



Positioned for growth

ANNUAL REPORT TO SHAREHOLDERS 2002

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Corporate profile

Imperial Oil has been a leading member of the Canadian petroleum industry for more than 120 years and is well positioned to participate in some of the industry's most promising growth opportunities. The company's mission is to create value for shareholders through the development and sale of hydrocarbon energy and related products.

Imperial is one of the largest producers of crude oil in Canada and a major producer of natural gas. The company is the largest refiner and marketer of petroleum products – sold primarily under the Esso brand name – and a major producer of petrochemicals.

Imperial online

Imperial's Web site contains a wealth of information for investors and others seeking to evaluate the company's performance and prospects. The latest news releases, the most recent reports and presentations, information about dividends and taxes, key dates, historical share information, contact numbers and a frequently updated stock-price feed from the Toronto Stock Exchange (TSX) – all this and more is gathered in one convenient location. Information on products and services, career opportunities, corporate citizenship, donations and sponsorships, coast-to-coast operations and the company's history are also available by visiting www.imperialoil.ca.

This report contains forward-looking information on future production, project start-ups and future capital spending. Actual results could differ materially as a result of market conditions or changes in law, government policy, operating conditions, costs, project schedules, operating performance, demand for oil and natural gas, commercial negotiations or other technical and economic factors.

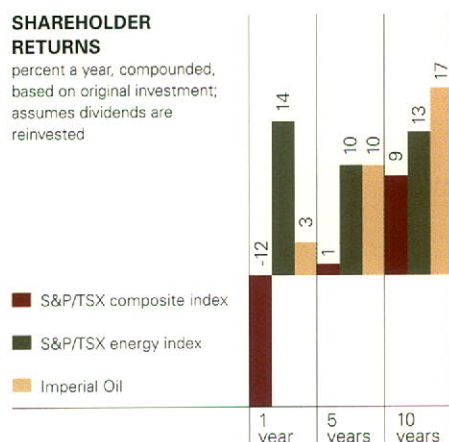
Growth in shareholder value

Imperial is committed to growing value for its shareholders. Here are some of the highlights of 2002:

- The total return on Imperial shares including capital appreciation and dividends was three percent, compared with a net loss of 12 percent for the S&P/TSX composite index.
- During the past 10 years, the total return on Imperial's shares has averaged 17 percent a year, compounded.
- Regular dividend payments increased to 84 cents a share – the eighth consecutive year of dividend growth.
- Since 1995, the company has repurchased more than 200 million shares for \$5.2 billion, reducing the number outstanding by about 35 percent.

SHAREHOLDER RETURNS

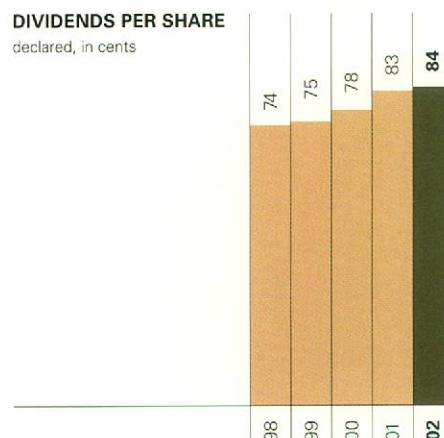
percent a year, compounded, based on original investment; assumes dividends are reinvested



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

DIVIDENDS PER SHARE

declared, in cents



Regular dividends increased to 84 cents a share, the eighth consecutive year of dividend growth. Imperial has paid dividends every year for more than a century.

(a) Calculated by reference to the average number of shares outstanding, weighted monthly (page 44).

(b) Net earnings divided by average shareholders' equity.

	2002	2001	2000	1999	1998
Net earnings per share (dollars) (a)					
– basic and diluted	3.19	3.15	3.35	1.44	1.01
Return on average shareholders' equity (percent) (b)	25.4	28.9	32.5	14.7	10.5

Sustained strategic focus

2002 operating and financial highlights

PROGRESS ON KEY PRIORITIES

FLAWLESS EXECUTION

- The company achieved its second-best year for safety and remains among the best in industry for safety performance.
- Imperial successfully carried out a \$1.6-billion capital investment program, one of the largest annual expenditures in its history.
- The latest Cold Lake expansion project began operation on schedule and on budget.
- A comprehensive program of management reviews and internal audits confirmed compliance with the company's strong system of business controls and ethics policy.

GROWTH IN PROFITABLE SALES

- Major oil-sands expansions at Cold Lake and Syncrude will add new production in 2003 and beyond.
- Polyethylene production increased by more than 15 percent, as a fifth expansion of plant capacity was completed in late 2001.
- Retail sales of Esso gasoline rose by more than 3.5 percent, well above the industry average.
- The Mackenzie gas project was advanced to the project definition stage, and three regional offices were opened in the Northwest Territories.

BEST-IN-CLASS COSTS

- A 170-megawatt cogeneration plant that will reduce both costs and emissions was completed at Cold Lake, and construction began on a 95-megawatt unit at the Sarnia manufacturing complex.
- Benchmarking studies again confirmed that the Sarnia polyethylene plant is among North America's lowest-cost producers.
- The company's drive for continuous improvement in operations yielded more than \$30 million in benefits from more than 65 separate projects.

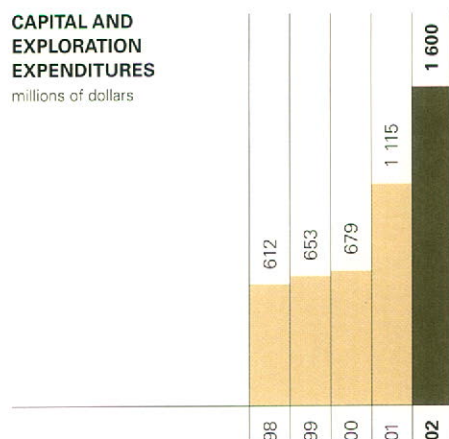
IMPROVED ASSET MIX PRODUCTIVITY

- A major program involving total investments of more than \$50 million to improve the productivity of the company's network of rural agencies and reduce distribution costs was largely completed in 2002.
- Continued investments in the Esso retail network – including “On the Run” convenience stores, *Speedpass*, car washes and an expanded offering of Tim Hortons products – contributed to a substantial increase in network productivity.
- Imperial consolidated its oil-sands holdings in the Kearl Lake area of Alberta, obtaining 100 percent of the surface-mining rights on two leases.

FINANCIAL HIGHLIGHTS

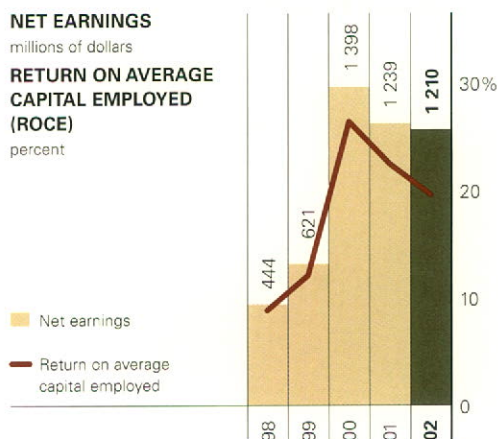
- The company again met its overall target of double-digit returns, with return on average capital employed of 19.6 percent.
- Earnings were the third-highest in the company's history, exceeding \$1.2 billion for the third consecutive year.
- Medium-term notes issued by Imperial during the year received a Triple-A credit rating from Standard & Poor's Corporation (S&P).
- Interest expenses fell by more than 45 percent to \$40 million from \$77 million the previous year, as Imperial continued to replace long-term, fixed-rate debt with variable-rate debt.
- The company's ability to meet its debt obligations strengthened during the year – on an earnings basis, interest coverage rose to more than 45 times from 26 times in 2001; on a cash-flow basis, coverage was 63 times compared with 36 times in 2001.
- Imperial's strong cash flow enabled it to retain a sound financial position, with a balance of \$766 million in cash and marketable securities at year-end.

**CAPITAL AND
EXPLORATION
EXPENDITURES**
millions of dollars



Capital and exploration expenditures rose by more than 40 percent to \$1.6 billion as Imperial pursued a number of attractive growth opportunities.

NET EARNINGS
millions of dollars
**RETURN ON AVERAGE
CAPITAL EMPLOYED
(ROCE)**
percent



Earnings exceeded \$1.2 billion for the third consecutive year, and the company met its goal of double-digit returns on average capital employed.

Letter to shareholders



T.J. (TIM) HEARN
CHAIRMAN, PRESIDENT
AND CHIEF EXECUTIVE
OFFICER

Imperial Oil had an excellent year in 2002. The company achieved the third-highest earnings in its history while advancing major strategic investments aimed at growth in shareholder value.

Returns on capital employed and shareholders' equity continued near recent record-high levels, regular dividends were increased for the eighth consecutive year, and all financial indices remained strong.

I believe that Imperial's shareholders can look to a promising future for the company. We continue to focus on the controllable elements of the business through our four corporate priorities, which recognize the cyclical nature of the business and the need for a long-term perspective. Today, Imperial is well positioned for earnings growth through a well-conceived and disciplined investment strategy, increased volumes in key business segments, relentless and judicious cost management and increased productivity throughout the company.

Capital investments in 2002 were \$1.6 billion, including completion of a major expansion at Cold Lake and progression of the Syncrude expansion project. It is expected that capital investments will approach this level again in 2003. In natural resources development, the Alberta oil sands, the Far North and the offshore East Coast region constitute the most promising sources of future growth in oil and gas production. Investments in petroleum products operations are aimed at enhancing the efficiency and productivity of Esso retail outlets and the rural distribution network, and on improving the environmental performance of our refineries.

Imperial has the financial strength, human resources capability and technical excellence to execute an ambitious long-term investment program and deliver major projects on time and on budget.

Unquestionably, Imperial has the financial strength, human resources capability and technical excellence to execute an ambitious long-term investment program and deliver major projects on time and on budget. As always in this industry, actual investments will depend on economic and market conditions as well as on a public policy setting that maintains a competitive investment climate in Canada.

Details on current and planned operations and projects can be found in the discussion of individual business segments. In light of recent troubling events concerning corporate governance and business ethics, I would like to reassure Imperial's shareholders that the company remains absolutely committed to the highest standards of integrity in all aspects of its business and operations.

At Imperial, how we achieve results is as important as the results themselves. With a straightforward capital structure and a transparent approach to financial management and reporting, results can be clearly and readily understood by our shareholders. Special purpose entities are not used, all financial 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.

I also want to emphasize that Imperial's strong financial and operating results could not have been achieved without the ongoing dedication and outstanding efforts of our employees, who continually excel as individuals and collectively in a tough and competitive business. With the combination of a highly capable workforce, financial strength and an extensive portfolio of attractive near- and longer-term investment opportunities, I believe the future looks bright for Imperial.

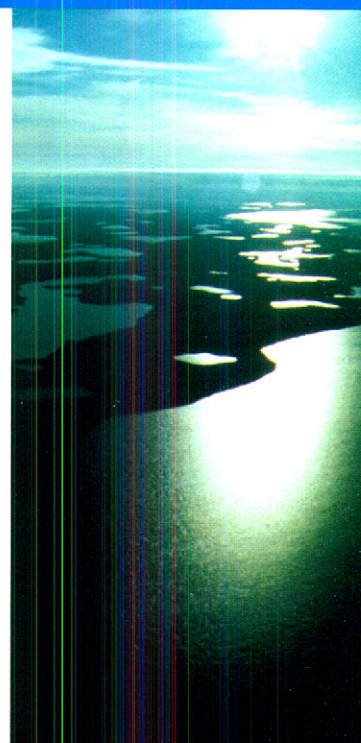


T.J. Hearn
February 19, 2003

Positioned for growth

A LEADER IN MACKENZIE DELTA GAS

- Imperial is the leader of the Mackenzie gas project, which is seeking to develop six trillion cubic feet (TCF) of discovered natural gas in the Mackenzie River delta of Canada's Western Arctic. The company's Taglu field, with about three TCF of gas, is the largest in the project. Commercial development of this resource would about triple the company's existing reserves of natural gas.
- Substantial progress was made on the project in 2002, with completion of a feasibility study that recommended proceeding with regulatory applications for development of Mackenzie Delta gas. The company plans to file applications in 2003 on behalf of the project proponents – the other resource-holding companies and the Mackenzie Valley Aboriginal Pipeline Corporation, which represents the interests of Aboriginal Peoples in the North.
- Imperial believes the proposal has a number of significant strengths. It uses proven technology, minimizes environmental impact, provides for significant direct involvement by Aboriginal Peoples in the North and develops an important new source of Canadian natural gas.
- Developing Mackenzie Delta gas will be a long-term, capital-intensive process. While Imperial and its associates are making every effort to steadily advance the project, they are also committed to taking the time required to do it right.



EXPLORING OFF THE EAST COAST

- The company holds extensive interests in licences off the coast of Nova Scotia, many in the vicinity of the Sable Offshore Energy Project (SOEP), which is currently producing about 500 million cubic feet of natural gas a day. Imperial has a nine-percent interest in SOEP.
- During 2002, the company conducted 3-D seismic and geological evaluations of two wholly owned deepwater licences located about 50 kilometres southeast of the SOEP production area. Imperial also entered into an agreement with another company that will allow that company to earn a 30-percent working interest in two deepwater exploration licences by participating in the drilling of a future exploration well.



GROWTH IN DOWNSTREAM PRODUCTIVITY



- As the largest refiner and marketer of petroleum products in Canada and a major producer of petrochemicals, Imperial continually makes targeted investments to improve the productivity of its significant downstream asset base.
- Recent investments have added attractive features such as the *Speedpass* transponder payment system, "On the Run" convenience stores and full-menu Tim Hortons outlets to the Esso retail network, increasing revenues and market share.
- Imperial is also investing \$575 million in its refinery network to virtually eliminate sulphur from Esso gasoline by 2004. Included in the project is a pipeline link between the company's Sarnia and Nanticoke refineries that will improve the productivity of both operations.
- A recent investment to further expand the company's polyethylene plant maintained its position as an industry leader in productivity.
- A more than \$50-million program to increase the productivity of the company's rural agency network was largely completed in 2002.

EXCELLENT POSITION IN THE OIL SANDS



- Imperial has played a pioneering role in the development of Canada's vast oil-sands resources. The company has an excellent land position, an industry-leading research effort and a wealth of practical operating experience. Imperial's net proved oil-sands reserves totalled 1.6 billion barrels at the end of 2002 – enough to support more than 25 years of production at current levels.
- The company's wholly owned Cold Lake development, which produced 112,000 barrels of bitumen a day in 2002, is one of the largest operations of its type in the world. During the year, three additional phases of production were completed, which will add an average of about 30,000 barrels a day to production over an estimated 25-year operating span. The company also filed an application to build three more phases and extend two existing phases. If market conditions and regulatory approvals permit, total output from Cold Lake could increase to about 180,000 barrels a day later this decade.
- Imperial holds a 25-percent interest in the Syncrude Canada oil-sands operation, which is currently embarked on a major project that will expand production by 50 percent, increasing Imperial's share to about 90,000 barrels a day by mid-decade. Further planned expansions could increase the company's share to as much as 140,000 barrels a day.
- Also during 2002, Imperial consolidated some of its holdings in the Kearl Lake region of the Athabasca oil sands. The company now holds 100 percent of the surface-mining portion of two leases. These leases contain a high-quality oil-sands resource and will be evaluated for commercial development.

Financial and operating overview

Dividends increased, interest expense decreased and the company retained a strong financial position, ending the year with \$766 million in cash and marketable securities.

FACTORS AFFECTING IMPERIAL'S 2002 EARNINGS

millions of dollars



Positive factors

- Higher resource prices: **\$265 million**
- Higher product volumes: **\$48 million**
- Lower expenses: **\$34 million**
- Favourable foreign-exchange effects on U.S.-dollar debt: **\$64 million**

Negative factors

- Lower product margins: **\$300 million**
- Reduced production of oil and gas: **\$140 million**

Net earnings in 2002 were \$1,210 million or \$3.19 a share, compared with \$1,239 million or \$3.15 a share in 2001 (2000 – \$1,398 million, or \$3.35 a share). Higher prices for bitumen largely offset lower prices for natural gas, reduced production of crude oil and weak markets for petroleum products.

