



## Action Report

# Environment: Natural Resource Management (Oil Sands)

**ExxonMobil**

May 5, 2010

| Ticker | Exchange | Meeting Date | Record Date | Annual Meeting Location |
|--------|----------|--------------|-------------|-------------------------|
| XOM    | NYSE     | 5-26-10      | 4-6-10      | Dallas, Texas           |

## Agenda

| Item | Proposal  |
|------|---|
| 1    | MGT: Elect directors                                    |
| 2    | MGT: Ratify selection of auditors                       |
| 3    | SH: Special shareholder meetings                        |
| 4    | SH: Incorporate in North Dakota                         |
| 5    | SH: Shareholder advisory vote on executive compensation |
| 6    | SH: Adopt sexual orientation non-discrimination policy  |
| 7    | SH: Adopt policy on human right to water                |
| 8    | SH: Adopt coastal wetlands protection policy            |
| 9    | <b>SH: Report on oil sands risks</b>                    |
| 10   | SH: Report on hydraulic fracturing                      |
| 11   | SH: Report on energy independence leadership options    |
| 12   | SH: Adopt goals to cut greenhouse gas emissions         |
| 13   | SH: Report on fossil fuel demand risks                  |

|                        |  |
|------------------------|--|
| <b>Si2 Briefing</b>    | <a href="#">Environment: Natural Resource Management, Environment; Climate Change, Special Report on ExxonMobil, Investor Pressures and the Environment</a>  |
| <b>Report Author</b>   | <a href="#">Amy Wilson</a>   |
| <b>Links</b>           | <a href="#">Proxy Statement</a>  |
| <b>Resolved Clause</b> | RESOLVED: Shareholders request that the Board prepare a report discussing possible long term risks to the company's finances and operations posed by the environmental, social and economic challenges associated with the oil sands. The report should be prepared at reasonable cost, omit proprietary and legal strategy information, address risks other than those associated with or attributable to climate change, and be available to investors by August 2010. |
| <b>Lead Proponent</b>  | Green Century  |
| <b>Vote History</b>    | This is a new resolution at ExxonMobil.  |
| <b>Summary</b>         | The proponents believe there are significant risks associated with oil sands development projects, and that ExxonMobil is not doing enough to disclose these risks to its shareholders. They cite regulatory, operational, reputational and liability-related  |

risks associated with the “resource-intensive and environmentally damaging nature of oil sands development.” Specific risks described in the proposal include those related to increased regulatory restrictions to address the high water demands of oil sands projects and their impact on local rivers and streams; tightening regulations, as well as remediation and reclamation costs, associated with tailings ponds; lawsuits filed by Aboriginal groups seeking protection of their Canadian treaty rights; and market risks related to the high cost of oil sands production and overall oil market volatility. ExxonMobil’s management opposes the resolution on the grounds that it believes the company already provides “sound and thorough information on the Corporation and its activities” and that the report requested by the proponents “would be duplicative to information already available.” The company also notes that oil sands projects are an important source of future growth and that it is already taking a number of significant steps to reduce environmental and other risks associated with its oil sands operations.

## I. ExxonMobil and Oil Sands Operations

ExxonMobil is the world's largest publicly traded oil and gas company. Its business covers the whole range of oil- and gas-related activity, including exploration, extraction, refining, transportation and sale of natural gas and petroleum products. The company also manufactures and markets commodity petrochemicals like olefins, aromatics, and polyethylene and polypropylene plastics. ExxonMobil has 23 billion barrels of oil equivalent in proved reserves on six continents, including some unstable areas such as Nigeria, Angola and Kazakhstan. The company is the world’s largest oil refiner, with ownership interest in 37 refineries in 27 countries capable of producing 6.2 billion barrels per day. Worldwide, ExxonMobil has more than 80,000 employees.

| Financials     |                   |                   |                  |                       |      |
|----------------|-------------------|-------------------|------------------|-----------------------|------|
| <b>Revenue</b> | \$301,500 million | <b>Net Income</b> | \$19,280 million | <b>Reporting Year</b> | 2009 |

### *Alberta’s Oil Sands*

Oil sands (sometimes called ‘tar sands’) are a mixture of clay, sand, water and bitumen, a sticky, tar-like form of crude oil. Once recovered and separated from these other materials, bitumen can be processed into synthetic crude oil, which is then refined into usable petroleum products. Alberta, Canada, contains the world’s largest oil sands deposits, an estimated total of 175 billion barrels of recoverable crude bitumen, based on current extraction technologies. Second only to Saudi Arabia’s oil reserves, these deposits underlie some 20 percent of the province, an area totaling about 54,000 square miles (roughly the size of Florida). As of June 2009, the Alberta government had granted extraction leases for about 32,000 square miles, or nearly 60 percent of the province’s total oil sands area. The United States is the biggest market for Canadian oil, about half of which is produced from oil sands; Canada first edged out Saudi Arabia to become the leading supplier of oil to the U.S. market in 2004, and in 2008, Canada provided nearly one-fifth of U.S. oil imports.

Bitumen is extracted using two basic methods, depending on the location of a given oil sands deposit: shallow deposits are surface-mined, while deeper deposits are extracted through in-situ processes, which use steam under high pressure (and in some cases solvents) to soften the bitumen to a flowable consistency, which allows it to be collected and pumped to the surface. Surface mining is the dominant form of ongoing oil sands extraction by volume, accounting for about 55 percent of production in Alberta in 2008. In-situ recovery is expected to become increasingly important, however, because more than 80 percent of Alberta’s oil sands deposits are too deep for surface mining. Of the 91 active oil sands projects in Alberta in August 2009, four were surface mining operations and the remainder were

in-situ projects. Bitumen production in the province totaled about 1.3 million barrels per day in 2008 (the most recent year for which data are available).

