

IMPERIAL OIL LTD
Form 10-Q
August 02, 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 June 30, 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).

| | |
|---|--|
| | Accelerated filer |
| Large accelerated filer <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |

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 June 30, 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)

| millions of Canadian dollars | Second Quarter | | Six Months to June 30 | |
|--|-------------------|--------------|--------------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| REVENUES AND OTHER INCOME | | | | |
| Operating revenues (a) (b) | 7,452 | 7,761 | 14,946 | 14,613 |
| Investment and other income (note 3) | 63 | 13 | 102 | 32 |
| TOTAL REVENUES AND OTHER INCOME | 7,515 | 7,774 | 15,048 | 14,645 |
| EXPENSES | | | | |
| Exploration | 18 | 22 | 46 | 59 |
| Purchases of crude oil and products (c) | 4,645 | 4,966 | 9,031 | 8,946 |
| Production and manufacturing (d) | 1,247 | 1,058 | 2,224 | 2,037 |
| Selling and general | 247 | 253 | 531 | 574 |
| Federal excise tax (a) | 340 | 325 | 656 | 640 |
| Depreciation and depletion | 178 | 190 | 368 | 378 |
| Financing costs (note 5) | | 1 | | 1 |
| TOTAL EXPENSES | 6,675 | 6,815 | 12,856 | 12,635 |
| INCOME BEFORE INCOME TAXES | 840 | 959 | 2,192 | 2,010 |
| INCOME TAXES | 205 | 233 | 542 | 503 |
| NET INCOME | 635 | 726 | 1,650 | 1,507 |
| PER SHARE INFORMATION (Canadian dollars) | | | | |
| Net income per common share - basic (dollars) (note 8) | 0.75 | 0.86 | 1.95 | 1.78 |
| Net income per common share - diluted (dollars) (note 8) | 0.75 | 0.85 | 1.94 | 1.76 |
| Dividends per common share (dollars) | 0.12 | 0.11 | 0.24 | 0.22 |
| (a) Federal excise tax included in operating revenues | 340 | 325 | 656 | 640 |
| (b) Amounts from related parties included in operating revenues | 938 | 638 | 1,645 | 1,120 |
| (c) Amounts to related parties included in purchases of crude oil and products | 1,022 | 766 | 1,555 | 1,881 |
| (d) Amounts to related parties included in production and manufacturing expenses | 71 | 48 | 105 | 101 |

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)

| millions of Canadian dollars | Second Quarter | | Six Months to June 30 | |
|---|----------------|------|--------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | 635 | 726 | 1,650 | 1,507 |
| Other comprehensive income, net of income taxes | | | | |
| Post-retirement benefit liability adjustment (excluding amortization) | - | (64) | (117) | (172) |
| Amortization of post-retirement benefit liability adjustment included in net periodic benefit costs | 51 | 36 | 99 | 69 |
| Total other comprehensive income/(loss) | 51 | (28) | (18) | (103) |
| Comprehensive income | 686 | 698 | 1,632 | 1,404 |

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)

| millions of Canadian dollars | As at June 30 2012 | As at Dec 31 2011 |
|---|---------------------------------|-------------------------|
| ASSETS | | |
| Current assets | | |
| Cash | 996 | 1,202 |
| Accounts receivable, less estimated doubtful accounts | 2,143 | 2,290 |
| Inventories of crude oil and products | 931 | 762 |
| Materials, supplies and prepaid expenses | 264 | 239 |
| Deferred income tax assets | 550 | 590 |
| Total current assets | 4,884 | 5,083 |
| Long-term receivables, investments and other long-term assets | 928 | 920 |
| Property, plant and equipment, less accumulated depreciation and depletion | 35,674 | 33,416 |
| | (14,507) | (14,254) |
| Property, plant and equipment, net | 21,167 | 19,162 |
| Goodwill | 204 | 204 |
| Other intangible assets, net | 58 | 60 |
| TOTAL ASSETS | 27,241 | 25,429 |
| LIABILITIES | | |
| Current liabilities | | |
| Notes and loans payable | 364 | 364 |
| Accounts payable and accrued liabilities (a) (note 7) | 4,542 | 4,317 |
| Income taxes payable | 1,357 | 1,268 |
| Total current liabilities | 6,263 | 5,949 |
| Long-term debt (b) (note 6) | 841 | 843 |
| Other long-term obligations (note 7) | 3,856 | 3,876 |
| Deferred income tax liabilities | 1,617 | 1,440 |
| TOTAL LIABILITIES | 12,577 | 12,108 |
| SHAREHOLDERS EQUITY | | |
| Common shares at stated value (c) | 1,566 | 1,528 |
| Earnings reinvested | 15,354 | 14,031 |
| Accumulated other comprehensive income (note 9) | (2,256) | (2,238) |
| TOTAL SHAREHOLDERS EQUITY | 14,664 | 13,321 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 27,241 | 25,429 |