Earnings in 2002 included after-tax gains of \$4 million on asset sales, compared with gains of \$7 million in 2001 (2000 – gains of \$96 million).

Earnings increased in the natural resource and chemical segments in 2002 but decreased in petroleum products. A detailed discussion of segmented operating results begins on page 13.

Earnings from corporate and other accounts were negative \$11 million in 2002, compared with negative \$78 million in 2001 (2000 – negative \$139 million). The improvement was mainly attributable to favourable foreign-exchange effects on the company's U.S.-dollar-denominated debt.

Cash flow from earnings was \$1,758 million, down from \$1,991 million in 2001 (2000 – \$1,844 million), mainly because of the timing of income tax payments. Cash provided from operating activities was \$1,676 million, compared with \$2,004 million in 2001 (2000 – \$2,089 million). The main reasons for the reduction were the effects of higher commodity prices on accounts

receivable, partly offset by changes to accounts payable, and the timing of income tax payments.

At the beginning of 2002, the company purchased 296,000 shares for \$13 million, essentially completing the normal course issuer bid (share buyback program) that had begun in June 2001. In June 2002, Imperial renewed the buyback program for another 12 months. No shares were purchased under the program during the balance of the year. Since Imperial initiated its first buyback program in 1995, the company has purchased 202.7 million shares – representing about 35 percent of the total outstanding at the start of the program – with resulting distributions to shareholders of \$5,169 million.

Imperial declared dividends totalling 84 cents a share in 2002, up from 83 cents in 2001 (2000 – 78 cents). Regular dividends per share have increased in each of the past eight years and, since 1986, payments have grown by more than 50 percent a share. The company has paid dividends every year for more than a century.

Imperial's financial position remained very strong in 2002. At year-end, the balance of cash and marketable securities was \$766 million, compared with \$872 million at the end of 2001 (2000 – \$1,020 million), following one of the largest capital investment programs in the company's history.

Net earnings by segment

millions of dollars	2002	2001	2000	1999	1998
Natural resources	1 042	941	1 165	560	249
Petroleum products	127	353	313	15	244
Chemicals	52	23	59	43	87
Corporate and other	(11)	(78)	(139)	3	(136)
Net earnings	1 210	1 239	1 398	621	444

(a) Current and long-term portions of debt (page 31 and page 36, note 4), foreign-exchange loss on currency swaps and guarantees to third parties divided by debt, foreign-exchange loss on currency swaps, guarantees to third parties and shareholders' equity (page 31).

(b) Net earnings (page 29), debt-related interest expense (page 41, note 13) and income taxes (page 29) divided by debt-related interest expense.

(c) Cash flow from earnings (page 30), current income tax expense (page 37, note 5) and debt-related interest expense divided by debt-related interest expense.

(d) Dominion Bond Rating Service (DBRS), Standard & Poor's Corporation (S&P) and Moody's Investors Service (Moody's) are debt-rating agencies.

(e) Unconditional purchase obligations mainly pertain to pipeline throughput agreements.

(f) Firm capital commitments related to capital projects, shown on an undiscounted basis, totalled approximately \$284 million at the end of 2002, compared with \$342 million at year-end 2001. The largest commitment outstanding at year-end 2002 was associated with the company's share of capital projects at Syncrude (\$99 million).

(g) Other long-term agreements include primarily raw material supply and transportation services agreements.

Financial percentages, ratios and credit rating

	2002	2001	2000	1999	1998
Total debt as a percentage of capital (a)	22.8	25.6	24.9	23.6	31.6
Interest coverage ratios					
Earnings basis (b)	45.5	25.6	22.9	8.8	5.0
Cash-flow basis (c)	62.9	35.7	29.0	13.6	11.0
Long-term unsecured debt rating (d)					
Local currency (DBRS/S&P)	AA/AAA	AA/AAA	AA/AAA	AA/AAA	AA/AAA
Foreign currency (Moody's/S&P)	Aa1/AAA	Aa1/AA+	Aa1/AA+	Aa2/AA+	Aa2/AA+

Long-term contractual obligations

millions of dollars	Financial statement note reference	Payment due by period			Total amount
		2003	2004 to 2007	2008 and beyond	
Long-term debt	Note 4	–	1 462	4	1 466
Operating leases	Note 10	64	168	128	360
Unconditional purchase obligations (e)	Note 10	93	187	117	397
Firm capital commitments (f)	Note 10	254	30	–	284
Other long-term agreements (g)	Note 10	214	592	272	1 078
Total		625	2 439	521	3 585

In 2002, the company retired the remaining \$45 million (U.S.) of its 8¾-percent sinking-fund debentures due in 2019 for \$71 million (Cdn), replacing this long-term debt with short-term Canadian commercial paper. Imperial also issued \$500 million of floating-rate notes under its \$1-billion medium-term notes program. The notes received a Triple-A credit rating from Standard & Poor's. They have an initial term of two years and are extendable up to five years at the discretion of noteholders.

Total debt outstanding at the end of 2002 was \$1,538 million, compared with \$1,489 million at the end of 2001 (2000 – \$1,412 million). Debt represented less than 23 percent of the company's capital structure at the end of 2002, compared with 26 percent at the end of 2001 (2000 – 25 percent).

Debt-related interest expense paid in 2002 was \$40 million, down from \$77 million in 2001 (2000 – \$106 million). Generally lower interest rates and the retirement of the company's long-term, fixed-rate debt during the past few years were the reasons for the reduction. The average effective interest rate on the company's debt was 2.1 percent in 2002, compared with 5.1 percent in 2001 (2000 – 7.3 percent).

Imperial's ability to meet its debt obligations remained very secure in 2002. On an earnings basis, interest coverage was more than 45 times, compared with 26 times in 2001 (2000 – 23 times). On a cash-flow basis, interest coverage was 63 times, compared with 36 times in 2001 (2000 – 29 times).

Financial and operating overview (continued)

Imperial's long-term contractual obligations and other commercial commitments totalled \$3,585 million at the end of 2002. Details on those obligations are provided in the table on page 9.

In 2003, the company's employee retirement benefit plan will be subject to an actuarial valuation that is required every three years. At the time of the last required valuation in 2000, the company's registered pension plan was fully funded. Given the downturn in financial markets that has occurred since 2000, the upcoming valuation is expected to result in a requirement for Imperial to contribute funds to the plan. The size of any required contribution will not be known until the valuation is completed. However, the company does not expect the funding requirement to affect its existing capital investment plans or its ability to take advantage of new investment opportunities.

Imperial is exposed to a variety of financial, operating and market risks in the course of its business. Some of these risks are within the company's control, while others are not. For those risks that can be controlled, specific risk management strategies are employed to reduce the likelihood of loss. Other risks, such as changes in international commodity prices and currency exchange rates, are beyond the company's control. Imperial's potential exposure to these types of risks is summarized in the table on earnings sensitivities on page 11.

Imperial does not use derivative markets to speculate on the future direction of currency or commodity prices and does not sell forward any part of production from any business segment. Interest and currency swaps may be used within limits to manage the interest rate or currency exposure of the corporation's debt, but no such swap contracts have been used in the past three years.

Capital and exploration expenditures increased to \$1,600 million in 2002 from \$1,115 million in 2001 (2000 – \$679 million). The funds were used mainly to maintain and expand crude oil and natural gas production capacity, to upgrade refineries to meet low-sulphur gasoline

requirements and to enhance the company's retail outlets and rural agency network.

Capital and exploration expenditures in 2003, which will focus mainly on growth and productivity improvement, are expected to total about \$1.5 billion and will be financed primarily from internally generated funds. Additional information on planned expenditures in 2003 is provided in the reports on the three operating segments.

Expenditures in Canada on research and development were \$50 million in 2002, up from \$37 million in 2001 (2000 – \$31 million). These funds were used mainly to develop improved methods for recovering heavy oil and manufacturing polyethylene, as well as developing higher-quality lubricants. The company also conducted research into innovative environmental remediation technologies, including the use of native plants to remove contaminants from soil without the need for removing or disturbing the land in question.

CASH FLOWS BEFORE FINANCING AND BEFORE INVESTING IN SHORT-TERM SECURITIES

millions of dollars



Cash generated from operations continued to exceed expenditure requirements even at near-record levels of capital investment.

(a) The amount quoted to illustrate the impact of each sensitivity represents a change of about 10 percent in the value of the commodity or rate in question at the end of 2002.

Each sensitivity calculation shows the impact on earnings that results from a change in one factor, after tax and royalties and holding all other factors constant. While these sensitivities are applicable under current conditions, they may not apply proportionately to larger fluctuations.

(b) Includes both the company's payroll and benefit costs and its share of the Syncrude joint-venture payroll and benefit costs.

Earnings sensitivities (a)

millions of dollars after tax

Three dollars (U.S.) a barrel change in crude oil prices	+ (-)	\$180
Sixty cents a thousand cubic feet change in natural gas prices	+ (-)	\$40
One cent a litre change in sales margins for total petroleum products	+ (-)	\$175
Two cents (U.S.) a pound change in sales margins for polyethylene	+ (-)	\$15
One-quarter percent decrease (increase) in short-term interest rates	+ (-)	\$3
Six cents decrease (increase) in the value of the Canadian dollar versus the U.S. dollar	+ (-)	\$185

Employees

	2002	2001	2000	1999	1998
Number of full-time employees at December 31	6 460	6 740	6 704	6 550	6 689
Total payroll and benefits (millions of dollars) (b)	1 034	902	814	856	771

Critical accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates that reflect management's best judgments. The company's accounting and financial reporting fairly reflects its straightforward business model. The company does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. The following summary provides further information about the critical accounting policies and the estimates that are made by the company to apply those policies. It should be read in conjunction with pages 32 and 33 of the annual report.

Oil and gas reserves

Proved oil and gas reserves quantities are used as the basis of calculating the unit-of-production rates for depreciation and evaluating for impairment. These reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The estimation of reserves is an ongoing process based on rigorous technical evaluations and extrapolations of appropriate information. While proved reserves have a reasonable certainty of recovery, they are based on estimates that are subject to some variability. This variability has, however, generally resulted in net upward revisions of proved reserves for the company through effective reservoir management and the application of new technology. Over the last five years, the company's net revisions of previous estimates and improved recovery have averaged an increase of 23 million oil-equivalent barrels per year. While revisions the company has made in the past are an indicator of variability, they have had a very small impact on the unit-of-production rates of depreciation and in impairment testing because the revisions have been small compared to the large proved reserves base.

Site-restoration costs

Provision for site-restoration costs is recorded when it is probable that obligations have been incurred and the amounts can be reasonably determined. This provision is based on engineering estimates of costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible use of the site. Changes in these factors may result in material changes to the provision.

Retirement benefits

Imperial's pension plans are managed in compliance with the requirements of governmental authorities and meet funding levels as determined by independent third-party actuaries. Pension accounting requires explicit assumptions regarding, among others, the discount rate for the benefit obligations, rate of return on plan assets and the long-term rate for future pay increases. All pension assumptions are reviewed annually by senior financial management and at least once every three years by independent third-party actuaries. These assumptions are adjusted only as appropriate to reflect long-term changes in market rates and outlook. The long-term expected rate of return on plan assets of 8¼ percent used in 2002 compares to actual returns of 9.8 percent and 10.1 percent actually achieved over the last 10- and 20-year periods ending December 31, 2002. If different assumptions are used, the expense and obligations could increase or decrease as a result. Imperial's potential exposure to change in assumptions is summarized in footnote (e) of note 6 to the financial statements on page 38. At Imperial, differences between actual returns on plan assets versus the long-term expected return are amortized in pension expense, along with other actuarial gains and losses. Pension expense represented about one percent of total expenses in 2002.

Financial and operating overview (continued)

Imperial draws significant benefits from having access to research and development conducted by Exxon Mobil Corporation, including improved computer-assisted modelling of oil and gas reservoirs and better methods of interpreting seismic information that can enhance exploration and development success. ExxonMobil is also an industry leader in offshore exploration technology and practices. The technology Imperial is using to reduce the sulphur content of its gasoline was developed by ExxonMobil. By participating in joint research programs with ExxonMobil in 2002, Imperial received access to the results of worldwide research costing about \$1 billion.

Imperial had 6,460 full-time employees at the end of 2002, compared with 6,740 at the end of 2001 (2000 – 6,704). The company's policy is to hire the best people and provide them with opportunities for growth and success. To that end, Imperial continues to recruit from universities and community colleges across Canada and strives to employ a representative mix of capable people. Once hired, employees are involved in a structured program throughout their careers that identifies their individual development needs and provides appropriate training to enable them to help Imperial meet its evolving business objectives.

Committed to good corporate citizenship

Imperial has been committed to good corporate citizenship for more than a century. As part of that commitment, the company supports communities across Canada, especially those where it has a significant presence. Community support is directed in large part through the Imperial Oil Foundation, which is among the largest corporate donors in Canada.

The foundation contributed \$6.7 million to about 400 Canadian organizations in 2002. The majority of the company's contributions – about 60 percent – were directed to programs that support youth and education. For example, the foundation approved a four-year grant totalling \$350,000 to school boards in the Northwest Territories to provide funding for elementary school library resources. This grant is intended to support the improvement of literacy among students in the North. The company also directs funds to universities to encourage Canadian academic research in areas pertinent to Imperial's business. In 2002, 46 grants totalling \$650,000 were provided to 18 universities for research projects.

Imperial and its employees and retirees are major contributors to United Way-Centraide campaigns across the country. During 2002, donations to these campaigns totalled \$2.4 million, up 14 percent from the previous year.

Further information on the company's corporate citizenship activities can be found in our recent publication *Corporate Citizenship in a Changing World*, which is available as a printed document or electronically on the company's Web site at www.imperialoil.ca.

Natural resources

Earnings were the second-best on record, as higher bitumen prices more than offset lower prices for natural gas and decreased oil production.

Earnings from natural resources were \$1,042 million – the second-best year on record – up from \$941 million in 2001 (2000 – \$1,165 million). Higher prices for blended bitumen more than offset the effects of lower prices for natural gas and decreased production of crude oil. Included in the earnings were gains of \$3 million from the sale of assets, unchanged from 2001 (2000 – gains of \$86 million). Return on average capital employed was 35.3 percent, compared with 39.6 percent in 2001 (2000 – 49.8 percent).

Resource revenues were \$4.9 billion, down from \$5.3 billion in 2001 (2000 – \$5.9 billion). The main reasons for the decline were lower natural gas prices and decreased production of crude oil.

World prices for light crude oil were slightly higher in 2002 than the previous year. The annual average price of Brent crude oil, the most actively traded North Sea crude and a common benchmark of world oil markets, was \$25 (U.S.) a barrel in 2002, compared with \$24.50 in 2001

(2000 – \$28.40). Prices strengthened considerably as the year progressed, beginning 2002 much lower than the previous year, but ending the year higher.

The company's realizations on sales of conventional Canadian crude mirrored the same trends as world prices. Average realizations during the year were \$36.81 (Cdn) a barrel versus \$35.56 in 2001 (2000 – \$41.52).

In contrast, world markets for heavy oil were tighter throughout the year, reflecting reduced global supplies. This contributed to a strengthening of prices for Canadian heavy oil, including blended bitumen from Cold Lake. The price of Bow River, a benchmark Canadian heavy crude oil, increased by more than 25 percent in 2002, compared with a two-percent increase in prices for Canadian light crude oil.

Growth continued at the company's Cold Lake operations, where another three phases (11 to 13) were completed in 2002, on schedule and on budget. The new phases will contribute an average of 30,000 barrels a day to Cold Lake production over an estimated 25-year operating life. The latest project includes a 170-megawatt cogeneration plant that will improve energy efficiency. Also during the year, Imperial filed an application to build three more phases at Cold Lake and extend two existing ones. If regulatory and market conditions permit, total gross production from Cold Lake could grow to as much as 180,000 barrels a day later this decade from 2002 levels of just over 110,000 barrels a day.