**Environmental impacts:** There are significant environmental concerns surrounding both surface mining and in-situ extraction techniques. For both methods, these include greenhouse gas production, habitat fragmentation and destruction in the Boreal forest, water and air pollution, water use and Aboriginal land rights. Tailings ponds associated with surface mining operations create additional concerns related to toxic substances and possible containment failures, while in-situ oil sands projects are associated with amplified concerns about greenhouse gas emissions, due to their heavy reliance on steam, which is generally produced using natural gas as an energy source.

### ***ExxonMobil's Stake in the Oil Sands***

ExxonMobil's oil sands operations are conducted via its 70-percent-owned subsidiary, Imperial Oil Ltd. of Canada. Imperial holds about 465,000 acres of oil sands leases, and operates both a mining operation, Kearl, and an in-situ project, Cold Lake. Imperial also holds a 25-percent stake in Syncrude Canada, an oil sands mining joint venture and the world's largest producer of crude oil from oil sands. In November 2009, ExxonMobil and Imperial acquired a 50-percent interest in 33,000 acres of additional oil sands leases in Athabasca.

ExxonMobil's net proved reserves at year-end 2009 included 2,055 million barrels of bitumen and 691 million barrels of synthetic oil, which together represented more than 11 percent of the company's total proved reserves. More than three quarters of the company's bitumen reserves are categorized as undeveloped reserves, and bitumen represents nearly 37 percent of ExxonMobil's liquids undeveloped proved reserves, whereas bitumen and synthetic oil together account for approximately 16 percent of the company's developed proved liquids reserves. ExxonMobil produced 120,000 barrels of bitumen and 65,000 barrels of synthetic oil per day in 2009, representing 7.8 percent of the company's overall production of liquids and 4.7 percent of all production, including natural gas. Oil sands production in 2009 was down 1,000 barrels per day from 2008 production levels, and down 10,000 barrels per day (or 5.1 percent) from 2007, though the percentage of total liquids production attributable to oil sands projects increased slightly each of the past two years.

**Kearl mining project:** The Kearl oil sands project is a joint venture mining operation, owned by Imperial Oil (70.96 percent) and by ExxonMobil Canada Properties (the remaining 29.04 percent), a wholly-owned subsidiary of ExxonMobil. Located 40 miles north of Fort McMurray in Alberta, Kearl is comprised of six oil sands leases covering about 48,000 acres in the Athabasca oil sands deposit. Kearl is being developed in phases; the Phase 1 mining and extraction facilities are scheduled for completion in 2012 and front-end engineering work for Phase 2 has already begun. Through the end of 2009, the project's cost had reached \$2 billion, and the first phase is expected to cost about \$8 billion altogether. Phase 1 will initially produce 110,000 barrels of bitumen per day, growing to about 140,000 barrels per day after five years; later expansions are expected to increase production to as much as 345,000 barrels per day. ExxonMobil estimates Kearl's total reserves to be more than 4 billion barrels of bitumen.

Imperial explained in its 2009 annual report that "the Kearl oil sands project is central to our growth strategy." The project has an estimated 40-year lifespan and "represents one of the best undeveloped deposits of minable oil sands in the region. Ore grade and the quantity of bitumen that can be produced for a given volume of mined material are better than other undeveloped leases, providing the project with an inherent cost advantage." Bitumen mined at Kearl will be treated with Imperial's proprietary paraffinic froth treatment process, in which the bitumen will be diluted with natural gas condensates to achieve a consistency that will allow it to be shipped via pipeline to a refinery. This eliminates the need

to incorporate an upgrading facility on site at Kearl and reduces the project's carbon dioxide emissions and development costs.

**Cold Lake in-situ project:** Cold Lake is an in-situ oil sands operation that uses cyclic steam stimulation technology to extract bitumen from deep underground deposits. The project is 100 percent owned and operated by Imperial Oil and is the company's largest single source of production; it is also the world's largest thermal in-situ heavy oil operation. Cold Lake is a mature commercial project, piloted in the mid-1960s, with commercial production beginning in 1985; since that time it has undergone thirteen phases of development, and now has almost 4,000 active wells. Imperial currently operates four plants at Cold Lake – Leming, Maskwa, Mahihkan and Mahkeses – and is in the process of expanding operations to add a fifth facility, Nabiye. Existing operations include a 170 MW cogeneration facility which provides energy efficient production of steam and electric power. Nabiye will incorporate another cogeneration facility that will produce steam and electric power for oil sands production and will export electricity to the regional power grid. The Nabiye expansion is expected to add 30,000 barrels per day to Cold Lake's average production of about 140,000 barrels per day in 2009. Imperial reports that Cold Lake produced its one-billionth barrel of bitumen in 2009, and that "Over the last four decades, technological advancements have nearly tripled recovery rates at Cold Lake while significantly reducing fresh water use and surface land disturbance."

**Syncrude joint venture:** Imperial is a founder of and holds a 25-percent interest in Syncrude Canada, a joint-venture oil sands mining and upgrading project near Fort McMurray, Alberta. Syncrude is the world's largest producer of crude from the oil sands and is the largest single source producer in Canada, accounting for approximately nine percent of Canada's total oil production. The project encompasses eight leases covering about 250,000 acres of Athabasca oil sands, with proved reserves of approximately 2.8 billion barrels of synthetic crude oil after royalties. Since startup in 1978, Syncrude has produced about 2.0 billion barrels of synthetic crude oil, which is shipped to Edmonton, Alberta, by Alberta Oil Sands Pipeline Ltd. In 2009, Syncrude's net production of synthetic crude oil was about 259,000 barrels per day; Imperial's share was about 65,000 barrels per day. Syncrude announced in February 2010 that it plans to expand its production capacity for synthetic crude to 425,000 barrels per day and its raw bitumen production capacity to 600,000 barrels per day by 2020.

