

IMPERIAL OIL LTD  
Form 10-Q  
November 03, 2011  
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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 September 30, 2011**

**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 September 30, 2011, was 847,599,011.**

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## Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

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, 2010.

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	Third Quarter		Nine Months to September 30	
	2011	2010	2011	2010
<b>REVENUES AND OTHER INCOME</b>				
Operating revenues (a) (b)	<b>7,918</b>	5,828	<b>22,531</b>	18,053
Investment and other income (note 3)	<b>27</b>	23	<b>59</b>	103
<b>TOTAL REVENUES AND OTHER INCOME</b>	<b>7,945</b>	5,851	<b>22,590</b>	18,156
<b>EXPENSES</b>				
Exploration	<b>17</b>	54	<b>76</b>	171
Purchases of crude oil and products (c)	<b>4,993</b>	3,462	<b>13,939</b>	10,759
Production and manufacturing (d)	<b>1,017</b>	961	<b>3,054</b>	3,003
Selling and general	<b>249</b>	271	<b>823</b>	786
Federal excise tax (a)	<b>345</b>	345	<b>985</b>	971
Depreciation and depletion	<b>192</b>	187	<b>570</b>	561
Financing costs (note 5)	-	3	<b>1</b>	4
<b>TOTAL EXPENSES</b>	<b>6,813</b>	5,283	<b>19,448</b>	16,255
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,132</b>	568	<b>3,142</b>	1,901
<b>INCOME TAXES</b>	<b>273</b>	150	<b>776</b>	490
<b>NET INCOME</b>	<b>859</b>	418	<b>2,366</b>	1,411
<b>PER SHARE INFORMATION (Canadian dollars)</b>				
Net income per common share - basic (dollars) (note 8)	<b>1.01</b>	0.49	<b>2.79</b>	1.66
Net income per common share - diluted (dollars) (note 8)	<b>1.01</b>	0.49	<b>2.77</b>	1.65
Dividends per common share (dollars)	<b>0.11</b>	0.11	<b>0.33</b>	0.32
(a) Federal excise tax included in operating revenues	<b>345</b>	345	<b>985</b>	971
(b) Amounts from related parties included in operating revenues	<b>876</b>	560	<b>2,181</b>	1,607

(c)	Amounts to related parties included in purchases of crude oil and products	<b>737</b>	774	<b>2,618</b>	1,786
(d)	Amounts to related parties included in production and manufacturing expenses	<b>53</b>	68	<b>154</b>	190

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 Sept. 30 <b>2011</b>	As at Dec. 31 2010
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millions of Canadian dollars

**ASSETS**

## Current assets

Cash	<b>920</b>	267
Accounts receivable, less estimated doubtful accounts	<b>2,124</b>	2,000
Inventories of crude oil and products	<b>986</b>	527
Materials, supplies and prepaid expenses	<b>272</b>	246
Deferred income tax assets	<b>581</b>	498

Total current assets	<b>4,883</b>	3,538
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Long-term receivables, investments and other long-term assets	<b>918</b>	870
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Property, plant and equipment, less accumulated depreciation and depletion	<b>32,583</b> <b>14,458</b>	30,004 14,099
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Property, plant and equipment, net	<b>18,125</b>	15,905
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Goodwill	<b>204</b>	204
Other intangible assets, net	<b>64</b>	63

<b>TOTAL ASSETS</b>	<b>24,194</b>	20,580
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**LIABILITIES**

## Current liabilities

Notes and loans payable	<b>364</b>	229
Accounts payable and accrued liabilities (a) (note 7)	<b>4,349</b>	3,470
Income taxes payable	<b>1,149</b>	878

Total current liabilities	<b>5,862</b>	4,577
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Long-term debt (b) (note 6)	<b>844</b>	527
Other long-term obligations (note 7)	<b>2,737</b>	2,753
Deferred income tax liabilities	<b>1,588</b>	1,546

<b>TOTAL LIABILITIES</b>	<b>11,031</b>	9,403
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**SHAREHOLDERS EQUITY**

Common shares at stated value (c)	<b>1,524</b>	1,511
Earnings reinvested	<b>13,131</b>	11,090
Accumulated other comprehensive income	<b>(1,492)</b>	(1,424)

