

IMPERIAL OIL LTD  
Form 10-Q  
May 03, 2012  
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**FORM 10-Q**  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the quarterly period ended March 31, 2012**

**OR**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from    to  
Commission file number 0-12014

**IMPERIAL OIL LIMITED**

(Exact name of registrant as specified in its charter)

**CANADA**  
(State or other jurisdiction  
of incorporation or organization)

**237 Fourth Avenue S.W.**

**Calgary, Alberta, Canada**  
(Address of principal executive offices)

Registrant's telephone number, including area code: 1-800-567-3776

**98-0017682**  
(I.R.S. Employer  
Identification No.)

**T2P 3M9**  
(Postal Code)

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The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 91 days.

YES  NO

The registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

The registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

The registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

YES  NO

**The number of common shares outstanding, as of March 31, 2012, was 847,599,011.**

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In this report all dollar amounts are expressed in Canadian dollars unless otherwise stated. This report should be read in conjunction with the company's Annual Report on Form 10-K for the year ended December 31, 2011.

Statements in this report regarding future events or conditions are forward-looking statements. Actual results could differ materially due to the impact of market conditions, changes in law or governmental policy, changes in operating conditions and costs, changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors.

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****IMPERIAL OIL LIMITED****CONSOLIDATED STATEMENT OF INCOME**

(U.S. GAAP, unaudited)

|                                                                 | Three Months<br>to March 31 |       |
|-----------------------------------------------------------------|-----------------------------|-------|
| millions of Canadian dollars                                    | <b>2012</b>                 | 2011  |
| <b>REVENUES AND OTHER INCOME</b>                                |                             |       |
| Operating revenues (a) (b)                                      | <b>7,494</b>                | 6,852 |
| Investment and other income (note 3)                            | <b>39</b>                   | 19    |
| <b>TOTAL REVENUES AND OTHER INCOME</b>                          | <b>7,533</b>                | 6,871 |
| <b>EXPENSES</b>                                                 |                             |       |
| Exploration                                                     | <b>28</b>                   | 37    |
| Purchases of crude oil and products (c)                         | <b>4,386</b>                | 3,980 |
| Production and manufacturing (d)                                | <b>977</b>                  | 979   |
| Selling and general                                             | <b>284</b>                  | 321   |
| Federal excise tax (a)                                          | <b>316</b>                  | 315   |
| Depreciation and depletion                                      | <b>190</b>                  | 188   |
| <b>TOTAL EXPENSES</b>                                           | <b>6,181</b>                | 5,820 |
| <b>INCOME BEFORE INCOME TAXES</b>                               | <b>1,352</b>                | 1,051 |
| <b>INCOME TAXES</b>                                             | <b>337</b>                  | 270   |
| <b>NET INCOME</b>                                               | <b>1,015</b>                | 781   |
| <b>PER SHARE INFORMATION (Canadian dollars)</b>                 |                             |       |
| Net income per common share - basic (dollars) (note 8)          | <b>1.20</b>                 | 0.92  |
| Net income per common share - diluted (dollars) (note 8)        | <b>1.19</b>                 | 0.91  |
| Dividends per common share (dollars)                            | <b>0.12</b>                 | 0.11  |
| (a) Federal excise tax included in operating revenues           | <b>316</b>                  | 315   |
| (b) Amounts from related parties included in operating revenues | <b>707</b>                  | 482   |

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|                                                                                  |            |       |
|----------------------------------------------------------------------------------|------------|-------|
| (c) Amounts to related parties included in purchases of crude oil and products   | <b>533</b> | 1,115 |
| (d) Amounts to related parties included in production and manufacturing expenses | <b>34</b>  | 53    |