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- (a) Accounts payable and accrued liabilities included amounts payable to related parties of \$147 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)

| millions of Canadian dollars | Second Quarter | | Six Months | |
|---|----------------|--------------|--------------------|----------------|
| | 2012 | 2011 | to June 30 2012 | 2011 |
| OPERATING ACTIVITIES | | | | |
| Net income | 635 | 726 | 1,650 | 1,507 |
| Adjustment for non-cash items: | | | | |
| Depreciation and depletion | 178 | 190 | 368 | 378 |
| (Gain)/loss on asset sales (note 3) | (55) | - | (84) | (6) |
| Deferred income taxes and other | 169 | 4 | 217 | (86) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | (1) | (62) | 139 | (307) |
| Inventories, materials, supplies and prepaid expenses | 237 | (49) | (194) | (511) |
| Income taxes payable | 29 | 33 | 88 | 50 |
| Accounts payable and accrued liabilities | 155 | (21) | 226 | 710 |
| All other items - net (a) | (30) | (165) | (46) | (120) |
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | 1,317 | 656 | 2,364 | 1,615 |
| INVESTING ACTIVITIES | | | | |
| Additions to property, plant and equipment | (1,290) | (903) | (2,435) | (1,725) |
| Proceeds from asset sales | 61 | 6 | 139 | 20 |
| Repayment of loan from equity company | 5 | 4 | 8 | 6 |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | (1,224) | (893) | (2,288) | (1,699) |
| FINANCING ACTIVITIES | | | | |
| Short-term debt - net | - | 135 | - | 135 |
| Long-term debt issued | - | 320 | - | 320 |
| Reduction in capitalized lease obligations | (1) | (1) | (2) | (2) |
| Issuance of common shares under stock option plan | 21 | 3 | 43 | 14 |
| Common shares purchased | (60) | (8) | (128) | (44) |
| Dividends paid | (102) | (94) | (195) | (187) |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | (142) | 355 | (282) | 236 |
| INCREASE (DECREASE) IN CASH | (49) | 118 | (206) | 152 |
| CASH AT BEGINNING OF PERIOD | 1,045 | 301 | 1,202 | 267 |
| CASH AT END OF PERIOD | 996 | 419 | 996 | 419 |

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| | | | | |
|---|-------|-------|-------|-------|
| (a) Included contribution to registered pension plans | (147) | (232) | (244) | (298) |
|---|-------|-------|-------|-------|

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 six months ended June 30, 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

| Second Quarter millions of dollars | Upstream | | Downstream | | Chemical | |
|---|--------------|--------------|--------------|--------------|------------|------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| REVENUES AND OTHER INCOME | | | | | | |
| Operating revenues | 1,073 | 1,400 | 6,032 | 6,021 | 347 | 340 |
| Intersegment sales | 948 | 1,140 | 594 | 728 | 69 | 105 |
| Investment and other income | 38 | 3 | 22 | 9 | - | - |
| | 2,059 | 2,543 | 6,648 | 6,758 | 416 | 445 |
| EXPENSES | | | | | | |
| Exploration | 18 | 22 | - | - | - | - |
| Purchases of crude oil and products | 740 | 963 | 5,234 | 5,647 | 282 | 329 |
| Production and manufacturing | 701 | 596 | 499 | 415 | 47 | 47 |
| Selling and general | - | 2 | 222 | 237 | 16 | 16 |
| Federal excise tax | - | - | 340 | 325 | - | - |
| Depreciation and depletion | 119 | 132 | 52 | 52 | 4 | 4 |
| Financing costs | - | - | - | 1 | - | - |
| TOTAL EXPENSES | 1,578 | 1,715 | 6,347 | 6,677 | 349 | 396 |
| INCOME BEFORE INCOME TAXES | 481 | 828 | 301 | 81 | 67 | 49 |
| INCOME TAXES | 121 | 204 | 69 | 17 | 18 | 13 |
| NET INCOME | 360 | 624 | 232 | 64 | 49 | 36 |
| Export sales to the United States | 386 | 559 | 517 | 307 | 230 | 228 |
| Cash flows from (used in) operating activities | 599 | 823 | 591 | (252) | 99 | 77 |
| CAPEX (a) | 1,272 | 884 | 30 | 36 | 1 | 1 |

