



**THIRD QUARTER 2012**

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

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

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

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**OPERATING RESULTS**

The company's net income for the third quarter of 2012 was \$1,040 million or \$1.22 a share on a diluted basis, compared with \$859 million or \$1.01 a share for the same period last year. Net income for the first nine months of 2012 was \$2,690 million or \$3.16 a share on a diluted basis, versus \$2,366 million or \$2.77 a share for the first nine months of 2011.

Higher third quarter earnings were primarily attributable to higher mid-continent industry refining margins of about \$270 million partially offset by lower Syncrude and natural gas realizations of about \$75 million. Earnings in the third quarter of 2012 were also impacted by higher Kearl production readiness expenditures of about \$30 million.

For the first nine months, earnings increased primarily due to stronger industry refining margins of about \$700 million and lower royalty costs of about \$160 million. These factors were partially offset by the impacts of lower Upstream realizations of about \$325 million, lower Upstream volumes of about \$85 million and higher refinery planned maintenance of about \$80 million. Year-to-date earnings in 2012 were also impacted by higher Kearl production readiness expenditures of about \$60 million.

**Upstream**

Net income in the third quarter was \$498 million versus \$534 million in the same period of 2011. Earnings decreased primarily due to lower Syncrude and natural gas realizations of about \$75 million, lower Cold Lake production of about \$40 million and higher Kearl production readiness expenditures of about \$30 million. These factors were partially offset by lower royalty costs of about \$60 million, higher Syncrude and conventional volumes of about \$60 million, the latter primarily due to the absence of third-party pipeline downtime which significantly reduced conventional production in 2011.

Net income for the first nine months of 2012 was \$1,400 million versus \$1,686 million from 2011. Earnings were lower primarily due to the impacts of lower realizations of about \$325 million, lower Syncrude and Cold Lake volumes of about \$140 million largely as a result of increased planned maintenance and higher Kearl production readiness expenditures of about \$60 million. These factors were partially offset by lower royalty costs of about \$160 million, the impact of a weaker Canadian dollar of about \$70 million and higher conventional volumes of about \$50 million.

Prices for most of the company's liquids production are based on West Texas Intermediate (WTI) crude oil, a common benchmark for mid-continent North American oil markets. Compared to the corresponding periods last year, the average WTI crude price in U.S. dollars was higher by \$2.66 a barrel or about three percent in the third quarter of 2012 and essentially unchanged in the first nine months of 2012. The company's Syncrude realizations were impacted by market discounts caused by supply/demand imbalances in mid-continent North America. For the third quarter and in the first nine months of 2012, Syncrude realizations in Canadian dollars decreased by about eight percent and seven percent, respectively, compared to the corresponding periods last year. The company's average bitumen realizations in Canadian dollars increased in the third quarter

## IMPERIAL OIL LIMITED

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

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and in the first nine months of 2012 in line with WTI. The company's average realizations on natural gas sales were lower by about 39 percent and 43 percent in the third quarter and in the first nine months of 2012, respectively, in line with the decline in the average of 30-day spot prices for natural gas in Alberta.

Gross production of Cold Lake bitumen averaged 152 thousand barrels a day during the third quarter, versus 162 thousand barrels in the same period last year. For the first nine months of this year, gross production was 154 thousand barrels a day, compared with 159 thousand barrels in the same period of 2011. Lower volumes in both periods were primarily due to higher planned maintenance activities in 2012 along with the cyclic nature of production at Cold Lake.

The company's share of Syncrude's gross production in the third quarter was 78 thousand barrels a day, versus 75 thousand barrels in the third quarter of 2011. Higher volumes were primarily the result of lower planned maintenance activities in the third quarter of 2012 partially offset by the negative impact of weather on the mine operations in mid-September. During the first nine months of the year, the company's share of gross production from Syncrude averaged 70 thousand barrels a day, down from 75 thousand barrels in 2011. Higher planned maintenance activities were the main contributor to the lower production.

Gross production of conventional crude oil averaged 19 thousand barrels a day in the third quarter and 20 thousand barrels a day the first nine months of the year, up from the 12 thousand barrels and 17 thousand barrels, respectively, in the corresponding periods in 2011 when third-party pipeline downtime significantly reduced production at the Norman Wells field.

Gross production of natural gas during the third quarter of 2012 was 188 million cubic feet a day, down from 252 million cubic feet in the same period last year. In the first nine months of the year, gross production was 194 million cubic feet a day, down from 259 million cubic feet in the first nine months of 2011. The lower production volume in both periods was primarily a result of the producing properties divestments.