The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

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## IMPERIAL OIL LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(U.S. GAAP, unaudited)

|                                                                                                     | Three Months<br>to March 31 |       |
|-----------------------------------------------------------------------------------------------------|-----------------------------|-------|
| millions of Canadian dollars                                                                        | <b>2012</b>                 | 2011  |
| Net income                                                                                          | <b>1,015</b>                | 781   |
| Other comprehensive income, net of income taxes                                                     |                             |       |
| Post-retirement benefit liability adjustment (excluding amortization)                               | <b>(117)</b>                | (108) |
| Amortization of post-retirement benefit liability adjustment included in net periodic benefit costs | <b>48</b>                   | 33    |
| Total other comprehensive income/(loss)                                                             | <b>(69)</b>                 | (75)  |
| Comprehensive income                                                                                | <b>946</b>                  | 706   |

The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

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## IMPERIAL OIL LIMITED

**CONSOLIDATED BALANCE SHEET**

(U.S. GAAP, unaudited)

|                                                                               | As at<br>Mar. 31<br><b>2012</b> | As at<br>Dec. 31<br>2011 |
|-------------------------------------------------------------------------------|---------------------------------|--------------------------|
| millions of Canadian dollars                                                  |                                 |                          |
| <b>ASSETS</b>                                                                 |                                 |                          |
| Current assets                                                                |                                 |                          |
| Cash                                                                          | <b>1,045</b>                    | 1,202                    |
| Accounts receivable, less estimated doubtful accounts                         | <b>2,146</b>                    | 2,290                    |
| Inventories of crude oil and products                                         | <b>1,155</b>                    | 762                      |
| Materials, supplies and prepaid expenses                                      | <b>277</b>                      | 239                      |
| Deferred income tax assets                                                    | <b>630</b>                      | 590                      |
| Total current assets                                                          | <b>5,253</b>                    | 5,083                    |
| Long-term receivables, investments and other long-term assets                 | <b>935</b>                      | 920                      |
| Property, plant and equipment,<br>less accumulated depreciation and depletion | <b>34,404</b><br><b>14,343</b>  | 33,416<br>14,254         |
| Property, plant and equipment, net                                            | <b>20,061</b>                   | 19,162                   |
| Goodwill                                                                      | <b>204</b>                      | 204                      |
| Other intangible assets, net                                                  | <b>58</b>                       | 60                       |
| <b>TOTAL ASSETS</b>                                                           | <b>26,511</b>                   | 25,429                   |
| <b>LIABILITIES</b>                                                            |                                 |                          |
| Current liabilities                                                           |                                 |                          |
| Notes and loans payable                                                       | <b>364</b>                      | 364                      |
| Accounts payable and accrued liabilities (a) (note 7)                         | <b>4,397</b>                    | 4,317                    |
| Income taxes payable                                                          | <b>1,327</b>                    | 1,268                    |
| Total current liabilities                                                     | <b>6,088</b>                    | 5,949                    |
| Long-term debt (b) (note 6)                                                   | <b>842</b>                      | 843                      |
| Other long-term obligations (note 7)                                          | <b>3,954</b>                    | 3,876                    |
| Deferred income tax liabilities                                               | <b>1,507</b>                    | 1,440                    |



|                                                  |                |         |
|--------------------------------------------------|----------------|---------|
| <b>TOTAL LIABILITIES</b>                         | <b>12,391</b>  | 12,108  |
| <b>SHAREHOLDERS EQUITY</b>                       |                |         |
| Common shares at stated value (c)                | <b>1,548</b>   | 1,528   |
| Earnings reinvested                              | <b>14,879</b>  | 14,031  |
| Accumulated other comprehensive income           | <b>(2,307)</b> | (2,238) |
| <b>TOTAL SHAREHOLDERS EQUITY</b>                 | <b>14,120</b>  | 13,321  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b> | <b>26,511</b>  | 25,429  |

- (a) Accounts payable and accrued liabilities included amounts receivable from related parties of \$8 million (2011 - amounts payable of \$215 million).
- (b) Long-term debt included amounts to related parties of \$820 million (2011 - \$820 million).
- (c) Number of common shares authorized and outstanding were 1,100 million and 848 million, respectively (2011 - 1,100 million and 848 million, respectively).

