

IMPERIAL OIL LTD  
Form 10-Q  
May 07, 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 March 31, 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)

Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

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 March 31, 2014, was 847,599,011.**

**Table of Contents**

**IMPERIAL OIL LIMITED**

INDEX

	PAGE
<b><u>PART I - Financial Information</u></b>	
<u>Item 1 - Financial Statements.</u>	
<u>Consolidated Statement of Income - Three Months ended March 31, 2014 and 2013</u>	3
<u>Consolidated Statement of Comprehensive Income - Three Months ended March 31, 2014 and 2013</u>	4
<u>Consolidated Balance Sheet - as at March 31, 2014 and December 31, 2013</u>	5
<u>Consolidated Statement of Cash Flows - Three Months ended March 31, 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>	15
<u>Item 4 - Controls and Procedures.</u>	15
 <b><u>PART II - Other Information</u></b>	
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds.</u>	16
<u>Item 6 - Exhibits.</u>	16
 <b><u>SIGNATURES</u></b>	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, 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 in any 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)

Three Months  
to March 31

millions of Canadian dollars

**2014** 2013**REVENUES AND OTHER INCOME**

Operating revenues (a) (b)	<b>9,197</b>	7,999
Investment and other income (note 3)	<b>29</b>	15

**TOTAL REVENUES AND OTHER INCOME****9,226** 8,014**EXPENSES**

Exploration	<b>21</b>	23
Purchases of crude oil and products (c)	<b>5,542</b>	4,975
Production and manufacturing (d)	<b>1,476</b>	1,181
Selling and general	<b>275</b>	254
Federal excise tax (a)	<b>370</b>	326
Depreciation and depletion	<b>280</b>	185
Financing costs (note 5)	<b>2</b>	-

**TOTAL EXPENSES****7,966** 6,944**INCOME BEFORE INCOME TAXES****1,260** 1,070**INCOME TAXES****314** 272**NET INCOME****946** 798**PER SHARE INFORMATION** (Canadian dollars)

Net income per common share - basic (note 8)	<b>1.12</b>	0.94
Net income per common share - diluted (note 8)	<b>1.11</b>	0.94
Dividends per common share	<b>0.13</b>	0.12

(a) Federal excise tax included in operating revenues

**370** 326

(b) Amounts from related parties included in operating revenues

**816** 861

(c) Amounts to related parties included in purchases of crude oil and products	<b>770</b>	1,243
(d) Amounts to related parties included in production and manufacturing expenses	<b>86</b>	86

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

Three Months  
to March 31**2014**      2013

Net income	<b>946</b>	798
Other comprehensive income, net of income taxes		
Post-retirement benefit liability adjustment (excluding amortization)	<b>(38)</b>	(102)
Amortization of post-retirement benefit liability adjustment included in net periodic benefit costs	<b>38</b>	51
Total other comprehensive income/(loss)	<b>-</b>	(51)
Comprehensive income	<b>946</b>	747

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 Mar 31 <b>2014</b>	As at Dec 31 2013
--	--------------------------------	-------------------------

millions of Canadian dollars

**ASSETS**

## Current assets

Cash	<b>102</b>	272
Accounts receivable, less estimated doubtful accounts (a)	<b>2,738</b>	2,084
Inventories of crude oil and products	<b>1,017</b>	1,030
Materials, supplies and prepaid expenses	<b>383</b>	342
Deferred income tax assets	<b>649</b>	559

Total current assets	<b>4,889</b>	4,287
----------------------	--------------	-------

Long-term receivables, investments and other long-term assets	<b>1,338</b>	1,332
---	--------------	-------

Property, plant and equipment, less accumulated depreciation and depletion	<b>48,294</b> <b>(16,059)</b>	47,165 (15,845)
---	----------------------------------	--------------------

Property, plant and equipment, net	<b>32,235</b>	31,320
------------------------------------	---------------	--------

Goodwill	<b>224</b>	224
----------	------------	-----

Other intangible assets, net	<b>59</b>	55
------------------------------	-----------	----

<b>TOTAL ASSETS</b>	<b>38,745</b>	37,218
---------------------	---------------	--------