#### **Downstream**

Net income was \$536 million in the third quarter, \$264 million higher than the third quarter of 2011. First nine months net income was \$1,223 million, an increase of \$611 million over 2011. Both the third quarter and nine month earnings for 2012 were the best quarterly and year-to-date earnings on record.

Higher third quarter 2012 earnings were primarily driven by solid refining operations that captured strong mid-continent refining margins. Mid-continent North America industry refining margins continued to be strong in the third quarter of 2012. 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.

## IMPERIAL OIL LIMITED

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

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Higher nine months earnings were primarily due to stronger industry refining margins of about \$700 million. This factor was partially offset by the unfavourable impact of a higher level of refinery planned maintenance activities compared with 2011 totalling about \$80 million.

#### **Chemical**

Net income was \$37 million in the third quarter, unchanged from the same quarter last year. Nine months net income was \$121 million, up \$10 million from 2011. Strong operating performance along with higher polyethylene sales volumes and margins were the main contributors to the increase on a year-to-date basis.

#### **Corporate and Other**

Net income effects from Corporate & Other were negative \$31 million in the third quarter, compared with \$16 million in the same period of 2011. For the nine months of 2012, net income effects from Corporate & Other were negative \$54 million, versus negative \$43 million last year.

### **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow generated from operating activities was \$669 million in the third quarter, a decrease of \$989 million from the corresponding period in 2011. Lower cash flow in the third quarter was primarily due to the timing of scheduled income tax payments and inventory builds partially offset by higher net income. Year-to-date cash flow generated from operating activities was \$3,033 million, compared with \$3,273 million in the same period last year. Lower cash flow was primarily due to working capital effects partially offset by higher net income.

Investing activities used net cash of \$1,318 million in the third quarter, compared with \$1,061 million in the same period of 2011. Additions to property, plant and equipment were \$1,388 million in the third quarter, compared with \$1,087 million during the same quarter 2011. Expenditures during the quarter were primarily directed towards the advancement of Kearl initial development and expansion. At the end of the third quarter of 2012, the Kearl initial development and expansion were 98 percent and 20 percent complete, respectively. Other investments included advancing the Nabiye expansion project at Cold Lake and environmental and efficiency projects at Syncrude.

Cash from financing activities was \$122 million in the third quarter, compared with cash used in financing activities of \$96 million in the third quarter of 2011. In the third quarter, the company increased its long-term debt level by \$150 million by drawing on an existing facility and issued additional commercial paper which increased short-term debt by \$75 million. Dividends paid in the third quarter of 2012 were \$102 million, \$9 million higher than the corresponding period in 2011. Per-share dividends declared in the first nine months of 2012 totaled \$0.36, up from \$0.33 in the same period of 2011.

The above factors led to a decrease in the company's balance of cash to \$469 million at September 30, 2012, from \$1,202 million at the end of 2011.

## IMPERIAL OIL LIMITED

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

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Imperial Oil is currently evaluating the opportunity to participate up to 50% in the \$3.1 billion purchase of Celtic Exploration Limited announced by ExxonMobil Canada on October 17, 2012.

#### **KEARL INITIAL DEVELOPMENT PROJECT UPDATE**

At the end of the third quarter of 2012, Kearl initial development was 98 percent complete, with construction 96 percent complete.

Phased start-up activities currently progressing towards the planned start of production around year-end 2012:

- All equipment modules have been set in place at the Kearl site. The issues associated with the transportation of modules, constructed in South Korea and moved through the United States, have been addressed through construction re-sequencing.
- The operating organization is fully staffed and trained.
- Mining operations have commenced and ore is being stockpiled adjacent to the ore processing plant, which is being commissioned.
- Commissioning of the utilities systems is well advanced.
- Bitumen processing facilities (which use a proprietary process that eliminates the need for an upgrader) are being readied for the introduction of solvent.
- Diluent and natural gas supply systems are operational.
- A new diluted bitumen pipeline connecting to markets is being commissioned.

Start-up of an operation of this size and scope is a sequential process and good progress towards first oil continues.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

Information about market risks for the nine months ended September 30, 2012 does not differ materially from that discussed on page 23 in the company's Annual Report on Form 10-K for the year ended December 31, 2011 and Form 10-Q for the quarter ended June 30, 2012.

