research projects carried out by full-time faculty members and students under their direction. In 2002, the company directed 46 of these awards – totalling \$650,000 – to projects at 18 Canadian universities.

### Connected to conservation

Imperial supports a number of environmental and conservation-related projects across the country. In Alberta, for example, we provide funds that enable the Calgary Wildlife Rehabilitation Society to produce educational material. The material helps create awareness of the group's work in treating injured and orphaned animals, enabling them to return to their natural habitats. In Bonnyville, near our Cold Lake facility, our support is helping a local wetlands society build a 10-kilometre walking trail.

In Ontario, the company funds a range of initiatives

1936

In the minds of many Canadians, Imperial and hockey are inseparable. The association started in 1936, when the company began sponsoring *Hockey Night in Canada* radio broadcasts featuring the play-by-play voice of Foster Hewitt. The 1930s also saw the birth of another enduring hockey tradition, the naming of three star players at the end of every game, a custom introduced by Imperial to promote its 3 Star gasoline. As Scott Young wrote in his 1985 book *Hello Canada! The Life and Times of Foster Hewitt*: "The Leafs and Foster Hewitt and the other teams in the NHL, along with Imperial, had combined to produce the greatest single national once-a-week get-together Canada had ever known."

In fact, the broadcasts were so much a part of Canada that during the Second World War, Canadian soldiers overseas asked if there was any way of receiving them. Accordingly, Imperial began financing 30-minute condensed versions of *Hockey Night in Canada*, which were transmitted by short-wave to Britain and aired by the BBC.



## A commitment to the community (continued)



### Helping retailers support their communities

Through the Esso Community Program, Imperial provides grants to retailers and associates across the country to support their community initiatives, which range from sponsoring local sporting events and teams to raising funds for hospitals and educational programs.

In Montreal, for example, one of these grants supported an effort to raise funds and collect food for families in need. About 60 Esso dealers together raised \$45,000, which they contributed to *La Grande Guignolée*, Montreal's annual holiday drive in December. "This event was a golden opportunity for the company and its retailers to show that we care," says Montreal sales manager Charles Normandeau. "Caring – and showing we care – is what the Esso Community Program is all about."

Last year, Imperial and Esso-branded retailers teamed up to contribute about \$350,000 to community activities across the country.



Founded in 1985, Opera Atelier has earned international renown for bringing the ballet-rich operas of the baroque period to contemporary audiences. Supporting Opera Atelier since 1987, Imperial currently directs its contributions to the Dance Through Time program, a weekly series of free performances presented at Toronto's Art Gallery of Ontario by students of the opera company's School of Atelier Ballet and young professional dancers, such as Natalya Gomez and Nathaniel Kozlow (above).

from the Connecting Kids with Conservation program through the Long Point Foundation for Conservation to the Owl Foundation, which rehabilitates injured owls. In 2002, the Owl Foundation lost almost 100 northern owls to West Nile virus; a contribution provided funds for an isolation building to help stop the spread of the disease and enable more of the owls to return to nature.

Imperial also supports SEEDS (Society Environment and Energy Development Studies), which distributes educational material on energy and the environment to schools across Canada.

### Helping local communities

About 30 percent of the contributions support a broad range of projects aimed at improving the quality of life in Canadian communities. In Cold Lake, for example, it supports Youth Drop-in Nights, a program in which teens hold monthly evening get-togethers aimed at promoting active living and healthy lifestyles among local young people.

A contribution to Breakfast for Learning supports the delivery of this vital child-nutrition program to a number of Aboriginal communities.

The company also supports the Kids Help Phone, which provides telephone counselling, on-line infor-

mation and public education services for children and youth throughout the country. Imperial's funding supports an awareness program in schools, which works to ensure that every young person in Canada knows about Kids Help Phone.

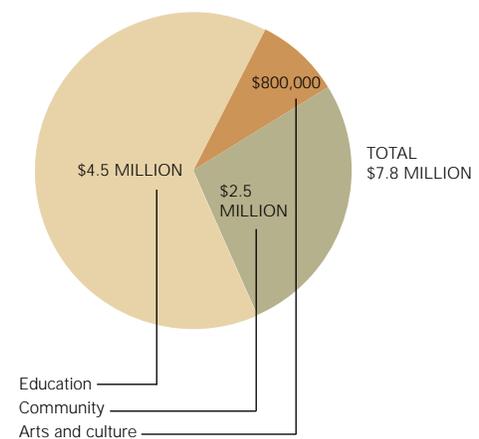
In 2002, employees, retirees and the company itself contributed \$2.4 million to United Way-Centraide campaigns across Canada, an increase of 14 percent over the previous year.

The company also supports the volunteer efforts of its current and retired employees through the Volunteer Involvement Program. In 2002, the company awarded grants totalling \$270,000 to 254 not-for-profit groups to which employees and retirees contribute their time.

### A tradition of hockey

Imperial has long been a strong supporter of amateur hockey. From supporting minor league players through the Medals and Certificates of Achievement Program to sponsoring Canada's national teams, the company's hockey giving is aimed at encouraging young players to

2002 GIVING



In 2002, Imperial contributed \$7.8 million to support a wide range of activities and organizations throughout Canada.



### Helping kids read

A grant of \$350,000 is helping schools in the Northwest Territories improve the literacy skills of children from kindergarten to grade 6. The grant is being shared by the territory's school boards and will be used to develop library resources to support the development of literacy and, in so doing, increase students' employability in the future.

"There is no more important gift we can give children to equip them for the future than literacy," says K.C. Williams, senior vice-president of Imperial's resources division. "It is the key to opening minds and opening doors of opportunity."

Imperial also supports a variety of other literacy-related initiatives across Canada, ranging from summer reading programs at libraries to the Canadian Children's Book Centre's Book Week, during which authors and illustrators visit schools and libraries in every province and territory.



Friends Amy Marks (left) and Jennifer Adams met through the Imperial-supported Best Buddies organization, which pairs university, college and high-school students with intellectually challenged people of similar ages and is credited with helping the latter to lead fuller, more independent lives.

challenge themselves, shooting for their goals and dreams both on and off the ice. In 2002, Imperial directed \$715,000 to amateur hockey in Canada.

### Helping young people appreciate the arts

The arts also receive support. In this area, too, the company focuses its giving on programs and activities that typically have an educational component and are aimed at young people. In Vancouver, for example, it supports Opera Experience, a program offered by the Vancouver Opera that gives high-school students insight into the production of operas.

On the other side of the country, we support an Art Gallery of Newfoundland and Labrador program called Artists-in-the-Schools, which helps bring creativity into the province's classrooms.

1949

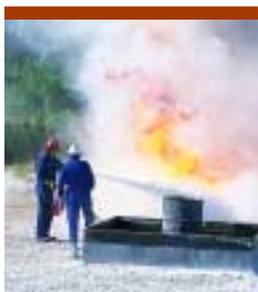
Despite the fact that *The Loon's Necklace*, now a classic, was named Film of the Year at the first Canadian Film Awards in 1949, its creators, Budge and Judy Crawley, could not find a distributor for it. Finally, Budge approached Imperial, which bought the Canadian rights to the film. It then donated the rights to the Canadian Education Association, enabling schools and libraries across the country to borrow the film, which tells the story of how the loon got its necklace of white feathers.

But this wasn't Imperial's only involvement with Canadian film. In fact, the company played a role in the development of the Canadian film industry, sponsoring a number of productions during the 1950s. Two of these, *Newfoundland Scene* and *The Seasons*, also earned Canadian Film of the Year honours. Later on, to mark its centennial in 1980, the company sponsored *The Newcomers*, a series of seven hour-long television dramas that trace the contribution of immigrants to Canada's social history.



# Caring for people's health and safety

Imperial believes that nothing is more important than the health and safety of its employees, contractors, neighbours and customers. Safety is the company's number one priority



Safety and emergency-response training are a priority for employees, such as these field and plant operators at Cold Lake, who are undergoing training in firefighting.