### ***Oil Sands Risks***

The shareholder resolution asks ExxonMobil to issue a report that provides information on potential long-term risks to the company posed by its operations in the oil sands. These risks are generally identified as "environmental, social and economic challenges," such as environmental restrictions and regulations that might hinder or financially penalize operations, litigation risks posed by Aboriginal land-rights issues and market forces that could make oil sands projects economically undesirable. While ExxonMobil does provide information on its general environmental policies and practices in its [10-K](#), its [Corporate Citizenship Report](#) and on its [website](#) (relevant information is summarized in Si2's [Special Report on ExxonMobil, Investor Pressures and the Environment](#)), it does not provide detailed information on its oil sands operations. More information about ExxonMobil's oil sands projects, the potential risks associated with those operations, and the company's ongoing and future efforts to reduce environmental impacts is available directly from its 70-percent owned subsidiary, Imperial Oil, via its own [10-K](#), [Corporate Citizenship Report](#), and [website](#).

### ***Greenhouse Gas Emissions***

Climate change is one of the most significant environmental issues for oil sands operations. Critics have called a great deal of attention to the energy-intensive nature of oil sands production as compared to

conventional oil production, particularly in light of increasing global awareness of climate change and international efforts to reduce greenhouse gas (GHG) emissions. The Canadian oil sands are a significant and politically stable source of petroleum for U.S. drivers, yet recent regulatory developments may create preferential market conditions in some areas for fuels with a smaller carbon footprint. Oil sands-derived petroleum risks disadvantaged in the North American market because of its relatively greater carbon intensity, which is estimated to be 5 to 15 percent higher than that of conventional oil over the entire life cycle of the product, with an even greater differential, according to critics—300 percent or more—for the production and refining portions of the product life cycle (though there is variation in the carbon intensity of conventional crude oil as well). These include the low-carbon fuel standard adopted by California in 2009, which will require fuel companies to ensure the mix of fuel they sell in California meets standards for reduced GHG emissions (an idea that also is being considered by coalitions of Northeastern and Midwestern states and that has been adopted in British Columbia, Canada), as well as the U.S. Energy Independence and Security Act of 2007, which prohibits federal agencies from contracting for vehicle fuels produced from petroleum resources with a larger carbon footprint than conventional oil production.

The Canadian federal government announced in February 2010 it had aligned its GHG emissions reduction target with the United States, and its goal is to reduce GHG emissions 17 percent by 2020, based on 2005 levels. Alberta's Climate Change and Emissions Management Act went into effect in July of 2007, and requires industrial facilities emitting more than 100,000 metric tons of greenhouse gases annually to meet an emissions intensity level (emissions per unit of production) which is 12 percent below the 2003-2005 industry average. Options for compliance include making improvements to operations that result in reductions in GHG intensity, purchasing carbon offset credits, contributing to the province's Climate Change and Emissions Management Fund, or purchasing or using Emission Performance Credits, which are generated by facilities that exceed the 12 percent emissions intensity reduction requirement. Environmental advocacy groups have labeled the regulation weak for its reliance on emissions intensity rather than a hard cap on emissions; this means that as oil sands operations in Alberta grow, overall GHG emissions may increase even as companies maintain compliance.

Greenhouse gas emissions are particularly relevant for in-situ oil sands operations, which burn natural gas to generate steam for the extraction of deep deposits of bitumen. The use of cogeneration plants to produce electricity and steam simultaneously helps to reduce the overall carbon footprint of such facilities. Cogeneration plants can also be used in oil sands mining projects, which sometimes use steam in the processing of recovered oil sands to extract the bitumen. Imperial Oil uses cogeneration at its Cold Lake in-situ facility and will install a cogeneration plant as part of its Kearl mining project. Imperial's primary strategy for reducing greenhouse gas emissions is to maximize its facilities' overall energy efficiency through technological developments and investments, such as cogeneration. The company reports that its 2007 GHG emissions were two percent below the previous year's levels, and that overall energy efficiency improved by 16 percent from 1990 to 2007.

Imperial's target is to continue to improve energy efficiency across its refining and chemical operations by one to one-and-one-half percent annually, to continue its sponsorship of GHG-related research through the University of Alberta and to evaluate carbon capture and storage as a strategy for emissions reduction. Some new technologies that Imperial is developing for reduced energy intensity and lower greenhouse gas emissions for its in-situ oil sands operations include Solvent-Assisted Steam-Assisted Gravity Drainage, Liquid Addition to Steam to Enhance Recovery, Continuous Steam Flooding and Cyclic Solvent Processes.

**Imperial Oil's climate risk disclosure:** [Imperial's 2009 10-K](#) describes risks associated with potential and known pending regulatory changes regarding greenhouse gas emissions in both Canada and the United States. The company acknowledges these regulatory developments could impact Imperial's business through increased capital expenditures and operating costs and reduced demand, but that it is too soon to accurately assess any material risks they may pose for the company.