The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

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## IMPERIAL OIL LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(U.S. GAAP, unaudited)

| inflow/(outflow)<br>millions of Canadian dollars      | Three Months<br>to March 31 |       |
|-------------------------------------------------------|-----------------------------|-------|
|                                                       | <b>2012</b>                 | 2011  |
| <b>OPERATING ACTIVITIES</b>                           |                             |       |
| Net income                                            | <b>1,015</b>                | 781   |
| Adjustment for non-cash items:                        |                             |       |
| Depreciation and depletion                            | <b>190</b>                  | 188   |
| (Gain)/loss on asset sales (note 3)                   | <b>(29)</b>                 | (6)   |
| Deferred income taxes and other                       | <b>48</b>                   | (90)  |
| Changes in operating assets and liabilities:          |                             |       |
| Accounts receivable                                   | <b>140</b>                  | (245) |
| Inventories, materials, supplies and prepaid expenses | <b>(431)</b>                | (462) |
| Income taxes payable                                  | <b>59</b>                   | 17    |
| Accounts payable and accrued liabilities              | <b>71</b>                   | 731   |
| All other items - net (a)                             | <b>(16)</b>                 | 45    |
| <b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b> | <b>1,047</b>                | 959   |
| <b>INVESTING ACTIVITIES</b>                           |                             |       |
| Additions to property, plant and equipment            | <b>(1,145)</b>              | (822) |
| Proceeds from asset sales                             | <b>78</b>                   | 14    |
| Repayment of loan from equity company                 | <b>3</b>                    | 2     |
| <b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b> | <b>(1,064)</b>              | (806) |
| <b>FINANCING ACTIVITIES</b>                           |                             |       |
| Reduction in capitalized lease obligations            | <b>(1)</b>                  | (1)   |
| Issuance of common shares under stock option plan     | <b>22</b>                   | 11    |
| Common shares purchased                               | <b>(68)</b>                 | (36)  |
| Dividends paid                                        | <b>(93)</b>                 | (93)  |
| <b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b> | <b>(140)</b>                | (119) |
| <b>INCREASE (DECREASE) IN CASH</b>                    | <b>(157)</b>                | 34    |
| <b>CASH AT BEGINNING OF PERIOD</b>                    | <b>1,202</b>                | 267   |

|                              |              |            |
|------------------------------|--------------|------------|
| <b>CASH AT END OF PERIOD</b> | <b>1,045</b> | <b>301</b> |
|------------------------------|--------------|------------|

|                                                       |             |             |
|-------------------------------------------------------|-------------|-------------|
| (a) Included contribution to registered pension plans | <b>(97)</b> | <b>(66)</b> |
|-------------------------------------------------------|-------------|-------------|

The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

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IMPERIAL OIL LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**1. Basis of financial statement preparation**

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles of the United States of America and follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent annual consolidated financial statements filed with the U.S. Securities and Exchange Commission in the company's 2011 Annual Report on Form 10-K. In the opinion of the company, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the periods reported herein. All such adjustments are of a normal recurring nature. The company's exploration and production activities are accounted for under the "successful efforts" method.

The results for the three months ended March 31, 2012, are not necessarily indicative of the operations to be expected for the full year.

All amounts are in Canadian dollars unless otherwise indicated.