Imperial's goal is to have a work environment where nobody gets hurt, and employs rigorous programs and management systems to help ensure that it operates in a safe and environmentally responsible manner. Over the years, the company has made great strides in improving safety – its safety record is among the best in Canadian industry.

In 2002, the company achieved its second-best year for safety performance – recordable safety incidents, such as injuries that require medical treatment or result in lost workdays, were only slightly higher than during the previous year, when the company recorded its best year ever for safety performance. Unfortunately, there was also a contractor fatality, a tragic reminder of the importance of Imperial's ongoing work in this area.

## Nobody gets hurt

In a continuing effort to improve its safety performance, and believing that work-related safety incidents are preventable, Imperial has introduced the Nobody Gets Hurt concept across the company. Further strengthening the effectiveness of the Operations Integrity Management System (OIMS – see page 15), the concept is increasing the company's focus on improved leadership, better identification and addressing of risks and hazards, and more effective execution of already established OIMS processes and procedures.

### Achievements reflect focus on safety

An emphasis on health and safety in the workplace resulted in a number of achievements in 2002.

- The company recorded its second-best year for safety performance, following its best year ever in 2001. It also recorded the fewest number of employee and contractor injuries resulting in lost workdays in its history.
- The chemical organization received a safety award from the Canadian Chemical Producers' Association as a result of having zero recordable safety incidents.
- The resources division had zero employee lost-time incidents, and 11 gas-processing facilities were recipients of the Canadian Gas Processors Association's safety awards for having recorded no lost-time incidents for at least a year. In fact, Imperial's facility in Boundary Lake, Alta., hasn't had a lost-time incident in the last 38 years.
- The company received seven Safe Handling Awards from Canadian National Railways for the safe shipment of dangerous goods.



Susan Workman, a technologist at the Sarnia Research Centre, fits Mohawk College co-op student Corrin Knight with a face shield, helping to ensure that she is properly protected while working.

The Nobody Gets Hurt concept involves everyone. All contractors and employees need to identify and eliminate unsafe work practices; all of us need to go beyond being responsible for our own safety and intervene when observing others working unsafely.

Priorities for operating have been established to leave no ambiguity that safety is the top priority. As well, clear safety rules – and measures to ensure people comply with them – are in place throughout the company. A number of other improvements designed to reduce the potential for work-related injuries and illnesses are also being advanced.

Imperial is actively working to improve the safety performance of its contractors. This includes identifying the best-performing contractors and developing contractor-specific risk-reduction plans.

Several formal analyses of how employees interact with their work environments have been conducted. This initiative has resulted in facilities being redesigned (including the reconfiguration of some control rooms) or tasks being changed to reduce the potential for incidents.

Driving is also receiving particular attention. The company has introduced upgraded driver-training programs to improve fleet and passenger-vehicle safety. The training focuses on building awareness of potential hazards and increasing route-risk assessment skills. The company has also initiated more frequent truck inspections and monthly driver meetings, at which safety issues are emphasized.



Operating sites regularly provide open-house days for local residents. Displays at a recent open house at the Sarnia facility included an opportunity to see how microscopic bacteria break down contaminants in the plant's waste water.

### Safety in the office

Office-based injuries and illnesses accounted for about 20 percent of total recordable employee safety incidents in 2002. Imperial has responded by introducing OIMS for Offices, an extension of the company's effective management system for operating sites. OIMS for Offices includes a series of tools and training material designed to make employees aware of hazards that can exist in the office and practices that can result in injuries. Computer users, for instance, are at risk of developing repetitive-strain injuries. To increase office safety, the company is reviewing the ergonomic layout of each workstation and has introduced a software tool called Office Athlete, which prompts computer users to take regular breaks, leading them through helpful stretching exercises.

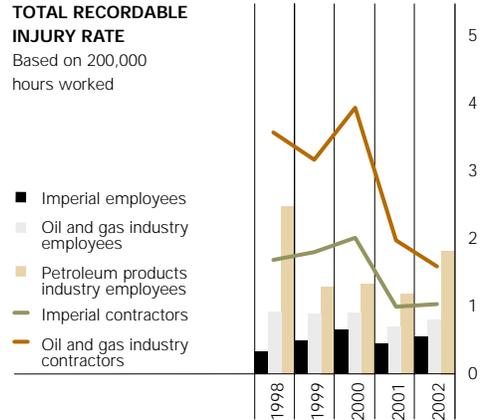
### Safety in the community

To help ensure the safety of the communities in which it operates, Imperial has in place a series of emergency response teams and procedures and regularly conducts drills and simulations to make sure it is ready to address an operational emergency at any time. Recognized as a leader in many areas of emergency response, the company

#### Asbestos funding

In 2002, Imperial announced that it would provide \$375,000 over three years to help fund a further three years of research into new therapies for the treatment of mesothelioma, a very rare, but difficult-to-treat, form of cancer primarily caused by exposure to asbestos. Researchers at the London Regional Cancer Centre hope to complete preclinical testing of the optimal treatment agents for the disease during the period of the grant. The grant continues Imperial's funding of the project, which it helped initiate in 1999 with a commitment to provide \$350,000 over the initial three years.

**TOTAL RECORDABLE INJURY RATE**  
Based on 200,000 hours worked



Imperial achieved its second-best year for safety in 2002; its safety performance record remains among the best in Canadian industry.

also stands ready to assist fire and other authorities in the community, should the need ever arise.

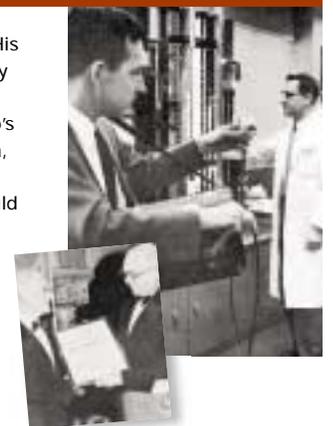
### Working with neighbours

We know our neighbours have a direct interest in the safety of our operations. All Imperial operating facilities maintain regular contact with local communities to keep them informed of important issues. This includes making them aware of what to expect during regular crisis simulations and drills, which are designed to ensure we are well prepared to deal with any operating incident. Many of our sites hold open houses for local residents, enabling them to learn more about company operations. And major sites publish periodic safety, health and environment reports to update neighbours on specific emissions from operations and progress in areas such as employee and contractor safety performance.

**1953**

In 1953, Canadian industry had only one full-time industrial hygienist. His name was John Johnston (at right in larger photo), and he was hired by Imperial that year to take part in the company's program of preventive medicine. Johnston, who had done post-graduate research with the University of Toronto's school of hygiene and Toronto's Banting Institute, visited company plants all over Canada, providing advice on ways to prevent injuries and occupational health problems. He also examined all plans for renovations and new facilities, suggesting improvements that would make for a healthier environment. "My job," he once said, "is to sell the idea of constant prevention and care."

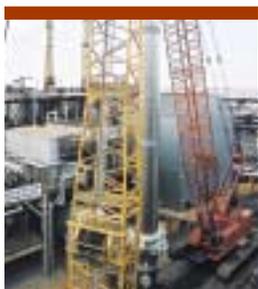
Imperial's focus on health and safety was well recognized. That same year, the corporation also became the first in Canada to receive the prestigious Health Achievement in Industry award (smaller photo) from the Industrial Medical Association, an international body of doctors, for its "outstanding contribution to industrial health."



---

# Protecting the environment

Sharing the concern many Canadians have for the environment, Imperial is committed to environmental protection in all aspects of its business



## Investing in low-sulphur gasoline

In 2002, Imperial invested more than \$300 million in its four refineries as part of a multi-year project, costing about \$600 million, that will enable the company to eliminate virtually all sulphur from its gasoline. Before the end of 2003, the sulphur content of Imperial's gasoline will be among the lowest in the world. The combination of new vehicle technologies and low-sulphur fuels will almost eliminate vehicular emissions of sulphur compounds.

At the Strathcona and Dartmouth refineries, SCANfining, a patented process co-developed with ExxonMobil, will be used (the process selectively removes sulphur while minimizing octane loss). In Ontario, new sulphur-removal facilities at the Nanticoke refinery will also process gasoline transported via a new pipeline from the Sarnia refinery.