Natural resources (continued)

FACTORS AFFECTING EARNINGS FROM NATURAL RESOURCES

millions of dollars



Positive factor

- Higher prices: **\$265 million**

Negative factors

- Reduced production of oil and gas: **\$140 million**
- Higher project-related and other expenses: **\$24 million**

Prices for Canadian natural gas in 2002, while strong by historical standards, were lower on average than in the previous year. The average of 30-day spot prices for natural gas at the AECO hub in Alberta was about \$4.10 a thousand cubic feet in 2002, down from \$6.30 a thousand in 2001 (2000 – \$5.00).

Imperial's average realizations on natural gas sales decreased to \$4.02 a thousand cubic feet from \$5.72 a thousand in 2001 (2000 – \$4.99).

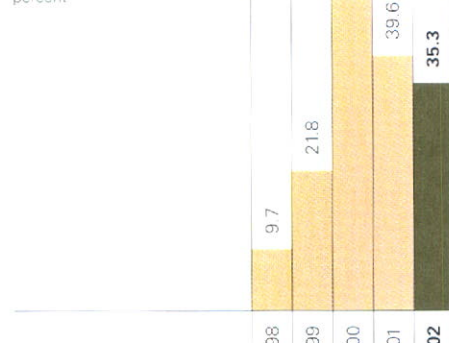
Gross production of crude oil and natural gas liquids (NGLs) decreased to 247,000 barrels a day from 267,000 barrels in 2001 (2000 – 260,000). Net production decreased to 223,000 barrels a day from 237,000 barrels in 2001 (2000 – 213,000).

Net bitumen production at the company's Cold Lake operation was 106,000 barrels a day, down from 121,000 barrels in 2001 (2000 – 102,000). The decline resulted from the timing of steam injections associated with the recovery process used at Cold Lake. Operating reliability increased to 95 percent from 94 percent the previous year even as work progressed to integrate a major expansion with existing operations. The effective royalty rate on Cold Lake production was unchanged from 2001.

Production from the Syncrude operation, in which Imperial has a 25-percent interest, increased in the year as a result of greater operating reliability. Gross production of upgraded crude oil rose to 229,000 barrels a day from 223,000 barrels in 2001 (2000 – 203,000). Imperial's share of average net production increased to 57,000 barrels a day from 52,000 barrels in 2001 (2000 – 42,000).

NATURAL RESOURCES – RETURN ON AVERAGE CAPITAL EMPLOYED

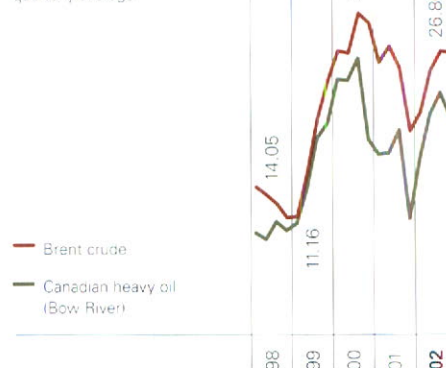
percent



With segment earnings the second-highest in the company's history, returns from natural resources remained high even after the substantial growth investments made in recent years.

CRUDE OIL PRICES

U.S. dollars a barrel – quarterly average



Prices for both heavy and light oil rose during the second half of the year, with average prices for heavy oil significantly higher than the previous year.

Financial statistics

millions of dollars	2002	2001	2000	1999	1998
Net earnings	1 042	941	1 165	560	249
Revenues	4 894	5 321	5 900	3 904	2 392
Capital and exploration expenditures					
Exploration	39	49	56	29	51
Production	143	109	110	138	185
Heavy oil	804	588	268	263	162
Total capital and exploration expenditures	986	746	434	430	398
Capital employed at December 31	3 321	2 590	2 168	2 510	2 618
Return on average capital employed (percent)	35.3	39.6	49.8	21.8	9.7

Net production of conventional oil decreased to 39,000 barrels a day from 42,000 barrels in 2001 (2000 – 46,000) as a result of the natural decline in western Canadian reservoirs.

Net production of natural gas was 463 million cubic feet a day in 2002, largely unchanged from 466 million in 2001 (2000 – 459 million).

Net production available for sale increased to 396 million cubic feet a day from 376 million in 2001 (2000 – 277 million). The primary reason for the increase was a reduction in the company's natural gas used in its own operations.

Operating costs, including exploration expenses, increased by about one percent in 2002. The main factor was increased costs associated with planned expenses for the start-up of the Cold Lake expansion and other growth projects.

Proceeds from divestments and property sales in natural resources were \$34 million in 2002, up from \$8 million in 2001 (2000 – \$234 million).

Capital and exploration expenditures were \$986 million in 2002, up from \$746 million in 2001 (2000 – \$434 million). About 90 percent of the total was focused on growth opportunities. The largest single investment during the year was Imperial's share of the Syncrude expansion. Significant expenditures were also made to complete development of Cold Lake phases 11 to 13. The remainder of 2002 investment was directed to East Coast development and exploration, advancing the Mackenzie gas project and drilling for conventional oil and gas in Western Canada.

Imperial's capital spending at Syncrude was \$465 million, compared with \$208 million in 2001 (2000 – \$125 million). Expenditures in 2002 included \$405 million for an expansion project that will increase Syncrude's total capacity by 50 percent to about 360,000 barrels a day of upgraded light crude oil by 2005. This major project includes a new mine at the Aurora site and substantial additions to upgrading capacity, including a third coking unit to convert the heaviest components of bitumen into lighter hydrocarbons. The project has added 920 million barrels to Syncrude's proved oil reserves, of which Imperial's share is 230 million barrels.

Natural resources (continued)

At Cold Lake, construction and start-up of phases 11 to 13 of bitumen production were completed at the end of 2002, on schedule and on budget. The \$650-million project includes plant and field facilities for steam injection, bitumen production and cogeneration of electrical power. Production additions from the new phases are expected to average 30,000 barrels a day over the life of the project. The new 170-megawatt electrical cogeneration plant that was completed as part of the latest investment will improve the overall energy efficiency of Cold Lake operations and help reduce energy costs. The new plant not only supplies steam for the latest three phases of bitumen production but generates sufficient electricity for the entire Cold Lake operation. Any surplus electricity is sold into the Alberta power pool.

Total capital expenditures at Cold Lake were \$340 million in 2002. This included investment of \$25 million to maintain productivity in phases

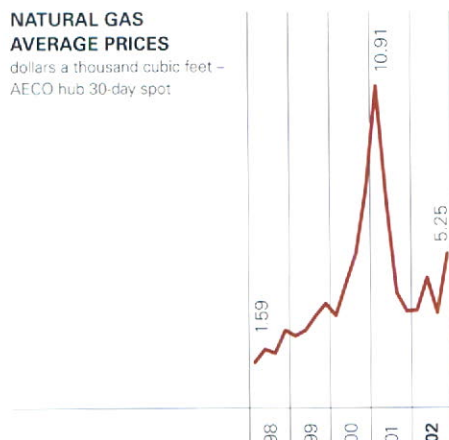
1 to 10 of the project. A total of 332 development wells were drilled in 2002 and 12 new pads were constructed. This compares with total expenditures of \$386 million in 2001 (2000 – \$148 million).

Exploration expenditures were \$39 million, down from \$49 million in 2001 (2000 – \$56 million). The company drilled three net exploratory wells in 2002. It also acquired additional leases at the Gwillim discovery in northeastern British Columbia. Imperial's strategy in Western Canada remained focused largely on exploiting hydrocarbons on existing acreage near established facilities. Higher-risk acreage is evaluated through farmouts with other companies.

Spending on development drilling in Western Canada was \$31 million, compared with \$46 million in 2001 (2000 – \$46 million). Natural gas opportunities represented the major share of spending.

NATURAL GAS AVERAGE PRICES

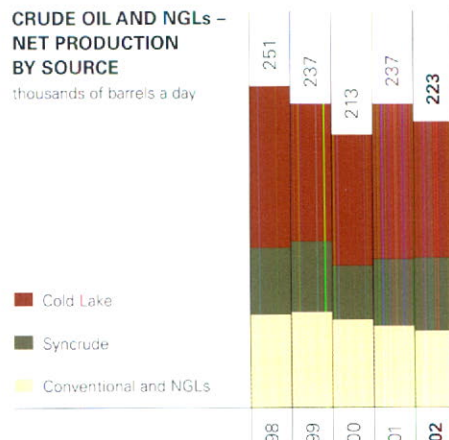
dollars a thousand cubic feet –
AECO hub 30-day spot



Prices for natural gas were lower on average than the previous year, when prices reached record levels.

CRUDE OIL AND NGLs – NET PRODUCTION BY SOURCE

thousands of barrels a day



Net production of crude oil and NGLs was lower, mainly because of reduced Cold Lake output.

(a) Daily volumes are calculated by dividing total volumes for the year by the number of days in the year. Gross production is the company's share of production (excluding purchases) before deducting the shares of mineral owners or governments or both. Net production excludes those shares.

(b) Includes natural gas condensate added to the Cold Lake bitumen to facilitate transportation to market by pipeline.

(c) Production of natural gas includes amounts used for internal consumption with the exception of amounts reinjected.

(d) Production available for sale excludes amounts used for internal consumption and amounts reinjected. Starting in 2001, production available for sale reflects a change in the supply of natural gas to company operations from company-produced gas to third-party purchased gas.

Crude oil and NGLs – production and sales ^(a)

	2002		2001		2000		1999		1998	
thousands of barrels a day	gross	net	gross	net	gross	net	gross	net	gross	net
Conventional crude oil	51	39	55	42	60	46	65	51	70	57
Cold Lake	112	106	128	121	119	102	132	107	137	126
Syncrude	57	57	56	52	51	42	56	55	52	52
Total crude oil production	220	202	239	215	230	190	253	213	259	235
NGLs available for sale	27	21	28	22	30	23	31	24	20	16
Total crude oil and NGL production	247	223	267	237	260	213	284	237	279	251
Cold Lake sales, including diluent ^(b)	145		167		156		173		185	
NGL sales	40		43		42		43		36	

Natural gas – production and sales ^(a)

	2002		2001		2000		1999		1998	
millions of cubic feet a day	gross	net	gross	net	gross	net	gross	net	gross	net
Production ^(c)	530	463	572	466	526	459	469	413	439	379
Production available for sale ^(d)	463	396	482	376	345	277	300	244	287	227
Sales	499		502		419		393		356	

Capital expansion continues

Imperial has a portfolio of high-potential opportunities in natural resources, and progress was made in 2002 on advancing these growth ventures to commercial status.

The company holds substantial interests in natural gas properties off the coast of Nova Scotia. Holdings include an approximate 20-percent interest in exploration acreage in the vicinity of the Sable Offshore Energy Project. They also include a 100-percent operating interest in two exploration licences in deeper water southeast of the Sable production area, which were acquired in 1999, and a one-sixth interest in another three deepwater exploration licences acquired in 2001.

During 2002, Imperial applied advanced ExxonMobil technology to undertake 3-D seismic and geological evaluations on its two wholly owned deepwater licences. Planning is underway to drill an exploration well on one of them. Imperial also entered into an agreement in 2002 with another

company that can earn a 30-percent working interest in the two deepwater exploration licences by participating in an exploration well.

In 2002, Imperial and its associates in the Mackenzie Gas Producers Group completed a preliminary study of the feasibility of developing existing discoveries of natural gas in the Mackenzie River delta region of Canada's Western Arctic. Three regional project offices were also opened in the Northwest Territories. The four companies in the producers group hold almost six trillion cubic feet (TCF) of natural gas resources in three onshore areas. Imperial's 1971 Taglu discovery is the largest, containing about three TCF of natural gas.

Based on the results of the feasibility study, the producers group and the Mackenzie Valley Aboriginal Pipeline Corporation (MVAPC) announced their intention to begin preparing the regulatory applications needed to develop the gas resources, including construction of a Mackenzie Valley pipeline. The MVAPC, which was formed

Natural resources (continued)

in 2001 to represent the interests of Aboriginal Peoples in the Northwest Territories in the proposed pipeline, has a target of holding a one-third interest in the line. Imperial is the designated operator of the gas-gathering and pipeline systems.

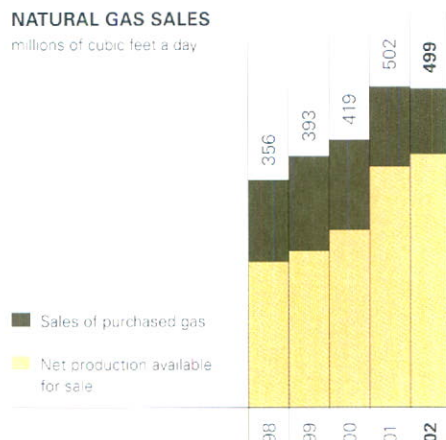
Also in 2002, Imperial filed applications for regulatory approval of the next major expansion at Cold Lake. The proposed expansion would include three new phases (phases 14 to 16), as well as extensions to phases 9 and 10. It would add about 30,000 barrels a day to production and more than 350 million barrels to the company's proved oil reserves. Expenditures over the life cycle of the project are expected to exceed \$1 billion.

Imperial moved to consolidate some of its Athabasca oil-sands resources in 2002. As a result, the company now holds a 100-percent working interest in the surface-mining portions of two Kearl Lake oil-sands leases. These leases are adjacent to a lease held by ExxonMobil Canada. The three

leases contain a high-quality oil-sands resource and will be evaluated for commercial development. Imperial and ExxonMobil Canada are discussing plans for the development of the Kearl Lake lands as part of a joint venture. In 2003, work will begin on environmental and regulatory efforts to support a development permit application and on the conceptual design of the project.

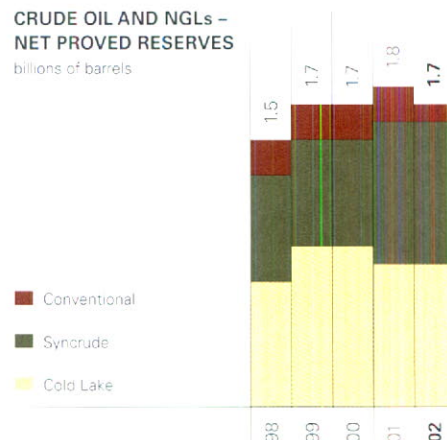
Planned capital and exploration expenditures in natural resources are expected to total about \$1 billion in 2003, with nearly 90 percent of the total focused on growth opportunities. Much of the expenditure will be directed to the expansion now underway at Syncrude. Investments are also planned for the Mackenzie gas project, continued maintenance at Cold Lake, development of a second tier of the Sable Offshore Energy Project, as well as on further development drilling in Western Canada. Planned expenditures for exploration and development drilling, as well as for capacity additions in conventional oil and gas operations, are expected to be about \$140 million.

NATURAL GAS SALES
millions of cubic feet a day



Sales of natural gas declined slightly from the previous year as a result of lower production partly offset by reduced internal use.

CRUDE OIL AND NGLs - NET PROVED RESERVES
billions of barrels



Proved reserves of crude oil and NGLs declined, as production exceeded reserve additions.

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

Proved reserves of crude oil and natural gas (a)

Year ended	Crude oil and NGLs						Natural gas	
	millions of barrels						billions of cubic feet	
	Conventional		Cold Lake		Syncrude		Total	
	gross	net	gross	net	gross	net	gross	net
1998	280	235	776	667	665	597	1 721	1 499
1999	267	225	1 016	878	645	577	1 928	1 680
2000	233	196	972	851	679	610	1 884	1 657
2001	197	165	926	807	914	821	2 037	1 793
2002	175	146	895	801	893	800	1 963	1 747

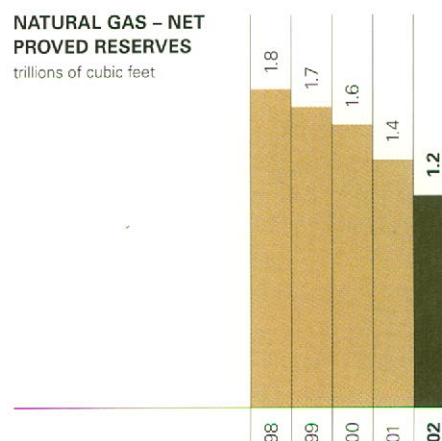
Average realizations and prices

dollars	2002	2001	2000	1999	1998
Conventional crude oil realizations (a barrel)	36.81	35.56	41.52	24.75	17.45
Natural gas realizations (a thousand cubic feet)	4.02	5.72	4.99	2.66	2.01
Par crude oil price at Edmonton (a barrel)	40.44	39.64	45.02	27.80	20.37
Heavy crude oil price at Hardisty (Bow River, a barrel)	31.85	25.11	34.49	23.51	14.67

Production of crude oil and natural gas liquids exceeded additions to reserves in 2002, thereby reducing net proved reserves during the year. Proved reserves decreased by 46 million barrels to 1,747 million barrels in 2002 from 1,793 million in 2001 (2000 – 1,657 million).

