

IMPERIAL OIL LTD  
Form 10-Q  
May 02, 2013  
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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, 2013**

**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

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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, 2013, 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, 2012.

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.

The term "project" as used in this report does not necessarily have the same meaning as under Securities and Exchange Commission (SEC) Rule 13q-1 relating to government payment reporting. For example, a single project for purposes of the rule may encompass numerous properties, agreements, investments, developments, phases, work efforts, activities and components, each of which we may also informally describe as a "project".

**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   | 2013                        | 2012         |
| <b>REVENUES AND OTHER INCOME</b>   |                             |              |
| Operating revenues (a) (b)   | 7,999                       | 7,494        |
| Investment and other income (note 3)   | 15                          | 39           |
| <b>TOTAL REVENUES AND OTHER INCOME</b>   | <b>8,014</b>                | <b>7,533</b> |
| <b>EXPENSES</b>  |                             |              |
| Exploration  | 23                          | 28           |
| Purchases of crude oil and products (c)  | 4,975                       | 4,386        |
| Production and manufacturing (d)   | 1,181                       | 977          |
| Selling and general  | 254                         | 284          |
| Federal excise tax (a)   | 326                         | 316          |
| Depreciation and depletion   | 185                         | 190          |
| <b>TOTAL EXPENSES</b>  | <b>6,944</b>                | <b>6,181</b> |
| <b>INCOME BEFORE INCOME TAXES</b>  | <b>1,070</b>                | <b>1,352</b> |
| <b>INCOME TAXES</b>  | <b>272</b>                  | <b>337</b>   |
| <b>NET INCOME</b>  | <b>798</b>                  | <b>1,015</b> |
| <b>PER SHARE INFORMATION (Canadian dollars)</b>                                  |                             |              |
| Net income per common share - basic (note 8)                                     | 0.94                        | 1.20         |
| Net income per common share - diluted (note 8)                                   | 0.94                        | 1.19         |
| Dividends per common share   | 0.12                        | 0.12         |
| (a) Federal excise tax included in operating revenues                            | 326                         | 316          |
| (b) Amounts from related parties included in operating revenues                  | 861                         | 707          |
| (c) Amounts to related parties included in purchases of crude oil and products   | 1,243                       | 533          |
| (d) Amounts to related parties included in production and manufacturing expenses | 86                          | 34           |

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>2013</b>                 | 2012  |
| Net income  | <b>798</b>                  | 1,015 |
| Other comprehensive income, net of income taxes                       |                             |       |
| Post-retirement benefit liability adjustment (excluding amortization) | <b>(102)</b>                | (117) |
| Amortization of post-retirement benefit liability adjustment          |                             |       |
| included in net periodic benefit costs                                | <b>51</b>                   | 48    |
| Total other comprehensive income/(loss)                               | <b>(51)</b>                 | (69)  |
| Comprehensive income  | <b>747</b>                  | 946   |

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>2013 | As at<br>Dec 31<br>2012 |
|--|-------------------------|-------------------------|
|--|-------------------------|-------------------------|

millions of Canadian dollars

**ASSETS**

## Current assets

|   |       |       |
|---|-------|-------|
| Cash  | 323   | 482   |
| Accounts receivable, less estimated doubtful accounts | 2,232 | 1,976 |
| Inventories of crude oil and products                 | 1,099 | 827   |
| Materials, supplies and prepaid expenses              | 333   | 280   |
| Deferred income tax assets                            | 553   | 527   |

|                      |       |       |
|----------------------|-------|-------|
| Total current assets | 4,540 | 4,092 |
|----------------------|-------|-------|

|   |       |       |
|---|-------|-------|
| Long-term receivables, investments and other long-term assets | 1,177 | 1,090 |
|---|-------|-------|

|   |                    |                    |
|---|--------------------|--------------------|
| Property, plant and equipment,<br>less accumulated depreciation and depletion | 42,126<br>(15,002) | 38,765<br>(14,843) |
|---|--------------------|--------------------|

|                                    |        |        |
|------------------------------------|--------|--------|
| Property, plant and equipment, net | 27,124 | 23,922 |
|------------------------------------|--------|--------|

|          |     |     |
|----------|-----|-----|
| Goodwill | 224 | 204 |
|----------|-----|-----|

|                              |    |    |
|------------------------------|----|----|
| Other intangible assets, net | 54 | 56 |
|------------------------------|----|----|

|                     |               |               |
|---------------------|---------------|---------------|
| <b>TOTAL ASSETS</b> | <b>33,119</b> | <b>29,364</b> |
|---------------------|---------------|---------------|