Innovative technology and helicopters enabled Imperial to conduct a seismic survey of a large-volume gas field with minimal environmental disruption at Gwillim Lake, B.C. Traditionally, such surveys have required tracts of land to be cleared to allow data acquisition points to be located and for equipment to be delivered and removed. At Gwillim, however, NavPacs (sophisticated navigational technology developed by the U.S. military), with support from helicopters, made it possible for the survey of the 270-square-kilometre area to be conducted with very minor impact on the forest. Above, helicopters touch down in a clearing en route to the survey site.

Like all Canadians, we want to leave our children and grandchildren a legacy that includes a clean, healthy environment and a country with a prosperous and growing economy that offers employment opportunities, a high standard of living and affordable energy. Through the development and deployment of innovative technologies, Imperial is committed to the dual goals of meaningful environmental progress coupled with economic prosperity and well-being for all Canadians.

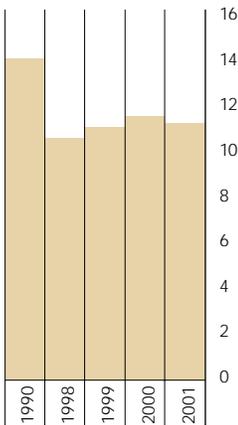
In 2002, the company spent about \$360 million on projects related to reducing the environmental impact of its products. This included major investments in its four refineries as part of an initiative that will see

them produce gasoline with virtually no sulphur (see sidebar at left) before the end of 2003.

During 2002, the company experienced nine operating incidents (such as spills at company facilities) that resulted in direct costs of more than \$75,000 each. This is only one more than the company's 2001 record low of eight. Imperial's goal is to prevent all operational incidents and is continuing its work to achieve this.

Environmental planning is a key part of the company's business planning process. As such, it is subject to formal stewardship. This ensures that it receives the disciplined attention it deserves.

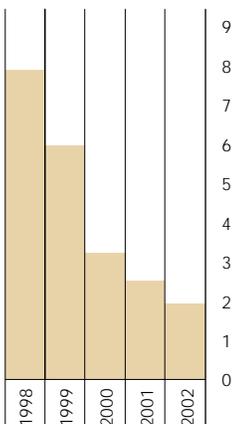
**GREENHOUSE GAS EMISSIONS**  
Millions of tonnes of CO<sub>2</sub> equivalent



(1990 includes subsequently divested operations)

Imperial's emissions fell by three percent between 2000 and 2001 and were well below the base year of 1990.

**GAS FLARING FROM OIL PRODUCTION**  
Millions of cubic feet per day



The company's 99.7-percent solution-gas recovery rate was the best among Alberta's top 50 oil producers.

**Substance-release reporting**

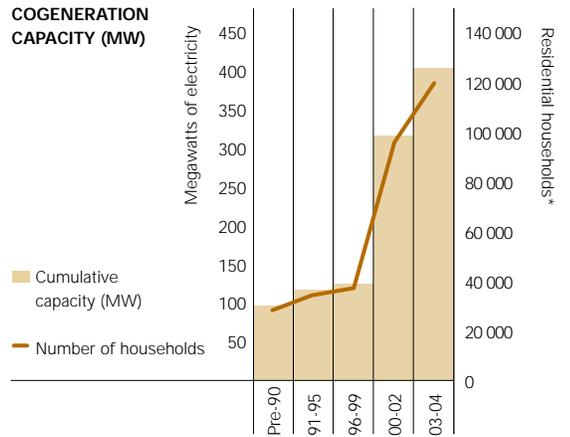
Each year since 1993, Environment Canada has collected information from industries on releases of substances for its National Pollutant Release Inventory (NPRI). The list of substances has been expanded several times and for 2002 included releases to the air of sulphur dioxide and nitrogen oxides, which are typically of higher volume than previously listed NPRI substances. Based on this expanded list, Imperial's 2002 emissions were significantly higher than those of 2001. For substances listed in 2001 and previous years, however, emissions from Imperial's operations remained stable during the last five years and are expected to decline over the next few years.

**Investing in energy efficiency**

Imperial is continuing to seek ways to improve the energy efficiency of its operations. This is good both for the environment and the bottom line.

- Over the past 30 years, the energy efficiency of Imperial refineries across the country has improved by about 40 percent, a level of reduction that is equivalent to saving each year the amount of energy needed annually to provide heat, light and power to about 400,000 Canadian homes.
- To improve energy efficiency and reduce energy costs and emissions, the company is investing \$250 million in cogeneration facilities (see sidebar, page 14). In November 2002, a 170-megawatt facility began operating at the Cold Lake bitumen recovery project. A 95-megawatt unit at the manufacturing complex in Sarnia is scheduled to begin operating in 2004.
- We continue to make good progress in recovering

**COGENERATION CAPACITY (MW)**



\*Number of typical Canadian residential households that could be served by our cogeneration assets.

We are investing heavily in cogeneration, which uses significantly less energy to generate electricity and steam than conventional methods.

the solution gas produced with crude oil, which has traditionally been flared or vented into the air. In 2002, the company recovered 99.7 percent of solution gas, once again leading Alberta's 50 largest oil producers in this important area.

- The Global Energy Management System is helping identify opportunities for further improving the energy efficiency of company operations. Leading energy experts from ExxonMobil's worldwide network have conducted energy audits at Imperial's operating sites, providing comprehensive lists of site-specific opportunities for improvement drawn from best practices being used around the world.

**1954** In 1954, Imperial's researchers solved a problem that refineries around the world had been wrestling with: how to clean refinery effluent (waste water from both refinery processes and storm drains). The solution lay in a process called biological oxidation, which takes advantage of nature to rid the water of hydrocarbons.

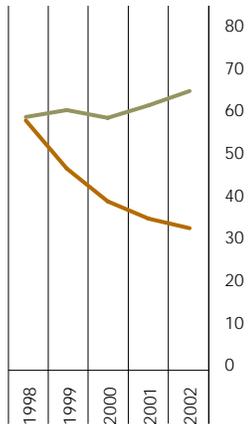
Hydrocarbons occur naturally in the environment, as do the microbes that eat them. The biological oxidation process developed by Imperial takes advantage of this fact of nature. Hydrocarbon-eating microbes are harnessed in large tanks filled with refinery effluent and provided with optimal living conditions. The hungry microbes feast on the unwanted hydrocarbons, and in so doing clean the water before it is returned to the rivers or oceans. This deceptively simple process is still used today by refineries around the world, with an average-sized refinery treating about 20 million litres of water a day.



## Protecting the environment (continued)

### NOx AND VOC EMISSIONS

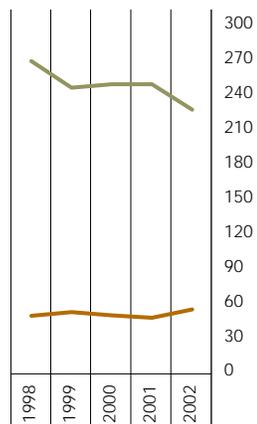
Tonnes per million barrels  
(Refining and chemical operations)



— NOx (nitrogen oxides)  
— VOC (volatile organic compounds)

Emissions of VOCs from Imperial's manufacturing operations continued to decline; new cogeneration facilities will help reduce NOx emissions in the future.

### SULPHUR DIOXIDE EMISSIONS



— Downstream (tonnes per million barrels processed)  
— Upstream (tonnes per million barrels of oil-equivalent production)

Significant further reductions in sulphur dioxide emissions will result when the Sarnia cogeneration facility begins operating in 2004.

### Cogeneration facilities increase energy efficiency

To save energy and reduce emissions, Imperial is investing \$250 million in cogeneration, a process that uses natural gas fired turbines to produce, simultaneously, electricity and steam, which is used in both petroleum refining and bitumen production. By capturing heat from turbines and using it to make steam, cogeneration consumes 30 to 50 percent less energy than producing steam and electricity separately. Depending on the power-generating fuel it replaces, cogeneration can lead to significant reductions in net emissions of greenhouse gases and other substances.

