

IMPERIAL OIL LTD
Form 10-Q
August 04, 2011

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, 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)

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

Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

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 June 30, 2011, was 847,599,011.

IMPERIAL OIL LIMITED

INDEX

| | PAGE |
|---|------|
| PART I - Financial Information | |
| Item 1 - Financial Statements. | |
| Consolidated Statement of Income - Six Months ended June 30, 2011 and 2010 | 3 |
| Consolidated Balance Sheet - as at June 30, 2011 and December 31, 2010 | 4 |
| Consolidated Statement of Cash Flows - Six Months ended June 30, 2011 and 2010 | 5 |
| Notes to the Consolidated Financial Statements | 6 |
| Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations. | 12 |
| Item 3 - Quantitative and Qualitative Disclosures about Market Risk. | 15 |
| Item 4 - Controls and Procedures. | 15 |
| PART II - Other Information | |
| Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds. | 16 |
| Item 6 - Exhibits. | 17 |
| SIGNATURES | 17 |

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.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF INCOME

(U.S. GAAP, unaudited)

Six Months

| millions of Canadian dollars | Second Quarter | | to June 30 | |
|--|----------------|--------------|---------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| REVENUES AND OTHER INCOME | | | | |
| Operating revenues (a) (b) | 7,761 | 6,091 | 14,613 | 12,225 |
| Investment and other income (note 3) | 13 | 48 | 32 | 80 |
| TOTAL REVENUES AND OTHER INCOME | 7,774 | 6,139 | 14,645 | 12,305 |
| EXPENSES | | | | |
| Exploration | 22 | 30 | 59 | 117 |
| Purchases of crude oil and products (c) | 4,966 | 3,636 | 8,946 | 7,297 |
| Production and manufacturing (d) (note 4) | 1,058 | 1,012 | 2,037 | 2,042 |
| Selling and general (note 4) | 253 | 265 | 574 | 515 |
| Federal excise tax (a) | 325 | 322 | 640 | 626 |
| Depreciation and depletion | 190 | 192 | 378 | 374 |
| Financing costs (note 5) | 1 | - | 1 | 1 |
| TOTAL EXPENSES | 6,815 | 5,457 | 12,635 | 10,972 |
| INCOME BEFORE INCOME TAXES | 959 | 682 | 2,010 | 1,333 |
| INCOME TAXES | 233 | 165 | 503 | 340 |
| NET INCOME (note 2) | 726 | 517 | 1,507 | 993 |
| PER SHARE INFORMATION (Canadian dollars) | | | | |
| Net income per common share - basic (dollars) (note 8) | 0.86 | 0.61 | 1.78 | 1.17 |
| Net income per common share - diluted (dollars) (note 8) | 0.85 | 0.60 | 1.76 | 1.16 |
| Dividends per common share (dollars) | 0.11 | 0.11 | 0.22 | 0.21 |
| (a) Federal excise tax included in operating revenues | 325 | 322 | 640 | 626 |
| (b) Amounts from related parties included in operating revenues | 638 | 439 | 1,120 | 1,047 |
| (c) Amounts to related parties included in purchases of crude oil and products | 766 | 489 | 1,881 | 1,012 |
| (d) Amounts to related parties included in production and manufacturing expenses | 48 | 67 | 101 | 122 |

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

IMPERIAL OIL LIMITED

CONSOLIDATED BALANCE SHEET

(U.S. GAAP, unaudited)