| Second Quarter millions of dollars | Corporate and Other | | Eliminations | | Consolidated | |
|---------------------------------------|---------------------|----------|----------------|----------------|--------------|--------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| REVENUES AND OTHER INCOME | | | | | | |
| Operating revenues | - | - | - | - | 7,452 | 7,761 |
| Intersegment sales | - | - | (1,611) | (1,973) | - | - |
| Investment and other income | 3 | 1 | - | - | 63 | 13 |
| | 3 | 1 | (1,611) | (1,973) | 7,515 | 7,774 |
| EXPENSES | | | | | | |
| Exploration | - | - | - | - | 18 | 22 |

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| | | | | | | |
|---|------------|------------|----------------|----------------|--------------|--------------|
| Purchases of crude oil and products | - | - | (1,611) | (1,973) | 4,645 | 4,966 |
| Production and manufacturing | - | - | - | - | 1,247 | 1,058 |
| Selling and general | 9 | (2) | - | - | 247 | 253 |
| Federal excise tax | - | - | - | - | 340 | 325 |
| Depreciation and depletion | 3 | 2 | - | - | 178 | 190 |
| Financing costs | - | - | - | - | - | 1 |
| TOTAL EXPENSES | 12 | - | (1,611) | (1,973) | 6,675 | 6,815 |
| INCOME BEFORE INCOME TAXES | (9) | 1 | - | - | 840 | 959 |
| INCOME TAXES | (3) | (1) | - | - | 205 | 233 |
| NET INCOME | (6) | 2 | - | - | 635 | 726 |
| Export sales to the United States | - | - | - | - | 1,133 | 1,094 |
| Cash flows from (used in) operating activities | 28 | 8 | - | - | 1,317 | 656 |
| CAPEX (a) | 5 | 4 | - | - | 1,308 | 925 |

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

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| Six Months to June 30 | Upstream | | Downstream | | Chemical | |
|---|---------------|---------------|---------------|---------------|------------|------------|
| millions of dollars | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| REVENUES AND OTHER INCOME | | | | | | |
| Operating revenues | 2,468 | 2,574 | 11,787 | 11,368 | 691 | 671 |
| Intersegment sales | 2,042 | 2,297 | 1,388 | 1,439 | 151 | 194 |
| Investment and other income | 41 | 11 | 55 | 18 | - | - |
| | 4,551 | 4,882 | 13,230 | 12,825 | 842 | 865 |
| EXPENSES | | | | | | |
| Exploration | 46 | 59 | - | - | - | - |
| Purchases of crude oil and products | 1,761 | 1,824 | 10,255 | 10,416 | 596 | 636 |
| Production and manufacturing | 1,292 | 1,195 | 840 | 752 | 92 | 90 |
| Selling and general | 2 | 3 | 463 | 460 | 33 | 32 |
| Federal excise tax | - | - | 656 | 640 | - | - |
| Depreciation and depletion | 248 | 265 | 108 | 102 | 7 | 7 |
| Financing costs | - | - | - | - | - | - |
| TOTAL EXPENSES | 3,349 | 3,346 | 12,322 | 12,370 | 728 | 765 |
| INCOME BEFORE INCOME TAXES | 1,202 | 1,536 | 908 | 455 | 114 | 100 |
| INCOME TAXES | 300 | 384 | 221 | 115 | 30 | 26 |
| NET INCOME | 902 | 1,152 | 687 | 340 | 84 | 74 |
| Export sales to the United States | 849 | 1,108 | 748 | 558 | 441 | 428 |
| Cash flows from (used in) operating activities | 1,486 | 1,540 | 778 | 19 | 46 | 82 |
| CAPEX (a) | 2,417 | 1,702 | 53 | 72 | 2 | 3 |
| Total assets as at June 30 | 19,146 | 15,184 | 6,633 | 7,044 | 368 | 416 |