Net proved reserves of natural gas decreased to 1,224 billion cubic feet in 2002 from 1,414 billion at the end of 2001 (2000 – 1,572 billion) as production exceeded reserve additions. At year-end, the company's total reserves on an oil-equivalent basis were approximately two billion barrels, equal to about 18 years of production at current levels.

NATURAL GAS – NET PROVED RESERVES
trillions of cubic feet



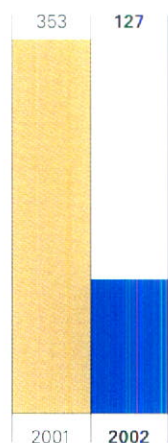
Proved reserves of natural gas declined as production exceeded reserve additions.

Petroleum products

Lower refining and marketing margins reduced earnings.

FACTORS AFFECTING EARNINGS FROM PETROLEUM PRODUCTS

millions of dollars



Positive factors

- Lower expenses: **\$60 million**
- Higher volumes: **\$20 million**

Negative factor

- Lower refining and marketing margins: **\$306 million**

Net earnings from petroleum products were \$127 million or 0.4 cents a litre in 2002, down from a record \$353 million or 1.2 cents a litre in 2001 (2000 – \$313 million or 1.1 cents a litre). The decline was caused by reduced industry refining and marketing margins. Return on capital employed was 5.6 percent in 2002, compared with 16.1 percent in 2001 (2000 – 14.0 percent).

Revenues were \$14.4 billion, unchanged from the previous year (2000 – \$15.1 billion).

Margins were lower in both the refining and marketing segments of the industry, reflecting high inventories and strong competition. Although refining margins improved late in the year, as North American product inventories returned to more normal levels, average margins for the year as a whole were significantly lower than in 2001. Average marketing margins were also lower than the previous year.

The company's total sales volumes, including those resulting from reciprocal supply agreements with other companies, were 83.1 million litres a day, compared with 81.2 million litres in 2001 (2000 – 80.3 million). Excluding sales resulting from reciprocal agreements, sales were 69.2 million litres a day, compared with 69.6 million litres in 2001 (2000 – 69.6 million).

In Canada, consumption of petroleum products increased by about one percent from the previous year. Imperial continued to supply about 25 percent of total demand and remains the largest refiner and marketer of petroleum products in the country.

The company's strategy in the petroleum products business stresses increasing sales through higher-margin Esso-branded channels in Canada and through the most profitable wholesale markets in both Canada and the United States.

Total company sales of gasoline were 32.9 million litres a day, an increase of about two percent from the previous year. Capital investments to upgrade the network of Esso retail outlets continued during the year and were aimed at providing customers with the best competitive offer. As a result of those investments and other customer-focused programs, gasoline sales through Esso retail outlets increased more than 3.5 percent in 2002, compared with a 2.5-percent increase in total Canadian retail gasoline sales. Average throughput of gasoline at company-owned retail outlets was 4.9 million litres a site, up 11 percent from 2001 and nearly 20 percent from 2000.

Industry sales of distillate products – which include heating oil, diesel fuel and jet fuel – increased by about one percent in 2002. Company sales declined by about six percent, to 25 million litres a day from 26.5 million litres in 2001 (2000 – 27.5 million litres). The main reason for the decline was reduced sales of jet fuel resulting from financial difficulties in the airline industry.

Company sales of asphalt increased by 11 percent in 2002, with strong export sales more than offsetting reduced domestic sales. Production and sales of heavy fuel oil declined, mainly because the relatively high cost of heavy crude oil in 2002 resulted in the processing of lighter crude oil in the company's refineries.

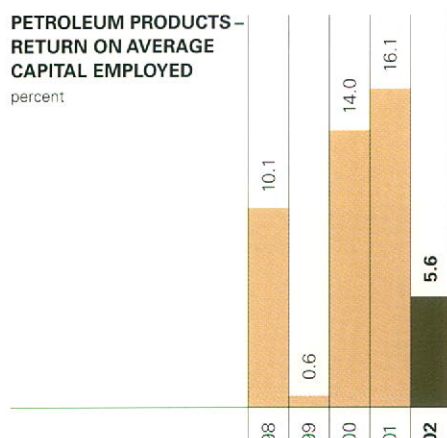
Operating costs decreased by about three percent in 2002 from the previous year.

Refinery utilization averaged 90 percent in 2002, unchanged from the previous year (2000 – 91 percent).

Imperial introduced several new products to its industry-leading lubricant line in 2002. In response to new industry standards for heavy-duty engine oils, formulas for all grades of XD-3 Extra were improved to reduce emissions while maintaining performance. As exclusive Canadian marketer of Mobil 1, the world's best-selling synthetic motor oil, Imperial benefited from the introduction of the new, proprietary Supersyn™ line of Mobil 1 anti-wear engine oils.

The company's retail customer loyalty program, Esso Extra, was significantly strengthened in 2002 by an alliance with Hudson's Bay Company, which allows customers to exchange points between the Esso Extra and Hbc loyalty rewards programs.

**PETROLEUM PRODUCTS –
RETURN ON AVERAGE
CAPITAL EMPLOYED**
percent



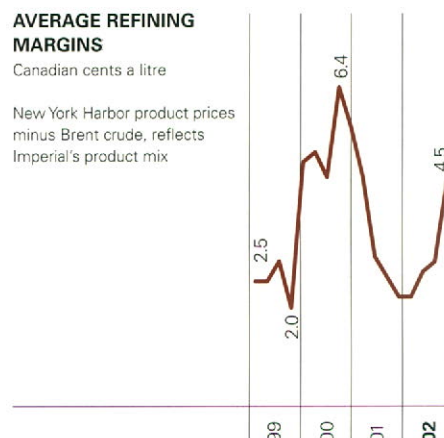
Reduced industry margins caused returns from petroleum products to fall below the company's target of double-digit returns.

Imperial continued to expand the popular *Speedpass* transponder payment system throughout the year, increasing the number of sites that accept *Speedpass* to more than 1,200 Esso retail outlets. *Speedpass* enrolments and usage grew substantially during 2002. For more information on the program and to access an online application form, visit the company's Web site at www.imperialoil.ca.

Since the early 1990s, Imperial and the Tim Hortons food retailing operation have been at the forefront in bringing a branded food offering to the Canadian retail gasoline market. In early 2002, the two companies announced a more comprehensive, 10-year strategic alliance that will enhance the existing Tim Hortons offering of food and refreshments at Esso sites. The alliance will result in a substantial increase in the number of Esso retail outlets across the country that offer the full Tim Hortons menu, including soup and sandwiches. By the end of 2002, about

**AVERAGE REFINING
MARGINS**

Canadian cents a litre
New York Harbor product prices
minus Brent crude, reflects
Imperial's product mix



Refining margins remained depressed during the first nine months of the year, recovering somewhat during the fourth quarter.

Petroleum products (continued)



Imperial continues to invest in the productivity growth of its nationwide network of Esso retail outlets. During 2002, the company announced a more comprehensive alliance with the Tim Hortons food retailing operation that will substantially increase the number of Esso retail outlets that offer the full Tim Hortons menu. Imperial also continued to expand its popular *Speedpass* transponder payment system, add "On the Run" convenience stores to the network and strengthen its Esso Extra customer loyalty program.

45 Esso retail outlets had been revamped to offer the full menu to customers. This enhancement will eventually be available at about 300 outlets across Canada.

Total revenues from the company's convenience-store network rose by more than 25 percent in 2002, while average same-store sales increased by almost 20 percent.

Imperial opened a second customer service and support centre in mid-2002. The new centre, located in Saint John, N.B., joins an existing one in Moncton, N.B. The two centres provide backup for each other in the event of a power or telecommunications failure or other disruption, as well as an expanded customer service offering.

Increased capital program

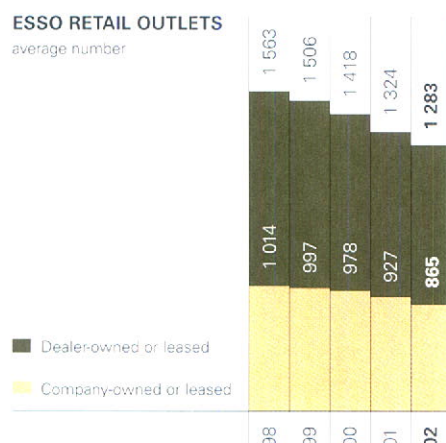
Capital expenditures increased to \$589 million in 2002, compared with \$339 million in 2001

(2000 – \$232 million). The company invested more than \$300 million in refining operations during the year as part of a \$575-million project to eliminate virtually all sulphur from Esso gasoline. The sulphur-reduction project employs a patented ExxonMobil technology called *SCANfining*, which selectively removes sulphur from gasoline while minimizing octane loss. In addition, almost \$100 million was invested in a variety of refinery projects to improve energy efficiency and increase yield.

Major investments were also made to upgrade the network of Esso retail outlets in 2002. Nine new sites were built, 21 were rebuilt and 44 retail outlets were upgraded.

A major program to improve the productivity of the company's rural agency distribution network was largely completed in 2002. The three-year

ESSO RETAIL OUTLETS
average number



Imperial continued to close or debrand less-productive sites, while making major investments in the remaining network.

THROUGHPUT – COMPANY-OWNED AND LEASED RETAIL OUTLETS
millions of litres per site



Continued investment in the company-owned network caused productivity to increase by 11 percent in 2002.

Financial statistics

millions of dollars	2002	2001	2000	1999	1998
Net earnings	127	353	313	15	244
Revenues	14 434	14 405	15 120	10 665	9 742
Capital expenditures					
Marketing	133	171	121	80	102
Refining and supply	399	118	100	114	78
Other	57	50	11	9	17
Total capital expenditures	589	339	232	203	197
Capital employed at December 31	2 435	2 119	2 261	2 201	2 440
Return on average capital employed (percent)	5.6	16.1	14.0	0.6	10.1

Sales of petroleum products

millions of litres a day (a)	2002	2001	2000	1999	1998
Gasolines	32.9	32.3	32.0	31.9	31.8
Heating, diesel and jet fuels	25.0	26.5	27.5	26.9	25.4
Heavy fuel oils	4.9	5.4	5.1	4.6	6.2
Lube oils and other products	6.4	5.4	5.0	5.8	5.2
Net petroleum products sales	69.2	69.6	69.6	69.2	68.6
Sales under purchase and sale agreements	13.9	11.6	10.7	10.8	9.6
Total sales of petroleum products	83.1	81.2	80.3	80.0	78.2
Total domestic sales of petroleum products (percent)	91.5	93.4	94.0	95.6	96.0

Refinery utilization

millions of litres a day (a)	2002	2001	2000	1999	1998
Total refinery throughput (b)	71.2	71.4	71.6	70.1	70.7
Refinery capacity at December 31	79.4	79.1	78.7	78.7	77.8
Utilization of total refinery capacity (percent)	90	90	91	89	91

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

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

One thousand litres is approximately 6.3 barrels.

project transformed the rural network from more than 300 bulk fuel locations to fewer than 100 sites supplied by a more efficient transportation system. The final component of the new network – a centralized order management process to better meet customer needs – will be completed in 2003.

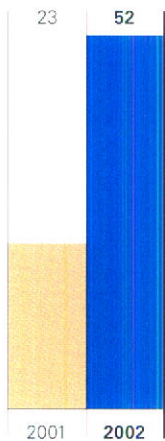
Capital expenditures in 2003 are expected to be about \$500 million. Major items include additional investment in refining facilities to

complete the sulphur-reduction project and continued enhancements to the company's retail network. There will also be significant expenditures on a 95-megawatt cogeneration facility in Sarnia, slated for completion in 2004, which will improve energy efficiency and reduce emissions at the company's Sarnia-based petroleum product and chemical operations.

Chemicals

Increased chemical sales and improved margins caused earnings to more than double.

FACTORS AFFECTING EARNINGS FROM CHEMICALS
millions of dollars



Positive factors

- Higher volumes: \$28 million
- Higher margins: \$6 million

Negative factor

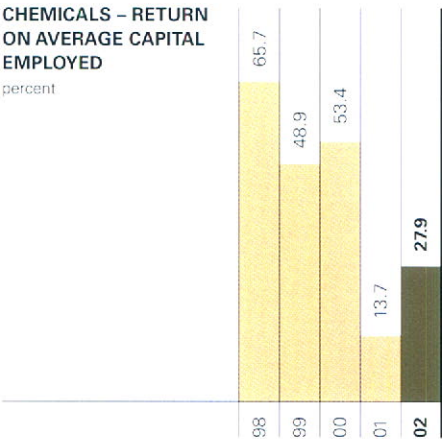
- Higher volume-related expenses: \$5 million

Earnings from chemical operations were \$52 million in 2002, up from \$23 million in 2001 (2000 – \$59 million). Increased margins on sales of polyethylene and a full year of production from an expansion of the polyethylene plant, which was completed in late 2001, were the main reasons for the improvement.

Increased sales of intermediate products, which include solvents, plasticizers and industrial alcohols, also contributed to the higher earnings.

Return on average capital employed was 27.9 percent, compared with 13.7 percent in 2001 (2000 – 53.4 percent).

CHEMICALS – RETURN ON AVERAGE CAPITAL EMPLOYED
percent

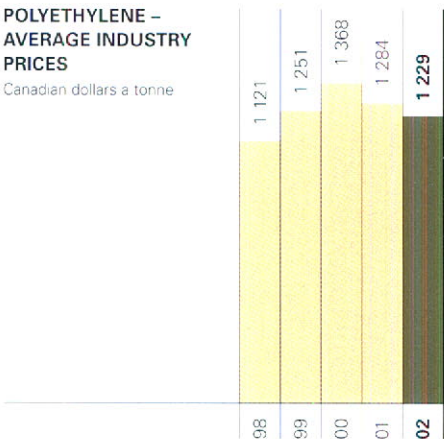


Increased earnings caused returns from chemical operations to double.

Total revenues from chemical operations were \$1,164 million, compared with \$1,175 million in 2001 (2000 – \$1,173 million). Prices for both polyethylene and intermediate chemicals were lower in the year, offsetting gains from increased sales volumes.

The average industry price of polyethylene was \$1,229 a tonne in 2002, down four percent from \$1,284 a tonne in 2001 (2000 – \$1,368). However, margins improved because of lower feedstock costs, reflecting reduced prices for natural gas.

POLYETHYLENE – AVERAGE INDUSTRY PRICES
Canadian dollars a tonne



Prices for polyethylene declined slightly, but margins were higher as a result of lower feedstock costs.

Financial statistics

millions of dollars	2002	2001	2000	1999	1998
Net earnings	52	23	59	43	87
Revenues	1 164	1 175	1 173	872	972
Capital expenditures	25	30	13	20	17
Capital employed at December 31	178	195	140	81	95
Return on average capital employed (percent)	27.9	13.7	53.4	48.9	65.7

Sales volumes

thousands of tonnes a day (a)	2002	2001	2000	1999	1998
Polymers and basic chemicals	2.5	2.4	2.2	2.0	2.4
Intermediates, Paramins and other	1.0	0.9	0.9	1.0	1.1
Total chemicals	3.5	3.3	3.1	3.0	3.5

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

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

Sales of chemicals increased to 3,500 tonnes a day from 3,300 tonnes a day in 2001 (2000 – 3,100 tonnes), following the fifth expansion of the Sarnia polyethylene plant. Industry benchmarking studies in 2002 confirmed once again that the company's polyethylene operations are among the most cost-competitive in North America.

