

IMPERIAL OIL LTD
Form 10-Q
November 05, 2014
Table of Contents

FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

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

The registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

The registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

The registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

YES NO

The number of common shares outstanding, as of September 30, 2014, was 847,599,011.

Table of Contents

IMPERIAL OIL LIMITED

INDEX

| | PAGE |
|---|------|
| <u>PART I - Financial Information</u> | |
| <u>Item 1 - Financial Statements.</u> | |
| <u>Consolidated Statement of Income - Nine Months ended September 30, 2014 and 2013</u> | 3 |
| <u>Consolidated Statement of Comprehensive Income - Nine Months ended September 30, 2014 and 2013</u> | 4 |
| <u>Consolidated Balance Sheet - as at September 30, 2014 and December 31, 2013</u> | 5 |
| <u>Consolidated Statement of Cash Flows - Nine Months ended September 30, 2014 and 2013</u> | 6 |
| <u>Notes to the Consolidated Financial Statements</u> | 7 |
| <u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> | 13 |
| <u>Item 3 - Quantitative and Qualitative Disclosures about Market Risk.</u> | 16 |
| <u>Item 4 - Controls and Procedures.</u> | 16 |
| <u>PART II - Other Information</u> | |
| <u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds.</u> | 17 |
| <u>Item 6 - Exhibits.</u> | 17 |
| <u>SIGNATURES</u> | 18 |

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, 2013.

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 release can refer to a variety of different activities and does not necessarily have the same meaning as under government payment transparency reports.

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.**

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF INCOME

(U.S. GAAP, unaudited)

millions of Canadian dollars

| | Third Quarter | | Nine Months to September 30 | |
|--|---------------|------|--------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |

REVENUES AND OTHER INCOME

| | | | | |
|--------------------------------------|--------------|-------|---------------|--------|
| Operating revenues (a) (b) | 9,641 | 8,577 | 28,237 | 24,470 |
| Investment and other income (note 3) | 17 | 17 | 696 | 96 |

| | | | | |
|--|--------------|-------|---------------|--------|
| TOTAL REVENUES AND OTHER INCOME | 9,658 | 8,594 | 28,933 | 24,566 |
|--|--------------|-------|---------------|--------|

EXPENSES

| | | | | |
|---|--------------|-------|---------------|--------|
| Exploration | 14 | 30 | 52 | 74 |
| Purchases of crude oil and products (c) | 6,100 | 5,484 | 17,677 | 15,460 |
| Production and manufacturing (d) | 1,358 | 1,325 | 4,224 | 3,974 |
| Selling and general | 254 | 291 | 825 | 797 |
| Federal excise tax (a) | 412 | 385 | 1,165 | 1,041 |
| Depreciation and depletion | 276 | 223 | 836 | 860 |
| Financing costs (note 5) | (1) | (1) | 3 | 1 |

| | | | | |
|-----------------------|--------------|-------|---------------|--------|
| TOTAL EXPENSES | 8,413 | 7,737 | 24,782 | 22,207 |
|-----------------------|--------------|-------|---------------|--------|

| | | | | |
|-----------------------------------|--------------|-----|--------------|-------|
| INCOME BEFORE INCOME TAXES | 1,245 | 857 | 4,151 | 2,359 |
|-----------------------------------|--------------|-----|--------------|-------|

| | | | | |
|---------------------|------------|-----|--------------|-----|
| INCOME TAXES | 309 | 210 | 1,037 | 587 |
|---------------------|------------|-----|--------------|-----|

| | | | | |
|-------------------|------------|-----|--------------|-------|
| NET INCOME | 936 | 647 | 3,114 | 1,772 |
|-------------------|------------|-----|--------------|-------|

PER SHARE INFORMATION (Canadian dollars)

| | | | | |
|--|-------------|------|-------------|------|
| Net income per common share - basic (note 8) | 1.10 | 0.76 | 3.67 | 2.09 |
|--|-------------|------|-------------|------|

| | | | | |
|--|-------------|------|-------------|------|
| Net income per common share - diluted (note 8) | 1.10 | 0.76 | 3.66 | 2.08 |
|--|-------------|------|-------------|------|

| | | | | |
|----------------------------|-------------|------|-------------|------|
| Dividends per common share | 0.13 | 0.12 | 0.39 | 0.36 |
|----------------------------|-------------|------|-------------|------|

| | | | | |
|---|--------------|-----|--------------|-------|
| (a) Federal excise tax included in operating revenues | 412 | 385 | 1,165 | 1,041 |
| | 1,201 | 711 | 2,759 | 1,936 |