<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>13,163</b>	11,177
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<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>24,194</b>	20,580
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- (a) Accounts payable and accrued liabilities included amounts payable to related parties of \$206 million (2010 - amounts receivable of \$45 million).
- (b) Long-term debt included amounts to related parties of \$820 million (2010 - \$500 million).
- (c) Number of common shares authorized and outstanding were 1,100 million and 848 million, respectively (2010 - 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)

Nine Months

inflow/(outflow) millions of Canadian dollars	Third Quarter		to September 30	
	2011	2010	2011	2010

**OPERATING ACTIVITIES**

Net income	859	418	2,366	1,411
Adjustment for non-cash items:				
Depreciation and depletion	192	187	570	561
(Gain)/loss on asset sales (note 3)	(17)	(12)	(23)	(58)
Deferred income taxes and other	59	(17)	(27)	55
Changes in operating assets and liabilities:				
Accounts receivable	175	(33)	(132)	(95)
Inventories, materials, supplies and prepaid expenses	26	(58)	(485)	(178)
Income taxes payable	221	60	271	(172)
Accounts payable and accrued liabilities	169	375	879	752
All other items - net (a)	(26)	45	(146)	(73)

**CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES**

1,658	965	3,273	2,203
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**INVESTING ACTIVITIES**

Additions to property, plant and equipment and intangibles	(1,087)	(1,147)	(2,812)	(2,811)
Proceeds from asset sales	24	35	44	95
Repayment of loan from (loan to) equity company	2	(1)	8	(1)

(1,061)	(1,113)	(2,760)	(2,717)
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**FINANCING ACTIVITIES**

Short-term debt - net	-	30	135	120
Long-term debt issued	-	200	320	200
Reduction in capitalized lease obligations	(1)	(2)	(3)	(3)
Issuance of common shares under stock option plan	1	-	15	1
Common shares purchased	(3)	-	(47)	(3)
Dividends paid	(93)	(93)	(280)	(263)

(96)	135	140	52
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<b>INCREASE (DECREASE) IN CASH</b>	<b>501</b>	(13)	<b>653</b>	(462)
<b>CASH AT BEGINNING OF PERIOD</b>	<b>419</b>	64	<b>267</b>	513
<b>CASH AT END OF PERIOD</b>	<b>920</b>	51	<b>920</b>	51

(a) Includes contribution to registered pension plans (12) (13) (310) (378)  
 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 presentation**

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. In the opinion of the management, the information furnished herein reflects all known accruals and adjustments necessary for a fair presentation of the financial position of the company as at September 30, 2011, and December 31, 2010, and the results of operations and changes in cash flows for the nine months ended September 30, 2011 and 2010. All such adjustments are of a normal recurring nature. The company's exploration and production activities are accounted for under the successful efforts method. Certain reclassifications to the prior year have been made to conform to the 2011 presentation.

The results for the nine months ended September 30, 2011, 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**

Third Quarter millions of dollars	Upstream		Downstream		Chemical	
	2011	2010	2011	2010	2011	2010
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	1,263	908	6,319	4,655	336	265
Intersegment sales	994	879	614	416	80	79
Investment and other income	1	5	23	17	-	-
	<b>2,258</b>	1,792	<b>6,956</b>	5,088	<b>416</b>	344
<b>EXPENSES</b>						
Exploration	17	54	-	-	-	-
Purchases of crude oil and products	781	545	5,596	4,047	304	244
Production and manufacturing	627	592	347	320	43	49
Selling and general	2	2	251	229	18	16
Federal excise tax	-	-	345	345	-	-
Depreciation and depletion	133	128	53	54	3	3
Financing costs	-	-	-	1	-	-
<b>TOTAL EXPENSES</b>	<b>1,560</b>	1,321	<b>6,592</b>	4,996	<b>368</b>	312
<b>INCOME BEFORE INCOME TAXES</b>	<b>698</b>	471	<b>364</b>	92	<b>48</b>	32
<b>INCOME TAXES</b>	<b>164</b>	123	<b>92</b>	23	<b>11</b>	9
<b>NET INCOME</b>	<b>534</b>	348	<b>272</b>	69	<b>37</b>	23
<b>Export sales to the United States</b>	<b>496</b>	377	<b>257</b>	295	<b>221</b>	161
<b>Cash flows from (used in) operating activities</b>	<b>1,004</b>	748	<b>589</b>	198	<b>55</b>	31
<b>CAPEX (a)</b>	<b>1,051</b>	1,151	<b>48</b>	45	-	1

