



FIRST QUARTER 2012

**FINANCIAL STATEMENTS
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND OPERATING RESULTS**

FOR THE THREE MONTHS ENDED MARCH 31, 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATING RESULTS

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

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

Upstream

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

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

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

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

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Downstream

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

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

Chemical

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

Corporate and other

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF INCOME		
(U.S. GAAP, unaudited)		
	Three Months to March 31	
millions of Canadian dollars	2012	2011
REVENUES AND OTHER INCOME		
Operating revenues (a) (b)	7,494	6,852
Investment and other income (note 3)	39	19
TOTAL REVENUES AND OTHER INCOME	7,533	6,871
EXPENSES		
Exploration	28	37
Purchases of crude oil and products (c)	4,386	3,980
Production and manufacturing (d)	977	979
Selling and general	284	321
Federal excise tax (a)	316	315
Depreciation and depletion	190	188
TOTAL EXPENSES	6,181	5,820
INCOME BEFORE INCOME TAXES	1,352	1,051
INCOME TAXES	337	270
NET INCOME	1,015	781
PER SHARE INFORMATION (Canadian dollars)		
Net income per common share - basic (dollars) (note 8)	1.20	0.92
Net income per common share - diluted (dollars) (note 8)	1.19	0.91
Dividends per common share (dollars)	0.12	0.11
(a) Federal excise tax included in operating revenues	316	315
(b) Amounts from related parties included in operating revenues	707	482
(c) Amounts to related parties included in purchases of crude oil and products	533	1,115
(d) Amounts to related parties included in production and manufacturing expenses	34	53

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

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(U.S. GAAP, unaudited)

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

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 Mar. 31 2012	As at Dec. 31 2011
millions of Canadian dollars		
ASSETS		
Current assets		
Cash	1,045	1,202
Accounts receivable, less estimated doubtful accounts	2,146	2,290
Inventories of crude oil and products	1,155	762
Materials, supplies and prepaid expenses	277	239
Deferred income tax assets	630	590
Total current assets	5,253	5,083
Long-term receivables, investments and other long-term assets	935	920
Property, plant and equipment, less accumulated depreciation and depletion	34,404	33,416
	14,343	14,254
Property, plant and equipment, net	20,061	19,162
Goodwill	204	204
Other intangible assets, net	58	60
TOTAL ASSETS	26,511	25,429
LIABILITIES		
Current liabilities		
Notes and loans payable	364	364
Accounts payable and accrued liabilities (a) (note 7)	4,397	4,317
Income taxes payable	1,327	1,268
Total current liabilities	6,088	5,949
Long-term debt (b) (note 6)	842	843
Other long-term obligations (note 7)	3,954	3,876
Deferred income tax liabilities	1,507	1,440
TOTAL LIABILITIES	12,391	12,108
SHAREHOLDERS' EQUITY		
Common shares at stated value (c)	1,548	1,528
Earnings reinvested	14,879	14,031
Accumulated other comprehensive income	(2,307)	(2,238)
TOTAL SHAREHOLDERS' EQUITY	14,120	13,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	26,511	25,429

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

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

Approved by the directors May 2, 2012

/s/ Bruce H. March

Chairman, president and
chief executive officer

/s/ Paul J. Masschelin

Senior vice-president,
finance and administration, and treasurer

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

(U.S. GAAP, unaudited)

inflow/(outflow)

millions of Canadian dollars

Three Months
to March 31

2012 2011

OPERATING ACTIVITIES

Net income	1,015	781
Adjustment for non-cash items:		
Depreciation and depletion	190	188
(Gain)/loss on asset sales (note 3)	(29)	(6)
Deferred income taxes and other	48	(90)
Changes in operating assets and liabilities:		
Accounts receivable	140	(245)
Inventories, materials, supplies and prepaid expenses	(431)	(462)
Income taxes payable	59	17
Accounts payable and accrued liabilities	71	731
All other items - net (a)	(16)	45
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	1,047	959

INVESTING ACTIVITIES

Additions to property, plant and equipment	(1,145)	(822)
Proceeds from asset sales	78	14
Repayment of loan from equity company	3	2
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	(1,064)	(806)

FINANCING ACTIVITIES

Reduction in capitalized lease obligations	(1)	(1)
Issuance of common shares under stock option plan	22	11
Common shares purchased	(68)	(36)
Dividends paid	(93)	(93)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	(140)	(119)

INCREASE (DECREASE) IN CASH

CASH AT BEGINNING OF PERIOD

CASH AT END OF PERIOD

	(157)	34
	1,202	267
	1,045	301
(a) Included contribution to registered pension plans	(97)	(66)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of financial statement preparation

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

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

All amounts are in Canadian dollars unless otherwise indicated.

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2. Business Segments

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

Three Months to March 31 millions of dollars	Corporate and Other		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011
REVENUES AND OTHER INCOME						
Operating revenues	-	-	-	-	7,494	6,852
Intersegment sales	-	-	(1,970)	(1,957)	-	-
Investment and other income	3	2	-	-	39	19
	<u>3</u>	<u>2</u>	<u>(1,970)</u>	<u>(1,957)</u>	<u>7,533</u>	<u>6,871</u>
EXPENSES						
Exploration	-	-	-	-	28	37
Purchases of crude oil and products	-	-	(1,970)	(1,957)	4,386	3,980
Production and manufacturing	-	-	-	-	977	979
Selling and general	24	81	-	-	284	321
Federal excise tax	-	-	-	-	316	315
Depreciation and depletion	2	2	-	-	190	188
Financing costs	-	1	-	-	-	-
TOTAL EXPENSES	<u>26</u>	<u>84</u>	<u>(1,970)</u>	<u>(1,957)</u>	<u>6,181</u>	<u>5,820</u>
INCOME BEFORE INCOME TAXES	<u>(23)</u>	<u>(82)</u>	<u>-</u>	<u>-</u>	<u>1,352</u>	<u>1,051</u>
INCOME TAXES	<u>(6)</u>	<u>(21)</u>	<u>-</u>	<u>-</u>	<u>337</u>	<u>270</u>
NET INCOME	<u>(17)</u>	<u>(61)</u>	<u>-</u>	<u>-</u>	<u>1,015</u>	<u>781</u>
Export sales to the United States	-	-	-	-	905	1,000
Cash flows from (used in) operating activities	26	(34)	-	-	1,047	959
CAPEX (a)	4	3	-	-	1,173	859
Total assets as at March 31	1,266	416	(208)	(346)	26,511	22,008

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

3. Investment and other income

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

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

4. Employee retirement benefits

The components of net benefit cost were as follows:

millions of dollars	Three Months to March 31	
	2012	2011
Pension benefits:		
Current service cost	39	29
Interest cost	72	78
Expected return on plan assets	(72)	(76)
Amortization of prior service cost	5	4
Recognized actuarial loss	57	40
Net benefit cost	101	75
Other post-retirement benefits:		
Current service cost	2	1
Interest cost	5	6
Recognized actuarial loss	2	1
Net benefit cost	9	8

IMPERIAL OIL LIMITED

5. Financing costs

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

6. Long-term debt

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

7. Other long-term obligations

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

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

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

IMPERIAL OIL LIMITED

8. Net income per share

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

9. Other comprehensive income information

Changes in accumulated other comprehensive income:

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

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

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