| Six Months to June 30 | Corporate and Other | | Eliminations | | Consolidated | |
|-------------------------------------|---------------------|------|--------------|---------|--------------|--------|
| millions of dollars | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| REVENUES AND OTHER INCOME | | | | | | |
| Operating revenues | - | - | - | - | 14,946 | 14,613 |
| Intersegment sales | - | - | (3,581) | (3,930) | - | - |
| Investment and other income | 6 | 3 | - | - | 102 | 32 |
| | 6 | 3 | (3,581) | (3,930) | 15,048 | 14,645 |
| EXPENSES | | | | | | |
| Exploration | - | - | - | - | 46 | 59 |
| Purchases of crude oil and products | - | - | (3,581) | (3,930) | 9,031 | 8,946 |

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| | | | | | | |
|---|--------------|------|----------------|---------|---------------|--------|
| Production and manufacturing | - | - | - | - | 2,224 | 2,037 |
| Selling and general | 33 | 79 | - | - | 531 | 574 |
| Federal excise tax | - | - | - | - | 656 | 640 |
| Depreciation and depletion | 5 | 4 | - | - | 368 | 378 |
| Financing costs | - | 1 | - | - | - | 1 |
| TOTAL EXPENSES | 38 | 84 | (3,581) | (3,930) | 12,856 | 12,635 |
| INCOME BEFORE INCOME TAXES | (32) | (81) | - | - | 2,192 | 2,010 |
| INCOME TAXES | (9) | (22) | - | - | 542 | 503 |
| NET INCOME | (23) | (59) | - | - | 1,650 | 1,507 |
| Export sales to the United States | - | - | - | - | 2,038 | 2,094 |
| Cash flows from (used in) operating activities | 54 | (26) | - | - | 2,364 | 1,615 |
| CAPEX (a) | 9 | 7 | - | - | 2,481 | 1,784 |
| Total assets as at June 30 | 1,221 | 640 | (127) | (318) | 27,241 | 22,966 |

- (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 | Second Quarter | | Six Months | |
|--|----------------|------|--------------------|------|
| | 2012 | 2011 | to June 30 2012 | 2011 |
| Proceeds from asset sales | 61 | 6 | 139 | 20 |
| Book value of assets sold | 6 | 6 | 55 | 14 |
| Gain/(loss) on asset sales, before tax | 55 | - | 84 | 6 |
| Gain/(loss) on asset sales, after tax | 46 | - | 70 | 4 |

4. Employee retirement benefits

The components of net benefit cost were as follows:

| millions of dollars | Second Quarter | | Six Months | |
|------------------------------------|----------------|------|--------------------|-------|
| | 2012 | 2011 | to June 30 2012 | 2011 |
| Pension benefits: | | | | |
| Current service cost | 41 | 32 | 80 | 61 |
| Interest cost | 72 | 79 | 144 | 157 |
| Expected return on plan assets | (72) | (78) | (144) | (154) |
| Amortization of prior service cost | 6 | 6 | 11 | 10 |
| Recognized actuarial loss | 61 | 41 | 118 | 81 |
| Net benefit cost | 108 | 80 | 209 | 155 |
| Other post-retirement benefits: | | | | |
| Current service cost | 2 | 2 | 4 | 3 |
| Interest cost | 6 | 6 | 11 | 12 |
| Recognized actuarial loss | 2 | - | 4 | 1 |
| Net benefit cost | 10 | 8 | 19 | 16 |

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5. Financing costs

| millions of dollars | Six Months | | | |
|-----------------------|------------------------|------|--------------------|------|
| | Second Quarter 2012 | 2011 | to June 30 2012 | 2011 |
| Debt related interest | 5 | 4 | 9 | 7 |
| Capitalized interest | (5) | (4) | (9) | (7) |
| Net interest expense | - | - | - | - |
| Other interest | - | 1 | - | 1 |
| Total financing costs | - | 1 | - | 1 |

6. Long-term debt

| millions of dollars | As at June 30 2012 | As at Dec 31 2011 |
|----------------------|--------------------------|-------------------------|
| Long-term debt | 820 | 820 |
| Capital leases | 21 | 23 |
| Total long-term debt | 841 | 843 |

In the second quarter, the company extended the maturity date of its existing unused \$200 million long-term bank credit facility to July 2014.