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## IMPERIAL OIL LIMITED

**2. Business Segments**

| Three Months to March 31<br>millions of dollars       | Upstream            |               | Downstream   |              | Chemical     |            |
|-------------------------------------------------------|---------------------|---------------|--------------|--------------|--------------|------------|
|                                                       | 2012                | 2011          | 2012         | 2011         | 2012         | 2011       |
| <b>REVENUES AND OTHER INCOME</b>                      |                     |               |              |              |              |            |
| Operating revenues                                    | 1,395               | 1,174         | 5,755        | 5,347        | 344          | 331        |
| Intersegment sales                                    | 1,094               | 1,157         | 794          | 711          | 82           | 89         |
| Investment and other income                           | 3                   | 8             | 33           | 9            | -            | -          |
|                                                       | <b>2,492</b>        | <b>2,339</b>  | <b>6,582</b> | <b>6,067</b> | <b>426</b>   | <b>420</b> |
| <b>EXPENSES</b>                                       |                     |               |              |              |              |            |
| Exploration                                           | 28                  | 37            | -            | -            | -            | -          |
| Purchases of crude oil and products                   | 1,021               | 861           | 5,021        | 4,769        | 314          | 307        |
| Production and manufacturing                          | 591                 | 599           | 341          | 337          | 45           | 43         |
| Selling and general                                   | 2                   | 1             | 241          | 223          | 17           | 16         |
| Federal excise tax                                    | -                   | -             | 316          | 315          | -            | -          |
| Depreciation and depletion                            | 129                 | 133           | 56           | 50           | 3            | 3          |
| Financing costs                                       | -                   | -             | -            | (1)          | -            | -          |
| <b>TOTAL EXPENSES</b>                                 | <b>1,771</b>        | <b>1,631</b>  | <b>5,975</b> | <b>5,693</b> | <b>379</b>   | <b>369</b> |
| <b>INCOME BEFORE INCOME TAXES</b>                     | <b>721</b>          | <b>708</b>    | <b>607</b>   | <b>374</b>   | <b>47</b>    | <b>51</b>  |
| <b>INCOME TAXES</b>                                   | <b>179</b>          | <b>180</b>    | <b>152</b>   | <b>98</b>    | <b>12</b>    | <b>13</b>  |
| <b>NET INCOME</b>                                     | <b>542</b>          | <b>528</b>    | <b>455</b>   | <b>276</b>   | <b>35</b>    | <b>38</b>  |
| <b>Export sales to the United States</b>              | <b>463</b>          | <b>549</b>    | <b>231</b>   | <b>251</b>   | <b>211</b>   | <b>200</b> |
| <b>Cash flows from (used in) operating activities</b> | <b>887</b>          | <b>717</b>    | <b>187</b>   | <b>271</b>   | <b>(53)</b>  | <b>5</b>   |
| <b>CAPEX (a)</b>                                      | <b>1,145</b>        | <b>818</b>    | <b>23</b>    | <b>36</b>    | <b>1</b>     | <b>2</b>   |
| <b>Total assets as at March 31</b>                    | <b>18,022</b>       | <b>14,527</b> | <b>6,988</b> | <b>6,955</b> | <b>443</b>   | <b>456</b> |
| Three Months to March 31<br>millions of dollars       | Corporate and Other |               | Eliminations |              | Consolidated |            |
|                                                       | 2012                | 2011          | 2012         | 2011         | 2012         | 2011       |
| <b>REVENUES AND OTHER INCOME</b>                      |                     |               |              |              |              |            |
| Operating revenues                                    | -                   | -             | -            | -            | 7,494        | 6,852      |
| Intersegment sales                                    | -                   | -             | (1,970)      | (1,957)      | -            | -          |
| Investment and other income                           | 3                   | 2             | -            | -            | 39           | 19         |