Last year, Imperial opened a 170-megawatt cogeneration plant (right) to supply steam for the latest three phases of the Cold Lake bitumen production operation, as well as electricity for the entire Cold Lake operation (surplus electricity is sold into the Alberta power pool).

At the Sarnia manufacturing complex, the company is building a 95-megawatt cogeneration facility, which will supply about 80 percent of the power used at the site after it is completed in 2004.



### Responding to climate change

Imperial recognizes the seriousness of climate change risks and realizes that they pose important questions for the oil and gas business. While the company believes that studies must continue so that the risks and possible consequences of climate change can be better understood, it is taking actions both to reduce greenhouse gas emissions now and to develop long-term solutions. Imperial's objective is to help Canada achieve the twin goals of continuing economic growth and meaningful environmental progress.

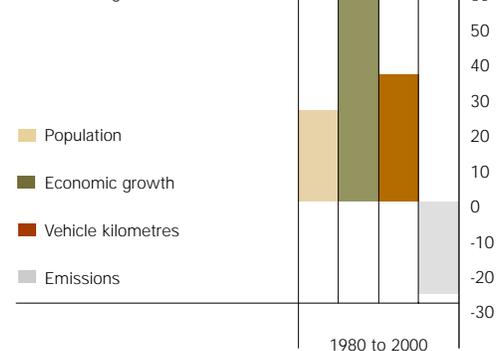
Initiatives taken by Imperial and its affiliated companies include:

- scientific, technical and economic research on climate change and proposed actions
- continuing efforts to improve energy efficiency and reduce emissions economically
- investments in advanced technology and research to reduce emissions that result from company operations and the use of Imperial products – for example, fuel-cell and hybrid vehicle research

- technology research to develop innovative, commercially viable solutions to lower greenhouse gas emissions globally.

### AIR EMISSIONS vs. GROWTH TRENDS IN CANADA

Percent change



Sources: Statistics Canada and the Fraser Institute.

Continued improvements in fuel quality and automotive efficiency have resulted in lower emissions despite increases in the number of kilometres driven by a growing population.

**OPERATIONS  
INTEGRITY  
MANAGEMENT  
SYSTEM**

A framework for operating all facilities safely, the OIMS elements target 11 areas.

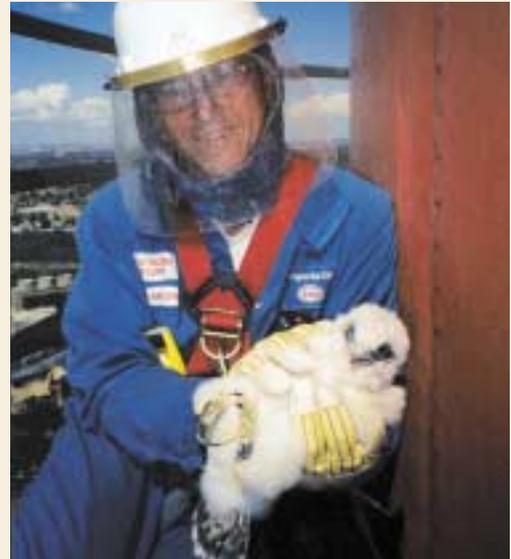
- Management, leadership, commitment and accountability
- Risk assessment and management
- Facilities design and construction
- Information and documentation
- Personnel and training
- Operations and maintenance
- Management of change
- Third-party services
- Incident investigation and analysis
- Community awareness and emergency preparedness
- Operations integrity assessment and improvement

**Working to improve the environment**

The company's efforts to protect the environment reach beyond major projects such as reducing sulphur in gasoline and building cogeneration facilities.

For example:

- The company continues to sponsor and participate in several programs aimed at improving air quality. These include the Car Heaven program, which works to get older, higher-polluting cars off the road; the Idle-Free Campaign; and the Smog Alert Response Program.
- To minimize the amount of hydrocarbons sent to landfill sites, Imperial has introduced a unique process for cleaning oil tanks at the Sarnia site. The technique removes the buildup from the bottom of the tanks in such a way that it can be reprocessed at the refinery to recover the hydrocarbon components.
- Playing a leading role in an initiative to set up used-oil collection and recycling programs, Imperial has helped to establish programs in Ontario, Alberta, Manitoba and Saskatchewan.
- At the Norman Wells operation, it is continuing a multi-year program to monitor water quality in the Mackenzie River.
- A family of peregrine falcons, an endangered species, is currently nesting at the Strathcona refinery, where environmental adviser Werner Groeschel (top right) is working with biologists from Alberta Fish and Wildlife to tag and monitor the birds.
- Through its leak-detection and repair programs, Imperial monitors thousands of refinery valves and pump seals, which are a major source of emissions to the air. As a result of the programs, fugitive emissions at the Dartmouth refinery, for example, have been



- reduced by about 50 percent since 1999.
- New technology is being applied to the work of reclaiming old well sites. By inserting equipment into the ground to facilitate the digesting of hydrocarbons by microbes, for example, the need to remove soil is eliminated.
- Double seals and floating-roof systems have been installed on storage tanks at a number of operating sites to further reduce emissions.
- New procedures for both loading trucks with and sampling residual solids from the coker unit at the Sarnia site have been introduced, significantly



- reducing coke dust in the air during these processes.
- A project has been initiated to evaluate new technologies for detecting leaks in pipelines from the air. One of these uses thermal imagery to identify differences in temperature – which can indicate a leak – along pipelines.
- The Sarnia chemical plant is continuing to produce a cyclopentane-based blowing agent for use in manufacturing foam products. The plant was the first facility in Canada to manufacture the agent, which provides an alternative to ozone-depleting chlorinated and fluorinated blowing agents.

---

# Straightforward management systems

Imperial is committed to maintaining the highest standards of ethics, corporate governance, financial control and operational integrity



To ensure the independence of Imperial's board of directors, the majority of its members are not employees of the company. Non-employee board members are (clockwise from top left): Pierre Des Marais II, president of Gestion PDM Inc.; Jim Shepard, retired chairman and chief executive officer of Finning International Inc.; Victor Young, a director of several corporations; Roger Phillips, retired president and chief executive officer of IPSCO Inc.; and Sheelagh Whittaker, managing director, commercial sector, Electronic Data Systems Limited, London, England.

Since Imperial was founded more than a century ago, high ethical standards and business integrity have been part of the fabric of the company. Over the years, it has communicated the importance of these values to all those associated with the company and has developed policies to guide employees in all areas of business conduct. These straightforward policies apply to everyone, without exception.

Our high standards of ethics and business integrity are reflected in all our activities, corporate policies and management systems. Imperial's approach is straightforward and central to long-term sustainable business results.

For example, the ethics policy – established in 1978 – provides employees with specific direction on such matters as conflict of interest, integrity of dealings both within and outside the company, competition law and restrictive trade practices. Every year, all directors and most employees of the company sign a statement acknowledging that they agree to abide by the policy. All other employees do so every four years.

Other corporate policies cover a wide range of issues, such as safety, health and environmental performance, employment equity and harassment in the workplace. The policies are used not only as a guide to how business should be conducted, but as a starting point for discussions between employees and managers, who meet regularly to review business practices. Employees are encouraged to raise any issue, question or concern with their manager, ethics advisers or human resources contacts.

## High standards of corporate governance

Integrity starts at the top of any organization, and Imperial and its board of directors are committed to a high standard of corporate governance. The company has in place processes and structures that contribute to the sound management of business with a view to enhancing shareholder value.

To ensure independence and objectivity, the majority of board members are not employees of the company or its major shareholder, ExxonMobil. Chairs and members of board committees (audit; environment, health and

safety; executive resources; and nominations and corporate governance) are independent directors.

The audit committee is empowered to investigate any matter and has complete access to all company facilities, personnel, records and books. The committee reviews the company's annual and quarterly financial statements, accounting practices, and business and financial controls, as well as the findings of the internal audit program.