**LIABILITIES**

## Current liabilities

Notes and loans payable (b)	<b>1,843</b>	1,843
Accounts payable and accrued liabilities (a) (note 7)	<b>4,997</b>	4,518
Income taxes payable	<b>819</b>	727

Total current liabilities	<b>7,659</b>	7,088
---------------------------	--------------	-------

Long-term debt (c) (note 6)	<b>4,442</b>	4,444
-----------------------------	--------------	-------

Other long-term obligations (note 7)	<b>3,114</b>	3,091
--------------------------------------	--------------	-------

Deferred income tax liabilities	<b>3,169</b>	3,071
---------------------------------	--------------	-------

<b>TOTAL LIABILITIES</b>	<b>18,384</b>	17,694
--------------------------	---------------	--------



**SHAREHOLDERS EQUITY**

Common shares at stated value (d)	<b>1,566</b>	1,566
Earnings reinvested	<b>20,516</b>	19,679
Accumulated other comprehensive income (note 9)	<b>(1,721)</b>	(1,721)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>20,361</b>	19,524
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>38,745</b>	37,218

- (a) Accounts receivable, less estimated doubtful accounts included amounts receivable from related parties of \$147 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

Three Months  
to March 31**2014**      2013**OPERATING ACTIVITIES**

Net income	<b>946</b>	798
Adjustments for non-cash items:		
Depreciation and depletion	<b>280</b>	185
(Gain)/loss on asset sales (note 3)	<b>(20)</b>	(4)
Deferred income taxes and other	<b>5</b>	29
Changes in operating assets and liabilities:		
Accounts receivable	<b>(654)</b>	(222)
Inventories, materials, supplies and prepaid expenses	<b>(28)</b>	(320)
Income taxes payable	<b>92</b>	(167)
Accounts payable and accrued liabilities	<b>435</b>	395
All other items - net (a)	<b>29</b>	(97)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>1,085</b>	597

**INVESTING ACTIVITIES**

Additions to property, plant and equipment	<b>(1,206)</b>	(1,345)
Acquisition	<b>-</b>	(1,602)
Proceeds associated with asset sales (b)	<b>75</b>	8
Additional investments	<b>(12)</b>	-
Repayment of loan from equity company	<b>-</b>	4
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>	<b>(1,143)</b>	(2,935)

**FINANCING ACTIVITIES**

Short-term debt - net	<b>-</b>	687
Long-term debt issued	<b>-</b>	1,595
Reduction in capitalized lease obligations	<b>(2)</b>	(1)
Dividends paid	<b>(110)</b>	(102)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>(112)</b>	2,179

**INCREASE (DECREASE) IN CASH**      **(170)**      (159)**CASH AT BEGINNING OF PERIOD**      **272**      482**CASH AT END OF PERIOD**      **102**      323(a) Included contribution to registered pension plans      **(76)**      (120)

(b) Included \$50 million deposit for a potential asset sale

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 three months ended March 31, 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**

Three Months to March 31 millions of dollars	Upstream		Downstream		Chemical	
	2014	2013	2014	2013	2014	2013
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues (a)	2,197	1,223	6,645	6,454	355	322
Intersegment sales	1,068	929	430	776	102	58
Investment and other income	13	2	13	12	1	-
	<b>3,278</b>	<b>2,154</b>	<b>7,088</b>	<b>7,242</b>	<b>458</b>	<b>380</b>
<b>EXPENSES</b>						
Exploration	21	23	-	-	-	-
Purchases of crude oil and products	1,405	857	5,416	5,620	319	260
Production and manufacturing	1,029	747	386	382	61	53
Selling and general	2	1	210	218	17	17
Federal excise tax	-	-	370	326	-	-
Depreciation and depletion	222	128	52	52	3	3
Financing costs	2	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>2,681</b>	<b>1,756</b>	<b>6,434</b>	<b>6,598</b>	<b>400</b>	<b>333</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>597</b>	<b>398</b>	<b>654</b>	<b>644</b>	<b>58</b>	<b>47</b>
<b>INCOME TAXES</b>	<b>145</b>	<b>98</b>	<b>166</b>	<b>166</b>	<b>15</b>	<b>12</b>
<b>NET INCOME</b>	<b>452</b>	<b>300</b>	<b>488</b>	<b>478</b>	<b>43</b>	<b>35</b>
<b>Cash flows from (used in) operating activities</b>	<b>357</b>	<b>(124)</b>	<b>712</b>	<b>636</b>	<b>3</b>	<b>63</b>
<b>CAPEX (b)</b>	<b>1,163</b>	<b>2,938</b>	<b>48</b>	<b>27</b>	<b>2</b>	<b>1</b>
<b>Total assets as at March 31</b>	<b>32,326</b>	<b>25,986</b>	<b>6,043</b>	<b>6,588</b>	<b>401</b>	<b>380</b>