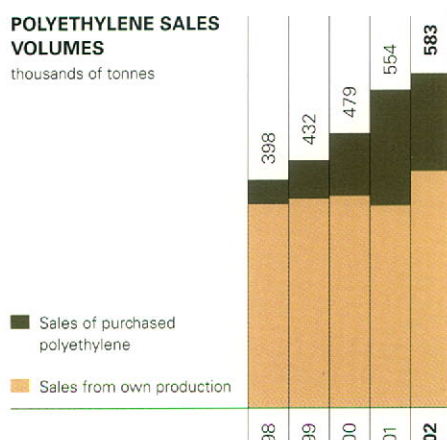
Operating costs in the chemical segment increased by four percent in 2002, largely because of a seven-percent increase in total production volumes.

Capital expenditures were \$25 million in 2002, compared with \$30 million in 2001 (2000 – \$13 million). The major investment in 2002 was the Sarnia cogeneration project, a joint development between the petroleum product and chemical operations at the site.

Planned expenditures in 2003 will increase to more than \$40 million, with the majority of the investment relating to the Sarnia cogeneration project.

POLYETHYLENE SALES VOLUMES

thousands of tonnes



Sales of company-produced polyethylene increased by more than 15 percent following the fifth expansion of the Sarnia plant in late 2001.

Safety, health and environment

The incidence of work-related injuries and illnesses for employees and contractors was the second-best on record.

Imperial employs rigorous programs and processes to ensure safe and environmentally responsible operations. Nothing is more important or has a higher management priority. During 2002, Imperial spent more than \$375 million on projects related to reducing the environmental impact of operations and improving safety. This included investments of more than \$300 million in the company's four refineries as part of its \$575-million capital project to produce lower-sulphur gasolines.

Imperial's operations integrity management system (OIMS) has been in place for more than a decade and provides a disciplined approach to operating all facilities safely and reliably. Lloyd's Register Quality Assurance Ltd. has attested that OIMS meets the ISO 14001 requirements for a comprehensive environmental management system. The company continues to enhance key aspects of OIMS to further strengthen its effectiveness in ensuring safe and reliable operations every day.

Imperial's safety record continues to be among the best in Canadian industry, reflecting the company's strong safety culture, structured managing systems and commitment by employees and contractors to work safely. The incidence of work-related injuries and illnesses in 2002 for employees and contractors combined was the second best on record, following a best-ever record in 2001. Unfortunately, however, one incident resulted in a contractor fatality. Imperial's goal remains to have no one, employee or contractor, injured while working on company operations or company sites.

The number of operating incidents such as spills and fires costing more than \$75,000 at company facilities was up slightly from the record low of 2001 but was below the five-year average. Emissions from operations and releases from other sources as measured under the federal government's National Pollutant Release Inventory (NPRI) program were unchanged in 2001 from the previous year.

EMPLOYEE AND CONTRACTOR SAFETY PERFORMANCE

total recordable incidents per 200,000 hours worked



Imperial's overall safety performance – the incidence of work-related injuries and illnesses in 2002 for employees and contractors combined – was the second-best on record, following a best-ever performance in 2001.

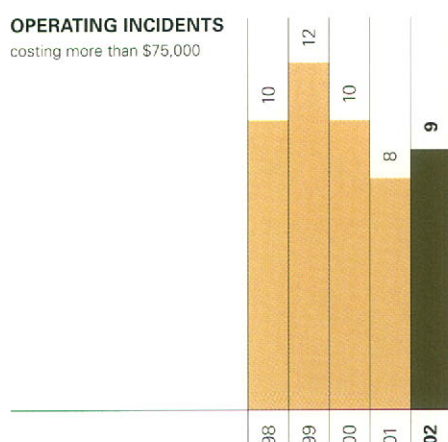
In natural resources operations, major efforts are made to reduce environmental impact and improve energy efficiency by recovering solution gas associated with crude oil production that would otherwise be flared or vented into the air. Imperial's record of capturing 99.7 percent of solution gas in 2001, the most recent year of reporting, was the best among the 50 largest oil producers in Alberta. The total amount of gas flared and vented from operations was further reduced in 2002.

Improving energy efficiency in cost-effective ways is a focus for all company operations. These initiatives not only make good environmental sense – they make good business sense. Cogeneration is

the process of using one fuel, usually natural gas, to generate both steam and electricity for industrial operations. A 170-megawatt cogeneration plant began operating at Cold Lake in November 2002. Construction is also underway on a 95-megawatt cogeneration unit at the Sarnia manufacturing complex, with completion expected by early 2004.

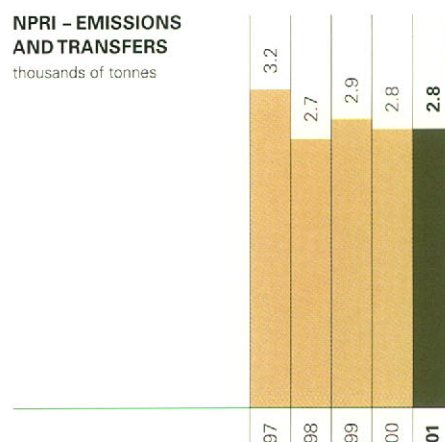
Imperial continues to participate in the Climate Change Voluntary Challenge and Registry program. The company's most recent submission, covering 2001 operations, received a gold level rating for a fourth time. It reported that greenhouse gas emissions from company operated facilities decreased by three percent from the previous year.

OPERATING INCIDENTS
costing more than \$75,000



The number of operating incidents costing more than \$75,000 was up slightly from the record low in 2001.

**NPRI – EMISSIONS
AND TRANSFERS**
thousands of tonnes



Imperial's most recent NPRI submission, based on 2001 data, reported that ongoing emissions from company operations were unchanged from 2000.

Management report

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

Management has established and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements fairly report the company's operating and financial results, and that the company's assets are safeguarded. The company's internal audit unit reviews and

evaluates the adequacy of and compliance with the company's internal control standards. It is also the company's policy to maintain the highest standard of ethics in all its activities.

Imperial's board of directors has approved the information contained in the financial statements. The board fulfills its responsibility regarding the financial statements mainly through its audit committee, which is composed of the nonemployee directors. The audit committee reviews the company's annual and quarterly financial statements, accounting practices, business and financial controls, and internal audit program and its findings. It also recommends the external auditors to be appointed by the shareholders at each annual meeting, reviews their audit work plan and approves their fees.

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



T. J. Hearn



P. A. Smith

February 19, 2003

Auditors' report

To the shareholders of Imperial Oil Limited

We have audited the consolidated statements of earnings and of cash flows of Imperial Oil Limited for each of the three years in the period ended December 31, 2002, and the consolidated balance sheets as at December 31, 2002, and 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the company for each of the three years in the period ended December 31, 2002, and its financial position as at December 31, 2002, and 2001, in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Ontario

February 19, 2003

Consolidated statement of earnings ^(a)

(a) Business segments are reported in note 1.

The information on pages 32 through 41 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation. The effects of new accounting standards on the consolidated statement of earnings and balance sheet are described in note 2.

millions of dollars					
For the years ended December 31	2002	2001	2000	1999	1998
Revenues					
Operating revenues	16 890	17 153	17 829	12 763	10 949
Investment and other income (note 3)	152	100	222	90	137
Total revenues	17 042	17 253	18 051	12 853	11 086
Expenses					
Exploration	30	45	35	28	37
Purchases of crude oil and products	10 155	10 134	10 772	7 091	5 663
Operating, selling and general	3 110	3 135	2 846	2 776	2 722
Federal excise tax	1 231	1 180	1 194	1 188	1 190
Depreciation and depletion	703	716	724	734	704
Financing costs (note 13)	32	152	163	38	250
Total expenses	15 261	15 362	15 734	11 855	10 566
Earnings before income taxes	1 781	1 891	2 317	998	520
Income taxes (note 5)	571	652	919	377	76
Net earnings	1 210	1 239	1 398	621	444
Per-share information (dollars)					
Net earnings – basic (note 11)	3.19	3.15	3.35	1.44	1.01
Net earnings – diluted (note 11)	3.19	3.15	3.35	1.44	1.01
Dividends	0.84	0.83	0.78	0.75	0.74

Consolidated statement of cash flows

millions of dollars

inflow (outflow)

For the years ended December 31

	2002	2001	2000	1999	1998
Operating activities					
Net earnings	1 210	1 239	1 398	621	444
Depreciation and depletion	703	716	724	734	704
(Gain)/loss on asset sales, after tax (note 3)	(4)	(7)	(96)	(17)	(47)
Future income taxes and other	(151)	43	(182)	(329)	28
Cash flow from earnings (a)	1 758	1 991	1 844	1 009	1 129
Accounts receivable	(356)	504	(358)	(124)	76
Inventories and prepaids	51	(11)	(6)	(16)	8
Income taxes payable	(225)	(408)	503	225	(178)
Accounts payable and other	448	(72)	106	376	(256)
Change in operating assets and liabilities	(82)	13	245	461	(350)
Cash from operating activities	1 676	2 004	2 089	1 470	779
Investing activities					
Additions to property, plant and equipment	(1 552)	(1 070)	(644)	(625)	(575)
Proceeds from asset sales (note 3)	61	46	274	88	213
Proceeds from marketable securities	—	—	116	59	79
Additions to marketable securities	—	—	(58)	(88)	(87)
Cash from (used in) investing activities	(1 491)	(1 024)	(312)	(566)	(370)
Cash flow before financing activities	185	980	1 777	904	409
Financing activities					
Short-term debt – net	(388)	385	75	—	—
Long-term debt issued	500	—	—	—	—
Repayment of long-term debt	(71)	(379)	(68)	(379)	—
Common shares purchased (note 11)	(13)	(812)	(1 208)	—	(434)
Dividends paid	(319)	(322)	(331)	(319)	(326)
Cash from (used in) financing activities	(291)	(1 128)	(1 532)	(698)	(760)
Increase (decrease) in cash	(106)	(148)	245	206	(351)
Cash at beginning of year	872	1 020	775	569	920
Cash at end of year (b)	766	872	1 020	775	569

(a) Includes dividends received from equity investments of \$18 million (2001 – \$10 million; 2000 – \$14 million).

(b) Cash is composed of cash in bank and cash equivalents at cost.

The information on pages 32 through 41 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation.

Consolidated balance sheet

millions of dollars At December 31	2002	2001	2000	1999	1998
Assets					
Current assets					
Cash	766	872	1 020	775	569
Marketable securities	—	—	—	59	30
Accounts receivable (note 12)	1 348	992	1 496	1 138	1 014
Inventories of crude oil and products (note 12)	433	478	421	451	438
Materials, supplies and prepaid expenses	110	116	162	125	122
Future income tax assets (note 5)	323	227	377	285	128
Total current assets	2 980	2 685	3 476	2 833	2 301
Investments and other long-term assets	134	139	127	172	167
Property, plant and equipment (note 1)	8 526	7 709	7 369	7 525	7 667
Goodwill (notes 1 and 2)	204	204	232	260	288
Other intangible assets (note 1)	24	24	18	14	10
Total assets (note 1)	11 868	10 761	11 222	10 804	10 433
Liabilities					
Current liabilities					
Short-term debt	72	460	75	—	—
Accounts payable and accrued liabilities (note 14)	2 114	1 791	1 866	1 731	1 417
Income taxes payable	557	774	1 182	666	441
Current portion of long-term debt	—	—	300	—	215
Total current liabilities	2 743	3 025	3 423	2 397	2 073
Long-term debt (note 4)	1 466	1 029	1 037	1 352	1 583
Other long-term obligations (note 7)	1 187	1 063	1 044	1 091	1 042
Future income tax liabilities (note 5)	1 260	1 311	1 488	1 599	1 667
Commitments and contingent liabilities (note 10)	—	—	—	—	—
Total liabilities	6 656	6 428	6 992	6 439	6 365
Shareholders' equity					
Common shares at stated value (note 11)	1 939	1 941	2 039	2 209	2 209
Net earnings retained and used in the business					
At beginning of year	2 392	2 191	2 156	1 859	2 088
Net earnings for the year	1 210	1 239	1 398	621	444
Share purchases (note 11)	(11)	(714)	(1 038)	—	(350)
Dividends	(318)	(324)	(325)	(324)	(323)
At end of year	3 273	2 392	2 191	2 156	1 859
Total shareholders' equity	5 212	4 333	4 230	4 365	4 068
Total liabilities and shareholders' equity	11 868	10 761	11 222	10 804	10 433

The information on pages 32 through 41 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation. The effects of new accounting standards on the consolidated statement of earnings and balance sheet are described in note 2.

Approved by the directors



T.J. Hearn
Chairman, president and
chief executive officer



P.A. Smith
Controller and senior vice-president,
finance and administration

Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiaries. Intercompany accounts and transactions are eliminated. Subsidiaries include those companies in which Imperial has both an equity interest and the continuing ability to unilaterally determine strategic operating, investing and financing policies. Significant subsidiaries included in the consolidated financial statements include Imperial Oil Resources Limited, Imperial Oil Resources N.W.T. Limited, Imperial Oil Resources Ventures Limited and McColl-Frontenac Petroleum Inc. All of the above companies are wholly owned. A significant portion of the company's activities in natural resources is conducted jointly with other companies. The accounts reflect the company's proportionate interest in such activities, including its 25-percent interest in the Syncrude joint venture and its nine-percent interest in the Sable Offshore Energy Project.

Segment reporting

The company operates its business in Canada in the following segments:

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

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

Chemicals includes the manufacturing and marketing of various hydrocarbon-based chemicals and chemical products.

Corporate and other includes assets and liabilities that do not specifically relate to business segments – primarily cash, marketable securities and long-term debt. Net earnings in this category primarily include debt-related charges and interest income.

Segment accounting policies are the same as those described in this summary of significant accounting policies. Natural resources, petroleum products and chemicals operating expenses include amounts allocated from the "corporate and other" segment. The allocation is based on a combination of fee for service, proportional segment operating expenses and a three-year average of capital expenditures. Transfers of assets between

segments are recorded at book amounts. Items included in capital employed that are not identifiable by segment are allocated according to their nature.

Accounts receivable

Accounts receivable arise mainly from customer purchases of the company's products. Interest is accrued on overdue accounts (generally those over 30 days) and is reported in "investment and other income" in the consolidated statement of earnings. Interest accrual will be suspended if collection becomes doubtful. An allowance for doubtful accounts is established based upon an assessment of the collectability of individual larger account balances and upon historical experience, economic and judgmental factors collectively for groups of smaller homogeneous accounts. Accounts are written off when judged to be uncollectable.

Inventories

Inventories are recorded at the lower of cost or net realizable value. The cost of crude oil and products is determined primarily using the last-in, first-out (LIFO) method. LIFO was selected over the alternative first-in, first-out and average cost methods because it provides a better matching of current costs with the revenues generated in the period.

Costs include purchase costs and other applicable operating expenses. Selling and general administrative expenses are excluded.

Investments

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

These investments represent interests in non-publicly traded pipeline companies that facilitate the sale and purchase of crude oil and natural gas in the conduct of company operations. Other parties who also have an equity interest in these companies share in the risks and rewards according to their percentage of ownership. Imperial does not invest in these companies in order to remove liabilities from its balance sheet.

Property, plant and equipment

Property, plant and equipment are recorded at cost.

The company follows the successful-efforts method of accounting for its exploration and development activities. Under this method, costs of exploration acreage are capitalized and amortized over the period of exploration or until a discovery is made. Costs of exploration wells are capitalized until their success can be determined. If the well is successful, the costs remain capitalized; otherwise they are expensed. Capitalized exploration costs are reevaluated annually. All other exploration costs are expensed as incurred. Development costs, including the cost of natural gas and natural gas liquids used as injectants in enhanced (tertiary) oil-recovery projects, are capitalized.

Imperial selected the successful-efforts method over the alternative full-cost method of accounting because it provides a more timely accounting of the success or failure of exploration and production activities.

Oil, gas and other properties held and used by the company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The company estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts.

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

Investment tax credits and other similar grants are treated as a reduction of the capitalized cost of the asset to which they apply.

Depreciation and depletion (the allocation of the cost of assets to expense over the period of their useful lives) are calculated using the unit-of-production method for producing properties. Depreciation of other plant and equipment is calculated using the straight-line method, based on the estimated service life of the asset. In general, refineries are depreciated over 25 years; other major assets, including chemical plants and service stations, are depreciated over 20 years.