IMPERIAL OIL LIMITED

**CONSOLIDATED STATEMENT OF INCOME**

(U.S. GAAP, unaudited)

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>				
Operating revenues (a) (b)	8,319	7,918	23,265	22,531
Investment and other income (note 3)	17	27	119	59
<b>TOTAL REVENUES AND OTHER INCOME</b>	<b>8,336</b>	<b>7,945</b>	<b>23,384</b>	<b>22,590</b>
<b>EXPENSES</b>				
Exploration	21	17	67	76
Purchases of crude oil and products (c)	5,026	4,993	14,057	13,939
Production and manufacturing (d)	1,074	1,017	3,298	3,054
Selling and general	291	249	822	823
Federal excise tax (a)	355	345	1,011	985
Depreciation and depletion	183	192	551	570
Financing costs (note 5)	(1)	-	(1)	1
<b>TOTAL EXPENSES</b>	<b>6,949</b>	<b>6,813</b>	<b>19,805</b>	<b>19,448</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,387</b>	<b>1,132</b>	<b>3,579</b>	<b>3,142</b>
<b>INCOME TAXES</b>	<b>347</b>	<b>273</b>	<b>889</b>	<b>776</b>
<b>NET INCOME</b>	<b>1,040</b>	<b>859</b>	<b>2,690</b>	<b>2,366</b>
<b>PER SHARE INFORMATION</b> (Canadian dollars)				
Net income per common share - basic (dollars) (note 8)	1.22	1.01	3.17	2.79
Net income per common share - diluted (dollars) (note 8)	1.22	1.01	3.16	2.77
Dividends per common share (dollars)	0.12	0.11	0.36	0.33
(a) Federal excise tax included in operating revenues	355	345	1,011	985
(b) Amounts from related parties included in operating revenues	613	876	2,258	2,181
(c) Amounts to related parties included in purchases of crude oil and products	914	737	2,469	2,618
(d) Amounts to related parties included in production and manufacturing expenses	57	53	162	154

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	Third Quarter		Nine Months to September 30	
	2012	2011	2012	2011
Net income	<b>1,040</b>	859	<b>2,690</b>	2,366
Other comprehensive income, net of income taxes				
Post-retirement benefit liability adjustment (excluding amortization)	-	-	(117)	(172)
Amortization of post-retirement benefit liability adjustment included in net periodic benefit costs	<b>50</b>	35	<b>149</b>	104
Total other comprehensive income/(loss)	<b>50</b>	35	<b>32</b>	(68)
Comprehensive income	<b>1,090</b>	894	<b>2,722</b>	2,298

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 Sept. 30 <b>2012</b>	As at Dec 31 2011
millions of Canadian dollars		
<b>ASSETS</b>		
Current assets		
Cash	469	1,202
Accounts receivable, less estimated doubtful accounts	2,363	2,290
Inventories of crude oil and products	1,239	762
Materials, supplies and prepaid expenses	249	239
Deferred income tax assets	583	590
Total current assets	<b>4,903</b>	5,083
Long-term receivables, investments and other long-term assets	1,001	920
Property, plant and equipment, less accumulated depreciation and depletion	36,963 <b>(14,658)</b>	33,416 <b>(14,254)</b>
Property, plant and equipment, net	<b>22,305</b>	19,162
Goodwill	204	204
Other intangible assets, net	58	60
<b>TOTAL ASSETS</b>	<b>28,471</b>	25,429
<b>LIABILITIES</b>		
Current liabilities		
Notes and loans payable	439	364
Accounts payable and accrued liabilities (a) (note 7)	4,771	4,317
Income taxes payable	1,126	1,268
Total current liabilities	<b>6,336</b>	5,949
Long-term debt (b) (note 6)	990	843
Other long-term obligations (note 7)	3,748	3,876
Deferred income tax liabilities	1,745	1,440
<b>TOTAL LIABILITIES</b>	<b>12,819</b>	12,108
<b>SHAREHOLDERS' EQUITY</b>		
Common shares at stated value (c)	1,566	1,528
Earnings reinvested	16,292	14,031
Accumulated other comprehensive income (note 9)	(2,206)	(2,238)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>15,652</b>	13,321
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>28,471</b>	25,429

- (a) Accounts payable and accrued liabilities included amounts payable to related parties of \$204 million (2011 - amounts payable of \$215 million).
- (b) Long-term debt included amounts to related parties of \$970 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 November 5, 2012