### ***Environmental Impacts to Air, Water and Land***

Oil sands operations have also raised red flags for their emissions of air pollutants, particularly nitrogen oxides (NOx) and sulfur dioxide (SO<sub>2</sub>), as well as their heavy use of water resources and their impacts to land, including habitat destruction and fragmentation and, in the case of mining operations, the creation of tailings ponds that may pose risks to nearby water sources and to wildlife such as migratory waterfowl. In addition to spurring criticism from environmental groups, these impacts garner negative media attention and public opinion, and efforts to reduce and mitigate environmental impacts also incur significant costs to oil sands operators. Implementing policies, practices and technologies to protect the environment from the impacts of oil sands operations poses a financial burden for companies, and poor environmental performance can result in damage to corporate reputation, as well as the potential for additional expenses related to litigation and fines or sanctions incurred through regulatory noncompliance.

**New regulatory restrictions:** New and pending regulations and other environmental restrictions in Canada promise to impose a stricter operating environment on oil sands projects. In February 2009, Alberta's Energy Resource Conservation Board (ERCB) released draft regulations that propose to limit freshwater use by in-situ oil sands operations to no more than 10 percent of annual water volumes. The ERCB also released new rules for tailings reclamation, which require companies to reduce tailings by 50 percent by June 2013. Oil sands operators must submit their initial plans for compliance by September 30, 2011; the existing tailings management plan that ExxonMobil and Imperial have submitted for the Kearl mining project does not comply with the new regulation. In February 2010, the Cumulative Environmental Management Association, a coalition of industry, government and non-profit organizations, released new recommendations for a voluntary water management plan that, if adopted, would cut water withdrawals from the Athabasca River by nearly 50 percent during low-flow periods. Nationally, Canada has announced plans to reduce air pollution by up to 55 percent by 2012, and has proposed caps on NOx, SO<sub>2</sub> and other industrial air pollutants. Oil sands operators, like other industries, will have the option of reducing emissions or purchasing credits to offset pollution that exceeds the regulatory limits.

**Air:** Citing the increasing regulatory requirements for air quality in Canada and specifically in Alberta, Imperial states it has "implemented cost-effective technologies and adopted new operating practices to reduce air emissions." Overall, these efforts have led to a decrease in combined air emissions (VOCs, SO<sub>2</sub> and NOx) of 12 percent over the five-year period ending in 2007. At Cold Lake, new sulphur recovery units at two facilities have reduced sulphur dioxide emissions, from 3,200 tons in 2006 to just under 2,000 tons in 2008. Imperial also participates in the [Wood Buffalo Environmental Association](#) air quality monitoring program.

**Water:** Imperial Oil's Corporate Citizenship report says water intensity at Cold Lake reduced from a ratio of about four barrels of water for each barrel of bitumen in 1985 (when commercial operations began) to less than half a barrel of water for each barrel of bitumen in 2007; over the same time period, freshwater intensity has decreased by about 85 percent. In 2007, about 87 percent of the water used to produce oil was recycled, 12 percent was fresh water and the remainder was brackish. Overall, about

95 percent of the water used to produce steam at Cold Lake is recycled from the produced water that is recovered with the bitumen.

**Kearl**—The primary source of water for the Kearl mining project is the Athabasca River. One of the main concerns about oil sands mining’s impact on the Athabasca cited by Aboriginal and environmental groups is water withdrawals during the winter low-flow period, and the effect this may have on fish, other wildlife, and First Nations groups’ traditional land use activities, such as fishing and hunting. Imperial says it will meet all regulations and environmental standards related to water withdrawals, will work with others in the industry on water sharing and reduction opportunities, and that it will reduce its water withdrawals during low-flow periods by making most of its withdrawals during the summer and storing that water for later use. The company participates in the [Regional Aquatics Monitoring Program](#), which has monitored the Athabasca since 1997 for chemical, biological and physical impacts from the oil sands industry. Wastewater from the mining process at Kearl will be collected and contained until it is ready to be released to the environment. Imperial plans to use a closed-circuit, constructed system to purify the water through bacterial action and allow solids to settle, passing the water through manmade streambeds, wetlands and end pit lakes.

**Land:** At Cold Lake, Imperial is using a “megapad” approach to reduce the surface footprint of its drilling operations. In this approach, multiple wells are drilled from a single surface location, “enabling a smaller footprint, more efficient resource recovery, reduced development costs and improved economics.” The company anticipates that improved drilling and recovery technology will reduce surface disturbance by 40 percent in its Nabiye expansion project.

**Kearl**—As a mining project, Kearl will incorporate tailings ponds, which will be used as temporary storage for the mining byproducts (clay, sand, water and leftover bitumen) to be stored until they can be treated and the land can be reclaimed. Imperial says it will use groundwater monitoring wells to check for leaks from its tailings ponds, as well as deterrents and monitoring efforts to ensure water birds do not land in the ponds. The company plans to reclaim both tailings ponds, burying the fine solids, and affected surface areas, using set-aside topsoil, and recycle and reuse the water from this process. The company is also researching a non-aqueous bitumen extraction technology that could significantly reduce water use and the size of tailings ponds with the production of dry stackable tailings.

**Syncrude**—Thus far, just one oil sands site, a 104-hectare parcel used by Syncrude Canada for the temporary storage of removed topsoil and overburden, has been awarded an official reclamation certificate from Alberta’s provincial government, in March 2008. Syncrude’s tailing ponds have received negative media attention due to the deaths of more than 1,600 waterfowl after they landed in a tailings pond in April 2008 and has been charged in provincial court in Alberta. It has expressed remorse but if convicted, Syncrude and its joint venture owners could face fines of up to \$500,000 under Alberta law, as well as up to \$300,000 under Canadian federal law.