|                                                       |              |          |                |                |               |              |
|-------------------------------------------------------|--------------|----------|----------------|----------------|---------------|--------------|
|                                                       | <b>3</b>     | <b>2</b> | <b>(1,970)</b> | <b>(1,957)</b> | <b>7,533</b>  | <b>6,871</b> |
| <b>EXPENSES</b>                                       |              |          |                |                |               |              |
| Exploration                                           | -            | -        | -              | -              | <b>28</b>     | 37           |
| Purchases of crude oil and products                   | -            | -        | <b>(1,970)</b> | <b>(1,957)</b> | <b>4,386</b>  | 3,980        |
| Production and manufacturing                          | -            | -        | -              | -              | <b>977</b>    | 979          |
| Selling and general                                   | <b>24</b>    | 81       | -              | -              | <b>284</b>    | 321          |
| Federal excise tax                                    | -            | -        | -              | -              | <b>316</b>    | 315          |
| Depreciation and depletion                            | <b>2</b>     | 2        | -              | -              | <b>190</b>    | 188          |
| Financing costs                                       | -            | 1        | -              | -              | -             | -            |
| <b>TOTAL EXPENSES</b>                                 | <b>26</b>    | 84       | <b>(1,970)</b> | <b>(1,957)</b> | <b>6,181</b>  | 5,820        |
| <b>INCOME BEFORE INCOME TAXES</b>                     | <b>(23)</b>  | (82)     | -              | -              | <b>1,352</b>  | 1,051        |
| <b>INCOME TAXES</b>                                   | <b>(6)</b>   | (21)     | -              | -              | <b>337</b>    | 270          |
| <b>NET INCOME</b>                                     | <b>(17)</b>  | (61)     | -              | -              | <b>1,015</b>  | 781          |
| <b>Export sales to the United States</b>              | -            | -        | -              | -              | <b>905</b>    | 1,000        |
| <b>Cash flows from (used in) operating activities</b> | <b>26</b>    | (34)     | -              | -              | <b>1,047</b>  | 959          |
| <b>CAPEX (a)</b>                                      | <b>4</b>     | 3        | -              | -              | <b>1,173</b>  | 859          |
| <b>Total assets as at March 31</b>                    | <b>1,266</b> | 416      | <b>(208)</b>   | <b>(346)</b>   | <b>26,511</b> | 22,008       |

- (a) Capital and exploration expenditures (CAPEX) include exploration expenses, additions to property, plant, equipment and additions to capital leases.

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## IMPERIAL OIL LIMITED

**3. Investment and other income**

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

| millions of dollars                    | Three Months<br>to March 31 |      |
|----------------------------------------|-----------------------------|------|
|                                        | 2012                        | 2011 |
| Proceeds from asset sales              | 78                          | 14   |
| Book value of assets sold              | 49                          | 8    |
| Gain/(loss) on asset sales, before tax | 29                          | 6    |
| Gain/(loss) on asset sales, after tax  | 24                          | 4    |

**4. Employee retirement benefits**

The components of net benefit cost were as follows:

| millions of dollars                | Three Months<br>to March 31 |      |
|------------------------------------|-----------------------------|------|
|                                    | 2012                        | 2011 |
| Pension benefits:                  |                             |      |
| Current service cost               | 39                          | 29   |
| Interest cost                      | 72                          | 78   |
| Expected return on plan assets     | (72)                        | (76) |
| Amortization of prior service cost | 5                           | 4    |
| Recognized actuarial loss          | 57                          | 40   |
| Net benefit cost                   | 101                         | 75   |
| Other post-retirement benefits:    |                             |      |
| Current service cost               | 2                           | 1    |
| Interest cost                      | 5                           | 6    |
| Recognized actuarial loss          | 2                           | 1    |

Net benefit cost

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## IMPERIAL OIL LIMITED

**5. Financing costs**

|                              | Three Months |          |
|------------------------------|--------------|----------|
|                              | to March 31  |          |
| millions of dollars          | <b>2012</b>  | 2011     |
| Debt related interest        | 4            | 3        |
| Capitalized interest         | (4)          | (3)      |
| <b>Total financing costs</b> | <b>-</b>     | <b>-</b> |

**6. Long-term debt**

|                             | As at       | As at      |
|-----------------------------|-------------|------------|
|                             | Mar. 31     | Dec. 31    |
| millions of dollars         | <b>2012</b> | 2011       |
| Long-term debt              | 820         | 820        |
| Capital leases              | 22          | 23         |
| <b>Total long-term debt</b> | <b>842</b>  | <b>843</b> |

**7. Other long-term obligations**

|                                                                      | As at        | As at        |
|----------------------------------------------------------------------|--------------|--------------|
|                                                                      | Mar. 31      | Dec. 31      |
| millions of dollars                                                  | <b>2012</b>  | 2011         |
| Employee retirement benefits (a)                                     | 2,729        | 2,645        |
| Asset retirement obligations and other environmental liabilities (b) | 893          | 914          |
| Share-based incentive compensation liabilities                       | 140          | 125          |
| Other obligations                                                    | 192          | 192          |
| <b>Total other long-term obligations</b>                             | <b>3,954</b> | <b>3,876</b> |

- (a) Total recorded employee retirement benefits obligations also included \$48 million in current liabilities (December 31, 2011 - \$48 million).
- (b) Total asset retirement obligations and other environmental liabilities also included \$145 million in current liabilities (December 31, 2011 - \$145 million).