Gains or losses on assets sold are included in "investment and other income" in the consolidated statement of earnings.

Goodwill and other intangible assets

Goodwill and intangible assets with indefinite lives are not subject to amortization. These assets are tested for impairment annually or more frequently if events or circumstances indicate the assets might be impaired. Impairment losses are recognized in current period earnings. The evaluation for impairment of goodwill is based on a comparison of the carrying values of goodwill and associated operating assets with the estimated present value of net cash flows from those operating assets.

Intangible assets with determinable useful lives are amortized over a maximum of 10 years. The amortization is included in "depreciation and depletion" in the consolidated statement of earnings.

Site-restoration costs

Provision for site-restoration costs (net of any expected recoveries) is made if they can be reasonably determined. This provision is based on engineering estimates of costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible use of the site. For natural resources assets, accruals are made over the useful life of the asset using

the unit-of-production method. For other assets, a provision is made at the time management approves the sale or closure of a facility.

Foreign currency translation

Monetary assets and liabilities receivable or payable in foreign currencies have been translated at the rates of exchange prevailing on December 31. Any exchange gains or losses are recognized in earnings.

Financial instruments

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

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

The company does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. The company's use of and method of accounting for derivative financial instruments are described in note 8 to the consolidated financial statements.

Revenues

Revenues associated with sales of crude oil, natural gas, petroleum and chemical products and other items are recorded when title passes to the customer. The company does not enter into ongoing arrangements whereby

it is required to repurchase its products, nor does the company provide the customer with a right of return.

Revenues include amounts billed to customers for shipping and handling. Shipping and handling costs incurred up to the point of final storage prior to delivery to a customer are included in "purchases of crude oil and products" in the consolidated statement of earnings. Delivery costs from final storage to customers are recorded as a marketing expense in operating, selling and general expenses.

Consumer taxes

Taxes levied on the consumer and collected by the company are excluded from the consolidated statement of earnings. These are primarily provincial taxes on motor fuels and the federal goods and services tax.

Interest costs

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

Accounting principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. *Form 10-K*, filed with the United States Securities and Exchange Commission, includes a description of the differences between GAAP in Canada and in the United States as they apply to the company.

The Canadian Institute of Chartered Accountants (CICA) is expected to issue a standard on accounting for asset retirement obligations in 2003. The company plans to adopt the new CICA standard early if permitted.

Notes to consolidated financial statements

1. Business segments

	Natural resources (a)			Petroleum products		
millions of dollars	2002	2001	2000	2002	2001	2000
Revenues						
External sales (c)	2 573	3 144	3 124	13 362	13 079	13 760
Intersegment sales	2 217	2 166	2 638	1 038	1 300	1 332
Investment and other income (note 3)	104	11	138	34	26	28
Total revenues	4 894	5 321	5 900	14 434	14 405	15 120
Expenses						
Exploration	30	45	35	—	—	—
Purchases of crude oil and products	1 814	2 444	2 586	10 974	10 505	11 511
Operating, selling and general (d)	1 034	1 007	921	1 837	1 889	1 710
Federal excise tax	—	—	—	1 231	1 180	1 194
Depreciation and depletion (e) (f)	477	455	467	203	238	235
Financing costs (note 13)	1	2	1	1	2	3
Total expenses	3 356	3 953	4 010	14 246	13 814	14 653
Earnings before income taxes	1 538	1 368	1 890	188	591	467
Income taxes (note 5)						
Current	517	556	815	172	125	281
Future	(21)	(129)	(90)	(111)	113	(127)
Total income tax expense	496	427	725	61	238	154
Net earnings	1 042	941	1 165	127	353	313
Cash flow from earnings	1 503	1 262	1 422	216	700	417
Capital and exploration expenditures (g)	986	746	434	589	339	232
Property, plant and equipment						
Cost	11 612	10 733	10 067	5 854	5 469	5 287
Accumulated depreciation and depletion	6 269	5 839	5 412	2 867	2 842	2 748
Net property, plant and equipment (h)	5 343	4 894	4 655	2 987	2 627	2 539
Total assets (i)	5 988	5 365	5 288	5 060	4 348	4 812
Total capital employed	3 321	2 590	2 168	2 435	2 119	2 261

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

millions of dollars	2002	2001	2000
Total revenues	2 357	2 689	2 851
Total expenses	1 520	1 733	1 691
Net earnings, after income taxes	557	637	716
Total current assets	321	232	378
Long-term assets	3 038	2 750	2 705
Total current liabilities	669	919	1 023
Other long-term obligations	268	262	247
Cash flow from earnings	767	828	833
Cash flow from operating activities	615	850	912
Cash (used in) investing activities	(601)	(301)	(224)

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

millions of dollars	2002	2001	2000
Purchases of crude oil and products	3 463	3 710	4 196
Operating, selling and general expenses	1	1	2
Total intersegment sales	3 464	3 711	4 198
Intersegment receivables and payables	352	198	279

Chemicals			Corporate and other			Consolidated ^(b)		
2002	2001	2000	2002	2001	2000	2002	2001	2000
955	930	945	–	–	–	16 890	17 153	17 829
209	245	228	–	–	–	–	–	–
–	–	–	14	63	56	152	100	222
1 164	1 175	1 173	14	63	56	17 042	17 253	18 051
–	–	–	–	–	–	30	45	35
830	895	871	–	–	–	10 155	10 134	10 772
230	221	184	10	19	33	3 110	3 135	2 846
–	–	–	–	–	–	1 231	1 180	1 194
23	23	22	–	–	–	703	716	724
–	–	–	30	148	159	32	152	163
1 083	1 139	1 077	40	167	192	15 261	15 362	15 734
81	36	96	(26)	(104)	(136)	1 781	1 891	2 317
40	11	44	(11)	(13)	(18)	718	679	1 122
(11)	2	(7)	(4)	(13)	21	(147)	(27)	(203)
29	13	37	(15)	(26)	3	571	652	919
52	23	59	(11)	(78)	(139)	1 210	1 239	1 398
63	49	74	(24)	(20)	(69)	1 758	1 991	1 844
25	30	13	–	–	–	1 600	1 115	679
579	554	525	–	–	–	18 045	16 756	15 879
383	366	350	–	–	–	9 519	9 047	8 510
196	188	175	–	–	–	8 526	7 709	7 369
406	373	379	766	873	1 022	11 868	10 761	11 222
178	195	140	816	918	1 072	6 750	5 822	5 641

(c) Includes export sales to the United States, as follows:

millions of dollars	2002	2001	2000
Natural resources	942	1 018	1 212
Petroleum products	723	770	781
Chemicals	520	503	522
Total export sales	2 185	2 291	2 515

(d) Consolidated operating, selling and general expenses include delivery costs from final storage to customers of \$216 million (2001 – \$244 million; 2000 – \$238 million).

(e) Goodwill was not amortized in 2002 (amortization expense in 2001 – \$28 million; 2000 – \$28 million). All goodwill has been assigned to the petroleum products segment. There have been no goodwill acquisitions, impairment losses or write-offs due to sales in the past three years.

(f) Total assets include amortized intangible assets, consisting primarily of acquired customer lists, as follows:

millions of dollars	2002	2001	2000
Cost	54	49	39
Accumulated amortization	30	25	21
Net intangible assets	24	24	18
Amortization expense	5	5	3
Customer lists acquired	5	11	6

Customer lists disposed of or retired in 2002 were \$1 million (2001 – \$1 million; 2000 – \$1 million). No gain or loss was recognized. The estimated annual amortization expenses for intangible assets in each of the next five years is \$5 million.

(g) Capital and exploration expenditures of the petroleum products segment include non-cash capital leases of \$18 million in 2002.

(h) Includes property, plant and equipment under construction of \$1,275 million (2001 – \$813 million).

2. Reporting changes

Effective January 1, 2002, the company implemented reporting changes to reflect the new accounting standards of the Canadian Institute of Chartered Accountants (CICA) dealing with accounting for foreign currency translation, accounting for goodwill and other intangible assets and on stock-based compensation and other stock-based payments.

Changes in consolidated balance sheet

millions of dollars – increase/(decrease)	2002	2001
Long-term debt	61	121
Future income tax liabilities	(13)	(25)
Retained earnings	(48)	(96)
Total liabilities and shareholders' equity	–	–

Changes in consolidated statement of earnings

millions of dollars – increase/(decrease)	2002	2001	2000
Total expenses	(60)	6	4
Income taxes	12	(1)	18
Net earnings	48	(5)	(22)
Earnings per share – basic and diluted (dollars)	0.13	(0.01)	(0.05)

Goodwill and other intangible assets

The new CICA standard dealing with accounting for goodwill and other intangible assets eliminates the amortization of goodwill. The standard does not permit retroactive application. On a

Foreign currency translation

The new CICA standard dealing with accounting for foreign currency translation eliminates the deferral and amortization of translation gains or losses. The new standard has been applied retroactively, and financial statements of prior periods have been restated. The impact of adopting the new foreign currency translation standard on the consolidated balance sheet and statement of earnings is:

pro forma basis, the impact of adopting the new goodwill accounting standard on prior period earnings is:

millions of dollars	2002	2001	2000
Net earnings	1 210	1 239	1 398
Add: goodwill amortization	–	28	28
Adjusted net earnings	1 210	1 267	1 426
Per share – basic and diluted (dollars)			
Net earnings	3.19	3.15	3.35
Add: goodwill amortization	–	0.07	0.07
Net earnings	3.19	3.22	3.42

Stock-based compensation and other stock-based payments

The company's accounting policy for its incentive compensation programs complies with the new CICA standard. Consequently, there

was no impact on the recorded expense or liability upon adoption of the new accounting standard on January 1, 2002.

3. Divestments

Investment and other income includes gains and losses on asset sales as follows:

millions of dollars	2002	2001	2000
Proceeds from sale of assets	61	46	274
Book value of assets sold (a)	56	36	135
Gain/(loss) on asset sales, before tax (b)	5	10	139
Gain/(loss) on asset sales, after tax (b)	4	7	96

(a) Assets sold did not include cash.

(b) Gains on asset sales in 2000 included an \$81-million (\$60 million after tax) gain from the sale of the company's 50-percent interest in Federated Pipe Lines Ltd. and its wholly owned Cynthia pipeline in Alberta. The company also realized a gain of \$44 million (\$25 million after tax) on the sale of its interest in the Mitsue and Pembina producing properties in Alberta.

4. Long-term debt

issued	maturity date	interest rate	2002	2001
			millions of dollars	
Sinking-fund debentures				
1989	October 15, 2019 (2001 – \$45 million (U.S.)) (a)	8¾	–	71
Other debentures and notes (b)				
1989	September 1, 2004 (2002 – \$600 million (U.S.); 2001 – \$600 million (U.S.)) (c)	Variable	946	956
2002	May 7, 2004 (a) (d)	Variable	500	–
Long-term debt (at period-end exchange rates) (e)			1 446	1 027
Capital leases (f)			20	2
Total long-term debt			1 466	1 029

(a) In 2002, the company retired the remaining balance of its 8¾-percent sinking-fund debentures of \$45 million (U.S.) for \$71 million (Cdn) and issued \$500 million (Cdn) variable-rate medium-term notes. In 2001, the company redeemed \$45 million (U.S.) of its 8¾-percent sinking-fund debentures for \$71 million (Cdn) and \$200 million (U.S.) of its maturing 8.3-percent debt for \$308 million (Cdn).

(b) Principal payments on debentures and notes of \$600 million (U.S.) and \$500 million (Cdn) are due in 2004. The \$500-million (Cdn) medium-term notes are extendable up to May 7, 2007, after the initial maturity date, at noteholders' discretion.

(c) This debt bears interest based primarily on U.S. commercial paper interest rates and may be repaid in part or in full at any time before maturity without premium. The average effective rate for 2002 was 1.9 percent (2001 – 4.2 percent).

- (d) These medium-term notes bear interest primarily based on the bid rates of interest for three-month Canadian dollar bankers' acceptance plus a spread of 10 basis points. The average effective rate for 2002 was 2.8 percent.
- (e) The estimated fair value of the long-term debt at December 31, 2002, was \$1,446 million (2001 – \$1,030 million).
- (f) These obligations primarily relate to the capital lease for marine services, which are to be provided by the lessor commencing in 2004 for a period of 10 years, extendable for an additional five years. The obligations recorded to date represent the costs incurred by the lessor for the construction of the related marine assets.

5. Income taxes

millions of dollars	2002	2001	2000
Current income tax expense	718	679	1 122
Future income tax expense (a)	(147)	(27)	(203)
Total income tax expense (b)	571	652	919
Statutory corporate tax rate (percent)	42.0	42.7	44.6
Increase/(decrease) resulting from:			
Non-deductible royalty payments to governments	5.4	7.9	8.1
Resource allowance in lieu of royalty deduction	(11.8)	(11.4)	(11.4)
Manufacturing and processing credit	(0.3)	(1.3)	(1.6)
Non-deductible depreciation and amortization	–	0.6	0.5
Enacted tax rate change	(0.9)	(2.1)	–
Other	(2.2)	(2.0)	(1.4)
Effective income tax rate	32.2	34.4	38.8

Components of future income tax liabilities and assets as at December 31 are:

millions of dollars	2002	2001
Depreciation and amortization	1 092	1 021
Successful drilling and land acquisitions	660	760
Pension and benefits	(229)	(195)
Site restoration	(182)	(191)
Net tax loss carryforwards (c)	(37)	(32)
Other	(44)	(52)
Total future income tax liabilities	1 260	1 311
LIFO inventory valuation	(271)	(177)
Other	(52)	(50)
Total future income tax assets	(323)	(227)
Net future income tax liabilities	937	1 084

- (a) The future income tax expense for the year is the difference in net future income tax liabilities at the beginning and end of the year.
- (b) Cash outflow from income taxes, plus investment credits earned, were \$935 million in 2002 (2001 – \$1,086 million; 2000 – \$606 million).
- (c) The tax losses can be carried forward indefinitely.

The operations of the company are complex, and related tax interpretations, regulations and legislation are continually changing.

As a result, there are usually some tax matters in question. The company believes the provision made for income taxes is adequate.

6. Employee retirement benefits

Retirement benefits, which cover almost all retired employees and their surviving spouses, include pension-income and certain health-care and life-insurance benefits. They are met through funded registered retirement plans and through unfunded supplementary benefits that are paid directly to recipients. Funding of registered retirement plans complies with federal and provincial pension regulations that require an actuarial valuation of the pension funds at least once every three years. The company makes contributions to the plans as required by those valuations.

Pension-income benefits consist mainly of company-paid defined benefit plans that are based on years of service and final average earnings. The company shares in the cost of health-care and life-insurance benefits. The company's benefit obligations are based on the projected benefit method of valuation that includes employee service to date and present pay levels, as well as a projection of salaries and service to retirement.

The expense and obligations for both funded and unfunded benefits are determined in accordance with generally accepted Canadian accounting principles and actuarial procedures. The process for determining retirement-income expense and related obligations includes making certain long-term assumptions regarding the discount rate, rate of return on plan assets and rate of pay increases. The discount rate is based on the year-end rate of interest on high-quality bonds.

The total obligation for employee retirement benefits exceeded the fair value of plan assets at December 31, 2002, by \$1,780 million (2001 – \$1,181 million). The obligation and pension expense can vary significantly with changes in the assumptions used to estimate the obligation and the expected return on plan assets.