7. Other long-term obligations

| millions of dollars | As at June 30 2012 | As at Dec 31 2011 |
|--|--------------------------|-------------------------|
| Employee retirement benefits (a) | 2,602 | 2,645 |
| Asset retirement obligations and other environmental liabilities (b) | 908 | 914 |
| Share-based incentive compensation liabilities | 146 | 125 |
| Other obligations | 200 | 192 |

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| | | |
|-----------------------------------|--------------|-------|
| Total other long-term obligations | 3,856 | 3,876 |
|-----------------------------------|--------------|-------|

- (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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8. Net income per share

| | Six Months | | | |
|--|----------------|-------|------------|-------|
| | Second Quarter | | to June 30 | |
| | 2012 | 2011 | 2012 | 2011 |
| Net income per common share - basic | | | | |
| Net income (millions of dollars) | 635 | 726 | 1,650 | 1,507 |
| Weighted average number of common shares outstanding (millions of shares) | 848.0 | 847.7 | 847.9 | 847.7 |
| Net income per common share (dollars) | 0.75 | 0.86 | 1.95 | 1.78 |
| Net income per common share - diluted | | | | |
| Net income (millions of dollars) | 635 | 726 | 1,650 | 1,507 |
| Weighted average number of common shares outstanding (millions of shares) | 848.0 | 847.7 | 847.9 | 847.7 |
| Effect of employee share-based awards (millions of shares) | 3.6 | 6.2 | 3.5 | 6.3 |
| Weighted average number of common shares outstanding, assuming dilution (millions of shares) | 851.6 | 853.9 | 851.4 | 854.0 |
| Net income per common share (dollars) | 0.75 | 0.85 | 1.94 | 1.76 |

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

| millions of dollars | 2012 | 2011 |
|--|---------|---------|
| January 1 balance | (2,238) | (1,424) |
| Post-retirement benefits liability adjustment: | | |
| Current period change excluding amounts reclassified from accumulated other comprehensive income | (117) | (172) |
| Amounts reclassified from accumulated other comprehensive income | 99 | 69 |
| June 30 balance | (2,256) | (1,527) |

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

| | Six Months | | | |
|---|----------------|------|------------|------|
| | Second Quarter | | to June 30 | |
| millions of dollars | 2012 | 2011 | 2012 | 2011 |
| Post-retirement benefits liability adjustments: | | | | |

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| | | | | |
|--|----|------|------|------|
| Post-retirement benefits liability adjustment (excluding amortization) | - | (22) | (40) | (59) |
| Amortization of post-retirement benefit liability adjustment included in net periodic benefit cost | 18 | 13 | 34 | 24 |
| | 18 | (9) | (6) | (35) |

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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 second quarter of 2012 was \$635 million or \$0.75 a share on a diluted basis, compared with \$726 million or \$0.85 a share for the same period last year. Net income for the first six months of 2012 was \$1,650 million or \$1.94 a share on a diluted basis, versus \$1,507 million or \$1.76 a share for the first half of 2011.

Lower second quarter earnings were primarily attributable to the impacts of lower upstream realizations due to lower commodity prices of about \$345 million and higher planned maintenance events totalling about \$230 million, which included about \$120 million at the Downstream refineries and about \$110 million at Syncrude. Earnings in the second quarter of 2012 were also impacted by higher Kearn production readiness expenditures of about \$30 million. These factors were partially offset by the impacts of stronger industry refining margins of about \$270 million, lower royalty costs of about \$145 million and a weaker Canadian dollar of about \$50 million. Second quarter earnings in 2012 included a gain of about \$25 million from the sale of assets.

For the six months, earnings increased primarily due to stronger industry refining margins of about \$410 million and lower royalty costs of about \$95 million. These factors were partially offset by lower upstream realizations of about \$245 million due to lower commodity prices and lower Syncrude volumes of about \$105 million, due primarily to increased planned maintenance impacts.