**LIABILITIES**

## Current liabilities

|   |       |       |
|---|-------|-------|
| Notes and loans payable                               | 1,160 | 472   |
| Accounts payable and accrued liabilities (a) (note 7) | 4,706 | 4,249 |
| Income taxes payable                                  | 1,017 | 1,184 |

|                           |       |       |
|---------------------------|-------|-------|
| Total current liabilities | 6,883 | 5,905 |
|---------------------------|-------|-------|

|                             |       |       |
|-----------------------------|-------|-------|
| Long-term debt (b) (note 6) | 2,768 | 1,175 |
|-----------------------------|-------|-------|

|                                      |       |       |
|--------------------------------------|-------|-------|
| Other long-term obligations (note 7) | 4,104 | 3,983 |
|--------------------------------------|-------|-------|

|                                 |       |       |
|---------------------------------|-------|-------|
| Deferred income tax liabilities | 2,341 | 1,924 |
|---------------------------------|-------|-------|

|                          |               |               |
|--------------------------|---------------|---------------|
| <b>TOTAL LIABILITIES</b> | <b>16,096</b> | <b>12,987</b> |
|--------------------------|---------------|---------------|



**SHAREHOLDERS EQUITY**

|   |                |         |
|---|----------------|---------|
| Common shares at stated value (c)               | <b>1,566</b>   | 1,566   |
| Earnings reinvested                             | <b>17,963</b>  | 17,266  |
| Accumulated other comprehensive income (note 9) | <b>(2,506)</b> | (2,455) |

|                                  |               |        |
|----------------------------------|---------------|--------|
| <b>TOTAL SHAREHOLDERS EQUITY</b> | <b>17,023</b> | 16,377 |
|----------------------------------|---------------|--------|

|  |               |        |
|--|---------------|--------|
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b> | <b>33,119</b> | 29,364 |
|--|---------------|--------|

- (a) Accounts payable and accrued liabilities included amounts receivable from related parties of \$48 million (2012 - amounts receivable of \$9 million).
- (b) Long-term debt included amounts to related parties of \$2,635 million (2012 - \$1,040 million).
- (c) Number of common shares authorized and outstanding were 1,100 million and 848 million, respectively (2012 - 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

| <b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>                |  | Three Months   |         |
|--|--|----------------|---------|
| (U.S. GAAP, unaudited)                                     |  | to March 31    |         |
| inflow/(outflow)   |  | <b>2013</b>    | 2012    |
| millions of Canadian dollars                               |  |                |         |
| <b>OPERATING ACTIVITIES</b>                                |  |                |         |
| Net income   |  | <b>798</b>     | 1,015   |
| Adjustment for non-cash items:                             |  |                |         |
| Depreciation and depletion                                 |  | <b>185</b>     | 190     |
| (Gain)/loss on asset sales (note 3)                        |  | <b>(4)</b>     | (29)    |
| Deferred income taxes and other                            |  | <b>29</b>      | 48      |
| Changes in operating assets and liabilities:               |  |                |         |
| Accounts receivable  |  | <b>(222)</b>   | 140     |
| Inventories, materials, supplies and prepaid expenses      |  | <b>(320)</b>   | (431)   |
| Income taxes payable                                       |  | <b>(167)</b>   | 59      |
| Accounts payable and accrued liabilities                   |  | <b>395</b>     | 71      |
| All other items - net (a)                                  |  | <b>(97)</b>    | (16)    |
| <b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>      |  | <b>597</b>     | 1,047   |
| <b>INVESTING ACTIVITIES</b>                                |  |                |         |
| Additions to property, plant and equipment and intangibles |  | <b>(1,345)</b> | (1,145) |
| Acquisition (note 10)                                      |  | <b>(1,602)</b> | -       |
| Proceeds from asset sales                                  |  | <b>8</b>       | 78      |
| Repayment of loan from equity company                      |  | <b>4</b>       | 3       |
| <b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>      |  | <b>(2,935)</b> | (1,064) |
| <b>FINANCING ACTIVITIES</b>                                |  |                |         |
| Short-term debt - net                                      |  | <b>687</b>     | -       |
| Long-term debt issued                                      |  | <b>1,595</b>   | -       |
| Reduction in capitalized lease obligations                 |  | <b>(1)</b>     | (1)     |
| Issuance of common shares under stock option plan          |  | <b>-</b>       | 22      |
| Common shares purchased                                    |  | <b>-</b>       | (68)    |
| Dividends paid   |  | <b>(102)</b>   | (93)    |
| <b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>      |  | <b>2,179</b>   | (140)   |
| <b>INCREASE (DECREASE) IN CASH</b>                         |  | <b>(159)</b>   | (157)   |
| <b>CASH AT BEGINNING OF PERIOD</b>                         |  | <b>482</b>     | 1,202   |
| <b>CASH AT END OF PERIOD</b>                               |  | <b>323</b>     | 1,045   |
| (a) Included contribution to registered pension plans      |  | <b>(120)</b>   | (97)    |