Details of the employee retirement benefits plans are as follows:

millions of dollars	Pension benefits			Other post-retirement benefits		
	2002	2001	2000	2002	2001	2000
Components of net benefit expense:						
Current service cost	64	57	45	4	4	4
Interest cost	222	215	201	21	21	22
Expected return on plan assets	(191)	(257)	(259)	–	–	–
Amortization of prior service cost	25	23	25	–	–	–
Recognized actuarial loss/(gain)	34	–	(20)	1	–	1
Net expense (a) (e)	154	38	(8)	26	25	27

millions of dollars	Pension benefits		Other post-retirement benefits	
	2002	2001	2002	2001
Change in benefit obligation:				
Benefit obligation at January 1	3 248	3 065	323	302
Current service cost	64	57	4	4
Interest cost	222	215	21	21
Amendments	27	30	—	—
Actuarial loss/(gain)	196	104	25	14
Benefits paid	(227)	(223)	(19)	(18)
Benefit obligation at December 31 (e)	3 530	3 248	354	323
Change in plan assets:				
Fair value of plan assets at January 1	2 390	2 674		
Actual return on plan assets	(107)	(95)		
Company contributions (b)	19	6		
Payments directly to participants	29	28		
Benefits paid	(227)	(223)		
Fair value of plan assets at December 31 (b)	2 104	2 390		
Excess (deficiency) of plan assets over benefit obligations	(1 426)	(858)	(354)	(323)
Unrecognized net actuarial (gain)/loss (c)	924	461	36	12
Unrecognized prior service cost (c)	114	112	—	—
Net liability recognized (note 7)	(388)	(285)	(318)	(311)

The benefit obligation at year-end includes funded and unfunded plans, as follows:

millions of dollars	Pension benefits			Other post-retirement benefits		
	2002	2001	2000	2002	2001	2000
Funded plans	3 230	2 972	2 790	—	—	—
Unfunded plans	300	276	275	354	323	302
Benefit obligation at end of year	3 530	3 248	3 065	354	323	302

Assumptions as at December 31 (percent)

Discount rate	6.25	6.75	7.00	6.25	6.75	7.00
Long-term rate of compensation increase	3.50	3.50	3.50	3.50	3.50	3.50
Long-term rate of return on funded assets (d)	8.25	8.25	10.00	—	—	—

(a) Additional expenses include contributions to defined contribution plans, primarily the employee savings plan, of \$30 million in 2002 (2001 – \$23 million; 2000 – \$22 million).

(b) Company contributions to the retirement plans are based on independent actuarial valuations and are made in accordance with government regulations. Pension fund assets are held primarily in equity, fixed-income and money-market securities.

(c) Unrecorded assets/(liabilities) are amortized over the average remaining service life of employees, which for 2003 and subsequent years is 13.5 years (2002 – 13.5 years; 2001 – 13.5 years).

(d) The long-term rate of return on plan assets used to determine 2000 and 2001 pension expense was assumed to be 10 percent, and the assumed long-term rate of return on plan assets used to calculate 2002 pension expense was 8.25 percent. The change in assumption increased 2002 pension expenses by \$25 million after tax.

(e) A one-percent change in the assumptions at which retirement liabilities could be effectively settled is as follows:

millions of dollars	One-percent increase	One-percent decrease
Rate of return on plan assets:		
Effect on net benefit expense	(20)	20
Discount rate:		
Effect on net benefit expense	(30)	40
Effect on benefit obligation	(415)	510
Rate of pay increases:		
Effect on net benefit expense	25	(20)
Effect on benefit obligation	155	(135)

For measurement purposes, a five-percent health-care cost trend rate was assumed for 2002 and thereafter. A one-percent change in the assumed health-care cost trend rate would have the following effects:

millions of dollars	One-percent increase	One-percent decrease
Effect on service and interest cost components	2	(2)
Effect on other post-retirement benefit obligation	30	(25)

7. Other long-term obligations

millions of dollars	2002	2001
Employee retirement benefits (note 6) (a)	671	560
Site restoration (b)	434	415
Other obligations	82	88
Total other long-term obligations	1 187	1 063

(a) Total recorded employee retirement benefits obligations also include \$35 million in current liabilities (2001 – \$36 million).

(b) Total site restoration also includes \$71 million in current liabilities (2001 – \$92 million).

8. Derivative financial instruments

The impact of price and foreign-exchange fluctuations on purchases and sales may be mitigated by selling and buying energy derivatives (primarily futures contracts and natural gas price swaps) and foreign-exchange forward contracts. These transactions are conducted on recognized commodities exchanges or with banks of the highest

credit standing and are normally settled in less than one year. Gains or losses on these contracts are recognized in earnings as a component of the related physical transaction.

No significant energy derivative, foreign-exchange forward contracts or currency and interest-rate swaps were transacted in the past three years.

9. Incentive compensation programs

Incentive compensation programs are designed to retain selected employees, reward them for high performance and promote individual contribution to sustained improvement in the company's future business performance and shareholder value.

Incentive share units, deferred share units and earnings bonus units

All units require settlement by cash payments. For deferred share units, a charge is made to expense in the year of grant equal to the cash performance bonus payment foregone. The company records expense for incentive share and deferred share units based on changes in the price of common shares in the year. Expense for earnings bonus units is recorded based on the cumulative net earnings per outstanding common share from issue date, up to the maximum settlement value for the units.

Incentive share units have value if the market price of the company's common shares when the unit is exercised exceeds the market value when the unit was issued. The issue price of incentive share units is the closing price of the company's shares on the Toronto Stock Exchange on the grant date. Up to 50 percent of the units may be exercised after one year from issuance; an additional 25 percent may be exercised after two years; and the remaining 25 percent may be exercised after three years. Incentive share units are eligible for exercise up to 10 years from issuance. The units may expire earlier if employment is terminated other than by retirement, death or disability.

In 1998, the deferred share unit plan was made available to selected executives whereby they could elect to receive all or part of their performance bonus compensation in units. The number of units granted is determined by dividing the amount of the bonus elected to be received as deferred share units by the average of the closing

prices of the company's shares on the Toronto Stock Exchange for the five consecutive trading days immediately prior to the date that the bonus would have been paid. Additional units are granted based on the cash dividend payable on the company shares divided by the average closing price immediately prior to the payment date for that dividend and multiplying the resulting number by the number of deferred share units held by the recipient.

Starting in 1999, a similar deferred share unit plan was made available to nonemployee directors in lieu of receiving all or part of their directors' fees. The number of units granted to a nonemployee director is determined at the end of each calendar quarter by dividing the amount of directors' fees for the calendar quarter that the nonemployee director elected to receive as deferred share units by the average closing price of the company's shares immediately prior to the last day of the calendar quarter.

Deferred share units cannot be exercised until after termination of employment with the company or resignation as a director and must be exercised no later than December 31 of the year following termination or resignation. On exercise date, the cash value to be received for the units will be determined based on the average closing price of the company shares immediately prior to the date of exercise.

Starting in 2001, the earnings bonus unit plan was made available to selected employees. Each earnings bonus unit entitles the recipient to receive an amount equal to the company's cumulative net earnings per common share as announced each quarter beginning after the grant. Payout occurs on the fifth anniversary of the grant or when the maximum settlement value per unit is reached, if earlier. Earnings bonus units may expire if employment is terminated other than by death or disability.

A summary of the incentive share units, deferred share units and earnings bonus units is as follows:

		Granted in period		To number of nonemployees	Number of units outstanding at December 31	Expensed in period (millions of dollars)	Obligations outstanding at December 31 (millions of dollars)
		Number of units	To number of employees				
Incentive share units	– 2002	7 000	3	–	8 012 250	39	142
	– 2001	2 752 700	744	–	8 823 125	51	129
	– 2000	2 731 200	756	–	7 071 265	67	110
Deferred share units	– 2002	7 479	6	7	85 523	–	4
	– 2001	15 222	2	5	87 897	1	4
	– 2000	29 861	4	5	72 675	2	3
Earnings bonus units	– 2002	1 036 500	75	–	2 169 040	3	3
	– 2001	1 132 540	21	–	1 132 540	–	–

39.

Incentive stock options

In April 2002, shareholders approved an incentive stock option plan. Under the new stock option plan, a total of 3,210,200 options were granted on April 30, 2002, for the purchase of the company's common shares at an exercise price of \$46.50 per share. Up to 50 percent of the options may be exercised on or after January 1, 2003, a further

25 percent may be exercised on or after January 1, 2004, and the remaining 25 percent may be exercised on or after January 1, 2005. Any unexercised options expire after April 29, 2012. Shares authorized for granting under the incentive stock option plan were 20 million at December 31, 2002.

The company does not recognize compensation expense on the issuance of stock options because the exercise price is equal to the market value at the date of grant. If the fair-value-based method of accounting had been adopted, net income and earnings per share (on both a basic and diluted basis) of 2002 would have been reduced by \$16 million or \$0.04 per share. The average fair value of each option granted during 2002 was \$12.70. The fair value was estimated at the grant date using an option-pricing model with the following weighted average assumptions: risk-free interest rate of 5.7 percent; expected life of five years; volatility of 25 percent and a dividend yield of 1.9 percent.

The company expects to purchase shares on the market to fully offset the dilutive effects from the exercise of stock options.

Restricted stock units

In December 2002, the company introduced a restricted stock unit plan, which will be the primary long-term incentive compensation plan in future years. Under this plan, a total of 791,890 units were issued on December 31, 2002, to 690 employees and five nonemployee directors. Each unit entitles the recipient the conditional right to receive from the company, upon exercise, an amount equal to the closing price of the company's common shares on the Toronto Stock Exchange on the exercise dates. Fifty percent of the units will be exercised on December 31, 2005, and the remainder will be exercised on December 31, 2009. Compensation expense is recorded in the consolidated statement of earnings over the period in which the units vest. The impact of this plan on expense and liability in 2002 was not material.

10. Commitments and contingent liabilities

At December 31, 2002, the company had commitments for noncancellable operating leases and other long-term agreements

that require the following minimum future payments:

millions of dollars	2003	2004	2005	2006	2007	After 2007
Operating leases (a)	64	55	45	36	32	128
Unconditional purchase obligations (b)	93	66	46	37	38	117
Firm capital commitments (c)	254	30	—	—	—	—
Other long-term agreements (d)	214	212	192	141	47	272

(a) Total rental expense incurred for operating leases in 2002 was \$124 million (2001 – \$122 million; 2000 – \$115 million). Operating lease commitments related to joint-venture activities are not material.

(b) Unconditional purchase obligations are those long-term commitments that are noncancelable or cancelable only under certain conditions. These mainly pertain to pipeline throughput agreements. Total payments under unconditional purchase obligations were \$115 million in 2002 (2001 – \$179 million; 2000 – \$285 million).

(c) Firm capital commitments related to capital projects, shown on an undiscounted basis, totalled approximately \$284 million at the end of 2002 (2001 – \$342 million). The largest commitment outstanding at year-end 2002 was associated with the company's share of capital projects at Syncrude of \$99 million.

(d) Other long-term agreements include primarily raw material supply and transportation services agreements. Total payments under other long-term agreements were \$288 million in 2002 (2001 – \$264 million; 2000 – \$295 million). Payments under other long-term agreements related to joint-venture activities are approximately \$45 million per year.

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

The company was contingently liable at December 31, 2002, for a maximum of \$152 million relating to guarantees of purchasing operating equipment and other assets from its rural marketing agents upon expiry of the agency agreement or the death or resignation of the agent. The company expects that the fair value of the operating equipment and other assets so purchased would cover the maximum potential amount of future payment under the guarantees.

The company provides in its financial statements for site-

restoration costs (see accounting policy on page 33). Provision is not made with respect to those manufacturing, distribution and marketing facilities for which estimates of these future costs cannot be reasonably determined. These are primarily currently operated sites. These costs (net of any expected recoveries) are not expected to have a material effect on the company's consolidated financial position.

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

11. Common shares

number of shares	2002	2001	2000
Authorized	450 000 000	450 000 000	450 000 000
Issued at December 31	378 863 095	379 159 147	398 263 375

In 1995 through 2001, the company purchased shares under seven 12-month normal course share purchase programs, as well as an auction tender. On June 21, 2002, another 12-month normal course program was implemented with an allowable purchase of 18.9 million

shares (five percent of the total at June 19, 2002), less any shares purchased by the employee savings plan and company pension fund. The results of these activities are shown below.

Year	Purchased shares	Millions of dollars
1995–1999	150 049 063	3 136
2000	33 211 858	1 208
2001	19 104 228	812
2002	296 052	13
Cumulative purchases to date	202 661 201	5 169

Exxon Mobil Corporation's participation in the above maintained its ownership interest in Imperial at 69.6 percent.

The excess of the purchase cost over the stated value of shares

purchased has been recorded as a distribution of retained earnings.

The following table provides the calculation of basic and diluted earnings per share:

	2002	2001	2000
Net earnings (millions of dollars)	1 210	1 239	1 398
Average number of common shares outstanding, weighted monthly (thousands)	378 875	393 121	417 753
Plus: Issued on assumed exercise of stock options (thousands)	—	—	—
Weighted average number of diluted common shares (thousands)	378 875	393 121	417 753
Earnings per share – basic (dollars)	3.19	3.15	3.35
Earnings per share – diluted (dollars)	3.19	3.15	3.35

12. Miscellaneous financial information

In 2002, net earnings included an after-tax loss of \$2 million (2001 – \$18 million gain; 2000 – \$25 million gain) attributable to the effect of changes in LIFO inventories. The replacement cost of inventories was estimated to exceed their LIFO carrying values at December 31, 2002, by \$941 million (2001 – \$506 million).

Research and development costs in 2002 were \$64 million (2001 –

\$71 million; 2000 – \$55 million) before investment tax credits earned on these expenditures of \$10 million (2001 – \$6 million; 2000 – \$6 million). The net costs are included in expenses, due to the uncertainty of future benefits.

Accounts receivable included allowance for doubtful accounts of \$13 million in 2002 (2001 – \$12 million).

13. Financing costs

millions of dollars	2002	2001	2000
Debt-related interest	40	77	106
Other interest	2	4	4
Total interest expense (a)	42	81	110
Foreign-exchange expense on long-term debt	(10)	71	53
Total financing costs	32	152	163

(a) Cash interest payments in 2002 were \$41 million (2001 – \$99 million; 2000 – \$111 million). The weighted-average interest rate on short-term debt in 2002 was 2.4 percent (2001 – 3.9 percent). The average effective interest rate on the company's debt was 2.1 percent in 2002 (2001 – 5.1 percent).

14. Transactions with Exxon Mobil Corporation and affiliated companies (ExxonMobil)

Revenues and expenses of the company also include the results of transactions with ExxonMobil in the normal course of operations. These were conducted on terms as favourable as they would have been with unrelated parties and primarily consisted of the purchase and sale of crude oil, petroleum and chemical products, as well as transportation, technical and engineering services. Effective November 15, 2000, the company entered into an agreement with ExxonMobil Canada to share common business and operational support services that allow the companies to consolidate duplicate work and systems. Transactions with ExxonMobil also include amounts paid and received in connection with the company's participation in a number of natural resources joint-venture operations in Canada. The amounts paid or received have been reflected in the statement of earnings as shown in the following table.

Throughout 2000, the company purchased in the short-term money market Canadian-dollar commercial paper of an Exxon Mobil Corporation subsidiary. The notes were guaranteed by ExxonMobil. These promissory notes matured less than three months from purchase date and were replaced by similar short-term notes upon their maturity. The notes were replaced with Canadian-dollar commercial paper of non-related parties prior to December 31, 2000. Interest on the notes was at competitive Canadian interest rates. Interest earned on the notes in 2000 was \$23 million.

Accounts payable due to Exxon Mobil Corporation at December 31, 2002, with respect to the above transactions were \$146 million (2001 – \$27 million).

millions of dollars	2002	2001	2000
Operating revenues	1 036	664	578
Investment and other income	–	–	24
Purchases of crude oil and products	2 134	1 873	1 483
Operating, selling and general expenses	57	47	67

15. Net payments to governments

millions of dollars	2002	2001	2000
Current income tax expense (note 5)	718	679	1 122
Federal excise tax	1 231	1 180	1 194
Property taxes included in expenses	85	86	93
Payroll and other taxes included in expenses	51	47	41
GST/QST/HST collected (a)	1 717	1 749	1 818
GST/QST/HST input tax credits (a)	(1 368)	(1 384)	(1 376)
Other consumer taxes collected for governments	1 589	1 585	1 524
Crown royalties	314	460	623
Total paid or payable to governments	4 337	4 402	5 039
Less investment tax credits and other receipts	12	7	9
Net payments to governments	4 325	4 395	5 030
Net payments to:			
Federal government	2 171	2 160	2 455
Provincial governments	2 069	2 149	2 482
Local governments	85	86	93
Net payments to governments	4 325	4 395	5 030

(a) The abbreviations refer to the federal goods and services tax, the Quebec sales tax and the federal/provincial harmonized sales tax, respectively. The HST is applicable in the provinces of Nova Scotia, New Brunswick and Newfoundland and Labrador.