*/s/ Bruce H. March*

Chairman, president and  
chief executive officer

*/s/ Paul J. Masschelin*

Senior vice-president,  
finance and administration, and controller



IMPERIAL OIL LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(U.S. GAAP, unaudited)

inflow/(outflow)	Third Quarter		Nine Months to September 30	
millions of Canadian dollars	2012	2011	2012	2011
<b>OPERATING ACTIVITIES</b>				
Net income	1,040	859	2,690	2,366
Adjustment for non-cash items:				
Depreciation and depletion	183	192	551	570
(Gain)/loss on asset sales (note 3)	(2)	(17)	(86)	(23)
Deferred income taxes and other	72	59	289	(27)
Changes in operating assets and liabilities:				
Accounts receivable	(220)	175	(81)	(132)
Inventories, materials, supplies and prepaid expenses	(293)	26	(487)	(485)
Income taxes payable	(231)	221	(143)	271
Accounts payable and accrued liabilities	229	169	455	879
All other items - net (a)	(109)	(26)	(155)	(146)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>669</b>	<b>1,658</b>	<b>3,033</b>	<b>3,273</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	(1,388)	(1,087)	(3,823)	(2,812)
Proceeds from asset sales	70	24	209	44
Repayment of loan from equity company	-	2	8	8
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>	<b>(1,318)</b>	<b>(1,061)</b>	<b>(3,606)</b>	<b>(2,760)</b>
<b>FINANCING ACTIVITIES</b>				
Short-term debt - net	75	-	75	135
Long-term debt issued	150	-	150	320
Reduction in capitalized lease obligations	(1)	(1)	(3)	(3)
Issuance of common shares under stock option plan	-	1	43	15
Common shares purchased	-	(3)	(128)	(47)
Dividends paid	(102)	(93)	(297)	(280)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>122</b>	<b>(96)</b>	<b>(160)</b>	<b>140</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(527)</b>	<b>501</b>	<b>(733)</b>	<b>653</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>996</b>	<b>419</b>	<b>1,202</b>	<b>267</b>
<b>CASH AT END OF PERIOD</b>	<b>469</b>	<b>920</b>	<b>469</b>	<b>920</b>
(a) Included contribution to registered pension plans	(171)	(12)	(415)	(310)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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**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 nine months ended September 30, 2012, are not necessarily indicative of the operations to be expected for the full year.

All amounts are in Canadian dollars unless otherwise indicated.

IMPERIAL OIL LIMITED

**2. Business Segments**

Third Quarter millions of dollars	Upstream		Downstream		Chemical	
	2012	2011	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	1,056	1,263	6,963	6,319	300	336
Intersegment sales	1,012	994	559	614	68	80
Investment and other income	1	1	13	23	1	-
	<b>2,069</b>	<b>2,258</b>	<b>7,535</b>	<b>6,956</b>	<b>369</b>	<b>416</b>
<b>EXPENSES</b>						
Exploration	21	17	-	-	-	-
Purchases of crude oil and products	593	781	5,818	5,596	254	304
Production and manufacturing	671	627	357	347	46	43
Selling and general	-	2	233	251	19	18
Federal excise tax	-	-	355	345	-	-
Depreciation and depletion	123	133	56	53	2	3
Financing costs	(1)	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>1,407</b>	<b>1,560</b>	<b>6,819</b>	<b>6,592</b>	<b>321</b>	<b>368</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>662</b>	<b>698</b>	<b>716</b>	<b>364</b>	<b>48</b>	<b>48</b>
<b>INCOME TAXES</b>	<b>164</b>	<b>164</b>	<b>180</b>	<b>92</b>	<b>11</b>	<b>11</b>
<b>NET INCOME</b>	<b>498</b>	<b>534</b>	<b>536</b>	<b>272</b>	<b>37</b>	<b>37</b>
Export sales to the United States	590	496	396	257	191	221
Cash flows from (used in) operating activities	210	1,004	458	589	44	55
CAPEX (a)	1,376	1,051	27	48	1	-