(b) Amounts from related parties included in operating revenues

| | | | | |
|--|--------------|-------|--------------|-------|
| (c) Amounts to related parties included in purchases of crude oil and products | 1,111 | 1,018 | 2,939 | 3,544 |
|--|--------------|-------|--------------|-------|

(d) Amounts to related parties included in production and manufacturing expenses

| | | | |
|-----------|----|------------|-----|
| 93 | 85 | 268 | 255 |
|-----------|----|------------|-----|

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

Table of Contents

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(U.S. GAAP, unaudited)

| millions of Canadian dollars | Third Quarter | | Nine Months to September 30 | |
|---|---------------|------|--------------------------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | 936 | 647 | 3,114 | 1,772 |
| Other comprehensive income, net of income taxes | | | | |
| Post-retirement benefit liability adjustment (excluding amortization) | | | (38) | (102) |
| Amortization of post-retirement benefit liability adjustment included in net periodic benefit costs | 34 | 52 | 109 | 154 |
| Total other comprehensive income/(loss) | 34 | 52 | 71 | 52 |
| Comprehensive income | 970 | 699 | 3,185 | 1,824 |

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

Table of Contents

IMPERIAL OIL LIMITED

CONSOLIDATED BALANCE SHEET

| (U.S. GAAP, unaudited) | As at Sept 30 2014 | As at Dec 31 2013 |
|---|--------------------------|-------------------------|
| millions of Canadian dollars | | |
| ASSETS | | |
| Current assets | | |
| Cash | 43 | 272 |
| Accounts receivable, less estimated doubtful accounts (a) | 2,301 | 2,084 |
| Inventories of crude oil and products | 1,107 | 1,030 |
| Materials, supplies and prepaid expenses | 396 | 342 |
| Deferred income tax assets | 618 | 559 |
| Total current assets | 4,465 | 4,287 |
| Long-term receivables, investments and other long-term assets | 1,379 | 1,332 |
| Property, plant and equipment, less accumulated depreciation and depletion | 49,263 (15,141) | 47,165 (15,845) |
| Property, plant and equipment, net | 34,122 | 31,320 |
| Goodwill | 224 | 224 |
| Other intangible assets, net | 52 | 55 |
| TOTAL ASSETS | 40,242 | 37,218 |
| LIABILITIES | | |
| Current liabilities | | |
| Notes and loans payable (b) | 1,759 | 1,843 |
| Accounts payable and accrued liabilities (a) (note 7) | 4,571 | 4,518 |
| Income taxes payable | 698 | 727 |
| Total current liabilities | 7,028 | 7,088 |
| Long-term debt (c) (note 6) | 4,443 | 4,444 |
| Other long-term obligations (note 7) | 2,817 | 3,091 |
| Deferred income tax liabilities | 3,575 | 3,071 |

| | | |
|--|----------------|---------|
| TOTAL LIABILITIES | 17,863 | 17,694 |
| SHAREHOLDERS EQUITY | | |
| Common shares at stated value (d) | 1,566 | 1,566 |
| Earnings reinvested | 22,463 | 19,679 |
| Accumulated other comprehensive income (note 9) | (1,650) | (1,721) |
| TOTAL SHAREHOLDERS EQUITY | 22,379 | 19,524 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 40,242 | 37,218 |

- (a) Accounts receivable, less estimated doubtful accounts included amounts receivable from related parties of \$79 million (2013 - accounts payable and accrued liabilities included amounts payable to related parties of \$170 million).
- (b) Notes and loans payable included amounts to related parties of \$75 million (2013 - \$75 million).
- (c) Long-term debt included amounts to related parties of \$4,316 million (2013 - \$4,316 million).
- (d) Number of common shares authorized and outstanding were 1,100 million and 848 million, respectively (2013 - 1,100 million and 848 million, respectively).