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 2012 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, 2013, 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                              | Upstream      |               | Downstream   |              | Chemical   |            |
|---|---------------|---------------|--------------|--------------|------------|------------|
| millions of dollars                                   | 2013          | 2012          | 2013         | 2012         | 2013       | 2012       |
| <b>REVENUES AND OTHER INCOME</b>                      |               |               |              |              |            |            |
| Operating revenues (a)                                | 1,223         | 1,395         | 6,454        | 5,755        | 322        | 344        |
| Intersegment sales                                    | 929           | 1,094         | 776          | 794          | 58         | 82         |
| Investment and other income                           | 2             | 3             | 12           | 33           | -          | -          |
|   | <b>2,154</b>  | <b>2,492</b>  | <b>7,242</b> | <b>6,582</b> | <b>380</b> | <b>426</b> |
| <b>EXPENSES</b>                                       |               |               |              |              |            |            |
| Exploration   | 23            | 28            | -            | -            | -          | -          |
| Purchases of crude oil and products                   | 857           | 1,021         | 5,620        | 5,021        | 260        | 314        |
| Production and manufacturing                          | 747           | 591           | 382          | 341          | 53         | 45         |
| Selling and general                                   | 1             | 2             | 218          | 241          | 17         | 17         |
| Federal excise tax                                    | -             | -             | 326          | 316          | -          | -          |
| Depreciation and depletion                            | 128           | 129           | 52           | 56           | 3          | 3          |
| <b>TOTAL EXPENSES</b>                                 | <b>1,756</b>  | <b>1,771</b>  | <b>6,598</b> | <b>5,975</b> | <b>333</b> | <b>379</b> |
| <b>INCOME BEFORE INCOME TAXES</b>                     | <b>398</b>    | <b>721</b>    | <b>644</b>   | <b>607</b>   | <b>47</b>  | <b>47</b>  |
| <b>INCOME TAXES</b>                                   | <b>98</b>     | <b>179</b>    | <b>166</b>   | <b>152</b>   | <b>12</b>  | <b>12</b>  |
| <b>NET INCOME</b>                                     | <b>300</b>    | <b>542</b>    | <b>478</b>   | <b>455</b>   | <b>35</b>  | <b>35</b>  |
| <b>Cash flows from (used in) operating activities</b> |               |               |              |              |            |            |
|   | (124)         | 887           | 636          | 187          | 63         | (53)       |
| <b>CAPEX (b)</b>                                      | <b>2,938</b>  | <b>1,145</b>  | <b>27</b>    | <b>23</b>    | <b>1</b>   | <b>1</b>   |
| <b>Total assets as at March 31</b>                    | <b>25,986</b> | <b>18,022</b> | <b>6,588</b> | <b>6,988</b> | <b>380</b> | <b>443</b> |