**Imperial’s environmental costs:** According to Imperial Oil’s 10-K, the company has spent about \$3 billion on environmental protection and facilities in the past five years. In 2009, environmental expenses totaled approximately \$770 million, mainly for emissions reductions, remediation of idled facilities, and freshwater protection programs. Imperial expects to spend approximately \$790 million on environmental protection in 2010.

**ARO**—A look at Imperial’s Asset Retirement Obligations (ARO), which represent funds set aside by the company to pay for the anticipated cost of legally-required site restorations at facilities with determinable useful lives after operations have ceased (discounted to present value), may be useful for investors wishing to assess the environmental costs of oil sands operations. Imperial reports in its 10-K that its ARO totals \$810 million, with \$72 million due in 2010, \$421 million in the period from 2011 to 2014 and an additional \$317 million from 2015 onward. For facilities with an indeterminate useful life,

ARO cannot be measured, but “the company accrues provisions for environmental liabilities when it is probable that obligations have been incurred and the amount can be reasonably estimated.”

**Environmental compliance risks**—Regarding risks related to environmental compliance and changes in environmental regulatory approaches, Imperial’s 10-K acknowledges, “Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for cleanup costs and damages.” Future regulatory changes could “result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, which could have a material adverse effect on the company’s financial condition or results of operations.”

### ***Litigation and Related Risks***

Canada’s oil sands deposits underlie ecologically sensitive regions of northern Alberta that are subject to tribal claim by a number of Canadian First Nations peoples. Environmental as well as Aboriginal groups have raised legal objections to oil sands projects, focusing on such issues as alleged violations of First Nations treaty agreements, particularly in relation to pipelines; cancers among tribal groups along the Athabasca River allegedly caused by leaching of toxins from oil sands tailings ponds; and impact to wildlife and traditional ways of life that depend on natural resources

**Kearl legal challenge:** : Imperial Oil’s Kearl mining project received a legal challenge to the project’s initial government approvals from a coalition of environmental and Aboriginal groups. The Federal Court of Canada agreed with the groups’ complaint that the initial government approvals for Kearl had failed to adequately assess the issue of greenhouse gas and other air emissions (though the court disagreed with the other issues brought up in the lawsuit). The legal decision resulted in the temporary withdrawal of the project’s water permit. Ultimately, the provincial environmental review re-issued its approval after giving additional consideration to the issue of air emissions and finding that “the Project is not likely to result in significant adverse environmental effects to air quality, provided that the mitigation measures and recommendations proposed are completed and implemented.”

**NAFTA complaint:** In April 2010, environmental groups in Canada and the United States filed a formal complaint to the commission for environmental cooperation under the North American Free Trade Agreement (NAFTA), alleging oil sands tailings ponds leach contaminants into surface and groundwater in the Athabasca River’s watershed. Environmental Defense Canada, the Natural Resources Defense Council and three citizens filed the complaint. Matt Price, policy director at Environmental Defense Canada, told the media, “We’re out of options when it comes to trying to get the government to enforce its law. This is one avenue where we can, at the very least, embarrass the Canadian government into trying to enforce its law by having Mexican and U.S. officials essentially poring over our dirty laundry, which is not something Canada wants.” Canadian Environment Minister Jim Prentice said, “I am told there is no scientific evidence to support the thesis that there’s leaching from the oilsands tailings ponds into the Athabasca River.” Two of the three member countries must approve before an investigation can be carried out under NAFTA. The complaint could theoretically result in financial penalties, though such an outcome would be unprecedented.

**Aboriginal lawsuits:** Indigenous and environmental groups have worried that oil sands operations in the Athabasca River’s watershed may pose health risks to populations downstream. An unusual cluster of cancer cases among residents of the village of Fort Chipewyan on the shore of Lake Athabasca, first noticed by a local physician in 2006, prompted Alberta health authorities to conduct an investigation. That study, completed in February 2009, found a higher-than-expected rate of cancer overall (47 cases in the village of 1,400, compared to the statistically expected 39 cases) among members of the Athabasca Chipewyan First Nation but fewer rare cancer types than the community’s doctor had initially

reported. “These results were based on a small number of cases. There is no cause for alarm but there is an indication that continued monitoring and analysis are warranted,” said Dr. Tony Fields, a vice-president at Alberta Health Services, adding, “Working with the community, we will take those next steps to finding answers.”

Other Aboriginal groups that have protested oil sands and other energy projects in or near their lands in Alberta include the Mikisew Cree First Nation, the Lubicon Lake Nation, the Woodland Cree First Nation and the Beaver Lake Cree Nation. The Beaver Lake Cree filed a legal challenge against the Canadian federal and the Alberta provincial governments in May 2008, citing some 17,000 infringements of the tribe’s constitutionally protected treaty rights posed by oil sands development. If the Beaver Lake Cree are successful in their case, ExxonMobil and Imperial Oil, along with other oil sands operators, could lose or face restrictions on their operating permits in the affected area.

In addition to legal challenges, oil sands developers may face violent opposition and obstruction from a variety of groups, according to a June 2009 report by a researcher with the Canadian Defense & Foreign Affairs Institute. The report, entitled “[Resource Industries and Security Issues in Northern Alberta](#),” identified ecoterrorists, mainstream environmental groups, individual saboteurs and Aboriginal groups as the most likely groups to use tactics such as “litigation, blockades, occupations, boycotts, sabotage, and violence” against oil sands and other development projects to which they object. Although such security risks are possible, the report concluded that “extra-legal obstruction is unlikely to become large-scale and widespread unless these various groups make common cause and cooperate with each other,” an event that seems unlikely “because the groups have different social characteristics and conflicting political interests.”