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

Table of Contents

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

(U.S. GAAP, unaudited)

| inflow/(outflow) millions of Canadian dollars | Third Quarter | | Nine Months to September 30 | |
|---|----------------|----------------|--------------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| OPERATING ACTIVITIES | | | | |
| Net income | 936 | 647 | 3,114 | 1,772 |
| Adjustments for non-cash items: | | | | |
| Depreciation and depletion | 276 | 223 | 836 | 860 |
| (Gain)/loss on asset sales (note 3) | (4) | (5) | (664) | (60) |
| Deferred income taxes and other | 185 | 106 | 411 | 276 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | 104 | 51 | (217) | (166) |
| Inventories, materials, supplies and prepaid expenses | 42 | 46 | (131) | (451) |
| Income taxes payable | (12) | (485) | (29) | (607) |
| Accounts payable and accrued liabilities | (216) | (226) | (20) | 282 |
| All other items - net (a) | (81) | (59) | 14 | (273) |
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | 1,230 | 298 | 3,314 | 1,633 |
| INVESTING ACTIVITIES | | | | |
| Additions to property, plant and equipment | (1,351) | (1,810) | (3,852) | (4,771) |
| Acquisition | | | | (1,602) |
| Proceeds from asset sales | 7 | 6 | 814 | 68 |
| Additional investments | (35) | | (79) | |
| Repayment of loan from equity company | | | | 4 |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | (1,379) | (1,804) | (3,117) | (6,301) |
| FINANCING ACTIVITIES | | | | |
| Short-term debt - net | 135 | 325 | (88) | 1,359 |
| Long-term debt issued | | 819 | | 3,213 |
| Reduction in capitalized lease obligations | (3) | (2) | (7) | (5) |
| Dividends paid | (111) | (102) | (331) | (305) |
| | 21 | 1,040 | (426) | 4,262 |

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

| | | | | |
|------------------------------------|--------------|--------------|--------------|--------------|
| INCREASE (DECREASE) IN CASH | (128) | (466) | (229) | (406) |
| CASH AT BEGINNING OF PERIOD | 171 | 542 | 272 | 482 |
| CASH AT END OF PERIOD | 43 | 76 | 43 | 76 |

(a) Included contribution to registered pension plans (95) (163) (267) (461)
The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

Table of Contents

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 2013 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, 2014, are not necessarily indicative of the operations to be expected for the full year.

All amounts are in Canadian dollars unless otherwise indicated.

Table of Contents

IMPERIAL OIL LIMITED

2. Business segments

| Third Quarter millions of dollars | Upstream | | Downstream | | Chemical | |
|--------------------------------------|----------|------|------------|------|----------|------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |

**REVENUES AND OTHER
INCOME**

| | | | | | | |
|-----------------------------|--------------|-------|--------------|-------|------------|-----|
| Operating revenues (a) | 2,365 | 1,786 | 6,912 | 6,469 | 364 | 322 |
| Intersegment sales | 1,077 | 1,397 | 318 | 415 | 93 | 96 |
| Investment and other income | 2 | 8 | 14 | 9 | | |
| | 3,444 | 3,191 | 7,244 | 6,893 | 457 | 418 |

EXPENSES

| | | | | | | |
|-------------------------------------|--------------|-------|--------------|-------|------------|-----|
| Exploration | 14 | 30 | | | | |
| Purchases of crude oil and products | 1,590 | 1,307 | 5,701 | 5,789 | 296 | 295 |
| Production and manufacturing | 917 | 880 | 389 | 396 | 52 | 50 |
| Selling and general | (1) | 1 | 234 | 217 | 17 | 17 |
| Federal excise tax | | | 412 | 385 | | |
| Depreciation and depletion | 219 | 168 | 52 | 50 | 3 | 3 |
| Financing costs | (1) | | | (1) | | |
| TOTAL EXPENSES | 2,738 | 2,386 | 6,788 | 6,836 | 368 | 365 |

INCOME BEFORE INCOME

| | | | | | | |
|---------------------|------------|-----|------------|----|-----------|----|
| TAXES | 706 | 805 | 456 | 57 | 89 | 53 |
| INCOME TAXES | 174 | 201 | 113 | 11 | 23 | 14 |
| NET INCOME | 532 | 604 | 343 | 46 | 66 | 39 |

Cash flows from (used in)

| | | | | | | |
|-----------------------------|--------------|-------|------------|-------|-----------|---|
| operating activities | 1,072 | 601 | 114 | (315) | 77 | 7 |
| CAPEX (b) | 1,280 | 1,765 | 127 | 51 | 7 | 3 |

| Third Quarter millions of dollars | Corporate and Other | | Eliminations | | Consolidated | |
|--------------------------------------|---------------------|------|--------------|------|--------------|------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |

**REVENUES AND OTHER
INCOME**

| | | | | | | |
|------------------------|--|--|----------------|---------|--------------|-------|
| Operating revenues (a) | | | | | 9,641 | 8,577 |
| Intersegment sales | | | (1,488) | (1,908) | | |

| | | | | | | |
|---|-------------|------|----------------|----------------|--------------|-------|
| Investment and other income | 1 | | | 17 | 17 | |
| | 1 | | (1,488) | (1,908) | 9,658 | 8,594 |
| EXPENSES | | | | | | |
| Exploration | | | | 14 | 30 | |
| Purchases of crude oil and products | | | (1,487) | (1,907) | 6,100 | 5,484 |
| Production and manufacturing | | | | (1) | 1,358 | 1,325 |
| Selling and general | 5 | 56 | (1) | 254 | 291 | |
| Federal excise tax | | | | 412 | 385 | |
| Depreciation and depletion | 2 | 2 | | 276 | 223 | |
| Financing costs | | | | (1) | (1) | |
| TOTAL EXPENSES | 7 | 58 | (1,488) | (1,908) | 8,413 | 7,737 |
| INCOME BEFORE INCOME TAXES | | | | | | |
| TAXES | (6) | (58) | | | 1,245 | 857 |
| INCOME TAXES | (1) | (16) | | | 309 | 210 |
| NET INCOME | (5) | (42) | | | 936 | 647 |
| Cash flows from (used in) operating activities | | | | | | |
| operating activities | (33) | 5 | | | 1,230 | 298 |
| CAPEX (b) | 20 | 21 | | | 1,434 | 1,840 |

- (a) Included export sales to the United States of \$2,092 million (2013 - \$1,380 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, additional investments and acquisition.

Table of Contents

IMPERIAL OIL LIMITED

| Nine Months to September 30 millions of dollars | Upstream | | Downstream | | Chemical | |
|--|----------|------|------------|------|----------|------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |

**REVENUES AND OTHER
INCOME**

| | | | | | | |
|-----------------------------|---------------|-------|---------------|--------|--------------|-------|
| Operating revenues (a) | 6,671 | 4,392 | 20,458 | 19,120 | 1,108 | 958 |
| Intersegment sales | 3,188 | 3,344 | 1,118 | 1,603 | 310 | 240 |
| Investment and other income | 658 | 55 | 34 | 39 | | |
| | 10,517 | 7,791 | 21,610 | 20,762 | 1,418 | 1,198 |

EXPENSES

| | | | | | | |
|-------------------------------------|--------------|-------|---------------|--------|------------|-----|
| Exploration | 52 | 74 | | | | |
| Purchases of crude oil and products | 4,425 | 3,030 | 16,898 | 16,788 | 966 | 826 |
| Production and manufacturing (c) | 2,933 | 2,508 | 1,125 | 1,312 | 166 | 157 |
| Selling and general | 2 | 4 | 658 | 651 | 53 | 49 |
| Federal excise tax | | | 1,165 | 1,041 | | |
| Depreciation and depletion (c) | 657 | 443 | 162 | 401 | 9 | 9 |
| Financing costs | 3 | | | 1 | | |

| | | | | | | |
|-----------------------|--------------|-------|---------------|--------|--------------|-------|
| TOTAL EXPENSES | 8,072 | 6,059 | 20,008 | 20,194 | 1,194 | 1,041 |
|-----------------------|--------------|-------|---------------|--------|--------------|-------|

INCOME BEFORE INCOME

| | | | | | | |
|---------------------|--------------|-------|--------------|-----|------------|-----|
| TAXES | 2,445 | 1,732 | 1,602 | 568 | 224 | 157 |
| INCOME TAXES | 604 | 431 | 405 | 141 | 58 | 41 |

| | | | | | | |
|-------------------|--------------|-------|--------------|-----|------------|-----|
| NET INCOME | 1,841 | 1,301 | 1,197 | 427 | 166 | 116 |
|-------------------|--------------|-------|--------------|-----|------------|-----|

Cash flows from (used in)

| | | | | | | |
|--|---------------|--------|--------------|-------|------------|-----|
| operating activities | 2,062 | 1,065 | 1,074 | 420 | 154 | 122 |
| CAPEX (b) | 3,680 | 6,272 | 310 | 128 | 15 | 6 |
| Total assets as at September 30 | 33,799 | 29,693 | 6,027 | 6,159 | 381 | 374 |

| Nine Months to September 30 millions of dollars | Corporate and Other | | Eliminations | | Consolidated | |
|--|---------------------|------|--------------|------|--------------|------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |

**REVENUES AND OTHER
INCOME**

| | | | | | | |
|-----------------------------|----------|---|----------------|---------|---------------|--------|
| Operating revenues (a) | | | | | 28,237 | 24,470 |
| Intersegment sales | | | (4,616) | (5,187) | | |
| Investment and other income | 4 | 2 | | | 696 | 96 |

| | | | | | | |
|---|--------------|------|----------------|---------|---------------|--------|
| | 4 | 2 | (4,616) | (5,187) | 28,933 | 24,566 |
| EXPENSES | | | | | | |
| Exploration | | | | | 52 | 74 |
| Purchases of crude oil and products | | | (4,612) | (5,184) | 17,677 | 15,460 |
| Production and manufacturing (c) | | | | (3) | 4,224 | 3,974 |
| Selling and general | 116 | 93 | (4) | | 825 | 797 |
| Federal excise tax | | | | | 1,165 | 1,041 |
| Depreciation and depletion (c) | 8 | 7 | | | 836 | 860 |
| Financing costs | | | | | 3 | 1 |
| TOTAL EXPENSES | 124 | 100 | (4,616) | (5,187) | 24,782 | 22,207 |
| INCOME BEFORE INCOME TAXES | | | | | | |
| TAXES | (120) | (98) | | | 4,151 | 2,359 |
| INCOME TAXES | (30) | (26) | | | 1,037 | 587 |
| NET INCOME | (90) | (72) | | | 3,114 | 1,772 |
| Cash flows from (used in) operating activities | | | | | | |
| CAPEX (b) | 24 | 26 | | | 3,314 | 1,633 |
| Total assets as at September 30 | 61 | 47 | | | 4,066 | 6,453 |
| | 426 | 364 | (391) | (509) | 40,242 | 36,081 |

- (a) Included export sales to the United States of \$4,888 million (2013 - \$4,071 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, additional investments and acquisition.
- (c) A second quarter 2013 charge in the Downstream segment of \$355 million (\$264 million, after-tax) associated with the company's decision to convert the Dartmouth refinery to a terminal included the write-down of refinery plant and equipment not included in the terminal conversion of \$245 million, reported as part of depreciation and depletion expenses, and decommissioning, environmental and employee-related costs of \$110 million, reported as part of production and manufacturing expenses. Amounts incurred related to the project at the end of the third quarter 2014 associated with decommissioning, environmental and employee-related costs were \$79 million.

Table of Contents

IMPERIAL OIL LIMITED

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 | |
|--|---------------|------|-------------------------|------|
| | 2014 | 2013 | to September 30 2014 | 2013 |
| Proceeds from asset sales (a) | 7 | 6 | 814 | 68 |
| Book value of assets sold | 3 | 1 | 150 | 8 |
| Gain/(loss) on asset sales, before tax (a) | 4 | 5 | 664 | 60 |
| Gain/(loss) on asset sales, after tax (a) | 2 | 5 | 498 | 46 |

(a) The nine months ended September 30, 2014 included gains of \$638 million (\$478 million, after tax) from the sale of the company's interest in producing conventional assets located in Boundary Lake, Cynthia/West Pembina and Rocky Mountain House.

4. Employee retirement benefits

The components of net benefit cost were as follows:

| millions of dollars | Third Quarter | | Nine Months | |
|------------------------------------|---------------|------|-------------------------|-------|
| | 2014 | 2013 | to September 30 2014 | 2013 |
| Pension benefits: | | | | |
| Current service cost | 37 | 46 | 114 | 136 |
| Interest cost | 82 | 71 | 241 | 211 |
| Expected return on plan assets | (95) | (85) | (277) | (248) |
| Amortization of prior service cost | 6 | 6 | 17 | 17 |
| Amortization of actuarial loss | 39 | 61 | 125 | 182 |
| Net benefit cost | 69 | 99 | 220 | 298 |

| | | | | |
|---------------------------------|-----------|----|-----------|----|
| Other post-retirement benefits: | | | | |
| Current service cost | 3 | 3 | 8 | 8 |
| Interest cost | 7 | 5 | 19 | 16 |
| Amortization of actuarial loss | 1 | 3 | 5 | 8 |
| Net benefit cost | 11 | 11 | 32 | 32 |