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## IMPERIAL OIL LIMITED

**8. Net income per share**

|                                                                                              | Three Months<br>to March 31 |       |
|----------------------------------------------------------------------------------------------|-----------------------------|-------|
|                                                                                              | 2012                        | 2011  |
| <b>Net income per common share - basic</b>                                                   |                             |       |
| Net income (millions of dollars)                                                             | 1,015                       | 781   |
| Weighted average number of common shares outstanding (millions of shares)                    | 847.8                       | 847.8 |
| Net income per common share (dollars)                                                        | 1.20                        | 0.92  |
| <b>Net income per common share - diluted</b>                                                 |                             |       |
| Net income (millions of dollars)                                                             | 1,015                       | 781   |
| Weighted average number of common shares outstanding (millions of shares)                    | 847.8                       | 847.8 |
| Effect of employee share-based awards (millions of shares)                                   | 4.7                         | 6.3   |
| Weighted average number of common shares outstanding, assuming dilution (millions of shares) | 852.5                       | 854.1 |
| Net income per common share (dollars)                                                        | 1.19                        | 0.91  |

**9. Other comprehensive income information****Changes in accumulated other comprehensive income:**

| millions of dollars                                                                  | 2012    | 2011    |
|--------------------------------------------------------------------------------------|---------|---------|
| January 1 balance                                                                    |         |         |
| Post-retirement benefits liability adjustment:                                       | (2,238) | (1,424) |
| Current period change excluding amounts reclassified from other comprehensive income | (117)   | (108)   |
| Amounts reclassified from other comprehensive income                                 | 48      | 33      |
| March 31 balance                                                                     | (2,307) | (1,499) |

**Income tax expense/(credit) for components of other comprehensive income:**

| millions of dollars                                                                                | Three Months<br>to March 31 |      |
|----------------------------------------------------------------------------------------------------|-----------------------------|------|
|                                                                                                    | 2012                        | 2011 |
| Post-retirement benefits liability adjustments:                                                    |                             |      |
| Post-retirement benefits liability adjustment (excluding amortization)                             | (40)                        | (37) |
| Amortization of post-retirement benefit liability adjustment included in net periodic benefit cost | 16                          | 11   |
|                                                                                                    | (24)                        | (26) |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**OPERATING RESULTS**

The company's net income for the first quarter of 2012 was \$1,015 million or \$1.19 a share on a diluted basis, compared with \$781 million or \$0.91 a share for the same period last year.

Earnings in the first quarter were higher than the same quarter in 2011 primarily due to stronger industry refining margins of about \$150 million and higher liquids realizations of about \$115 million. These factors were partially offset by higher royalty costs of about \$55 million and lower Syncrude volumes of about \$30 million.

**Upstream**

Net income in the first quarter was \$542 million, \$14 million higher than the same period of 2011. Earnings benefited from higher liquids realization of about \$115 million. This factor was partially offset by higher royalty costs due to higher realizations of about \$55 million and lower Syncrude volumes due to maintenance activities of about \$30 million.