**Imperial’s Aboriginal relations:** Imperial’s Corporate Citizenship Report includes a section on Aboriginal relations, which states that “developing and maintaining lasting relationships with Aboriginal stakeholders based on mutual trust and respect is essential if we are to achieve our business objectives.” To that end, the company introduced new principles in 2008 that “will focus our efforts in the areas of consultation, workforce development, business development and community relations.” Imperial “established a network of employees to encourage the sharing of best practices in Aboriginal relations across the company,” developed and funded a variety of educational programs for Aboriginal students, participated in business development workshops for local and Aboriginal firms and spent about C\$105 million in procurement contracts to Aboriginal businesses in 2008. Imperial notes that it “was honoured in 2008 by the Canadian Association of Petroleum Producers with a Steward of Excellence Award for its Cold Lake operation’s Native Internship Program,” which provides paid on-the-job training.

**Addressing concerns at Kearl**—Imperial is working to address Aboriginal groups’ concerns regarding its new Kearl mining project through community engagement on reclamation planning, and says it is committed to achieving a reclaimed landscape “that meets stakeholders’ needs and regulatory requirements.” The company has conducted traditional land-use studies, and the development of the Kearl site will incorporate the construction of a series of three compensation lakes to offset the destruction of fish habitat the project will cause. Canada’s Federal Department of Fisheries and Oceans requires habitat be replaced on at least a two-to-one ration. Imperial has worked with local First Nations groups and government wildlife experts to identify the appropriate fish species with which to stock the compensation lakes.

### **Market Risks**

The most significant issue investors may wish to consider in relation to oil sands operations, however, may not be regulatory and litigation-related risks. Investors may be more swayed by recent financial

analyses that indicate oil sands petroleum may simply be too expensive to extract, making it economically unviable. A March 2009 report by Innovest Strategic Value Advisors (which was acquired by RiskMetrics in February 2009), entitled “[The Viability of Non-Conventional Oil Development](#),” found that “there is only a slender band of oil prices,” between \$65 and \$90 per barrel, at which oil sands projects are profitable, and when all of the impacts on oil prices and extraction and remediation costs are taken into account, “it does not appear that these projects are economically viable.” The recent worldwide economic downturn and the accompanying sharp drop in oil prices led a number of companies to slow down or divest their oil sands operations in 2009, though oil prices had rebounded to more than \$80 a barrel as of early March 2010 and there has been a corresponding rebound in oil sands investments.

Yulia Reuter, the author of the March 2009 report, said in an [April 2010 posting](#) on RiskMetrics’ blog that “returns from the Canadian oil sands projects are highly risky, when viewed from a long-term, sustainable investment perspective,” and that higher production costs, oil price volatility, and “the price tag of environmental sustainability in both Canada and the US suggest that returns, on average, will be lower than most investors currently expect.”

Reuter noted that with more information about the risks and costs associated with oil sands production, investors will be better able to accurately assess these projects. Specifically, she cited risks associated with the environmental impacts of tailings ponds, uncertainty about the availability of biofuels for use in oil sands projects (as a strategy for meeting low-carbon fuel standards), the costs of developing a carbon capture and storage infrastructure, the costs of water demands, particularly water treatment, recycling and storage, and “continuing lack of clarity on the producers’ part as to what combination of petroleum demand and climate change scenarios would render oil sands projects financially viable.”

**A possible upside--** Other analysts see the potential for a significantly rosier future for oil sands development, depending on the future regulatory and economic environment. A May 2009 study by IHS Cambridge Energy Research Associates (CERA), a U.S. research and advisory firm specializing in the energy industry, forecasts a possible best-case scenario in which strong overall economic growth and rising oil prices could result in oil sands production of 6.3 million barrels per day by 2035 (nearly five times 2008 production levels). The report, entitled “[Growth in the Canadian Oil Sands: Finding the New Balance](#),” also describes two other possible scenarios of the oil sands’ future. In one scenario, governmental efforts to drive forward clean energy development in light of the 2008-2009 world economic crisis and its associated sharp increase in oil prices leads to an initial rapid expansion of oil sands production, followed by a stagnation, with 2035 production levels of about 3 million barrels per day, or about double current levels. The third scenario envisions a sustained worldwide economic “deep freeze” that slows development and reduces oil demand and oil prices, leading to 2035 oil sands production of 2.3 million barrels per day. The CERA report describes a variety of risk factors, including greenhouse gas emissions, water use, tailings ponds and Aboriginal litigation, as factors that could affect future oil sands development.

**Market risk disclosure:** ExxonMobil’s and Imperial’s business strategies are based on the companies’ assumption that demand for oil will continue to grow in the future, and that increased production from the Canadian oil sands will be of strategic importance in meeting this demand. Imperial’s 10-K informs investors that higher transportation and refining costs as well as a limited refining capacity are factors that contribute to lower market prices for bitumen than for conventional crude oil. The degree of this price differential in the future is uncertain, Imperial says, and if prices for bitumen drop significantly enough, this “could have a material adverse effect on the company’s business.”

### **Industry Benchmarking**

Two recent studies compare oil sands companies' environmental performance and risk profiles and provide additional information to investors wishing to evaluate oil sands risks for ExxonMobil, compared to other companies in this sector. These are [Lines in the Sands: Oil Sands Sector Benchmarking](#), a November 2009 report by Northwest & Ethical Investments, a Canadian social investment firm, and [Drilling Deeper: The In-situ Oil Sands Report Card](#), a March 2010 publication by the [Pembina Institute](#), a Canadian sustainable energy research and advocacy firm.