Third Quarter millions of dollars	Corporate and Other		Eliminations		Consolidated	
	2011	2010	2011	2010	2011	2010
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	-	-	-	-	7,918	5,828
Intersegment sales	-	-	(1,688)	(1,374)	-	-
Investment and other income	3	1	-	-	27	23

	<b>3</b>	<b>1</b>	<b>(1,688)</b>	<b>(1,374)</b>	<b>7,945</b>	<b>5,851</b>
<b>EXPENSES</b>						
Exploration	-	-	-	-	<b>17</b>	54
Purchases of crude oil and products	-	-	<b>(1,688)</b>	<b>(1,374)</b>	<b>4,993</b>	3,462
Production and manufacturing	-	-	-	-	<b>1,017</b>	961
Selling and general	<b>(22)</b>	24	-	-	<b>249</b>	271
Federal excise tax	-	-	-	-	<b>345</b>	345
Depreciation and depletion	<b>3</b>	2	-	-	<b>192</b>	187
Financing costs	-	2	-	-	-	3
<b>TOTAL EXPENSES</b>	<b>(19)</b>	28	<b>(1,688)</b>	<b>(1,374)</b>	<b>6,813</b>	5,283
<b>INCOME BEFORE INCOME TAXES</b>	<b>22</b>	(27)	-	-	<b>1,132</b>	568
<b>INCOME TAXES</b>	<b>6</b>	(5)	-	-	<b>273</b>	150
<b>NET INCOME</b>	<b>16</b>	(22)	-	-	<b>859</b>	418
<b>Export sales to the United States</b>	-	-	-	-	<b>974</b>	833
<b>Cash flows from (used in) operating activities</b>	<b>10</b>	(12)	-	-	<b>1,658</b>	965
<b>CAPEX (a)</b>	<b>5</b>	2	-	-	<b>1,104</b>	1,199

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

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## IMPERIAL OIL LIMITED

Nine Months to September 30  
millions of dollars

	Upstream		Downstream		Chemical	
	2011	2010	2011	2010	2011	2010
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	3,837	3,159	17,687	14,081	1,007	813
Intersegment sales	3,291	2,790	2,053	1,449	274	212
Investment and other income	12	36	41	62	-	3
	7,140	5,985	19,781	15,592	1,281	1,028
<b>EXPENSES</b>						
Exploration	76	171	-	-	-	-
Purchases of crude oil and products	2,605	1,985	16,012	12,471	940	754
Production and manufacturing	1,822	1,767	1,099	1,079	133	157
Selling and general	5	5	711	678	50	49
Federal excise tax	-	-	985	971	-	-
Depreciation and depletion	398	384	155	162	10	9
Financing costs	-	-	-	1	-	-
<b>TOTAL EXPENSES</b>	<b>4,906</b>	<b>4,312</b>	<b>18,962</b>	<b>15,362</b>	<b>1,133</b>	<b>969</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>2,234</b>	<b>1,673</b>	<b>819</b>	<b>230</b>	<b>148</b>	<b>59</b>
<b>INCOME TAXES</b>	<b>548</b>	<b>435</b>	<b>207</b>	<b>54</b>	<b>37</b>	<b>15</b>
<b>NET INCOME</b>	<b>1,686</b>	<b>1,238</b>	<b>612</b>	<b>176</b>	<b>111</b>	<b>44</b>
<b>Export sales to the United States</b>	<b>1,604</b>	<b>1,295</b>	<b>815</b>	<b>919</b>	<b>649</b>	<b>487</b>
<b>Cash flows from (used in) operating activities</b>	<b>2,544</b>	<b>2,057</b>	<b>608</b>	<b>161</b>	<b>137</b>	<b>44</b>
<b>CAPEX (a)</b>	<b>2,753</b>	<b>2,838</b>	<b>120</b>	<b>129</b>	<b>3</b>	<b>9</b>
<b>Total assets as at September 30</b>	<b>16,104</b>	<b>12,754</b>	<b>6,830</b>	<b>6,401</b>	<b>400</b>	<b>425</b>