We monitor current standards, requirements and best practices for corporate governance, making changes where appropriate to ensure adherence to the highest standards. For example, in 2002, a number of alterations were made to the nature and structure of the board to reflect new and proposed requirements and best practices. As a result:

- the four board committees are composed exclusively of independent directors
- non-employee directors meet regularly in the absence of Imperial's management, with a non-employee director chairing the meetings
- directors, committees and individual members of committees have the right to engage an outside adviser at the company's expense
- the audit committee has the authority to establish processes for the confidential receipt and handling of employee complaints.

Historically, Imperial's long-term incentive compensation programs have been cash based and tied to earnings and share performance, with incentive awards being reported as expenses. In 2002, to meet competitive practices, the company introduced a stock-option program. However, to better align management incentives with shareholder expectations, the company decided to return to straightforward cash based incentive compensation programs that will again be reported as expenses against earnings.

How the company achieves its results is as important as the results themselves. With a straightforward capital structure and a transparent approach to financial management and reporting, the company's results can be clearly and readily understood by its shareholders. Special-purpose entities are not used, all financial



Imperial takes a transparent approach to financial management and reporting. We want our financial and operating results to be clearly understood by shareholders and others with a stake in the company and strive to present them in a straightforward manner through such documents as the 10-K, annual and quarterly reports.

arrangements are straightforward and fully recorded and disclosed, and special adjustments or pro forma reports are not used to explain operations or results. The company's factual results speak for themselves.

Imperial's corporate governance guidelines are available on its Web site.

**Disciplined business and financial controls**

The integrity of internal financial and operating information is essential to the effective management of any corporation. Imperial takes a disciplined approach to business controls, which guides the way work is conducted at the company, including how it records business transactions and protects its assets.

Our commitment to maintaining a sound financial control environment is supported by the Control Integrity Management System (CIMS), which establishes a consistent controls framework based on a set of clearly defined expectations that every operation must fulfill. It provides a structured approach to assess financial control risks, establish procedures for mitigating concerns, monitor activities for conformance with standards, and report results in a timely manner to management.

Every employee is expected to understand and meet the control expectations of his or her work, and managers in each part of the organization are required to confirm annually in writing their compliance with both control and financial-reporting standards. If a

violation of company policy or other ethics-related problems should occur, the appropriate manager promptly reviews the incident and takes corrective action, which may include terminating individuals. Upward reporting guidelines, which extend to the company's management committee and board of directors, ensure appropriate management review and action.

Further ensuring the integrity of information, members of the internal audit staff independently assess compliance with policies and procedures and evaluate the effectiveness of financial and other controls. Managers are required to evaluate all internal audit findings and recommendations and to take appropriate corrective action.

**Operational integrity and citizenship**

The company recognizes that many of its operations and products, although vital to the modern economy, involve an element of risk to employees, contractors, the public, the communities in which it operates and the environment.

Managing this risk is a critical aspect of our business. In 1992, the company adopted the Operations Integrity Management System (OIMS – see page 15), a structured process for managing the safe operation of all facilities. Lloyd's Register Quality Assurance Ltd. has attested that OIMS meets the ISO 14001 requirements for a comprehensive environmental management system.

**1930** Imperial's annual meeting in 1930 was one of the most memorable in its history. It was at this meeting that company employees presented the board of directors with \$35,700, an enormous sum in those days. Employees across the company had raised the money to form the nucleus of an endowment fund to be used for humanitarian purposes outside the company. Stated the plaque that was given with the generous gift: "As a tangible and enduring expression of gratitude and loyalty to the president, directors and shareholders of Imperial Oil Limited, who have created an actual community of interest between the company and its employees, the employees of Imperial Oil ... have voluntarily inaugurated a trust fund to be devoted to humanitarian purposes."



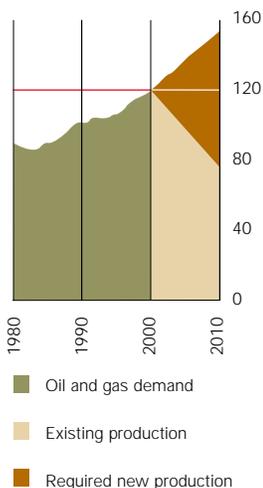
# Developing Canada's potential

Assessing Canada's energy outlook is central to Imperial's business and investment planning. Forecasts suggest that the demand for energy in this country will continue to grow in the foreseeable future



Three new phases of the Cold Lake operation went into production in 2002, helping to develop Canada's vast oil sands potential. The new phases will contribute an average of 30,000 barrels a day to Cold Lake production over an estimated 25-year operating life. Above, pipelines deliver steam to wells, where it is injected into the reservoir to heat the oil, enabling it to be pumped to the surface.

**MAJOR EFFORT TO MEET GLOBAL DEMAND**  
Millions of oil-equivalent barrels per day



Since the days of the Industrial Revolution, Canada's growth has been encouraged by the availability of relatively plentiful supplies of energy. From our abundance of water, which powered early mills and more latterly has been used to produce hydroelectricity, to our extensive reserves of crude oil and natural gas, Canadians have long been fortunate in having ready access to reliable, affordable supplies of energy. This has contributed to the high standard of living that Canada enjoys compared with many other countries.

During its 123-year history, Imperial has played an important role in supplying energy and a variety of other products to North American and world markets. Today, the company's products are vital to almost every area of life, from medicine and agriculture to child care and transportation, and it is dedicated to ensuring that it will not only continue to meet the needs of Canadians in these areas in the future but will do so in an environmentally and economically sound manner.

## What will Canada's energy future be?

Most authorities – including domestic ones such as the National Energy Board and international ones such as the International Energy Agency – agree that demand for energy in Canada will continue to increase.

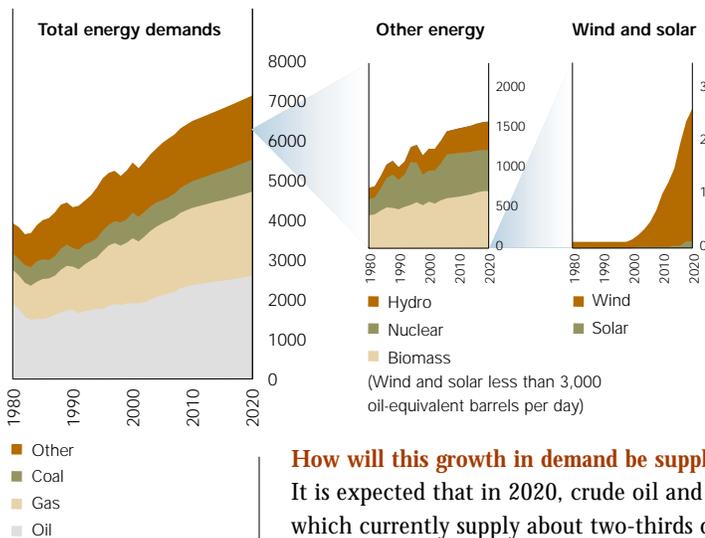
This assumption is based on the expectation that Canada's economy will continue to grow, and there is a proven correlation between economic growth and increased demand for energy.

Forecasters have projected that the Canadian economy will grow by about two and a half percent a year over the next two decades. That's good news, because a growing economy provides job opportunities and greater prosperity for Canadians.

The amount of energy needed to support economic and population growth is expected to increase, although only by one and a half percent a year, reflecting continued improvements in the efficiency with which energy is used, largely as a result of technological innovation.

**CANADIAN ENERGY DEMAND**

Thousands of barrels per day of oil equivalent



Although renewables such as wind and solar power are expected to be among the fastest-growing sources of energy in coming decades, they will still supply a relatively small proportion of total energy in the near term.

**How will this growth in demand be supplied?**

It is expected that in 2020, crude oil and natural gas, which currently supply about two-thirds of Canada’s total energy requirements, will be meeting about the same proportion of total demand in this country as they do today.