Prices for most of the company's liquids production are based on West Texas Intermediate (WTI) oil markets, a common benchmark for mid-continent North American markets. Compared to the same quarter last year, the average price of WTI crude oil in U.S. dollars in the first quarter of 2012 was higher by about \$8.43 a barrel, while Brent crude oil, the benchmark for Atlantic basin oil markets, was higher by about \$13.46 a barrel in the first quarter of 2012. This widened the price differential between WTI and Brent crude oils to \$15.43 a barrel in U.S. dollars in the first quarter of 2012. The company's Western Canadian liquids realizations are also impacted by market discounts caused by supply/demand imbalances in the mid-continent North American crude oil market. Discounts for bitumen and synthetic crude oils increased through the first quarter, reflecting high industry refining downtime in mid-continent North America. For the quarter, bitumen realizations averaged \$66.24 a barrel, an increase of \$10.48 in Canadian dollars compared to the first quarter of 2011.

Gross production of Cold Lake bitumen averaged 157 thousand barrels a day during the first quarter, unchanged from the same period last year.

The company's share of Syncrude's gross production in the first quarter was 74 thousand barrels a day, versus 80 thousand barrels in the first quarter of 2011. Higher unplanned maintenance activities were the main contributor to the lower production.

Gross production of conventional crude oil averaged 21 thousand barrels a day in the first quarter, essentially unchanged from the 22 thousand barrels in the first quarter of 2011.

Gross production of natural gas during the first quarter of 2012 was 198 million cubic feet a day, down from 269 million cubic feet in the same period last year. The lower production volume was primarily a result of the impact of divested producing properties and natural reservoir decline.

**Downstream**

Net income was \$455 million in the first quarter, the best quarter on record and \$179 million higher than the first quarter of 2011. Earnings increased primarily due to the favourable impact of stronger industry refining margins of about \$150 million. Refining margins were higher in the first quarter as the overall cost of crude oil processed at three of the company's four refineries followed the trend of WTI prices and Western Canadian crude oils. Canadian wholesale prices of refined products are largely determined by wholesale prices in adjacent U.S. regions, where wholesale prices are predominately tied to international product markets. Stronger industry refining margins are the result of the widened differential between product prices and cost of crude oil processed.

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First quarter earnings in 2012 included a gain of about \$15 million from the sale of assets.

### **Chemical**

Net income was \$35 million in the first quarter, compared with \$38 million in the same quarter last year with continued strong margins across all product channels.

### **Corporate and other**

Net income effects from Corporate and other were negative \$17 million in the first quarter, compared with negative \$61 million in the same period of 2011. Favourable effects were primarily due to lower share-based compensation charges.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow generated from operating activities was \$1,047 million in the first quarter, an increase of \$88 million from the corresponding period in 2011. Higher cash flow was primarily due to higher earnings partially offset by working capital effects, which included inventory built in advance of the company's extensive second quarter 2012 planned refinery maintenance activities.

Investing activities used net cash of \$1,064 million in the first quarter, compared with \$806 million in the same period of 2011. Additions to property, plant and equipment were \$1,145 million in the first quarter, compared with \$822 million during the same quarter 2011. Expenditures during the quarter were primarily directed towards the advancement of Kearl initial development and expansion. Other investments included advancing the Nabiye expansion project at Cold Lake, environmental and efficiency projects at Syncrude, as well as the advancement of the production pilot at Horn River and tight oil acreage acquisitions.

Cash used in financing activities was \$140 million in the first quarter, compared with \$119 million of cash from financing activities in the first quarter of 2011. Dividends paid in the first quarter of 2012 were \$93 million, same as in the corresponding period in 2011. Per-share dividend declared in the first quarter of 2012 totaled \$0.12, up from \$0.11 in the same period of 2011.

During the first quarter of 2012, the company limited its share repurchases to those to offset the dilutive effects from the exercise of stock options. The company will continue to evaluate its share-purchase program in the context of its overall capital project activities.

The above factors led to a decrease in the company's balance of cash to \$1,045 million at March 31, 2012, from \$1,202 million at the end of 2011.

The company has entered into additional long-term pipeline transportation agreements to ship heavy crude oil blend. These agreements, which have a total commitment of about \$3 billion, will support the company's long-term growth in oil sands production. The company expects to fulfill these commitments in the normal course of business.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Information about market risks for the three months ended March 31, 2012 does not differ materially from that discussed on page 23 in the company's annual report on Form 10-K for the year ended December 31, 2011.