As at

| | As at June 30 2011 | Dec. 31 2010 |
|---|--------------------------|-----------------|
| millions of Canadian dollars | | |
| ASSETS | | |
| Current assets | | |
| Cash | 419 | 267 |
| Accounts receivable, less estimated doubtful accounts | 2,301 | 2,000 |
| Inventories of crude oil and products | 1,014 | 527 |
| Materials, supplies and prepaid expenses | 270 | 246 |
| Deferred income tax assets | 605 | 498 |
| Total current assets | 4,609 | 3,538 |
| Long-term receivables, investments and other long-term assets | 851 | 870 |
| Property, plant and equipment, less accumulated depreciation and depletion | 31,525 | 30,004 |
| | 14,287 | 14,099 |
| Property, plant and equipment, net | 17,238 | 15,905 |
| Goodwill | 204 | 204 |
| Other intangible assets, net | 64 | 63 |
| TOTAL ASSETS | 22,966 | 20,580 |
| LIABILITIES | | |
| Current liabilities | | |
| Notes and loans payable | 364 | 229 |
| Accounts payable and accrued liabilities (a) (note 7) | 4,180 | 3,470 |
| Income taxes payable | 928 | 878 |
| Total current liabilities | 5,472 | 4,577 |
| Long-term debt (b) (note 6) | 845 | 527 |
| Other long-term obligations (note 7) | 2,747 | 2,753 |
| Deferred income tax liabilities | 1,538 | 1,546 |
| TOTAL LIABILITIES | 10,602 | 9,403 |
| SHAREHOLDERS EQUITY | | |
| Common shares at stated value (c) | 1,523 | 1,511 |
| Earnings reinvested | 12,368 | 11,090 |
| Accumulated other comprehensive income (note 9) | (1,527) | (1,424) |

| | | |
|--|---------------|--------|
| TOTAL SHAREHOLDERS EQUITY | 12,364 | 11,177 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 22,966 | 20,580 |

- (a) Accounts payable and accrued liabilities included amounts payable to related parties of \$304 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.

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

(U.S. GAAP, unaudited)

| inflow/(outflow) millions of Canadian dollars | Second Quarter | | Six Months to June 30 | |
|--|----------------|--------------|--------------------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| OPERATING ACTIVITIES | | | | |
| Net income | 726 | 517 | 1,507 | 993 |
| Adjustment for non-cash items: | | | | |
| Depreciation and depletion | 190 | 192 | 378 | 374 |
| (Gain)/loss on asset sales (note 3) | - | (42) | (6) | (46) |
| Deferred income taxes and other | 4 | 70 | (86) | 72 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | (62) | 118 | (307) | (62) |
| Inventories, materials, supplies and prepaid expenses | (49) | 14 | (511) | (120) |
| Income taxes payable | 33 | (70) | 50 | (232) |
| Accounts payable and accrued liabilities | (21) | (260) | 710 | 377 |
| All other items - net (a) | (165) | (215) | (120) | (118) |
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | 656 | 324 | 1,615 | 1,238 |
| INVESTING ACTIVITIES | | | | |
| Additions to property, plant and equipment and intangibles | (903) | (851) | (1,725) | (1,664) |
| Proceeds from asset sales | 6 | 54 | 20 | 60 |
| Repayment of loan from equity company | 4 | - | 6 | - |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | (893) | (797) | (1,699) | (1,604) |
| FINANCING ACTIVITIES | | | | |
| Short-term debt-net | 135 | 90 | 135 | 90 |
| Long-term debt issued | 320 | - | 320 | - |
| Reduction in capitalized lease obligations | (1) | - | (2) | (1) |
| Issuance of common shares under stock option plan | 3 | 1 | 14 | 1 |
| Common shares purchased | (8) | (3) | (44) | (3) |
| Dividends paid | (94) | (85) | (187) | (170) |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | 355 | 3 | 236 | (83) |
| INCREASE (DECREASE) IN CASH | 118 | (470) | 152 | (449) |
| CASH AT BEGINNING OF PERIOD | 301 | 534 | 267 | 513 |
| CASH AT END OF PERIOD | 419 | 64 | 419 | 64 |

(a) Includes contribution to registered pension plans (232) (295) (298) (365)
The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

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 June 30, 2011, and December 31, 2010, and the results of operations and changes in cash flows for the six months ended June 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 six months ended June 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.