Nine Months to September 30  
millions of dollars

	Corporate and Other		Eliminations		Consolidated	
	2011	2010	2011	2010	2011	2010
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	-	-	-	-	22,531	18,053
Intersegment sales	-	-	(5,618)	(4,451)	-	-
Investment and other income	6	2	-	-	59	103
	6	2	(5,618)	(4,451)	22,590	18,156

**EXPENSES**

Exploration	-	-	-	-	<b>76</b>	171
Purchases of crude oil and products	-	-	<b>(5,618)</b>	(4,451)	<b>13,939</b>	10,759
Production and manufacturing	-	-	-	-	<b>3,054</b>	3,003
Selling and general	<b>57</b>	54	-	-	<b>823</b>	786
Federal excise tax	-	-	-	-	<b>985</b>	971
Depreciation and depletion	<b>7</b>	6	-	-	<b>570</b>	561
Financing costs	<b>1</b>	3	-	-	<b>1</b>	4
<b>TOTAL EXPENSES</b>	<b>65</b>	63	<b>(5,618)</b>	(4,451)	<b>19,448</b>	16,255
<b>INCOME BEFORE INCOME TAXES</b>	<b>(59)</b>	(61)	-	-	<b>3,142</b>	1,901
<b>INCOME TAXES</b>	<b>(16)</b>	(14)	-	-	<b>776</b>	490
<b>NET INCOME</b>	<b>(43)</b>	(47)	-	-	<b>2,366</b>	1,411
<b>Export sales to the United States</b>	-	-	-	-	<b>3,068</b>	2,701
<b>Cash flows from (used in) operating activities</b>	<b>(16)</b>	(59)	-	-	<b>3,273</b>	2,203
<b>CAPEX (a)</b>	<b>12</b>	4	-	-	<b>2,888</b>	2,980
<b>Total assets as at September 30</b>	<b>1,137</b>	96	<b>(277)</b>	(278)	<b>24,194</b>	19,398

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

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## IMPERIAL OIL LIMITED

\$000      \$000      \$000      \$000      \$000

**3. Investment and other income**

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

millions of dollars	Third Quarter		Nine Months to September 30	
	2011	2010	2011	2010
Proceeds from asset sales	24	35	44	95
Book value of assets sold	7	23	21	37
Gain/(loss) on asset sales, before tax	17	12	23	58
Gain/(loss) on asset sales, after tax	15	10	19	50

**4. Employee retirement benefits**

The components of net benefit cost are as follows:

millions of dollars	\$000	\$000	\$000	\$000	\$000
	Third Quarter		Nine Months to September 30		
	2011	2010	2011	2010	2010
<b>Pension benefits:</b>					
Current service cost	30	25	91	76	
Interest cost	78	77	235	230	
Expected return on plan assets	(77)	(69)	(231)	(206)	
Amortization of prior service cost	6	5	16	13	
Recognized actuarial loss	41	34	122	103	
<b>Net benefit cost</b>	<b>78</b>	<b>72</b>	<b>233</b>	<b>216</b>	
<b>Other post-retirement benefits:</b>					
Current service cost	1	1	4	4	
Interest cost	6	6	18	18	
Amortization of prior service cost	-	-	-	(1)	
Recognized actuarial loss	1	-	2	-	



Net benefit cost	<b>8</b>	7	<b>24</b>	21
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## IMPERIAL OIL LIMITED

**5. Financing costs**

millions of dollars	\$0,000 Third Quarter <b>2011</b>	\$0,000 2010	\$0,000 Nine Months to September 30 <b>2011</b>	\$0,000 2010
Debt related interest	<b>5</b>	2	<b>12</b>	4
Capitalized interest	<b>(5)</b>	(2)	<b>(12)</b>	(4)
Net interest expense	-	-	-	-
Other interest	-	3	<b>1</b>	4
<b>Total financing costs</b>	<b>-</b>	3	<b>1</b>	4