Table of Contents

IMPERIAL OIL LIMITED

5. Financing costs and additional notes and loans payable information

| millions of dollars | Third Quarter | | Nine Months to September 30 | |
|-----------------------|---------------|------|--------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Debt-related interest | 20 | 21 | 61 | 47 |
| Capitalized interest | (20) | (21) | (61) | (47) |
| Net interest expense | | | | |
| Other interest | (1) | (1) | 3 | 1 |
| Total financing costs | (1) | (1) | 3 | 1 |

In the first quarter of 2014, the company extended the maturity date of its existing \$500 million 364-day short-term unsecured committed bank credit facility to March 2015. The company has not drawn on the facility.

6. Long-term debt

| millions of dollars | As at Sept 30 2014 | As at Dec 31 2013 |
|----------------------|--------------------------|-------------------------|
| Long-term debt | 4,316 | 4,316 |
| Capital leases | 127 | 128 |
| Total long-term debt | 4,443 | 4,444 |

In January 2014, the company increased the capacity of its existing floating rate loan facility with an affiliated company of ExxonMobil from \$5 billion to \$6.25 billion.

In the third quarter of 2014, the company extended the maturity date of its existing \$500 million stand-by long-term bank credit facility to August 2016. The company has not drawn on the facility.

7. Other long-term obligations

| millions of dollars | As at Sept 30 2014 | As at Dec 31 2013 |
|--|---------------------------------|-------------------------|
| Employee retirement benefits (a) | 1,237 | 1,448 |
| Asset retirement obligations and other environmental liabilities (b) | 1,139 | 1,258 |
| Share-based incentive compensation liabilities | 222 | 140 |
| Other obligations | 219 | 245 |
| Total other long-term obligations | 2,817 | 3,091 |

- (a) Total recorded employee retirement benefits obligations also included \$53 million in current liabilities (2013 - \$53 million).
- (b) Total asset retirement obligations and other environmental liabilities also included \$157 million in current liabilities (2013 - \$154 million).

Table of Contents

IMPERIAL OIL LIMITED

8. Net income per share

| | Third Quarter | | Nine Months to September 30 | |
|---|---------------|-------|--------------------------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income per common share - basic | | | | |
| Net income (millions of dollars) | 936 | 647 | 3,114 | 1,772 |
| Weighted average number of common shares outstanding (millions of shares) | 847.6 | 847.6 | 847.6 | 847.6 |
| Net income per common share (dollars) | 1.10 | 0.76 | 3.67 | 2.09 |
| Net income per common share - diluted | | | | |
| Net income (millions of dollars) | 936 | 647 | 3,114 | 1,772 |
| Weighted average number of common shares outstanding (millions of shares) | 847.6 | 847.6 | 847.6 | 847.6 |
| Effect of share-based awards (millions of shares) | 3.3 | 3.4 | 3.1 | 3.2 |
| Weighted average number of common shares outstanding, assuming dilution (millions of shares) | 850.9 | 851.0 | 850.7 | 850.8 |
| Net income per common share (dollars) | 1.10 | 0.76 | 3.66 | 2.08 |

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

| millions of dollars | 2014 | 2013 |
|--|----------------|---------|
| Balance at January 1 | (1,721) | (2,455) |
| Post-retirement benefits liability adjustment: | | |
| Current period change excluding amounts reclassified from accumulated other comprehensive income | (38) | (102) |
| Amounts reclassified from accumulated other comprehensive income | 109 | 154 |
| Balance at September 30 | (1,650) | (2,403) |

Amounts reclassified out of accumulated other comprehensive income -**before-tax income/(expense):**

| millions of dollars | Third Quarter | | Nine Months to September 30 | |
|---|---------------|------|--------------------------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| Amortization of post-retirement benefits liability adjustment included in net periodic benefit cost (a) | (46) | (70) | (147) | (207) |

(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 | Third Quarter | | Nine Months to September 30 | |
|---|---------------|------|--------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Post-retirement benefits liability adjustments: | | | | |
| Post-retirement benefits liability adjustment (excluding amortization) | | | (13) | (35) |
| Amortization of post-retirement benefits liability adjustment included in net periodic benefit cost | 12 | 18 | 38 | 53 |
| | 12 | 18 | 25 | 18 |

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
OPERATING RESULTS

Third quarter 2014 vs. third quarter 2013

The company's net income for the third quarter of 2014 was \$936 million or \$1.10 per share on a diluted basis, compared with \$647 million or \$0.76 per share for the same period last year.