IMPERIAL OIL LIMITED

2. Business Segments

| Second Quarter millions of dollars | Upstream | | Downstream | | Chemical | |
|---|--------------|--------------|--------------|--------------|------------|------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| REVENUES AND OTHER INCOME | | | | | | |
| Operating revenues | 1,400 | 1,010 | 6,021 | 4,816 | 340 | 265 |
| Intersegment sales | 1,140 | 963 | 728 | 462 | 105 | 63 |
| Investment and other income | 3 | 11 | 9 | 34 | - | 3 |
| | 2,543 | 1,984 | 6,758 | 5,312 | 445 | 331 |
| EXPENSES | | | | | | |
| Exploration | 22 | 30 | - | - | - | - |
| Purchases of crude oil and products | 963 | 653 | 5,647 | 4,237 | 329 | 234 |
| Production and manufacturing | 596 | 573 | 415 | 389 | 47 | 50 |
| Selling and general | 2 | 1 | 237 | 225 | 16 | 16 |
| Federal excise tax | - | - | 325 | 322 | - | - |
| Depreciation and depletion | 132 | 131 | 52 | 56 | 4 | 3 |
| Financing costs | - | - | 1 | - | - | - |
| TOTAL EXPENSES | 1,715 | 1,388 | 6,677 | 5,229 | 396 | 303 |
| INCOME BEFORE INCOME TAXES | 828 | 596 | 81 | 83 | 49 | 28 |
| INCOME TAXES | 204 | 150 | 17 | 15 | 13 | 6 |
| NET INCOME | 624 | 446 | 64 | 68 | 36 | 22 |
| Export sales to the United States | 559 | 412 | 307 | 326 | 228 | 161 |
| Cash flows from (used in) operating activities | 823 | 567 | (252) | (223) | 77 | 9 |
| CAPEX (a) | 884 | 832 | 36 | 46 | 1 | 2 |

| Second Quarter millions of dollars | Corporate and Other | | Eliminations | | Consolidated | |
|---------------------------------------|---------------------|----------|----------------|----------------|--------------|--------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| REVENUES AND OTHER INCOME | | | | | | |
| Operating revenues | - | - | - | - | 7,761 | 6,091 |
| Intersegment sales | - | - | (1,973) | (1,488) | - | - |
| Investment and other income | 1 | - | - | - | 13 | 48 |
| | 1 | - | (1,973) | (1,488) | 7,774 | 6,139 |
| EXPENSES | | | | | | |
| Exploration | - | - | - | - | 22 | 30 |
| Purchases of crude oil and products | - | - | (1,973) | (1,488) | 4,966 | 3,636 |
| Production and manufacturing | - | - | - | - | 1,058 | 1,012 |
| Selling and general | (2) | 23 | - | - | 253 | 265 |
| Federal excise tax | - | - | - | - | 325 | 322 |
| Depreciation and depletion | 2 | 2 | - | - | 190 | 192 |
| Financing costs | - | - | - | - | 1 | - |

Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

| | | | | | | |
|---|------------|------|----------------|---------|--------------|-------|
| TOTAL EXPENSES | - | 25 | (1,973) | (1,488) | 6,815 | 5,457 |
| INCOME BEFORE INCOME TAXES | 1 | (25) | - | - | 959 | 682 |
| INCOME TAXES | (1) | (6) | - | - | 233 | 165 |
| NET INCOME | 2 | (19) | - | - | 726 | 517 |
| Export sales to the United States | - | - | - | - | 1,094 | 899 |
| Cash flows from (used in) operating activities | 8 | (29) | - | - | 656 | 324 |
| CAPEX (a) | 4 | 1 | - | - | 925 | 881 |

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

IMPERIAL OIL LIMITED

| Six Months to June 30 millions of dollars | Upstream | | Downstream | | Chemical | |
|---|---------------|---------------|---------------|---------------|------------|------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| REVENUES AND OTHER INCOME | | | | | | |
| Operating revenues | 2,574 | 2,251 | 11,368 | 9,426 | 671 | 548 |
| Intersegment sales | 2,297 | 1,911 | 1,439 | 1,033 | 194 | 133 |
| Investment and other income | 11 | 31 | 18 | 45 | - | 3 |
| | 4,882 | 4,193 | 12,825 | 10,504 | 865 | 684 |
| EXPENSES | | | | | | |
| Exploration | 59 | 117 | - | - | - | - |
| Purchases of crude oil and products | 1,824 | 1,440 | 10,416 | 8,424 | 636 | 510 |
| Production and manufacturing | 1,195 | 1,175 | 752 | 759 | 90 | 108 |
| Selling and general | 3 | 3 | 460 | 449 | 32 | 33 |
| Federal excise tax | - | - | 640 | 626 | - | - |
| Depreciation and depletion | 265 | 256 | 102 | 108 | 7 | 6 |
| Financing costs | - | - | - | - | - | - |
| TOTAL EXPENSES | 3,346 | 2,991 | 12,370 | 10,366 | 765 | 657 |
| INCOME BEFORE INCOME TAXES | 1,536 | 1,202 | 455 | 138 | 100 | 27 |
| INCOME TAXES | 384 | 312 | 115 | 31 | 26 | 6 |
| NET INCOME | 1,152 | 890 | 340 | 107 | 74 | 21 |
| Export sales to the United States | 1,108 | 918 | 558 | 624 | 428 | 326 |
| Cash flows from (used in) operating activities | 1,540 | 1,309 | 19 | (37) | 82 | 13 |
| CAPEX (a) | 1,702 | 1,687 | 72 | 84 | 3 | 8 |
| Total assets as at June 30 | 15,184 | 11,866 | 7,044 | 6,293 | 416 | 423 |