**6. Long-term debt**

millions of dollars	\$0,000 As at Sept. 30 <b>2011</b>	\$0,000 As at Dec. 31 2010
Long-term debt	<b>820</b>	500
Capital leases	<b>24</b>	27
<b>Total long-term debt</b>	<b>844</b>	527

**7. Other long-term obligations**

millions of dollars	\$0,000 As at Sept. 30 <b>2011</b>	\$0,000 As at Dec. 31 2010
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Employee retirement benefits (a)	<b>1,627</b>	1,640
Asset retirement obligations and other environmental liabilities (b)	<b>732</b>	754
Share-based incentive compensation liabilities	<b>159</b>	127
Other obligations	<b>219</b>	232
<b>Total other long-term obligations</b>	<b>2,737</b>	2,753

- (a) Total recorded employee retirement benefits obligations also include \$47 million in current liabilities (December 31, 2010 - \$47 million).
- (b) Total asset retirement obligations and other environmental liabilities also include \$134 million in current liabilities (December 31, 2010 - \$134 million).

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## IMPERIAL OIL LIMITED

**8. Net income per share**

	\$0,000	\$0,000	\$0,000	\$0,000	
			Nine Months		
		Third Quarter	to September 30		
		<b>2011</b>	2010	<b>2011</b>	2010
<b>Net income per common share - basic</b>					
Net income (millions of dollars)	<b>859</b>	418	<b>2,366</b>	1,411	
Weighted average number of common shares outstanding (millions of shares)	<b>847.6</b>	847.6	<b>847.7</b>	847.6	
Net income per common share (dollars)	<b>1.01</b>	0.49	<b>2.79</b>	1.66	
<b>Net income per common share - diluted</b>					
Net income (millions of dollars)	<b>859</b>	418	<b>2,366</b>	1,411	
Weighted average number of common shares outstanding (millions of shares)	<b>847.6</b>	847.6	<b>847.7</b>	847.6	
Effect of employee share-based awards (millions of shares)	<b>6.2</b>	7.1	<b>6.3</b>	6.9	
Weighted average number of common shares outstanding, assuming dilution (millions of shares)	<b>853.8</b>	854.7	<b>854.0</b>	854.5	
Net income per common share (dollars)	<b>1.01</b>	0.49	<b>2.77</b>	1.65	

**9. Comprehensive income**

	\$0,000	\$0,000	\$0,000	\$0,000
			Nine Months	
		Third Quarter	to September 30	

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millions of dollars	2011	2010	2011	2010
Net income	<b>859</b>	418	<b>2,366</b>	1,411
Post-retirement benefit liability adjustment (excluding amortization)	-	-	<b>(172)</b>	84
Amortization of post retirement benefit liability adjustment included in net periodic benefit costs	<b>35</b>	28	<b>104</b>	85
Other comprehensive income (net of income taxes)	<b>35</b>	28	<b>(68)</b>	169
Total comprehensive income	<b>894</b>	446	<b>2,298</b>	1,580

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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 third quarter of 2011 was \$859 million or \$1.01 a share on a diluted basis, compared with \$418 million or \$0.49 a share for the same period last year. Net income for the first nine months of 2011 was \$2,366 million or \$2.77 a share on a diluted basis, versus \$1,411 million or \$1.65 a share for the first nine months of 2010.

Earnings in the third quarter were higher than the same quarter in 2010 primarily due to stronger industry refining margins of about \$270 million, higher crude oil commodity prices of about \$190 million, increased Cold Lake bitumen production of about \$90 million and higher Syncrude volumes of about \$45 million. These factors were partially offset by the unfavourable impacts of the foreign exchange effects of the stronger Canadian dollar of about \$65 million, higher royalty costs of about \$60 million and lower conventional crude oil volumes of about \$35 million due to third-party pipeline reliability issues.

For the nine months, increased earnings were primarily attributable to higher crude oil commodity prices of about \$650 million, stronger industry refining margins of about \$525 million, increased Cold Lake bitumen production of about \$190 million and higher Syncrude volumes of about \$70 million. These factors were partially offset by the unfavourable impact of the stronger Canadian dollar of about \$205 million, higher royalty costs of about \$190 million and lower conventional crude oil volumes of about \$80 million due to third party pipeline reliability issues.