| Three Months to March 31         | Corporate and Other |      | Eliminations |         | Consolidated |       |
|----------------------------------|---------------------|------|--------------|---------|--------------|-------|
| millions of dollars              | 2013                | 2012 | 2013         | 2012    | 2013         | 2012  |
| <b>REVENUES AND OTHER INCOME</b> |                     |      |              |         |              |       |
| Operating revenues (a)           | -                   | -    | -            | -       | 7,999        | 7,494 |
| Intersegment sales               | -                   | -    | (1,763)      | (1,970) | -            | -     |

|   |             |              |                |                |               |               |
|---|-------------|--------------|----------------|----------------|---------------|---------------|
| Investment and other income                           | 1           | 3            | -              | -              | 15            | 39            |
|   | 1           | 3            | (1,763)        | (1,970)        | 8,014         | 7,533         |
| <b>EXPENSES</b>                                       |             |              |                |                |               |               |
| Exploration   | -           | -            | -              | -              | 23            | 28            |
| Purchases of crude oil and products                   | -           | -            | (1,762)        | (1,970)        | 4,975         | 4,386         |
| Production and manufacturing                          | -           | -            | (1)            | -              | 1,181         | 977           |
| Selling and general                                   | 18          | 24           | -              | -              | 254           | 284           |
| Federal excise tax                                    | -           | -            | -              | -              | 326           | 316           |
| Depreciation and depletion                            | 2           | 2            | -              | -              | 185           | 190           |
| <b>TOTAL EXPENSES</b>                                 | <b>20</b>   | <b>26</b>    | <b>(1,763)</b> | <b>(1,970)</b> | <b>6,944</b>  | <b>6,181</b>  |
| <b>INCOME BEFORE INCOME TAXES</b>                     | <b>(19)</b> | <b>(23)</b>  | <b>-</b>       | <b>-</b>       | <b>1,070</b>  | <b>1,352</b>  |
| <b>INCOME TAXES</b>                                   | <b>(4)</b>  | <b>(6)</b>   | <b>-</b>       | <b>-</b>       | <b>272</b>    | <b>337</b>    |
| <b>NET INCOME</b>                                     | <b>(15)</b> | <b>(17)</b>  | <b>-</b>       | <b>-</b>       | <b>798</b>    | <b>1,015</b>  |
| <b>Cash flows from (used in) operating activities</b> |             |              |                |                |               |               |
|   | 22          | 26           | -              | -              | 597           | 1,047         |
| <b>CAPEX (b)</b>                                      | <b>10</b>   | <b>4</b>     | <b>-</b>       | <b>-</b>       | <b>2,976</b>  | <b>1,173</b>  |
| <b>Total assets as at March 31</b>                    | <b>508</b>  | <b>1,266</b> | <b>(343)</b>   | <b>(208)</b>   | <b>33,119</b> | <b>26,511</b> |

- (a) Includes export sales to the United States of \$1,385 million (2012- \$905 million). Export sales to the United States were recorded in all operating segments, with the largest effects in the Upstream segment.
- (b) Capital and exploration expenditures (CAPEX) include exploration expenses, additions to property, plant, equipment and intangibles, additions to capital leases and acquisition.

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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 |      |
|--|-----------------------------|------|
|  | 2013                        | 2012 |
| Proceeds from asset sales              | 8                           | 78   |
| Book value of assets sold              | 4                           | 49   |
| Gain/(loss) on asset sales, before tax | 4                           | 29   |
| Gain/(loss) on asset sales, after tax  | 3                           | 24   |

**4. Employee retirement benefits**

The components of net benefit cost were as follows:

| millions of dollars                    | Three Months<br>to March 31 |      |
|--|-----------------------------|------|
|  | 2013                        | 2012 |
| <b>Pension benefits:</b>               |                             |      |
| Current service cost                   | 45                          | 39   |
| Interest cost                          | 70                          | 72   |
| Expected return on plan assets         | (82)                        | (72) |
| Amortization of prior service cost     | 6                           | 5    |
| Amortization of actuarial loss         | 60                          | 57   |
| Net benefit cost                       | 99                          | 101  |
| <b>Other post-retirement benefits:</b> |                             |      |
| Current service cost                   | 3                           | 2    |
| Interest cost                          | 5                           | 5    |
| Amortization of actuarial loss         | 3                           | 2    |