| Six Months to June 30 millions of dollars | Corporate and Other | | Eliminations | | Consolidated | |
|--|---------------------|-----------|----------------|----------------|---------------|---------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| REVENUES AND OTHER INCOME | | | | | | |
| Operating revenues | - | - | - | - | 14,613 | 12,225 |
| Intersegment sales | - | - | (3,930) | (3,077) | - | - |
| Investment and other income | 3 | 1 | - | - | 32 | 80 |
| | 3 | 1 | (3,930) | (3,077) | 14,645 | 12,305 |
| EXPENSES | | | | | | |
| Exploration | - | - | - | - | 59 | 117 |
| Purchases of crude oil and products | - | - | (3,930) | (3,077) | 8,946 | 7,297 |
| Production and manufacturing | - | - | - | - | 2,037 | 2,042 |
| Selling and general | 79 | 30 | - | - | 574 | 515 |
| Federal excise tax | - | - | - | - | 640 | 626 |
| Depreciation and depletion | 4 | 4 | - | - | 378 | 374 |
| Financing costs | 1 | 1 | - | - | 1 | 1 |
| TOTAL EXPENSES | 84 | 35 | (3,930) | (3,077) | 12,635 | 10,972 |

Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

| | | | | | | |
|---|-------------|-------------|--------------|--------------|---------------|--------|
| INCOME BEFORE INCOME TAXES | (81) | (34) | - | - | 2,010 | 1,333 |
| INCOME TAXES | (22) | (9) | - | - | 503 | 340 |
| NET INCOME | (59) | (25) | - | - | 1,507 | 993 |
| Export sales to the United States | - | - | - | - | 2,094 | 1,868 |
| Cash flows from (used in) operating activities | (26) | (47) | - | - | 1,615 | 1,238 |
| CAPEX (a) | 7 | 2 | - | - | 1,784 | 1,781 |
| Total assets as at June 30 | 640 | 100 | (318) | (314) | 22,966 | 18,368 |

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

IMPERIAL OIL LIMITED

3. Investment and other income

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

| millions of dollars | Six Months | | | |
|--|----------------|------|------------|------|
| | Second Quarter | | to June 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Proceeds from asset sales | 6 | 54 | 20 | 60 |
| Book value of assets sold | 6 | 12 | 14 | 14 |
| Gain/(loss) on asset sales, before tax | - | 42 | 6 | 46 |
| Gain/(loss) on asset sales, after tax | - | 36 | 4 | 40 |

4. Employee retirement benefits

The components of net benefit cost included in production and manufacturing and selling and general expenses in the consolidated statement of income are as follows:

| millions of dollars | Six Months | | | |
|--|----------------|------|--------------|-------|
| | Second Quarter | | to June 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Pension benefits: | | | | |
| Current service cost | 32 | 26 | 61 | 51 |
| Interest cost | 79 | 76 | 157 | 153 |
| Expected return on plan assets | (78) | (69) | (154) | (137) |
| Amortization of prior service cost | 6 | 4 | 10 | 8 |
| Recognized actuarial loss | 41 | 35 | 81 | 69 |
| Net benefit cost | 80 | 72 | 155 | 144 |
| Other post-retirement benefits: | | | | |
| Current service cost | 2 | 2 | 3 | 3 |
| Interest cost | 6 | 6 | 12 | 12 |
| Amortization of prior service cost | - | (1) | - | (1) |
| Recognized actuarial loss | - | - | 1 | - |
| Net benefit cost | 8 | 7 | 16 | 14 |