**Upstream**

Net income in the third quarter was \$534 million, \$186 million higher than the same period of 2010. Earnings benefited from higher crude oil commodity prices of about \$190 million, increased Cold Lake bitumen production of about \$90 million and higher Syncrude volumes of about \$45 million. These factors were partially offset by higher royalty costs due to higher commodity prices of about \$60 million, the foreign exchange effects of the stronger Canadian dollar of about \$45 million and lower conventional crude oil volumes of about \$35 million due to third-party pipeline reliability issues.

Net income for the nine months of 2011 was \$1,686 million, up \$448 million from 2010. Earnings increased primarily due to the impacts of higher crude oil commodity prices of about \$650 million, increased Cold Lake bitumen production of about \$190 million and higher Syncrude volumes of about \$70 million. These factors were partially offset by the unfavourable effects of higher royalty costs of about \$190 million, the stronger Canadian dollar of about \$150 million and lower conventional crude oil volumes of about \$120 million, of which about \$80 million was a result of the second and third quarter 2011 third-party pipeline issues.

The average price of Brent crude oil in U.S. dollars, a common benchmark for Atlantic Basin oil markets, was \$113.46 a barrel in the third quarter and \$111.96 a barrel in the nine months of 2011, up about 48 percent and 45 percent from the corresponding periods last year. Increase in the average price of West Texas Intermediate (WTI) crude oil, a common benchmark for mid-continent North American oil markets, was limited to 17 percent and 23 percent, respectively, due to the continued weakness in WTI crude oil markets. Increases in the company's average realizations on sales of Canadian conventional crude oil and synthetic crude oil were in line with that of WTI. Increase in the company's average bitumen realizations in Canadian dollars in the third quarter and in the first nine months of 2011 were two percent to \$58.23 a barrel and five percent to \$60.90 a barrel, respectively, as the price spread between light crude oil and Cold Lake bitumen widened.

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Gross production of Cold Lake bitumen averaged 162 thousand barrels a day and established a new production record in the third quarter. Cold Lake production was up 17 percent from 139 thousand barrels in the same quarter last year. For the nine months, gross production was 159 thousand barrels a day this year, compared with 143 thousand barrels in the same period of 2010. Increased volumes in both periods were due to contributions from new wells steamed in 2010 and 2011, increased recoveries and the cyclic nature of production at Cold Lake.

The company's share of Syncrude's gross production in the third quarter was 75 thousand barrels a day, versus 66 thousand barrels in the third quarter of 2010. Higher production was primarily the result of improved operating reliability partially offset by planned maintenance activities which began in September 2011 and will be complete in the fourth quarter of 2011. During the first nine months of the year, the company's share of gross production from Syncrude averaged 75 thousand barrels a day, up from 71 thousand barrels in 2010. Increased production was due to improved operating reliability.

Gross production of conventional crude oil averaged 12 thousand barrels a day in the third quarter, down from 22 thousand barrels in the third quarter of 2010. Lower volumes were primarily due to the third-party pipeline unplanned downtime which caused significantly reduced production at the Norman Wells field. In the first nine months of the year, gross production was 17 thousand barrels a day, compared with 23 thousand barrels in 2010. Lower volumes were primarily due to third-party pipeline downtime, which reduced production at the Norman Wells field along with natural reservoir decline.

Gross production of natural gas during the third quarter of 2011 was 252 million cubic feet a day, down from 284 million cubic feet in the same period last year. In the nine months of the year, gross production was 259 million cubic feet a day, down from 282 million cubic feet in the nine months of 2010. The lower production volumes in both periods were primarily a result of natural reservoir decline.

## **Downstream**

Net income was \$272 million in the third quarter of 2011, compared with \$69 million in the same period a year ago. Earnings increased primarily due to stronger industry refining margins of about \$270 million partially offset by higher expenses of about \$40 million mainly due to higher maintenance activities and the unfavourable effects of the stronger Canadian dollar of about \$20 million. Refinery crude runs increased by 39 thousand barrels a day in the third quarter, following completion of planned maintenance activities in the prior quarter.