Net benefit cost

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## IMPERIAL OIL LIMITED

**5. Financing costs**

| millions of dollars          | Three Months        |      |
|------------------------------|---------------------|------|
|                              | to March 31<br>2013 | 2012 |
| Debt related interest        | <b>10</b>           | 4    |
| Capitalized interest         | <b>(10)</b>         | (4)  |
| <b>Total financing costs</b> | <b>-</b>            | -    |

**6. Long-term debt**

| millions of dollars         | As at<br>Mar 31<br>2013 | As at<br>Dec 31<br>2012 |
|-----------------------------|-------------------------|-------------------------|
|                             | Long-term debt          | <b>2,635</b>            |
| Capital leases              | <b>133</b>              | 135                     |
| <b>Total long-term debt</b> | <b>2,768</b>            | 1,175                   |

In the first quarter of 2013, the company increased the amount of its existing stand-by long-term bank credit facility from \$300 million to \$500 million with the maturity date unchanged. The company has not drawn on the facility. Also in the first quarter, to further support the commercial paper program, the company entered into an unsecured committed bank credit facility in the amount of \$250 million that matures in March 2014. The company has not drawn on this facility.

In February 2013, the company increased its long-term debt by \$1,595 million by drawing on an existing facility with an affiliated company of Exxon Mobil Corporation. The majority of the increased debt was used to finance the acquisition of a 50-percent interest in Celtic's assets and liabilities (see note 10 for further details).

**7. Other long-term obligations**

| millions of dollars  | As at<br>Mar 31<br>2013          | As at<br>Dec 31<br>2012 |
|--|----------------------------------|-------------------------|
|  | Employee retirement benefits (a) | <b>2,758</b>            |
| Asset retirement obligations and other environmental liabilities (b) | <b>1,025</b>                     | 957                     |
| Share-based incentive compensation liabilities                       | <b>130</b>                       | 117                     |

|  |              |       |
|--|--------------|-------|
| Other obligations                        | <b>191</b>   | 192   |
| <b>Total other long-term obligations</b> | <b>4,104</b> | 3,983 |

- (a) Total recorded employee retirement benefits obligations also included \$52 million in current liabilities (December 31, 2012 - \$52 million).
- (b) Total asset retirement obligations and other environmental liabilities also included \$169 million in current liabilities (December 31, 2012 - \$168 million).

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## IMPERIAL OIL LIMITED

**8. Net income per share**

|  | Three Months<br>to March 31 |       |
|--|-----------------------------|-------|
|  | 2013                        | 2012  |
| <b>Net income per common share - basic</b>   |                             |       |
| Net income (millions of dollars)   | 798                         | 1,015 |
| Weighted average number of common shares outstanding (millions of shares)                    | 847.6                       | 847.8 |
| Net income per common share (dollars)  | 0.94                        | 1.20  |
| <b>Net income per common share - diluted</b>   |                             |       |
| Net income (millions of dollars)   | 798                         | 1,015 |
| Weighted average number of common shares outstanding (millions of shares)                    | 847.6                       | 847.8 |
| Effect of share-based awards (millions of shares)  | 3.0                         | 4.7   |
| Weighted average number of common shares outstanding, assuming dilution (millions of shares) | 850.6                       | 852.5 |
| Net income per common share (dollars)  | 0.94                        | 1.19  |

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

| millions of dollars  | 2013    | 2012    |
|--|---------|---------|
| Balance at January 1   | (2,455) | (2,238) |
| Post-retirement benefits liability adjustment:   |         |         |
| Current period change excluding amounts reclassified from accumulated other comprehensive income | (102)   | (117)   |
| Amounts reclassified from accumulated other comprehensive income                                 | 51      | 48      |
| Balance at March 31  | (2,506) | (2,307) |

**Amounts reclassified out of accumulated other comprehensive income -**

**before-tax income/(expense):**

| millions of dollars  | Three Months<br>to March 31 |      |
|--|-----------------------------|------|
|  | 2013                        | 2012 |
| Amortization of post-retirement benefit liability adjustment included in net periodic benefit cost (a) | (69)                        | (64) |

- (a) This accumulated other comprehensive income component is included in the computation of net periodic benefit cost (note 4).