IMPERIAL OIL LIMITED

5. Financing costs

| millions of dollars | Six Months | | | |
|-----------------------|----------------|------|------------|------|
| | Second Quarter | | to June 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Debt related interest | 4 | 1 | 7 | 2 |
| Capitalized interest | (4) | (1) | (7) | (2) |
| Net interest expense | - | - | - | - |
| Other interest | 1 | - | 1 | 1 |
| Total financing costs | 1 | - | 1 | 1 |

6. Long-term debt

| millions of dollars | As at | As at |
|----------------------|---------|---------|
| | June 30 | Dec. 31 |
| | 2011 | 2010 |
| Long-term debt | 820 | 500 |
| Capital leases | 25 | 27 |
| Total long-term debt | 845 | 527 |

In the second quarter, the company extended the maturity date of its existing unused \$200 million long-term bank credit facility to July 2013.

7. Other long-term obligations

| millions of dollars | As at | As at |
|--|---------|---------|
| | June 30 | Dec. 31 |
| | 2011 | 2010 |
| Employee retirement benefits (a) | 1,616 | 1,640 |
| Asset retirement obligations and other environmental liabilities (b) | 736 | 754 |
| Share-based incentive compensation liabilities | 173 | 127 |
| Other obligations | 222 | 232 |

| | | |
|-----------------------------------|-------|-------|
| Total other long-term obligations | 2,747 | 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).

IMPERIAL OIL LIMITED

8. Net income per share

| | Six Months | | | |
|--|----------------|-------|------------|-------|
| | Second Quarter | | to June 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income per common share - basic | | | | |
| Net income (millions of dollars) | 726 | 517 | 1,507 | 993 |
| Weighted average number of common shares outstanding (millions of shares) | 847.7 | 847.6 | 847.7 | 847.6 |
| Net income per common share (dollars) | 0.86 | 0.61 | 1.78 | 1.17 |
| Net income per common share - diluted | | | | |
| Net income (millions of dollars) | 726 | 517 | 1,507 | 993 |
| Weighted average number of common shares outstanding (millions of shares) | 847.7 | 847.6 | 847.7 | 847.6 |
| Effect of employee share-based awards (millions of shares) | 6.2 | 6.9 | 6.3 | 6.7 |
| Weighted average number of common shares outstanding, assuming dilution (millions of shares) | 853.9 | 854.5 | 854.0 | 854.3 |
| Net income per common share (dollars) | 0.85 | 0.60 | 1.76 | 1.16 |

9. Comprehensive income

| millions of dollars | Six Months | | | |
|---|----------------|------|------------|-------|
| | Second Quarter | | to June 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income | 726 | 517 | 1,507 | 993 |
| Post-retirement benefit liability adjustment (excluding amortization) | (64) | - | (172) | 84 |
| Amortization of post retirement benefit liability adjustment included in net periodic benefit costs | 36 | 29 | 69 | 57 |
| Other comprehensive income (net of income taxes) | (28) | 29 | (103) | 141 |
| Total comprehensive income | 698 | 546 | 1,404 | 1,134 |

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 2011 was \$726 million or \$0.85 a share on a diluted basis, compared with \$517 million or \$0.60 a share for the same period last year. Net income for the first six months of 2011 was \$1,507 million or \$1.76 a share on a diluted basis, versus \$993 million or \$1.16 a share for the first half of 2010.

Earnings in the second quarter were higher than the same quarter in 2010 primarily due to the impacts of higher crude oil commodity prices of about \$430 million, stronger industry refining margins of about \$80 million and increased Cold Lake bitumen production of about \$70 million. These factors were partially offset by the unfavourable effects of higher royalty costs of about \$120 million, lower Syncrude volumes of about \$50 million, primarily a result of higher unplanned maintenance activities, and lower conventional crude oil volumes of about \$45 million due to third-party pipeline reliability issues. Earnings were also negatively impacted by the foreign exchange effects of the stronger Canadian dollar of about \$70 million and higher planned refinery maintenance activities of about \$40 million. Second quarter 2010 earnings included a gain of about \$25 million from the sale of non-operating assets.