Nine months net income was \$612 million, an increase of \$436 million over 2010. Higher earnings were primarily due to favourable impacts of stronger industry refining margins of about \$525 million and \$40 million associated with improved refinery operations. These factors were partially offset by the unfavourable impacts of the stronger Canadian dollar of about \$55 million and higher expenses of about \$40 million mainly due to higher maintenance activities. Earnings in 2010 included a gain of about \$25 million from sale of non-operating assets.

## **Chemical**

Net income was \$37 million in the third quarter, \$14 million higher than the same quarter last year. Improved industry margins for intermediate products and lower costs due to lower planned maintenance activities were the main contributors to the increase.

Net income in the first nine months of 2011 was \$111 million, up \$67 million from 2010. Earnings were positively impacted by improved industry margins across all product channels, lower costs due to lower planned maintenance activities and higher polyethylene sales volumes.

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### **Corporate and other**

Net income effects from Corporate and other were \$16 million in the third quarter, compared with negative \$22 million in the same period of 2010. Favourable effects were primarily due to lower share-based compensation charges. For the nine months of 2011, net income effects from Corporate and other were negative \$43 million, in line with the negative \$47 million reported last year.

### **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow generated from operating activities was \$1,658 million in the third quarter and \$3,273 million in the first nine months of 2011, an increase of \$693 million and \$1,070 million from corresponding periods in 2010. Higher cash flow in both the third quarter and nine months of 2011 was primarily due to higher earnings along with working capital effects.

Investing activities used net cash of \$1,061 million in the third quarter, compared with \$1,113 million in the same period of 2010. Additions to property, plant and equipment were \$1,087 million in the third quarter, compared with \$1,147 million during the same quarter 2010. For the Upstream segment, expenditures during the quarter were primarily directed towards the advancement of the Kearl initial development and Kearl expansion oil sands project. Other investments included advancing the Nabiye expansion project at Cold Lake, environmental and efficiency projects at Syncrude, as well as exploration drilling and the advancement of the production pilot at Horn River. The Downstream segment's capital expenditures were focused mainly on refinery projects to improve reliability, feedstock flexibility, energy efficiency and environmental performance.

Cash used in financing activities was \$96 million in the third quarter, compared with \$135 million of cash from financing activities in the third quarter of 2010. The 2010 results included debt issuance of \$230 million.

Dividends paid in the third quarter of 2011 were \$93 million, same as in the corresponding period in 2010. Per-share dividend declared for the first three quarters of 2011 totaled \$0.33, up from \$0.32 in the same period of 2010.

During the third quarter of 2011, 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 an increase in the company's balance of cash to \$920 million at September 30, 2011, from \$267 million at the end of 2010.



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

Information about market risks for the nine months ended September 30, 2011 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, 2010 and Form 10-Q for the quarter ended June 30, 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 September 30, 2011. 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 1. Legal Proceedings.**

On September 15, 2011 Imperial Oil Resources NWT Ltd., a subsidiary of Imperial Oil Limited, pled guilty to a charge of depositing a substance harmful to fish and fish habitat in a backwash pond near the Mackenzie River. For this offence under the Fisheries Act, Imperial Oil was fined \$5,000 and agreed to pay an additional \$155,000 to the federal government for conservation and protection of fish and fish habitat. For a second and related offence of violating the conditions of its water license under the NWT Waters Act, the company was fined an additional \$25,000.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the period July 1, 2011 to September 30, 2011, the company issued 61,251 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>July 2011</b>				
(July 1- July 31)	0	0	0	42,287,486
<b>August 2011</b>				
(August 1 - August 31)	57,600	\$40.6699	57,600	42,141,005
<b>September 2011</b>				
(Sept 1 - Sept 30)	14,400	\$37.8179	14,400	42,035,505

- (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.

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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: November 3, 2011

*/s/ Paul J. Masschelin*

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

Administration and Treasurer  
(Principal Accounting Officer)

Date: November 3, 2011

*/s/ Brent A. Latimer*

(Signature)  
Brent A. Latimer  
Assistant Secretary