There are a number of reasons why crude oil and natural gas will remain important sources of energy. Certain sectors of the economy, such as transportation, will continue to be very heavily reliant on products manufactured from crude oil for the foreseeable future. This is a matter of both physics and economics. Products made from crude oil offer a powerful combination of attributes – they provide highly concentrated energy that is relatively easy to transport and store, inexpensive to manufacture, and supported by an extensive supply infrastructure.

As a result, in areas such as aviation and commercial trucking, economic alternatives to petroleum products are not expected to emerge for many decades. It is also anticipated that petroleum products will be the dominant source of motive energy for automobiles and other personal-use vehicles until at least 2020, given the large stock of existing vehicles and relatively slow penetration into the market of alternatives such as fuel cells.

In addition, demand for natural gas is expected to grow in the next few decades. Besides being a source of fuel for the increased number of homes and other buildings

needed by a growing population, it may see expanded use in electrical-power generation.

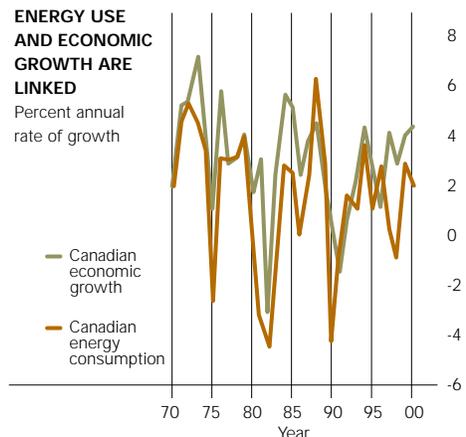
Although wind and solar power are expected to be among the fastest-growing sources of energy supply in coming decades, it is thought that their total contribution two decades from now will be relatively small. This expectation is based on essentially the same factors that result in wind and solar power making a relatively minor contribution to energy supply today.

Not only are renewables such as wind and solar power expensive when compared with more conventional energy sources, but they can neither provide the “on demand” energy that our society has come to expect nor supply the peak-period demands of the hottest and coldest days of the year. Storing energy generated during off-peak periods is also very difficult.

Fortunately Canada, unlike many developed countries, has significant potential energy sources of many kinds to develop for the future.

Imperial believes that Canadian policy should be aimed at fairly encouraging all sources of energy that can be developed on an economic basis and in an environmentally sound manner.

In this way, Canada’s energy industries can continue making the same major contribution to the Canadian economy as they have in recent decades. Energy exports are a very significant source of export revenue for this country. Net energy exports in 2001, for example, totalled about \$37 billion – more than half of Canada’s merchandise trade surplus.



Over time, there has been a strong correlation between economic growth and demand for energy.

## Developing Canada's potential (continued)



All Esso fuel and products are tested throughout the manufacturing and distribution process to make sure they meet stringent specifications. All gasoline sold at the more than 2,000 Esso retail outlets carries our product-quality guarantee.

### Quality products

Today's sophisticated engines require equally sophisticated product-development and testing facilities. Established more than 75 years ago, Imperial's research centre in Sarnia is today one of the most advanced in North America. Its all-weather chassis dynamometer – the only one in Canada able to test fuels and lubricants under actual running conditions in temperatures from -40 C to 40 C – ensures that Esso products will perform under the full range of temperatures typically experienced in this vast and varied country.

All fuel products sold under the Esso brand name are rigorously tested throughout the manufacturing and distribution process to ensure they meet stringent specifications. All grades of gasoline sold through Imperial's network of more than 2,000 conveniently located Esso retail outlets carry the company's unique product-quality commitment guarantee. This assurance of quality applies not only to gasoline purchased at Esso service stations but also to jet and diesel fuel, home-heating oil and the company's complete range of lubricants and greases.

### Getting products to customers

For most Canadians, the human face of Imperial is represented by the thousands of people who work at Esso service stations, aviation outlets and commercial sales depots and who deliver home-heating oil across the country.

Of the more than 2,000 Esso retail outlets, or service

stations, about 60 percent are owned by dealers who operate the facilities according to standards set by the company, while the remaining 40 percent are company owned. Imperial provides extensive training to dealers, agents and their employees to help ensure that all customers receive "the best experience to enhance their life on the move." As well, Esso service stations are equipped with vapour-recovery equipment to reduce vapour emissions to the air. In summer, customers in some parts of the country may be greeted by "car angels," who, as part of the Imperial-sponsored Car Heaven program, educate drivers about ways to reduce energy consumption in day-to-day driving.

The company also operates two customer service centres in New Brunswick, which are staffed by more than 350 highly trained people who expedite orders, handle billing for a variety of products, and respond to customer queries and concerns.

Because motorists want convenience, almost all Esso service stations sell food and a range of convenience items in addition to petroleum products. An alliance with Tim Hortons will see the food chain's full soup-and-sandwich menu, in addition to coffee and freshly baked goods, offered in most of the company's On the Run locations across Canada.

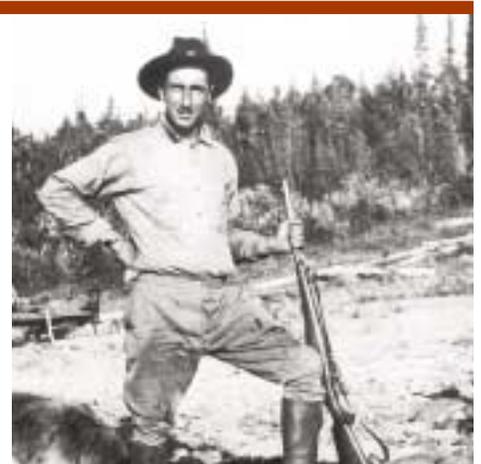
In 2001, Imperial also introduced the *Speedpass* transponder payment system, which allows customers to pay for gasoline, food and convenience items with a wave of a key fob. *Speedpass* readers have now been installed in more than 630 Esso stations in major markets across Canada.

1919

In 1919, Imperial's legendary geologist Ted Link, who was then only 23, led a six-man crew by railway and riverboat on a two-month journey to Fort Norman, N.W.T. There, at a site that was to become known as Norman Wells, Link, with a sweep of his arm, told the crew to drill "anywhere around here." The next year, at a depth of 235 metres, the crew struck oil. It was Canada's first major oil find since the discovery of oil near Petrolia, Ont., 63 years earlier.

Unfortunately, there was no economical way of shipping the oil south. So Imperial built the world's northernmost refinery there to provide products for the area. But Norman Wells was to remain a relatively small operation until the early 1980s, when Imperial invested \$500 million in a huge expansion, which resulted in the flow of 33,000 barrels of oil a day to southern markets via pipeline.

Today, Norman Wells remains the company's largest single source of conventional crude oil and provides many jobs to northerners.



# Improving the future through research



Through its affiliation with ExxonMobil, Imperial is involved in the work of an innovative partnership with Toyota Motor Corporation that focuses on developing environmentally friendly vehicles, such as the Toyota Prius (above). Now available in Canada, the fuel-efficient, low-emission Prius is powered by an electric motor supplemented by a small internal combustion engine.



Petroleum provides more than just fuel. From car seats, food containers, fertilizer and roofing materials to medical supplies, paint, electrical-wire insulation and clothing, petroleum is the fundamental ingredient of an almost endless list of products.

Imperial is an innovative industry leader in research and development, working to enhance the country's resource potential, develop better products and services and protect the environment

In 2002, Imperial spent in excess of \$50 million on research and development in Canada. The research was broad and included developing improved methods for recovering heavy oil, finding better ways to manufacture polyethylene, and creating higher-quality lubricants.

In addition to conducting its own work, the company also provided funds for the research efforts of others.

For example, a total of 46 projects carried out at 18 universities were funded through Imperial's University Research Awards program at a cost of \$650,000. One such project, based at Queen's University in Kingston, Ont., is developing ways to improve the ability of Canadian highways to resist cracking in cold weather.

Imperial also helps fund the global research effort being conducted by ExxonMobil, benefiting from the results of nearly \$1 billion in annual research expenditures.