Third Quarter millions of dollars	Corporate and Other		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	-	-	-	-	8,319	7,918
Intersegment sales	-	-	(1,639)	(1,688)	-	-
Investment and other income	2	3	-	-	17	27
	<b>2</b>	<b>3</b>	<b>(1,639)</b>	<b>(1,688)</b>	<b>8,336</b>	<b>7,945</b>
<b>EXPENSES</b>						
Exploration	-	-	-	-	21	17
Purchases of crude oil and products	-	-	(1,639)	(1,688)	5,026	4,993
Production and manufacturing	-	-	-	-	1,074	1,017
Selling and general	39	(22)	-	-	291	249
Federal excise tax	-	-	-	-	355	345
Depreciation and depletion	2	3	-	-	183	192
Financing costs	-	-	-	-	(1)	-
<b>TOTAL EXPENSES</b>	<b>41</b>	<b>(19)</b>	<b>(1,639)</b>	<b>(1,688)</b>	<b>6,949</b>	<b>6,813</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>(39)</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>1,387</b>	<b>1,132</b>
<b>INCOME TAXES</b>	<b>(8)</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>347</b>	<b>273</b>
<b>NET INCOME</b>	<b>(31)</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>1,040</b>	<b>859</b>
Export sales to the United States	-	-	-	-	1,177	974
Cash flows from (used in) operating activities	(43)	10	-	-	669	1,658
CAPEX (a)	5	5	-	-	1,409	1,104

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

IMPERIAL OIL LIMITED

Nine Months to September 30 millions of dollars	Upstream		Downstream		Chemical	
	2012	2011	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	3,524	3,837	18,750	17,687	991	1,007
Intersegment sales	3,054	3,291	1,947	2,053	219	274
Investment and other income	42	12	68	41	1	-
	<b>6,620</b>	<b>7,140</b>	<b>20,765</b>	<b>19,781</b>	<b>1,211</b>	<b>1,281</b>
<b>EXPENSES</b>						
Exploration	67	76	-	-	-	-
Purchases of crude oil and products	2,354	2,605	16,073	16,012	850	940
Production and manufacturing	1,963	1,822	1,197	1,099	138	133
Selling and general	2	5	696	711	52	50
Federal excise tax	-	-	1,011	985	-	-
Depreciation and depletion	371	398	164	155	9	10
Financing costs	(1)	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>4,756</b>	<b>4,906</b>	<b>19,141</b>	<b>18,962</b>	<b>1,049</b>	<b>1,133</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,864</b>	<b>2,234</b>	<b>1,624</b>	<b>819</b>	<b>162</b>	<b>148</b>
<b>INCOME TAXES</b>	<b>464</b>	<b>548</b>	<b>401</b>	<b>207</b>	<b>41</b>	<b>37</b>
<b>NET INCOME</b>	<b>1,400</b>	<b>1,686</b>	<b>1,223</b>	<b>612</b>	<b>121</b>	<b>111</b>
Export sales to the United States	1,641	1,604	942	815	632	649
Cash flows from (used in) operating activities	1,696	2,544	1,236	608	90	137
CAPEX (a)	3,793	2,753	80	120	3	3
Total assets as at September 30	20,727	16,104	7,089	6,830	365	400

Nine Months to September 30 millions of dollars	Corporate and Other		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	-	-	-	-	23,265	22,531
Intersegment sales	-	-	(5,220)	(5,618)	-	-
Investment and other income	8	6	-	-	119	59
	<b>8</b>	<b>6</b>	<b>(5,220)</b>	<b>(5,618)</b>	<b>23,384</b>	<b>22,590</b>
<b>EXPENSES</b>						
Exploration	-	-	-	-	67	76
Purchases of crude oil and products	-	-	(5,220)	(5,618)	14,057	13,939
Production and manufacturing	-	-	-	-	3,298	3,054
Selling and general	72	57	-	-	822	823
Federal excise tax	-	-	-	-	1,011	985
Depreciation and depletion	7	7	-	-	551	570
Financing costs	-	1	-	-	(1)	1
<b>TOTAL EXPENSES</b>	<b>79</b>	<b>65</b>	<b>(5,220)</b>	<b>(5,618)</b>	<b>19,805</b>	<b>19,448</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>(71)</b>	<b>(59)</b>	<b>-</b>	<b>-</b>	<b>3,579</b>	<b>3,142</b>
<b>INCOME TAXES</b>	<b>(17)</b>	<b>(16)</b>	<b>-</b>	<b>-</b>	<b>889</b>	<b>776</b>
<b>NET INCOME</b>	<b>(54)</b>	<b>(43)</b>	<b>-</b>	<b>-</b>	<b>2,690</b>	<b>2,366</b>
Export sales to the United States	-	-	-	-	3,215	3,068
Cash flows from (used in) operating activities	11	(16)	-	-	3,033	3,273
CAPEX (a)	14	12	-	-	3,890	2,888
Total assets as at September 30	713	1,137	(423)	(277)	28,471	24,194