**Lines in the Sand:** Northwest & Ethical Investments' benchmarking study profiled thirteen oil sands companies, including Imperial, assessing corporate exposure to environmental, social and governance risk in a variety of areas, including disclosure, greenhouse gas and other air emissions, water use, and impacts on habitat and biodiversity. Imperial was one of only two companies that declined to answer the survey and referred Northwest & Ethical Investments to its public disclosure. "It is discouraging that these companies did not feel the need to respond to investor concerns, or were unaware that their public disclosure did not contain the...information required," the benchmarking study noted. Overall, the available information on Imperial's oil sands operations placed the company third from the bottom among the companies surveyed, with worse-than-average or average scores in all of the areas reviewed. The industry as a whole got less than stellar reviews; Northwest & Ethical noted in the study's conclusion, "As investors, we are not reassured after carrying out this benchmarking exercise. There are instances of good practice under every theme, but some companies are lagging in all areas—or if they are not lagging, they are not telling." Disclosure was identified as a particular area of concern. "Before investors can get a true picture of oil sands risk, many companies need to improve their public disclosure significantly."

**Drilling Deeper:** The Pembina Institute's report compares nine in-situ oil sands projects that were in operation for all of 2007, including Imperial Oil's Cold Lake project. Cold Lake's overall score of 55 percent (on a scale of 0 to 100) placed it third-best among the projects reviewed. For comparison, the top-performing project, owned by Suncor, received a score of 60 percent, and the second-place project was Cenovus' Foster Creek, with 57 percent. (Cenovus is a partner company to ConocoPhillips, whose shareholders are voting for the third consecutive year on an oil sands-related resolution, described in a separate [Si2 Action Report](#).)

**Room for improvement**—The overall low scores of all of the in-situ oil sands facilities reviewed indicated that "there is substantial room for improvement across the sector," according to the Pembina Institute. "Our analysis shows that in-situ oil sands development is actually more intensive on a per-barrel basis in some environmental impact categories than oil sands mining," said Marc Huot, a technical analyst at the Pembina Institute. He added, "This finding dispels the myth presented by some in industry and government that in-situ oil sands development is 'low-impact.' Instead, it highlights the need for serious improvements." Environmental performance is better among mature, commercial-scale projects than pilot and demonstration projects, the study found, because pilot projects often do not incorporate technologies like water recycling and sulfur recovery. Another commonality among projects that scored better than their peers in the analysis was the fact that they performed at or slightly below expected production rates and had low steam-to-oil ratios, resulting in lower intensities for air and greenhouse gas emissions, total and freshwater use, and liquid waste production. In addition, the four highest-scoring in-situ projects all included cogeneration, which further reduced their air and GHG emission intensities.

## II. Proponent Position

The proponents, led by Green Century Capital Management, believe there are significant risks associated with oil sands development projects, and that ExxonMobil is not doing enough to disclose these risks to its shareholders. The proponents cite regulatory, operational, reputational and liability-related risks associated with the “resource-intensive and environmentally damaging nature of oil sands development.” Specific risks described in the proposal include those related to increased regulatory restrictions to address the high water demands of oil sands projects and their impact on local rivers and streams; tightening regulations, as well as remediation and reclamation costs, associated with tailings ponds; lawsuits filed by Aboriginal groups seeking protection of their Canadian treaty rights; and market risks related to the high cost of oil sands production and overall oil market volatility.

The “shareholder advocacy” section of Green Century’s website describes the activist investment firm’s position on oil sands:

As access to traditional oil reserves in the U.S. and abroad declines, major U.S. oil and gas companies are looking to Alberta's oil sands for new energy developments. Dubbed "the most destructive project on Earth" by Canada's Environmental Defence, oil sands development is several times more carbon-intensive than conventional oil recovery projects. Green Century believes entering the oil sands is a risky and unwise business decision for major energy companies. We will continue to pressure companies to recognize the environmental and financial risks associated with the development of the tar sands.

Emily Stone, Shareholder Advocate for Green Century, said in an April 13, 2010, press release describing the broader oil sands shareholder campaign (which encompasses ConocoPhillips, BP and Royal Dutch Shell as well as ExxonMobil), “Oil sands extraction has significant ecological consequences and companies are increasingly being forced to pay the price for environmental damage,” adding, “Shareholders must know how companies are preparing for these costs and mitigating future risks.”

Stone told Si2 that Green Century would like to see ExxonMobil follow the lead of Nexen and Suncor, two oil sands operators that “are leaders in recognizing and disclosing” risks associated with their oil sands operations by including significant information on these risks in their annual reports and 10-K filings. Stone said that currently, ExxonMobil “does not disclose any information about the oil sands beyond some anecdotal information about several out of many environmental impacts” and that “in the absence of meaningful disclosure, shareholders have no way of fully assessing the risks and rewards from investing in ExxonMobil and are concerned about unpleasant shocks to shareholder value.” She noted, “It is great that ExxonMobil and Imperial are undertaking some initiatives to reduce environmental impact and build relations with First Nations peoples, but this is not the same as transparency on risks.”

## III. Management Position

ExxonMobil’s management opposes the resolution on the grounds that it believes the company already provides “sound and thorough information on the Corporation and its activities” and that the report requested by the proponents “would be duplicative to information already available.” ExxonMobil already “has strong policies and management systems in place to assess, plan, and address environmental, social and economic challenges of oil and gas development,” the company says. Management directs shareholders wishing to learn more on this topic to publications including ExxonMobil’s Annual Report, its 10-K, its *Corporate Citizenship Report* and its publication, *Outlook for Energy – A View to 2030*.