This effort includes research into fuel-cell-powered vehicles, "hybrid" vehicles and alternative fuels and energy sources.

Fuel cells are at the forefront of emerging transportation technologies because they promise high performance, significantly lower emissions and a fuel economy twice that of today's internal combustion engines. There are, however, major challenges to bringing this technology to market, including cost

(fuel-cell engines currently cost about 10 times as much to build as conventional engines) and the lack of the necessary infrastructure to supply the required fuel, hydrogen. Through a partnership with General Motors Corporation and Toyota Motor Corporation, research is being conducted that is focused on developing alternative fuel technologies for fuel-cell-powered vehicles.

So-called hybrid vehicles, which run on both internal combustion and electric power, also provide dramatically improved fuel economy and lower emissions. Researchers are working with auto makers to advance this innovative technology.

Another global research initiative is Stanford University's Global Climate and Energy project, to which Imperial and ExxonMobil are contributing a total of \$100 million (U.S.). This groundbreaking 10-year project is uniting scientific and engineering researchers with private industry from around the world in the search for new, commercially viable technologies that can substantially reduce greenhouse gas emissions.

Being able to fund and draw on leading-edge research from a variety of sources has many benefits for Imperial – among them, access to the technology that will enable it to eliminate almost all sulphur from gasoline before the end of 2003, at which time the sulphur content of its gasoline will be among the lowest in the world.

1924

In 1924, Imperial hired a bright young chemist named Reginald Stratford to establish, in Sarnia, the first petroleum research centre in Canada. An unusually persevering man whose doctoral thesis explored the catalytic cracking of hydrocarbons (a process essential to petroleum refining), Stratford was the ideal person to found and lead the new facility. By 1951, when he left the research centre and its 83-person staff to become Imperial's scientific adviser, he had personally patented more than 30 petroleum products and processes and had supervised the development of about 50 others. Several of these represent major industrial achievements and are still in use around the world, including, for example, processes for manufacturing lubricating oils.



# Employees make the difference

Imperial strives to be the employer of choice by attracting, developing and retaining high-performing individuals from diverse backgrounds



## Working in non-traditional roles

Some of the women working in non-traditional roles at Imperial are actively encouraging girls to follow in their footsteps.

Roxanne General has had an interesting career that has seen her pursuing a number of different trades over the past 20 years, learning new skills to enable her to take advantage of broader work opportunities. She has, for example, worked as a carpenter, painter, dry waller, machinist and general mechanic, the role she now holds at the Nanticoke refinery.

Last fall, General, who joined Imperial 12 years ago, participated in a discussion panel that was coordinated by the Words on Work Women's Speakers Bureau.

"I try to encourage young people because some women think they just can't do it," says General. "While work in the trades is not for everyone, there's no reason why women can't do it if they want to – they may find it the career of a lifetime."

*Continued on page 23*



In 2002, Imperial hired more than 300 employees. Among them were (clockwise from left) Steven LaChapelle, Rishma Pradhan, Matt Towns, Ingrid Protacio, Zahra Kassam and Jason MacKelvie, who joined the company as part of the Early Professional Development Program and now work in a wide range of business and operational settings.

We believe that our capable and dedicated employees are one of our major strengths. True competitive advantage is developed through our employees, and the company is committed to providing them with a safe workplace that is enriched by diversity and characterized by mutual respect. Imperial offers challenging assignments, encourages employees to work together to achieve superior business results, and rewards them through competitive salaries and benefits.

Having a workforce that is representative of the diversity of the company's customers, suppliers and the Canadian communities in which it operates is critical if Imperial is to continue to achieve superior business results in Canada's increasingly diverse marketplace. Imperial is committed to building on the strength of its diversity by:

- attracting, developing and retaining high-performing employees from diverse backgrounds
- fostering a productive work environment that respects and values individual differences and encourages all

employees to contribute fully and achieve their potential

- identifying and developing leaders capable of performing effectively in a wide variety of circumstances.

In 2001, Imperial launched a program to help managers enhance employees' understanding and support of the company's commitment to diversity. Since then, more than 295 managers have participated in the program and have spearheaded a number of initiatives to promote diversity across the company. Employees in the controller's department, for example, participated in learning activities that highlighted different aspects of language, communication and learning styles at a departmental diversity exposition.

## Continually renewing its workforce

Every year the company recruits men and women with a broad range of skills to operate its facilities, provide professional expertise and perform administrative functions. In 2002, the company hired 313 people. One hundred and forty were professionals and technical specialists, mostly graduates of Canadian universities; 54 percent of these recruits were women. The company also provided internships and co-op placements to top students (40 percent of whom were women), providing them with practical experience while they were still in school.

To strengthen its relationships with the communities in which it operates and to foster a strong pool of potential employees, Imperial supports a variety of organizations, alliances and partnerships. Through its Northern Development Program, for example, it offers a two-year pre-employment internship, which involves progressive training for Aboriginal people in the Northwest Territories and qualifies graduates for a variety of external certifications and employment at the company's Norman Wells operation.

## Learning never ends at Imperial

We strongly believe that providing opportunities to enhance skills and capabilities is key to helping employees reach their potential and to ensuring continued business success. In 2002, about a third of our employees attended some of the more than 130 courses offered to assist them



Elaine Somers, an area measurement coordinator at Imperial's production facility in Norman Wells, ensures that measurement equipment used to monitor the flow, pressure and temperature of oil and gas from 150 production wells meets contractual, regulatory and accuracy standards. She has been working in this field for 25 years, 18 of them with Imperial. In 2002, Somers was among 40 tradespeople and technicians who were invited to talk about their careers at a Skills Canada youth conference in Yellowknife.

"When I speak to girls, I stress that they should choose a field that is interesting and important to them," she says. "Technology careers can be both. They can also enable them to have a lifestyle with choices and provide the means to help care for their families."

in developing skills applicable throughout the company. In addition, many employees participated in programs to develop skills specific to their particular professional or technical discipline.

All of Imperial's training activities reinforce capabilities gained or enhanced through work experiences. Future leaders are developed primarily through a disciplined program of job rotations, which exposes them to a variety of situations. This on-the-job learning is supplemented by training programs that help potential leaders develop their abilities in a number of areas. In 2002, about 140 employees participated in management development programs.

The Early Professional Development Program involves job rotations for recent university graduates during their first three to five years with the company. The program enables them to develop the varied skills critical to success in their fields and within the company at large.

Assignments with ExxonMobil around the world also help to challenge and develop employees, providing them with a valuable opportunity for personal growth, career enhancement and exposure to other cultures. These assignments give experience vital to individuals who will take on leadership roles, working in Canada's increasingly diverse society. Today, about 200 employees are on assignment around the world in countries such as Qatar, Chad, Belgium, Venezuela and the United States.

Imperial's affiliation with ExxonMobil enables employees to experience cultural differences firsthand not only by undertaking expatriate assignments, but by hosting ExxonMobil employees from around the world who come to Canada to gain experience. In 2002, employees from Esso Chad and Esso Angola, for

example, spent time at our facilities in Western Canada to gain operational experience that they could apply to major projects under development in their own countries.

Highly skilled and experienced technicians and plant operation personnel are critical to Imperial's business, and the company actively supports local training programs wherever it does business. In Sarnia, for example, it helped develop two courses at Lambton College through membership in the Industrial Education Cooperative: the mechanical technician and industrial maintenance course, which was introduced in 2001; and the chemical-production engineering technology program, introduced in 1998. The company employs co-op students from these programs to work at the Sarnia refining and chemical manufacturing operation and hires many of them after they graduate.

Imperial's commitment to education is also reflected in its higher education awards, which are given to qualified children of employees and retirees attending Canadian post-secondary institutions. In 2002, the company provided more than 1,000 awards, totalling \$4 million.