For the six months, increased earnings were primarily attributable to higher crude oil commodity prices of about \$460 million, stronger industry refining margins of about \$255 million and increased Cold Lake bitumen production of about \$100 million. These factors were partially offset by the unfavourable effects of the stronger Canadian dollar of about \$140 million, higher royalty costs of about \$130 million and lower conventional crude oil volumes of about \$45 million due to third party pipeline issues.

Upstream

Net income in the second quarter was \$624 million, \$178 million higher than the same period of 2010. Earnings benefited from higher crude oil commodity prices of about \$430 million and increased Cold Lake bitumen production of about \$70 million. These factors were partially offset by lower Syncrude volumes of about \$50 million, primarily a result of higher unplanned maintenance activities, and lower conventional crude oil volumes of about \$45 million due to third-party pipeline reliability issues. Earnings were also negatively impacted by higher royalty costs due to higher commodity prices of about \$120 million and the foreign exchange effects of the stronger Canadian dollar of about \$55 million.

Net income for the six months of 2011 was \$1,152 million, up \$262 million from 2010. Earnings increased primarily due to the impacts of higher crude oil commodity prices of about \$460 million and increased Cold Lake bitumen production of about \$100 million. These factors were partially offset by the unfavourable effects of higher royalty costs of about \$130 million, the stronger Canadian dollar of about \$105 million and lower conventional crude oil volumes of about \$45 million as a result of the second 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 \$117.33 a barrel in the second quarter and \$111.20 a barrel in the six months of 2011, up about 50 percent and 44 percent from the corresponding periods last year. The average price of West Texas Intermediate (WTI) crude oil in U.S. dollars, a common benchmark for mid-continent North American oil markets, was \$102.34 a barrel in the second quarter and \$98.50 a barrel in the six months of 2011, up about 31 percent and 26 percent from the corresponding periods last year. The company's average realizations on sales of Canadian conventional crude oil and synthetic crude oil increased accordingly. The company's average bitumen realizations in the second quarter and in the first six months of 2011 were about 26 percent and six percent higher than that in the corresponding periods of 2010.

Cold Lake bitumen realizations were negatively impacted by third-party pipeline integrity issues carried over from the second half of 2010 into the first quarter of 2011 and continued weakness in WTI crude oil markets.

Gross production of Cold Lake bitumen averaged 158 thousand barrels a day during the second quarter, up from 140 thousand barrels in the same quarter last year. For the six months, gross production was 157 thousand barrels a day this year, compared with 144 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 and the cyclic nature of production at Cold Lake.

The company's share of Syncrude's gross production in the second quarter was 70 thousand barrels a day, versus 81 thousand barrels in the second quarter of 2010. Lower production was primarily the result of higher unplanned maintenance activities and the negative impact of wild fires in northern Alberta on the Syncrude operations. During the six months of the year, the company's share of gross production from Syncrude averaged 75 thousand barrels a day, up slightly from 74 thousand barrels in 2010. Increased production was due to improved operating reliability.

Gross production of conventional crude oil averaged 16 thousand barrels a day in the second quarter, down from 24 thousand barrels in the second 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 six months of the year, gross production was 19 thousand barrels a day, compared with 24 thousand barrels in 2010. Lower volumes were primarily due to third-party pipeline downtime, which reduced production at the Norman Wells field, and natural reservoir decline. This pipeline downtime carried forward into the third quarter.

Gross production of natural gas during the second quarter of 2011 was 257 million cubic feet a day, down from 289 million cubic feet in the same period last year. In the six months of the year, gross production was 263 million cubic feet a day, down from 281 million cubic feet in the six months of 2010. The lower production volumes in both periods were primarily a result of natural reservoir decline.

Downstream

Net income was \$64 million in the second quarter of 2011, compared with \$68 million in the same period a year ago. Second quarter earnings in 2010 included a gain of about \$25 million from sale of non-operating assets. Impacting earnings in the second quarter of 2011 when compared to the prior year's second quarter were higher planned refinery maintenance activities totalling about \$40 million. Unfavourable effects of the stronger Canadian dollar were about \$15 million. Offsetting these negative factors was the favourable impact of stronger industry refining margins of about \$80 million in the quarter. Planned refinery maintenance activity impacted second quarter 2011 results by about \$95 million.