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

| millions of dollars  | Three Months<br>to March 31 |      |
|--|-----------------------------|------|
|  | 2013                        | 2012 |
| Post-retirement benefits liability adjustments:  |                             |      |
| Post-retirement benefits liability adjustment (excluding amortization)                             | <b>(35)</b>                 | (40) |
| Amortization of post-retirement benefit liability adjustment included in net periodic benefit cost | <b>18</b>                   | 16   |
|  | <b>(17)</b>                 | (24) |

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## IMPERIAL OIL LIMITED

**10. Acquisition**

**Description of the Transaction:** On February 26, 2013, ExxonMobil Canada acquired Celtic Exploration Ltd. ( Celtic ). Immediately following the acquisition, Imperial acquired a 50-percent interest in Celtic's assets and liabilities from ExxonMobil Canada for \$1,608 million, financed by a combination of related party and third party debt (see note 6 for further details). Concurrently, a general partnership was formed to hold and operate the assets of Celtic. Celtic is involved in the exploration for, production of, and transportation and sale of natural gas and crude oil, condensate and natural gas liquids.

**Recording of Assets Acquired and Liabilities Assumed:** Imperial used the acquisition method of accounting to record its pro-rata share of the assets acquired and liabilities assumed. This method requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the assets acquired and liabilities assumed:

|  |       |
|--|-------|
| millions of dollars                      |       |
| Cash                                     | 6     |
| Accounts receivable                      | 38    |
| Materials, supplies and prepaid expenses | 5     |
| Property, plant and equipment (a)        | 2,045 |
| Goodwill (b)                             | 20    |
| <br>                                     |       |
| Total assets acquired                    | 2,114 |
| <br>                                     |       |
| Accounts payable and accrued liabilities | 62    |
| Deferred income tax liabilities (c)      | 377   |
| Other long-term obligations              | 67    |
| <br>                                     |       |
| Total liabilities assumed                | 506   |
| <br>                                     |       |
| Net assets acquired                      | 1,608 |

- (a) Property, plant and equipment were measured primarily using an income approach. The fair value measurements of the oil and gas assets were based, in part, on significant inputs not observable in the market and thus represent a Level 3 measurement. The significant inputs included Celtic resources, assumed future production profiles, commodity prices (mainly based on observable market inputs), risk adjusted discount rate of 10 percent, inflation of 2 percent and assumptions on the timing and amount of future development and operating costs. The property, plant and equipment additions were segmented to the Upstream business,

with all of the assets in Canada.

- (b) Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill was recognized in the Upstream reporting unit. Goodwill is not amortized and is not deductible for tax purposes.
  
- (c) Deferred income taxes reflect the future tax consequences on the temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The deferred income taxes recorded as part of the acquisition were:

|                                       |      |
|---------------------------------------|------|
| Property, plant and equipment         | 414  |
| Total deferred income tax liabilities | 414  |
| Asset retirement obligations          | (17) |
| Other                                 | (20) |
| Total deferred income tax assets      | (37) |
| Net deferred income tax liabilities   | 377  |

**Actual and Pro Forma Impact of the Acquisition:**

Revenues for Celtic from the acquisition date included in the company's consolidated financial statement of income for the three months ended March 31, 2013 were \$9 million. After-tax earnings for Celtic from the acquisition date through March 31, 2013 were de minimis.

Transaction costs related to the acquisition were expensed as incurred and were de minimis in the three months ended March 31, 2013.

Pro forma revenues, earnings and basic and diluted earnings per share information as if the acquisition had occurred at the beginning of 2013 or the comparable prior reporting period is not presented, since the effect on Imperial's consolidated first quarter 2013 financial results or the comparable prior reporting period, would not have been material.