ExxonMobil’s oil sands projects are an important source of future growth, management argues. Oil sands currently account for 11 percent of the company’s net proved reserves, and are of significant

strategic value given anticipated growth in global energy demand, much of which is expected to depend on oil and gas. Management notes that world energy demand is expected to increase by about 35 percent by 2030, compared to 2005 levels, and that ExxonMobil expects that about 60 percent of total demand in 2030 will be satisfied by oil and gas. The company cites statements by the International Energy Agency that “Canadian oil sands represent one of the few growth areas among non-OPEC countries” and that “oil sands have the potential to make a significantly greater contribution to global energy security.”

Management describes its policies and practices related to the development of its oil sands projects, noting that ExxonMobil is “committed to operating in a way that protects the environment, complies fully with all laws and regulations, and takes into account the economic and social needs of the communities where we operate.” The company is committed to “continuous efforts to improve environmental performance” and to preventing environmental “incidents” and “reducing adverse impacts, including potential impacts associated with oil sands development.”

Specific to its oil sands projects, ExxonMobil notes that it is reducing its water usage through strategies such as recycling about 95 percent of the produced water at its Cold Lake in-situ project and through research into non-aqueous extraction processes that could reduce water use and also eliminate the need for large tailings ponds. Regarding community relations with Aboriginal groups, management says that Imperial oil “is committed to building positive, mutually beneficial relationships with local communities” and was recently honored with a Steward of Excellence award from the Canadian Association of Petroleum Producers for its Native Internship Program at the Cold Lake operation.

## IV. Analysis

### *Key Points at Issue*

- How significant are the long-term investment risks associated with oil sands development?
- Is ExxonMobil’s current level of disclosure regarding its oil sands risks sufficient?
- Do ExxonMobil and its majority-owned subsidiary, Imperial Oil, do enough to minimize investors’ exposure to oil sands risks?

**Oil sands risks:** Oil sands development projects present a different risk profile than conventional oil projects due to their increased exposure to climate change risks, environmental risks related to land and water impacts, their location in sensitive environmental areas that overlap with territories that are subject to claim by Aboriginal groups, and their higher recovery costs. Investors who agree with the proponents that the risks associated with oil sands operations may be significant enough to merit special attention from management and shareholders may wish to support the resolution. Those who find appropriate management’s treatment of oil sands operations as substantially the same, from a risk assessment and management perspective, as its other worldwide operations, may opt to vote against the proposal.

**ExxonMobil’s risk disclosure:** ExxonMobil and its publicly traded subsidiary, Imperial Oil, disclose to shareholders information on their oil sands projects, efforts to improve environmental performance of those projects, and a variety of risk factors that investors should be aware of with regards to their oil sands and other operations. Investors who find the information already provided to be sufficient may oppose the production of a special report on oil sands risks and consequently vote against the proposal. Those shareholders who find the companies’ existing disclosure insufficiently detailed, or who would like to see ExxonMobil provide more information on its oil sands operations directly to its shareholders (rather than through Imperial’s public disclosures), may opt to vote in favor of the resolution.

**Minimizing risks:** Through such efforts as increasing energy efficiency, building cogeneration plants, water recycling, strategic water withdrawals, air emissions scrubbing technology, and research and development for a variety of new approaches to greenhouse gas emissions reductions, tailing management and land reclamation, ExxonMobil and Imperial Oil are working to reduce the environmental impacts and risks associated with their oil sands operations. Shareholders who find these programs to be appropriate corporate approaches to minimizing oil sands risks may oppose the resolution on the grounds that an additional report is unnecessary. Investors who feel the company could do better in reducing its environmental impacts, given that some other companies with similar operations have performed better in industry benchmarking studies, and those who question ExxonMobil's plans to open a significant new oil sands mining operation, Kearl, at a time when many other companies are focusing their expansions on in-situ projects, may feel that the report requested by the shareholder proposal is warranted, and consequently vote in favor.

## V. Resources

- ExxonMobil 2008 Corporate Citizenship Report  
[http://www.exxonmobil.com/Corporate/Imports/ccr2008/community\\_ccr.aspx](http://www.exxonmobil.com/Corporate/Imports/ccr2008/community_ccr.aspx)
- ExxonMobil website section, Energy and Environment  
<http://www.exxonmobil.com/Corporate/energy.aspx>
- ExxonMobil 2009 Summary Annual Report  
<http://thomson.mobular.net/thomson/7/3095/4222/>
- ExxonMobil 2009 10-K  
<http://sec.gov/Archives/edgar/data/34088/000119312510042929/d10k.htm>
- ExxonMobil: *Outlook for Energy – A View to 2030*  
[http://www.exxonmobil.com/Corporate/energy\\_o\\_view.aspx](http://www.exxonmobil.com/Corporate/energy_o_view.aspx)
- Imperial Oil 2007 Corporate Citizenship Report  
[http://www.imperialoil.ca/Canada-English/Corporate\\_Citizenship/CC\\_Citizenship06.asp](http://www.imperialoil.ca/Canada-English/Corporate_Citizenship/CC_Citizenship06.asp)
- Imperial Oil website section, Safety, Health and Environment  
[http://www.imperialoil.ca/Canada-English/ThisIs/SHE/TI\\_SHE\\_SafetyAndHealthEnv.asp](http://www.imperialoil.ca/Canada-English/ThisIs/SHE/TI_SHE_SafetyAndHealthEnv.asp)
- Imperial Oil website section on oil sands operations  
[http://www.imperialoil.ca/Canada-English/ThisIs/Operations/TI\\_O\\_OilSands.asp](http://www.imperialoil.ca/Canada-English/ThisIs/Operations/TI_O_OilSands.asp)