Upstream

Net income in the second quarter was \$360 million versus \$624 million in the same period of 2011. Earnings decreased primarily due to lower realizations of about \$345 million, lower Syncrude volumes due to planned maintenance activities of about \$75 million and higher Syncrude maintenance costs of about \$35 million. Earnings in the second quarter of 2012 were also impacted by higher Kearn production readiness expenditures of about \$30 million. These factors were partially offset by lower royalty costs due to lower realizations of about \$145 million and the impact of a weaker Canadian dollar of about \$50 million. Second quarter earnings in 2012 included a gain of about \$25 million from the sale of assets.

Net income for the six months of 2012 was \$902 million versus \$1,152 million from 2011. Earnings were lower primarily due to the impacts of lower realizations of about \$245 million, lower Syncrude volumes of about \$105 million and higher maintenance costs of about \$45 million. These factors were partially offset by lower royalty costs of about \$95 million and the impact of a weaker Canadian dollar of about \$60 million.

Prices for most of the company's liquids production are based on West Texas Intermediate (WTI) crude oil, a common benchmark for mid-continent North American oil markets. Compared to the corresponding periods last year, the average WTI crude price in U.S. dollars was lower by \$8.99 a barrel or nine percent in the second quarter of 2012 and by \$0.35 a barrel or less than one percent in the first six months of 2012. Also, discounts for bitumen and synthetic crude oils increased in the second quarter and first six months of 2012, reflecting high industry refining downtime in mid-continent North America. For the second quarter and in the first six months of 2012, bitumen realizations in Canadian dollars decreased 17 percent and one percent, respectively, and synthetic crude oil realizations in Canadian dollars decreased 19 percent and seven percent, respectively, compared to the corresponding periods last year.

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Gross production of Cold Lake bitumen averaged 152 thousand barrels a day during the second quarter, versus 158 thousand barrels in the same period last year. For the six months, gross production was 155 thousand barrels a day this year, compared with 157 thousand barrels in the same period of 2011. Slightly lower volumes in both periods were primarily due to planned maintenance activities at the Mahkeses plant as well as the cyclic nature of production at Cold Lake.

The company's share of Syncrude's gross production in the second quarter was 60 thousand barrels a day, versus 70 thousand barrels in the second quarter of 2011. During the six months of the year, the company's share of gross production from Syncrude averaged 67 thousand barrels a day, down from 75 thousand barrels in 2011. Planned maintenance of one of the three cokers in the second quarter was the main contributor to lower production in both periods.

Gross production of conventional crude oil averaged 20 thousand barrels a day in both the second quarter and the first six months of the year, up from the 16 thousand barrels and 19 thousand barrels, respectively, in the corresponding periods in 2011 when third-party pipeline downtime significantly reduced production at the Norman Wells field.

Gross production of natural gas during the second quarter of 2012 was 195 million cubic feet a day, down from 257 million cubic feet in the same period last year. In the six months of the year, gross production was 197 million cubic feet a day, down from 263 million cubic feet in the six months of 2011. The lower production volume in both periods was primarily a result of the impact of divested producing properties.

Downstream

Net income was \$232 million in the second quarter, \$168 million higher than the second quarter of 2011. Earnings increased primarily due to the favourable impact of stronger industry refining margins of about \$270 million. This factor was partially offset by the unfavourable impact of significant maintenance activities of about \$120 million.

Industry refining margins continued to be strong in the second 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. Substantial planned maintenance activities at Strathcona and Nanticoke refineries along with unplanned downtime at the Sarnia refinery reduced our ability to fully capitalize on the strong refining margins.

Six months net income was \$687 million, an increase of \$347 million over 2011. Higher earnings were primarily due to stronger industry refining margins of about \$410 million. This factor was partially offset by the unfavourable impact of a higher level of refinery planned maintenance activities compared with 2011 totalling about \$80 million.

Chemical

Net income was \$49 million in the second quarter, the best quarter on record and \$13 million higher than the same quarter last year. Strong operating performance along with higher polyethylene sales volumes and margins were the main contributors to the increase.

Six months net income was \$84 million, up \$10 million from 2011. Earnings were positively impacted by improved margins across all product channels and higher polyethylene sales volumes.