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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 2013 was \$798 million or \$0.94 a share on a diluted basis, compared with \$1,015 million or \$1.19 a share for the same period last year.

Lower first quarter earnings were primarily attributable to the impacts of lower liquids realization, higher refinery maintenance activities, lower volumes and higher maintenance costs at Syncrude and Kearn production readiness expenditures. These factors were partially offset by lower royalty costs due to lower liquids realizations and higher refining margins.

**Upstream**

Net income in the first quarter was \$300 million versus \$542 million in the same period of 2012. Earnings decreased primarily due to lower liquids realizations of about \$270 million. Other factors that contributed to lower earnings included lower volumes and higher maintenance costs at Syncrude totalling about \$75 million and Kearn production readiness expenditures of about \$50 million. These factors were partially offset by lower royalty costs of about \$160 million due to lower liquids realizations.

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 period last year, the average WTI crude oil price in U.S. dollars was lower by \$8.67 a barrel, about eight percent, in the first quarter of 2013. Decreases in the company's average realizations in Canadian dollars on sales of conventional and synthetic crude oils were in line with WTI. The company's average bitumen realization in Canadian dollars in the first quarter of 2013 decreased 34 percent to \$43.63 a barrel. Supply/demand imbalances of heavier crude oils in mid-continent North American markets and industry pipeline apportionment effects widened the price spread between light crude oil and Cold Lake bitumen. The company's average realization on natural gas sales of \$3.50 a thousand cubic feet was higher by about 48 percent in the first quarter of 2013 versus the same period in 2012.

Gross production of Cold Lake bitumen averaged 164 thousand barrels a day and established a new production record in the quarter. Cold Lake production was up seven thousand barrels a day from the same period last year. Volume growth was achieved through higher reliability and strong reservoir performance.

The company's share of Syncrude's gross production in the first quarter was 65 thousand barrels a day, down from 74 thousand barrels in the first quarter of 2012. Higher maintenance activities were the main contributor to the lower production.

Gross production of conventional crude oil averaged 20 thousand barrels a day in the first quarter, versus the 21 thousand barrels in the corresponding period in 2012.

Gross production of natural gas during the first quarter of 2013 was 187 million cubic feet a day, down from 198 million cubic feet in the same period last year. The lower production volume was primarily the result of natural decline of conventional fields and the impact of divested properties partially offset by volume contributions from Celtic and the Horn River pilot.

On February 26, 2013, following the close of the acquisition of Celtic Exploration Ltd. (Celtic) by ExxonMobil Canada, Imperial Oil completed its acquisition of a 50-percent participating interest in Celtic's assets and liabilities for \$1.6 billion. Reference is made to Financial Statement Note 10: Acquisition for further details.

On April 27, Imperial achieved a significant milestone with the start-up of the initial development of the Kearn oil sands project.

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### **Downstream**

Net income was \$478 million in the first quarter, \$23 million higher than the first quarter of 2012. Increased earnings were primarily due to the favourable impact of refining margins of about \$125 million partially offset by the impact of higher maintenance activities at the Sarnia refinery of about \$90 million. Earnings in the first quarter of 2012 included a gain of about \$15 million from the sale of assets.

Mid-continent North America industry refining margins continued to be strong in the first quarter of 2013. Stronger industry refining margins were the result of the widened differential between product prices and cost of crude oil processed.

### **Chemical**

Net income was \$35 million in the first quarter, unchanged from the same quarter last year.

### **Corporate and Other**

Net income effects from Corporate and Other were negative \$15 million in the first quarter, versus the negative \$17 million in the same period of 2012.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow generated from operating activities was \$597 million in the first quarter, versus \$1,047 million in corresponding period in 2012. Lower cash flow was primarily due to lower earnings and working capital effects.

Investing activities used net cash of \$2,935 million in the first quarter, compared with \$1,064 million in the same period of 2012. \$1,602 million (excluding \$6 million cash acquired) was expended to complete the acquisition of a 50-percent participating interest in Celtic's assets and liabilities. Additions to property, plant and equipment were \$1,345 million in the first quarter, compared with \$1,145 million during the same quarter 2012. Expenditures during the quarter were primarily directed towards the advancement of Kearl expansion project. Other investments included advancing the Nabiye expansion project at Cold Lake and sustaining capital for Syncrude mining and tailing projects.