Six months net income was \$340 million, an increase of \$233 million over 2010. Higher earnings were primarily due to favourable impacts of stronger industry refining margins of about \$255 million and \$40 million associated with improved refinery operations. These factors were partially offset by the unfavourable impact of the stronger Canadian dollar of about \$35 million. Earnings in 2010 included a gain of about \$25 million from sale of non-operating assets.

Chemical

Net income was \$36 million in the second quarter, \$14 million higher than the same quarter last year. Higher polyethylene and intermediate products sales volumes and lower costs due to lower planned maintenance activities were the main contributors to the increase.

Six months net income was \$74 million, up \$53 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.

Corporate and other

Net income effects were \$2 million in the second quarter, compared with negative \$19 million in the same period of 2010. Favourable effects were primarily due to lower share-based compensation charges. For the six months of 2011, net income effects from Corporate and other were negative \$59 million, versus negative \$25 million last year. Unfavourable effects were primarily due to changes in share-based compensation charges.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operating activities was \$656 million during the second quarter of 2011, compared with \$324 million in the same period last year. Higher cash flow was primarily driven by higher earnings and working capital effects. Year-to-date cash flow generated from operating activities was \$1,615 million, compared with \$1,238 million in the same period last year. Higher cash flow was primarily due to higher earnings partially offset by the timing of scheduled income tax payments.

Investing activities used net cash of \$893 million in the second quarter, an increase of \$96 million from the corresponding period in 2010. Additions to property, plant and equipment were \$903 million in the second quarter, compared with \$851 million during the same quarter 2010. For the Upstream segment, expenditures during the quarter were primarily directed towards the advancement of the Kearn oil sands project. Other investments included development drilling and advancing the Nabiye expansion project at Cold Lake, environmental and other 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 from financing activities was \$355 million in the second quarter, compared with \$3 million in the second quarter of 2010. In the second quarter, the company increased its long-term debt level by \$320 million by drawing on an existing facility and issued additional commercial paper which increased short-term debt by \$135 million.

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, 2011. The new share-purchase program enables the company to repurchase up to about 42 million shares during the period from June 25, 2011, to June 24, 2012, including shares purchased for the company's employee savings plan, the company's employee retirement plan and from ExxonMobil. During the second 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.

Cash dividends of \$94 million were paid in the second quarter of 2011 compared with dividends of \$85 million in the same period of 2010. Per-share dividends declared in the first six months of 2011 totaled \$0.22, up from \$0.21 in the same period of 2010.

The above factors led to an increase in the company's balance of cash to \$419 million at June 30, 2011, from \$267 million at the end of 2010.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Earnings sensitivity (a)

millions of dollars after tax

Ten cents decrease (increase) in the value of the Canadian dollar

versus the U.S. dollar

+ (-) 430

(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 2011. 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 the Canadian dollar versus the U.S. dollar decreased from 2010 year-end by about \$5 million (after tax) for each one-cent difference. This was primarily due to the widened price spread between light crude oils and Cold Lake bitumen.

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, 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.

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

During the period April 1, 2011 to June 30, 2011, the company issued 183,075 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 2011 (April 1- April 30) | - | - | - | 40,696,310 |
| May 2011 (May 1 - May 31) | 73,578 | 47.93 | 73,578 | 40,545,047 |
| June 2011 (June 1 - June 30) | 110,247 | 44.54 | 110,247 | 40,367,411 |

(1) On June 23, 2010, 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 42,380,333 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, 2010 to June 24, 2011. The program ended on June 24, 2011.

(2) 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

Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

repurchase up to a maximum of 42,385,463 common shares, including common shares purchased for the company's employee savings plan, the company's employee retirement plan and from Exxon Mobil Corporation during the period June 25, 2011 to June 24, 2012. If not previously terminated, the program will end on June 24, 2012.

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

Item 6. Exhibits.

(31.1) Certification by the principal executive officer of the company pursuant to Rule 13a-14(a).

(31.2) Certification by the principal financial officer of the company pursuant to Rule 13a-14(a).

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

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

SIGNATURES

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

IMPERIAL OIL LIMITED

(Registrant)

/s/ Paul J. Masschelin

Date: August 4, 2011

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

Administration and Treasurer
(Principal Accounting Officer)

/s/ Brent A. Latimer

Date: August 4, 2011

(Signature)
Brent A. Latimer
Assistant Secretary