Upstream net income in the third quarter was \$532 million, \$72 million lower than the same period of 2013. Earnings in the third quarter of 2014 reflected the impact of lower bitumen and synthetic crude oil realizations of about \$200 million. Earnings also decreased due to higher royalties along with higher energy and other operating costs totalling about \$90 million. These factors were partially offset by higher liquids volumes of about \$140 million, primarily due to incremental contribution from Kearl production, and the impact of a weaker Canadian dollar of about \$85 million.

The company's average realizations from the sales of synthetic crude oil decreased about 10 percent in the third quarter of 2014 to \$102.58 per barrel versus \$113.63 per barrel in the third quarter of 2013. The decreased realizations largely followed the West Texas Intermediate (WTI) crude oil benchmark price, which was down about eight percent to \$97.25 per barrel, in U.S. dollars. The company's average bitumen realizations at \$74.82 per barrel, also followed the trend of WTI, and were down about eight percent versus the third quarter of 2013. The company's average realizations on natural gas sales of \$3.58 per thousand cubic feet in the third quarter of 2014 were higher by \$0.92 per thousand cubic feet versus the same period in 2013.

Gross production of Cold Lake bitumen averaged 149,000 barrels per day in the third quarter, up from 147,000 barrels in the same period last year.

Gross production from the Kearl initial development in the third quarter was 78,000 barrels per day (55,000 barrels Imperial's share) up from 33,000 barrels per day (23,000 barrels Imperial's share) in the third quarter of 2013. Excluding the impact of major planned maintenance, which was executed over a two week period in September, gross production averaged 92,000 barrels per day (65,000 barrels Imperial's share).

The company's share of Syncrude's gross production in the third quarter was 61,000 barrels per day, up from 57,000 barrels in the third quarter of 2013. Increased volumes were due to lower maintenance activities.

Gross production of conventional crude oil averaged 16,000 barrels per day in the third quarter, versus 22,000 barrels in the corresponding period in 2013. The lower production volume was primarily due to the impact of properties divested during the first half of 2014.

Gross production of natural gas during the third quarter of 2014 was 149 million cubic feet per day, down from 211 million cubic feet in the same period last year, reflecting the impact of properties divested during the first half of 2014.

Downstream net income was \$343 million in the third quarter, \$297 million higher than the third quarter of 2013. Earnings increased due to the impacts of improved refinery reliability and feedstock mix of about \$110 million, along with higher industry refining margins of about \$100 million, and higher marketing margins and sales volumes totalling about \$70 million.

Table of Contents

Chemical net income in the third quarter was a record \$66 million, up from \$39 million in the same quarter in 2013. Strong margins across all major product lines and the processing of cost-advantaged ethane feedstock from Marcellus shale gas contributed to these best-ever quarterly results.

Net income effects from Corporate and Other were negative \$5 million in the third quarter, versus negative \$42 million in the same period of 2013 due to lower share-based compensation charges.

Nine months 2014 vs. nine months 2013

Net income in the first nine months of 2014 was \$3,114 million, or \$3.66 per share on a diluted basis, versus \$1,772 million or \$2.08 per share for the first nine months of 2013.

Upstream net income for the first nine months of 2014 was \$1,841 million, \$540 million higher than the same period of 2013. Earnings in 2014 included a gain of \$478 million from the divestment of conventional upstream producing assets. Earnings also increased due to the impacts of a weaker Canadian dollar of about \$240 million and higher liquids volumes of about \$150 million, primarily due to incremental contribution from Kearn production. These factors were partially offset by higher royalty costs of about \$220 million and higher energy and other operating costs of about \$100 million.

The company's average realizations from the sale of synthetic crude oil increased about four percent in the first nine months of 2014 to \$106.59 per barrel versus \$102.98 per barrel in the corresponding period last year. The increased realizations reflected the increase in the WTI crude oil benchmark price, which was up about one percent, and the impact of a weaker Canadian dollar. The company's average bitumen realizations in Canadian dollars for the nine months to-date in 2014 were \$72.11 per barrel versus \$63.86 per barrel in the same period in 2013 as the price spread between light crude oil and bitumen narrowed. The company's average realizations on natural gas sales of \$4.97 per thousand cubic feet in the first nine months of 2014 were higher by \$1.76 per thousand cubic feet versus the same period in 2013.