**Item 4. Controls and Procedures.**

As indicated in the certifications in Exhibit 31 of this report, the company's principal executive officer and principal financial officer have evaluated the company's disclosure controls and procedures as of March 31, 2012. Based on that evaluation, these officers have concluded that the company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to them in a manner that allows for timely decisions regarding required disclosures and are effective in ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has not been any change in the company's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

**Table of Contents****PART II - OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the period January 1, 2012 to March 31, 2012, the company issued 1,307,307 common shares to employees or former employees outside the U.S.A. for \$15.50 per share upon the exercise of stock options. These issuances were not registered under the *Securities Act* in reliance on Regulation S thereunder.

## Issuer Purchases of Equity Securities (1)

| <b>Period</b>                          | <b>(a) Total number of shares (or units) purchased</b> | <b>(b) Average price paid per share (or unit)</b> | <b>(c) Total number of shares (or units) purchased as part of publicly announced plans or programs</b> | <b>(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs</b> |
|----------------------------------------|--------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| <b>January 2012</b><br>(Jan 1- Jan 31) | 30,774                                                 | 46.294                                            | 30,774                                                                                                 | 41,376,197                                                                                                                         |
| <b>February 2012</b><br>(Feb 1 Feb 29) | 981,033                                                | 47.725                                            | 981,033                                                                                                | 40,319,302                                                                                                                         |
| <b>March 2012</b><br>(Mar 1 Mar 31)    | 420,027                                                | 46.015                                            | 420,027                                                                                                | 39,820,471                                                                                                                         |

- (1) On June 23, 2011, the company announced by news release that it had received final approval from the Toronto Stock Exchange for a new normal course issuer bid and will continue its share repurchase program. The new program enables the company to repurchase up to a maximum of 42,385,463 common shares, including common shares purchased for the company's employee savings plan, the company's employee retirement plan and from Exxon Mobil Corporation during the period June 25, 2011 to June 24, 2012. If not previously terminated, the program will end on June 24, 2012.

The company will continue to evaluate its share-purchase program in the context of its overall capital activities.

**Item 4. Submission of Matters to a Vote of Security Holders.**



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At the annual meeting of shareholders on May 2, 2012, all of the management's nominee directors were elected to hold office until the close of the next annual meeting. The votes for the directors were: K.T. Hoeg 741,783,964 shares for and 1,420,046 shares withheld, B. H. March 726,344,394 shares for and 16,859,616 shares withheld, J.M. Mintz 742,355,684 shares for and 848,326 shares withheld, R.C. Olsen 719,395,503 shares for and 23,808,507 shares withheld, D.S. Sutherland 742,475,949 shares for and 728,061 shares withheld, S.D. Whittaker 741,925,111 shares for and 1,278,899 shares withheld, and V.L. Young 742,418,433 shares for and 785,577 shares withheld.

At the same annual meeting of shareholders, PricewaterhouseCoopers LLP were reappointed as the auditors by a vote of 751,005,207 shares for and 744,027 shares withheld from the reappointment of the auditors.

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**Item 6. Exhibits.**

- (31.1) Certification by the principal executive officer of the company pursuant to Rule 13a-14(a).
- (31.2) Certification by the principal financial officer of the company pursuant to Rule 13a-14(a).
- (32.1) Certification by the chief executive officer and of the company pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.
- (32.2) Certification by the chief financial officer and of the company pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

**SIGNATURES**

Pursuant to the requirements of the *Securities Exchange Act* of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IMPERIAL OIL LIMITED  
(Registrant)

*/s/ Paul J. Masschelin*

Date: May 2, 2012

(Signature)  
Paul J. Masschelin  
Senior Vice-President, Finance and

Administration and Treasurer  
(Principal Accounting Officer)

*/s/ Brent A. Latimer*

Date: May 2, 2012

(Signature)  
Brent A. Latimer  
Assistant Secretary