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Corporate and other

Net income effects from Corporate and other were negative \$6 million in the second quarter, in line with \$2 million in the same period of 2011. For the six months of 2012, net income effects from Corporate and other were negative \$23 million, versus negative \$59 million last year due to lower share-based compensation charges.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operating activities was \$1,317 million in the second quarter, an increase of \$661 million from the corresponding period in 2011. Higher cash flow was primarily due to working capital effects. Year-to-date cash flow generated from operating activities was \$2,364 million, compared with \$1,615 million in the same period last year. Higher cash flow was primarily due to working capital effects and the timing of scheduled income tax payments.

Investing activities used net cash of \$1,224 million in the second quarter, compared with \$893 million in the same period of 2011. Additions to property, plant and equipment were \$1,290 million in the second quarter, compared with \$903 million during the same quarter 2011. Expenditures during the quarter were primarily directed towards the advancement of Kearl initial development and expansion. At the end of the second quarter of 2012, the Kearl Initial Development was 94 percent complete, with construction 88 percent complete. The project is progressing on schedule towards expected start-up in late 2012. Other investments included advancing the Nabiye expansion project at Cold Lake, environmental and efficiency projects at Syncrude, as well as tight oil acreage acquisitions.

Cash used in financing activities was \$142 million in the second quarter, compared with \$355 million of cash from financing activities in the second quarter of 2011. In the second quarter of 2011, the company issued additional long-term debt and commercial paper totalling \$455 million. Dividends paid in the second quarter of 2012 were \$102 million, \$8 million higher than the corresponding period in 2011. Per-share dividends declared in the first six months of 2012 totalled \$0.24, up from \$0.22 in the same period of 2011.

In June, the company received approval from the Toronto Stock Exchange for a new normal course issuer bid to replace its existing share-purchase program that expired on June 24, 2012. The new share-purchase program enables the company to repurchase up to about 42 million shares during the period from June 25, 2012, to June 24, 2013, including shares purchased for the company's employee savings plan, the company's employee retirement plan and from ExxonMobil. During the second 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 \$996 million at June 30, 2012, from \$1,202 million at the end of 2011.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Information about market risks for the six months ended June 30, 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 except for the following:

Earnings sensitivity (a)

millions of dollars after tax

Eight dollars (U.S.) a barrel change in crude oil prices

+ (-) 300

(a) The amount quoted to illustrate the impact of the sensitivity represents a change of about 10 percent in the value of the rate at the end of the second quarter 2012. The sensitivity calculation shows the impact on annual net income that results from a change in one factor, after tax and royalties and holding all other factors constant. While the sensitivity is applicable under current conditions, it may not apply proportionately to larger fluctuations.

The sensitivity of net income to changes in crude oil prices increased from year-end 2011 by about \$4 million (after tax) a year for each one U.S. dollar change. The increase was primarily a result of the impact of lower royalty costs for bitumen production due to lower crude oil commodity prices.

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 June 30, 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 April 1, 2012 to June 30, 2012, the company issued 1,153,947 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)(2)

| Period | (a) Total number of shares (or units) purchased | (b) Average price paid per share (or unit) | (c) Total number of shares (or units) purchased as part of publicly announced plans or programs | (d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs |
|--|--|---|--|--|
| April 2012 (April 1- April 30) | 246,003 | 45.3448 | 246,003 | 39,490,994 |
| May 2012 (May 1 May 31) | 1,097,871 | 44.7521 | 1,097,871 | 38,306,196 |
| June 2012 (June 1 June 30) | 0 | 0 | 0 | 38,231,759 |

- (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 program enabled 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

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company's employee retirement plan and from Exxon Mobil Corporation during the period June 25, 2011 to June 24, 2012. The program ended on June 24, 2012.

- (2) On June 21, 2012, 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 42,379,951 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, 2012 to June 24, 2013. 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.

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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)

Date: August 1, 2012

/s/ Paul J. Masschelin

(Signature)

Paul J. Masschelin

Senior Vice-President, Finance and

Administration and Controller

(Principal Accounting Officer)

Date: August 1, 2012

/s/ Brent A. Latimer

(Signature)

Brent A. Latimer

Assistant Secretary