Gross production of Cold Lake bitumen averaged 145,000 barrels per day in the first nine months, down from 152,000 barrels from the same period last year. Lower volumes were primarily due to the cyclic nature of steaming and associated production and the impact of several unplanned third-party power outages in the first quarter.

Gross production from the Kearn initial development in the first nine months of 2014 was 73,000 barrels per day (52,000 barrels Imperial's share) versus 13,000 barrels (9,000 barrels Imperial's share) in the same period of 2013.

During the first nine months of 2014, the company's share of gross production from Syncrude averaged 62,000 barrels per day, compared to 63,000 barrels from the same period of 2013.

Gross production of conventional crude oil averaged 18,000 barrels per day in the first nine months of 2014, versus 21,000 barrels from the same period in 2013. The lower production volume was primarily due to the impact of properties divested during the first half of 2014.

Gross production of natural gas during the first nine months of 2014 was 171 million cubic feet per day, down from 201 million cubic feet in the same period last year. The lower production volume was primarily the result of the

impact of divested properties.

Table of Contents

Downstream net income was \$1,197 million, up \$770 million in the same period of 2013. Earnings in the first nine months of 2013 included a charge of \$264 million associated with the conversion of the Dartmouth refinery to a fuels terminal. Earnings also increased due to the impacts of improved refinery reliability and feedstock mix of about \$330 million, higher marketing margins and sales volumes totalling about \$140 million and a weaker Canadian dollar of about \$90 million. These factors were partially offset by lower industry refining margins of about \$60 million.

Chemical net income was \$166 million for the first nine months of 2014, up \$50 million over the same period in 2013.

For the first nine months of 2014, net income effects from Corporate & Other were negative \$90 million, versus negative \$72 million in 2013, primarily due to changes in share-based compensation charges.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operating activities was \$1,230 million in the third quarter, \$932 million higher than the corresponding period in 2013. Higher cash flow was primarily due to working capital effects and higher earnings.

Investing activities used net cash of \$1,379 million in the third quarter, compared with \$1,804 million in the same period of 2013. Additions to property, plant and equipment were \$1,351 million in the third quarter, compared with \$1,810 million during the same quarter in 2013. Expenditures during the quarter were primarily directed towards the advancement of Kearn expansion and Cold Lake Nabiye projects.

Cash from financing activities was \$21 million in the third quarter, compared with \$1,040 million in the third quarter of 2013. Dividends paid in the third quarter of 2014 were \$111 million, \$9 million higher than the corresponding period in 2013. Per-share dividend paid in the third quarter was \$0.13, up from \$0.12 in the same period of 2013.

The above factors led to a decrease in the company's balance of cash to \$43 million at September 30, 2014 from \$272 million at the end of 2013.

RECENTLY ISSUED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board issued a new standard, *Revenue from Contracts with Customers*. The standard establishes a single revenue recognition model for all contracts with customers, eliminates industry specific requirements and expands disclosure requirements. The standard is required to be adopted beginning January 1, 2017. Imperial Oil is evaluating the standard and its effect on the company's financial statements.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Information about market risks for the nine months ended September 30, 2014 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, 2013 and Form 10-Q for the quarter ended March 31, 2014.

Item 4. Controls and Procedures.

As indicated in the certifications in Exhibit 31 of this report, the company's principal executive officer and principal financial officer have evaluated the company's disclosure controls and procedures as of September 30, 2014. 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)

| 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 |
|---|--|---|--|--|
| July 2014 (July 1 - July 31) | 0 | 0 | 0 | 1,000,000 |
| August 2014 (Aug 1 - Aug 31) | 0 | 0 | 0 | 1,000,000 |
| September 2014 (Sept 1 - Sept 30) | 0 | 0 | 0 | 1,000,000 |

- (1) On June 23, 2014, 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 1,000,000 common shares during the period June 25, 2014 to June 24, 2015. The program will end when the company has purchased the maximum allowable number of shares, or on June 24, 2015.

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 of the company pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

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

Table of Contents

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: November 4, 2014

(Signature)
Paul J. Masschelin
Senior Vice-President, Finance and
Administration and Controller
(Principal Accounting Officer)

/s/ Brent A. Latimer

Date: November 4, 2014

(Signature)
Brent A. Latimer
Assistant Secretary