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

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**3. Investment and other income**

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

millions of dollars	Third Quarter		Nine Months to September 30	
	2012	2011	2012	2011
Proceeds from asset sales	<b>70</b>	24	<b>209</b>	44
Book value of assets sold	<b>68</b>	7	<b>123</b>	21
Gain/(loss) on asset sales, before tax	<b>2</b>	17	<b>86</b>	23
Gain/(loss) on asset sales, after tax	<b>1</b>	15	<b>67</b>	19

**4. Employee retirement benefits**

The components of net benefit cost were as follows:

millions of dollars	Third Quarter		Nine Months to September 30	
	2012	2011	2012	2011
Pension benefits:				
Current service cost	<b>40</b>	30	<b>120</b>	91
Interest cost	<b>72</b>	78	<b>216</b>	235
Expected return on plan assets	<b>(72)</b>	(77)	<b>(216)</b>	(231)
Amortization of prior service cost	<b>6</b>	6	<b>17</b>	16
Amortization of actuarial loss	<b>59</b>	41	<b>177</b>	122
Net benefit cost	<b>105</b>	78	<b>314</b>	233
Other post-retirement benefits:				
Current service cost	<b>2</b>	1	<b>6</b>	4
Interest cost	<b>5</b>	6	<b>16</b>	18
Amortization of actuarial loss	<b>2</b>	1	<b>6</b>	2
Net benefit cost	<b>9</b>	8	<b>28</b>	24

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**5. Financing costs**

millions of dollars	Third Quarter		Nine Months to September 30	
	2012	2011	2012	2011
Debt related interest	5	5	14	12
Capitalized interest	(5)	(5)	(14)	(12)
Net interest expense	-	-	-	-
Other interest	(1)	-	(1)	1
Total financing costs	(1)	-	(1)	1

**6. Long-term debt**

millions of dollars	As at Sept. 30 2012	As at Dec 31 2011
	Long-term debt	970
Capital leases	20	23
Total long-term debt	990	843

In the third quarter, the company increased the amount of its existing stand-by long-term bank credit facility from \$200 million to \$300 million and extended the maturity date to August 2014. The company has not drawn on the facility.

**7. Other long-term obligations**

millions of dollars	As at Sept. 30 2012	As at Dec 31 2011
	Employee retirement benefits (a)	2,456
Asset retirement obligations and other environmental liabilities (b)	919	914
Share-based incentive compensation liabilities	175	125
Other obligations	198	192
Total other long-term obligations	3,748	3,876

- (a) Total recorded employee retirement benefits obligations also included \$48 million in current liabilities (December 31, 2011 - \$48 million).
- (b) Total asset retirement obligations and other environmental liabilities also included \$145 million in current liabilities (December 31, 2011 - \$145 million).

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**8. Net income per share**

	Third Quarter		Nine Months to September 30	
	2012	2011	2012	2011
<b>Net income per common share - basic</b>				
Net income (millions of dollars)	1,040	859	2,690	2,366
Weighted average number of common shares outstanding (millions of shares)	847.6	847.6	847.8	847.7
Net income per common share (dollars)	1.22	1.01	3.17	2.79
<b>Net income per common share - diluted</b>				
Net income (millions of dollars)	1,040	859	2,690	2,366
Weighted average number of common shares outstanding (millions of shares)	847.6	847.6	847.8	847.7
Effect of share-based awards (millions of shares)	3.8	6.2	3.6	6.3
Weighted average number of common shares outstanding, assuming dilution (millions of shares)	851.4	853.8	851.4	854.0
Net income per common share (dollars)	1.22	1.01	3.16	2.77

**9. Other comprehensive income information**

**Changes in accumulated other comprehensive income:**

millions of dollars	2012	2011
January 1 balance	(2,238)	(1,424)
Post-retirement benefits liability adjustment:		
Current period change excluding amounts reclassified from accumulated other comprehensive income	(117)	(172)
Amounts reclassified from accumulated other comprehensive income	149	104
September 30 balance	(2,206)	(1,492)

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

	Third Quarter		Nine Months to September 30	
	2012	2011	2012	2011
<b>millions of dollars</b>				
Post-retirement benefits liability adjustments:				
Post-retirement benefits liability adjustment (excluding amortization)	-	-	(40)	(59)
Amortization of post-retirement benefit liability adjustment included in net periodic benefit cost	17	12	51	36
	17	12	11	(23)