Cash from financing activities was \$2,179 million in the first quarter, compared with cash used in financing activities of \$140 million in the first quarter of 2012. In the first quarter, the company increased its long-term debt level by \$1,595 million by drawing on an existing facility and issued additional commercial paper which increased short-term debt by \$687 million. The majority of the increased debt was used to finance the acquisition. Dividends paid in the first quarter of 2013 were \$102 million, \$9 million higher than the corresponding period in 2012. In the first quarter, the company increased the amount of its existing stand-by long-term bank credit facility from \$300 million to \$500 million with the maturity date unchanged. The company has not drawn on the facility. Also in the first quarter, to further support the commercial paper program, the company entered into an unsecured committed bank credit facility in the amount of \$250 million that matures in March 2014. The company has not drawn on this facility.

The above factors led to a decrease in the company's balance of cash to \$323 million at March 31, 2013, from \$482 million at the end of 2012.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Information about market risks for the three months ended March 31, 2013 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, 2012 except for the following:

Earnings sensitivity

millions of dollars after tax

|  |       |     |
|--|-------|-----|
| Nine dollars (U.S.) a barrel change in crude oil prices                                  | + (-) | 330 |
| Ten cents decrease (increase) in the value of the Canadian dollar versus the U.S. dollar | + (-) | 570 |

The sensitivity of net income to changes in crude oil prices decreased from year-end 2012 by about \$12 million (after tax) a year for each one U.S. dollar change. The decrease was primarily a result of the impact of higher royalty costs for Syncrude and Cold Lake bitumen production due to higher prices for Syncrude and Cold Lake bitumen at the end of the first quarter of 2013.

The sensitivity of net income to changes in the Canadian dollar versus the U.S. dollar increased from year-end 2012 by about \$8 million (after tax) a year for each one-cent change, primarily due to the increase in 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 March 31, 2013. 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.**

## Issuer Purchases of Equity Securities (1)

| <b>Period</b>                            | <b>(a) Total<br/>number of<br/>shares (or<br/>units)<br/>purchased</b> | <b>(b) Average<br/>price paid<br/>per share (or<br/>unit)</b> | <b>(c) Total<br/>number of<br/>shares (or<br/>units)<br/>purchased<br/>as part of<br/>publicly<br/>announced<br/>plans or<br/>programs</b> | <b>(d) Maximum<br/>number (or<br/>approximate<br/>dollar value) of<br/>shares (or units)<br/>that may yet be<br/>purchased<br/>under the plans<br/>or programs</b> |
|--|--|---|--|--|
| <b>January 2013</b><br>(Jan 1 - Jan 31)  | 0  | 0   | 0  | 41,778,609   |
| <b>February 2013</b><br>(Feb 1 - Feb 28) | 0  | 0   | 0  | 41,691,904   |
| <b>March 2013</b><br>(Mar 1 - Mar 31)    | 0  | 0   | 0  | 41,604,553   |

- (1) 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, 2013.

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 April 25, 2013, 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 739,037,993 shares for and 1,231,718 shares withheld, R. M. Kruger 721,250,808 shares for and 19,024,883 shares withheld, J.M. Mintz 739,080,916 shares for and 1,188,775 shares withheld, D.S. Sutherland 739,229,928 shares for and 1,039,763 shares withheld, S.D. Whittaker 738,522,124 shares for and 1,747,567 shares withheld, D.W. Woods 738,015,858 shares for and 732,833 shares withheld and V.L. Young 737,699,275 shares for and 1,080,416 shares withheld.

At the same annual meeting of shareholders, PricewaterhouseCoopers LLP were reappointed as the auditors by a vote of 746,272,832 shares for and 1,351,655 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)

Date: May 1, 2013

*/s/ Paul J. Masschelin*

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

and Controller  
(Principal Accounting Officer)

Date: May 1, 2013

*/s/ Brent A. Latimer*

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(Signature)  
Brent A. Latimer  
Assistant Secretary