### Sharing experiences and perspectives

In addition to offering structured training programs, Imperial supports employee networks that provide mentoring and coaching opportunities. There are a number of formal mentoring programs for employees. Many new employees, for example, participate in the Network Adviser Program, through which they get together informally with other people new to Imperial as well as with managers and longer-service employees,

1918

Back in 1918, Imperial introduced its first Joint Industrial Council (JIC), an innovative approach to labour-management relations in which wage earners and management representatives work together to optimize working conditions and



resolve concerns brought forward by either group. The JIC model continues to operate today at a number of Imperial locations, including its refinery and petrochemical complex in Sarnia, the site of the first Imperial JIC. (Pictured here is the first JIC meeting at Imperial in 1918.) At the same time as it established the JIC, Imperial helped pioneer the eight-hour workday and paid life-insurance and sickness benefits for its employees.

## Employees make the difference (continued)

gaining insight about the company and the work environment. Programs such as these help newer employees to grow personally and develop their capabilities by bringing them together to share experiences and diverse perspectives.

In the company's resources division, the Women in Wage program provides both support and networking opportunities for female employees working in non-traditional jobs – for example, as field or plant operators or instrument technicians. The group meets three or four times a year and periodically provides management with suggestions for further improving opportunities for women at Imperial.

### A positive and productive work environment

Imperial is committed to providing a work environment that fosters working relationships free of any form of harassment. The company defines harassment in the broadest terms, including not just behaviour specifically prohibited by law. Any inappropriate conduct that creates an intimidating, hostile or offensive work environment or that unreasonably interferes with an individual's work performance or employment opportunity is simply not tolerated.

### Meeting diverse needs

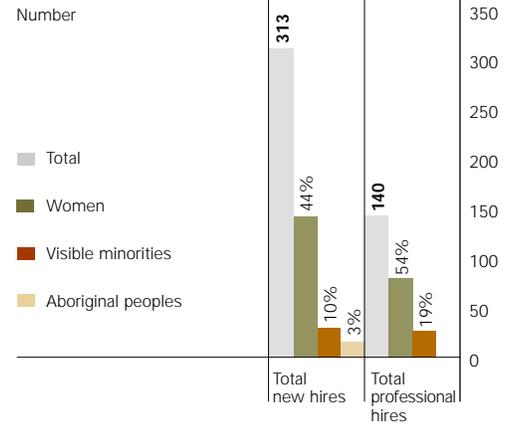
The company provides a variety of programs to meet the diverse needs and expectations of employees, including flexible work arrangements, referral services for child and elder care, leaves of absence, educational assistance, physical fitness program refunds, and relocation and spousal job-search assistance.

### Competitive salaries and benefit programs

The company's overall compensation program is carefully designed to attract and retain talented men and women. It includes competitive salaries and

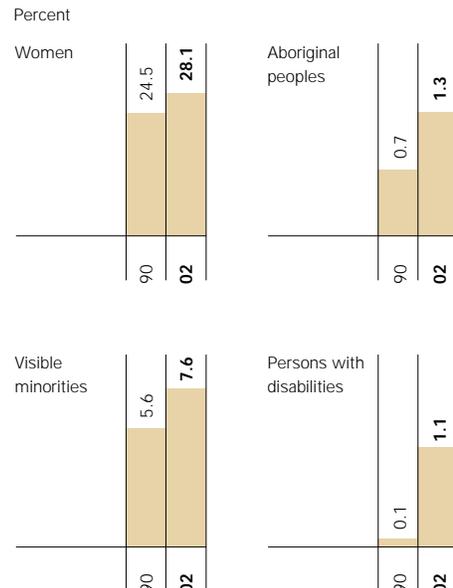
comprehensive benefit programs that meet or exceed both industry standards and legal requirements. For example, it offers a savings plan through which Imperial matches a portion of employees' contributions, and the pension plan is company paid and highly competitive and provides employees with a unique variety of choices.

### TOTAL 2002 HIRES



\* Designated groups with representation of fewer than five employees have been excluded from the above graph.

### WORKFORCE REPRESENTATION



Imperial continues working to build a diverse workforce that is representative of its customers, its suppliers and the Canadian communities in which it operates.

24.

### 2002 EMPLOYMENT DATA

	Total number of employees	Women	Visible minorities	Aboriginal peoples	Persons with disabilities
Executive, management, professional and technical	3774	31.4%	9.7%	0.6%	0.7%
Administrative support and clerical	681	76.8%	9.8%	1.3%	2.5%
Operations, manual and trade	1869	3.7%	2.6%	2.6%	1.4%
<b>Total</b>	<b>6324</b>	<b>28.1%</b>	<b>7.6%</b>	<b>1.3%</b>	<b>1.1%</b>

Data are collected from self-identification questionnaires. Figures do not include subsidiaries.

# Strong financial performance

## Committed to creating value for shareholders, Imperial is well positioned for growth in the most promising areas of the Canadian petroleum industry

Imperial's fundamental strategy for creating shareholder value is to allocate investments to projects that will provide high returns on capital employed in a safe and environmentally responsible manner. Studies have shown that companies that achieve high returns on capital over time also provide superior returns to their shareholders. With a high-quality resource base and diverse asset mix, Imperial represents a superior long-term investment.

Since the mid-1990s, the company's return on capital employed has been significantly higher than the average returns from the Canadian integrated oil group. Over the past 10 years, total returns to shareholders in the form of dividend payments and capital appreciation have been 17 percent a year, compounded – significantly higher than the average for the Toronto Stock Exchange energy group.

### Financial highlights

During 2002, Imperial recorded a number of achievements in the areas of financial performance and the creation of value for shareholders.

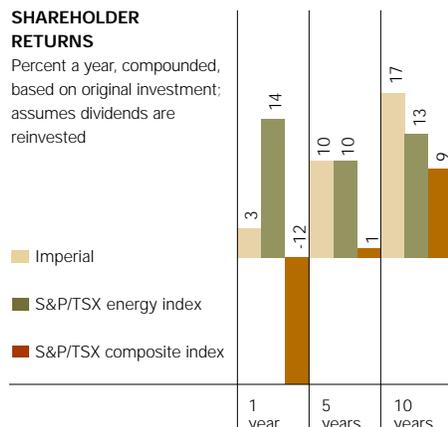
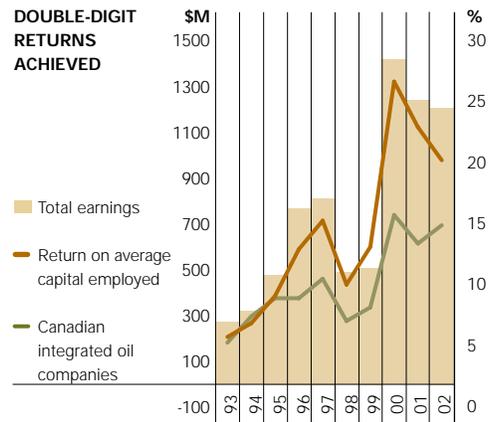
- Return on average capital employed was 19.6 percent, significantly exceeding its target of double-digit returns.
- Earnings were the third highest in the company's history, exceeding \$1.2 billion for the third consecutive year.
- Debt instruments issued by Imperial received a Triple-A credit rating from Standard & Poor's Corporation (S&P).
- Capital and exploration expenditures rose to a near record \$1.6 billion, 40 percent higher than in 2001.
- The company retained a strong financial position, with a balance of \$766 million in cash and marketable securities at year-end.

This strong financial performance translated into further growth in shareholder value.

- Total return on Imperial's shares from dividends and capital appreciation was three percent, compared with a loss of 12 percent for the TSX composite index.
- Regular dividends increased for the eighth year in succession – to 84 cents a share from 83 cents a year earlier. Imperial has paid annual dividends for more than a century.

- Imperial continued to buy back its shares, bringing total repurchases since the program began in 1995 to more than 200 million shares for \$5.2 billion by year-end.

Looking to the future, the company is positioned for growth in the most promising areas of the Canadian petroleum industry. Through a strategic focus on those elements of the business within its control (costs, operating reliability and the quality of its asset base) and through a disciplined capital allocation process, the company is continuing its commitment to achieving long-term growth in shareholder value.



Total returns on Imperial shares were three percent in 2002, while 10-year returns were 17 percent a year, compounded.