Natural resources segment – supplemental information

Pages 42 and 43 provide information about the natural resources segment (see note 1, page 34). The information excludes items not related to oil and natural gas extraction such as administrative and general expenses, pipeline operations, gas plant processing fees and gains or losses on asset sales.

Results of operations

	Oil and gas			Syncrude			Total		
millions of dollars	2002	2001	2000	2002	2001	2000	2002	2001	2000
Sales to customers	1 381	1 306	1 427	–	–	–	1 381	1 306	1 427
Intersegment sales	741	767	971	838	741	679	1 579	1 508	1 650
Total sales (a)	2 122	2 073	2 398	838	741	679	2 960	2 814	3 077
Production expenses	599	551	515	388	395	331	987	946	846
Exploration expenses	30	45	35	–	–	–	30	45	35
Depreciation and depletion	424	409	419	53	46	44	477	455	463
Income taxes	343	333	550	124	92	124	467	425	674
Results of operations	726	735	879	273	208	180	999	943	1 059

Capital and exploration expenditures

	Oil and gas			Syncrude			Total		
millions of dollars	2002	2001	2000	2002	2001	2000	2002	2001	2000
Property costs (b)									
Proved	13	–	2	–	–	–	13	–	2
Unproved	5	5	15	–	–	–	5	5	15
Exploration costs	34	44	41	–	–	–	34	44	41
Development costs	469	489	250	465	208	125	934	697	375
Total capital and exploration expenditures	521	538	308	465	208	125	986	746	433

Property, plant and equipment

	Oil and gas		Syncrude		Total	
millions of dollars	2002	2001	2002	2001	2002	2001
Property costs (b)						
Proved	3 338	3 325	3	3	3 341	3 328
Unproved	155	157	5	5	160	162
Producing assets	5 371	4 699	1 474	1 419	6 845	6 118
Support facilities	126	117	201	212	327	329
Incomplete construction	227	458	578	163	805	621
Total cost	9 217	8 756	2 261	1 802	11 478	10 558
Accumulated depreciation and depletion	5 528	5 130	657	610	6 185	5 740
Net property, plant and equipment	3 689	3 626	1 604	1 192	5 293	4 818

(a) Sales of crude oil to consolidated affiliates are at market value, using posted field prices. Sales of natural gas liquids to consolidated affiliates are at prices estimated to be obtainable in a competitive, arm's-length transaction. Total sales exclude the sale of natural gas and natural gas liquids purchased for resale, as well as royalty payments. These items are reported gross in note 1 in "Total revenues" and in "Purchases of crude oil and products."

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

Net proved developed and undeveloped reserves (a)

	Crude oil and NGLs millions of barrels			Total	Natural gas billions of cubic feet
	Conventional	Cold Lake	Syncrude		
Beginning of year 2000	225	878	577	1 680	1 692
Revisions of previous estimates and improved recovery	1	10	48	59	26
(Sale)/purchase of reserves in place	(5)	—	—	(5)	(5)
Discoveries and extensions	1	—	—	1	27
Production	(26)	(37)	(15)	(78)	(168)
End of year 2000	196	851	610	1 657	1 572
Revisions of previous estimates and improved recovery	(8)	—	—	(8)	9
(Sale)/purchase of reserves in place	—	—	—	—	1
Discoveries and extensions	—	—	230	230	2
Production	(23)	(44)	(19)	(86)	(170)
End of year 2001	165	807	821	1 793	1 414
Revisions of previous estimates and improved recovery	3	33	—	36	(26)
(Sale)/purchase of reserves in place	—	—	—	—	2
Discoveries and extensions	—	—	—	—	3
Production	(22)	(39)	(21)	(82)	(169)
End of year 2002	146	801	800	1 747	1 224

(a) Net reserves are the company's share of reserves after deducting the shares of mineral owners or governments or both. All reported reserves are located in Canada. Reserves of natural gas are calculated at a pressure of 14.73 pounds per square inch at 60° F.

Crude oil and natural gas reserve estimates, excluding Syncrude, are based on geological and engineering data, which have demonstrated with reasonable certainty that these reserves are recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Reserves of crude oil at Cold Lake are those estimated to be recoverable from the existing experimental pilot plants and commercial phases 1 through 13. The calculation of reserves of crude oil at Syncrude is based on the company's participating interest in the production permit granted in October 1979 and as subsequently amended by the Province of Alberta.

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

Reserves data do not include certain resources of crude oil and natural gas such as those discovered in the Beaufort Sea-Mackenzie Delta and the Arctic islands, or the resources contained in oil sands other than those attributable to Syncrude, the Cold Lake pilot area and phases 1 through 13 of Cold Lake production operations.

In 2002, Imperial's net proved reserves of crude oil and NGLs decreased by 46 million barrels, while the proved reserves of natural gas decreased by 190 billion cubic feet. Production in 2002 totalled 82 million barrels of crude oil and NGLs and 169 billion cubic feet of natural gas. Revision of previous estimates and improved recovery increased reserves of crude oil and NGLs by 36 million barrels and decreased reserves of natural gas by 26 billion cubic feet. Purchases of reserves accounted for an increase of two billion cubic feet of natural gas. Discoveries and extensions in 2002 totalled three billion cubic feet of natural gas.

Share ownership, trading and performance

	2002	2001	2000	1999	1998
Share ownership					
Average number outstanding, weighted monthly (thousands)	378 875	393 121	417 753	431 475	438 636
Number of shares outstanding at December 31 (thousands)	378 863	379 159	398 263	431 475	431 475
Shares held in Canada at December 31 (percent)	15.8	15.9	16.6	17.6	17.7
Number of registered shareholders at December 31 (a)	15 988	16 483	17 104	17 941	18 396
Number of shareholders registered in Canada	14 014	14 358	14 873	15 650	15 966
Shares traded (thousands)	83 019	129 285	117 980	74 151	118 716
Share prices (dollars)					
High	49.38	46.50	42.25	36.00	30.50
Low	38.51	34.05	26.50	21.70	20.80
Close at December 31	44.86	44.31	39.45	31.00	24.55
Net earnings per share – basic and diluted (dollars)	3.19	3.15	3.35	1.44	1.01
Price ratios at December 31					
Share price to net earnings (b)	14.1	14.1	11.8	21.5	24.3
Dividends declared (c)					
Total (millions of dollars)	318	324	325	324	323
Per share (dollars)	0.84	0.83	0.78	0.75	0.74

(a) Exxon Mobil Corporation owns 69.6 percent of Imperial's shares.

(b) Closing share price at December 31, divided by net earnings per share – basic and diluted.

(c) The fourth-quarter dividend is paid on January 1 of the succeeding year.

Information for security holders outside Canada

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

The withholding tax is reduced to five percent on dividends paid to a corporation resident in the United States that owns at least 10 percent of the voting shares of Imperial.

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

Valuation day price

For capital gains purposes, Imperial's common shares were quoted at \$10.50 a share on December 31, 1971, and \$15.29 on February 22, 1994. Both amounts are restated for the 1998 three-for-one share split.

Quarterly financial and stock trading data ^(a)

	2002 three months ended				2001 three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Financial data (millions of dollars)								
Total revenues	3 485	4 195	4 532	4 830	4 722	4 815	4 190	3 526
Total expenses	3 322	3 817	3 975	4 147	4 116	4 184	3 807	3 255
Earnings before income taxes	163	378	557	683	606	631	383	271
Income taxes	57	72	213	229	266	164	145	77
Net earnings	106	306	344	454	340	467	238	194
Segmented earnings (millions of dollars)								
Natural resources	140	247	343	312	282	308	231	120
Petroleum products	(37)	15	21	128	120	116	42	75
Chemicals	9	11	22	10	1	6	7	9
Corporate and other	(6)	33	(42)	4	(63)	37	(42)	(10)
Net earnings	106	306	344	454	340	467	238	194
Per-share information (dollars)								
Net earnings – basic	0.28	0.81	0.91	1.19	0.85	1.18	0.61	0.51
Net earnings – diluted	0.28	0.81	0.91	1.19	0.85	1.18	0.61	0.51
Dividends (declared quarterly)	0.21	0.21	0.21	0.21	0.195	0.21	0.21	0.21
Share prices (dollars) ^(b)								
Toronto Stock Exchange								
High	47.85	49.38	47.10	46.10	40.10	43.50	46.50	46.15
Low	41.13	43.76	38.51	41.55	34.05	37.50	38.00	39.90
Close	47.45	47.29	45.90	44.86	38.45	38.85	42.75	44.31
American Stock Exchange (U.S.)								
High	30.33	31.85	31.09	29.31	26.40	28.20	29.25	29.45
Low	25.83	28.15	24.00	26.61	22.59	23.65	24.73	25.08
Close	29.84	31.19	29.00	28.70	24.42	25.75	27.21	27.88
Shares traded (thousands) ^(c)	21 316	23 057	21 377	17 269	32 469	30 921	31 276	34 619

(a) Quarterly data has not been audited by the company's independent auditors.

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

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

Glossary of financial terms

Capital employed is short-term and long-term debt and shareholders' equity. Average capital employed is the average of the beginning-of-year and end-of-year amounts.

Cash represents cash as recorded in the books of account and cash equivalents at cost. Cash equivalents are all highly liquid securities with a maturity of three months or less when purchased.

Debt represents amounts borrowed from external sources.

Marketable securities are securities of the governments of Canada and the provinces, banks and other corporations, with a maturity of longer than three months when purchased.

Net realizable value is the estimated selling price of an asset, less estimated costs of completion and disposal.

Future income taxes are based on differences between the book and tax values of assets and liabilities. These differences in value are remeasured at each period end using the tax rates and tax laws expected to apply when those differences are settled in the future. The largest source is the difference between book and tax depreciation and amortization, where deductions are made earlier for tax purposes than for accounting purposes.

Directors, senior management and officers



Board of directors

from left to right

P. (Pierre) Des Marais II
President
Gestion PDM Inc.
Montreal, Quebec

B.J. (Brian) Fischer
*Senior vice-president, products
and chemicals division*
Imperial Oil Limited
Toronto, Ontario

T.J. (Tim) Hearn
*Chairman, president and
chief executive officer*
Imperial Oil Limited
Toronto, Ontario

R. (Roger) Phillips
*Retired president and
chief executive officer*
IPSCO Inc.
Regina, Saskatchewan

J.F. (Jim) Shepard
*Retired chairman and
chief executive officer*
Finning International Inc.
Vancouver, British Columbia

P.A. (Paul) Smith
*Controller and senior vice-president,
finance and administration*
Imperial Oil Limited
Toronto, Ontario

S.D. (Sheelagh) Whittaker
Executive vice-president
EDS (Australia) Pty Limited
Canberra, Australia

K.C. (K.C.) Williams
*Senior vice-president,
resources division*
Imperial Oil Limited
Calgary, Alberta

V.L. (Victor) Young
*Corporate director of
several corporations*
St. John's, Newfoundland
and Labrador

Other officers

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

B.W. (Brian) Livingston
Vice-president and general counsel

J. (John) Zych
Corporate secretary

Corporate governance

Imperial and its board of directors are committed to a high standard of corporate governance, through processes and structures that contribute to the sound direction and management of the company's business with a view to enhancing shareholder value.

Imperial's system of corporate governance is fully disclosed, as required under the rules of the Toronto Stock Exchange, in the management proxy circular issued in connection with the 2003 annual meeting.

During 2002 and early 2003, the company made a number of changes to the nature and structure of its board, reflecting existing and proposed requirements and best practices.

Employee directors stepped down from the audit, environment, health and safety, executive resources, and nominations and corporate governance committees. This has reduced the size of each of these committees to five members from six.

The board agreed that, in future, nonemployee directors will meet regularly in the absence of management, and that these meetings will be chaired by a nonemployee director.

Directors, committees or members of a committee have the right to engage an outside adviser at the company's expense.

The board also considered but decided not to separate the positions of chairman of the board and chief executive officer. It was felt that the independence of the board has been strengthened by having only nonemployee directors on committees, having each of the nonemployee directors chair a committee, and holding regular meetings of the nonemployee directors.

To comply with requirements of the U.S. Sarbanes-Oxley Act, the company made a number of changes with respect to the audit committee. Members of the audit committee meet accepted tests of independence. The committee recommends the external auditors to be appointed by shareholders at each annual meeting and receives reports from the auditors. It also determines the remuneration and payment of the external auditors and must approve in advance any permitted nonaudit services. The audit committee has been given authority to establish processes for the confidential receipt and handling of employee complaints.

The Sarbanes-Oxley Act also requires corporations to have a formal corporate ethics policy for certain senior officers of the company. Imperial has had a corporate ethics policy that applies to all employees for many years. Every year, employees in sensitive positions, including all officers and directors, are required to sign a card agreeing to abide by the ethics policy. All other employees must sign every four years.

Historically, Imperial's long-term incentive compensation programs have been cash-based programs tied to earnings and share performance, and incentive awards have been reported as expenses in the consolidated statement of earnings. In 2002, to meet competitive practices, the company introduced a stock option program. However, recognizing current concerns over stock option incentive programs and their proper accounting treatment, the company decided to return to straightforward, cash-based incentive compensation programs that will again be reported as expenses against earnings. There are no plans to issue stock options in future.

Dividend and share purchase information

	2nd quarter, 2003	3rd quarter, 2003	4th quarter, 2003	1st quarter, 2004
Declaration date	May 20, 2003	August 13, 2003	November 20, 2003	February 18, 2004
Dividend record date	June 4, 2003	September 2, 2003	December 3, 2003	March 3, 2004
Dividend payment date	July 1, 2003	October 1, 2003	January 1, 2004	April 1, 2004
Share purchase cutoff date (cheques for share purchase must be dated and received no later than)	June 16, 2003	September 17, 2003	December 15, 2003	March 18, 2004
Investment date (dividend reinvestment and share purchase funds are invested by the company on)	July 2, 2003	October 2, 2003	January 2, 2004	April 2, 2004

The declaration of dividends and the dates shown are subject to change by the board of directors.

The company reserves the right to amend, suspend or terminate the dividend reinvestment and share purchase plan at any time.

Share purchase cheques should be made payable to CIBC Mellon Trust Company.

Dividend cheques are normally mailed three to five days prior to payment dates.

Quarterly statements for dividend reinvestment and share purchase plan participants are normally mailed two weeks after the investment dates.

Information for investors

Head office

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

Annual meeting

The annual meeting of shareholders will be held on Tuesday, April 22, 2003, at 11 a.m. local time at the Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada.

Shareholder account matters

To change your address, transfer shares, eliminate multiple mailings, elect to receive dividends in U.S. funds or have dividends deposited directly into accounts at financial institutions in Canada that provide electronic fund-transfer services, to enrol in the dividend reinvestment and share purchase plan or to enrol for electronic delivery of shareholder reports, please contact CIBC Mellon Trust Company.

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, ON M5C 2W9
Telephone: 1-800-387-0825
(from Canada or U.S.A.)
www.cibcmellon.com

United States resident shareholders may transfer their shares through Mellon Investor Services LLC.

Mellon Investor Services LLC
P.O. Box 3310
South Hackensack, NJ
07606-1910
Telephone: 1-800-526-0801

Dividend reinvestment and share purchase plan

This plan provides shareholders with two ways to add to their shareholdings at a reduced cost. The plan enables shareholders to reinvest their cash dividends in additional shares at an average market price.

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

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

Imperial online

Imperial's Web site contains a variety of corporate and investor information, including:

- current stock prices
 - annual and interim reports
 - Form 10-K
 - *Information for Investors* (a factbook that describes the company and its operations in detail)
 - investor presentations
 - earnings and other news releases
 - historical dividend information
- www.imperialoil.ca

Investor information

Information is also available by writing to the investor relations manager at Imperial's head office or by:

Telephone: 416-968-8145
Fax: 416-968-5345

Other contact numbers

Customer and other inquiries:
Telephone: 1-800-567-3776
Fax: 1-800-367-0585

Corporate secretary

Telephone: 416-968-4713
Fax: 416-968-4095

Version française du rapport

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

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