Three Months to March 31 millions of dollars	Corporate and Other		Eliminations		Consolidated	
	2014	2013	2014	2013	2014	2013
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues (a)	-	-	-	-	9,197	7,999
Intersegment sales	-	-	(1,600)	(1,763)	-	-
Investment and other income	2	1	-	-	29	15
	<b>2</b>	<b>1</b>	<b>(1,600)</b>	<b>(1,763)</b>	<b>9,226</b>	<b>8,014</b>
<b>EXPENSES</b>						
Exploration	-	-	-	-	21	23
Purchases of crude oil and products	-	-	(1,598)	(1,762)	5,542	4,975
Production and manufacturing	-	-	-	(1)	1,476	1,181

Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

Selling and general	48	18	(2)	-	275	254
Federal excise tax	-	-	-	-	370	326
Depreciation and depletion	3	2	-	-	280	185
Financing costs	-	-	-	-	2	-
<b>TOTAL EXPENSES</b>	<b>51</b>	<b>20</b>	<b>(1,600)</b>	<b>(1,763)</b>	<b>7,966</b>	<b>6,944</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>(49)</b>	<b>(19)</b>	<b>-</b>	<b>-</b>	<b>1,260</b>	<b>1,070</b>
<b>INCOME TAXES</b>	<b>(12)</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>314</b>	<b>272</b>
<b>NET INCOME</b>	<b>(37)</b>	<b>(15)</b>	<b>-</b>	<b>-</b>	<b>946</b>	<b>798</b>
<b>Cash flows from (used in) operating activities</b>	<b>13</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>1,085</b>	<b>597</b>
<b>CAPEX (b)</b>	<b>21</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>1,234</b>	<b>2,976</b>
<b>Total assets as at March 31</b>	<b>448</b>	<b>508</b>	<b>(473)</b>	<b>(343)</b>	<b>38,745</b>	<b>33,119</b>

- (a) Included export sales to the United States of \$1,426 million (2013 - \$1,385 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

**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	
	2014	2013
Proceeds from asset sales	25	8
Book value of assets sold	5	4
Gain/(loss) on asset sales, before tax	20	4
Gain/(loss) on asset sales, after tax	16	3

**4. Employee retirement benefits**

The components of net benefit cost were as follows:

millions of dollars	Three Months to March 31	
	2014	2013
<b>Pension benefits:</b>		
Current service cost	38	45
Interest cost	79	70
Expected return on plan assets	(91)	(82)
Amortization of prior service cost	6	6
Amortization of actuarial loss	43	60
Net benefit cost	75	99
<b>Other post-retirement benefits:</b>		
Current service cost	3	3
Interest cost	6	5
Amortization of actuarial loss	2	3
Net benefit cost	11	11

**Table of Contents**

## IMPERIAL OIL LIMITED

**5. Financing costs and additional notes and loans payable information**

millions of dollars	Three Months to March 31	
	2014	2013
Debt-related interest	21	10
Capitalized interest	(21)	(10)
Net interest expense	-	-
Other interest	2	-
Total financing costs	2	-

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. All other terms and conditions of the facility remained unchanged. The company has not drawn on the facility.

**6. Long-term debt**

millions of dollars	As at Mar 31	As at Dec 31
	2014	2013
Long-term debt	4,316	4,316
Capital leases	126	128
Total long-term debt	4,442	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. All other terms and conditions of the agreement remained unchanged.

**7. Other long-term obligations**

millions of dollars	As at Mar 31	As at Dec 31
	2014	2013
Employee retirement benefits (a)	1,430	1,448
Asset retirement obligations and other environmental liabilities (b)	1,269	1,258
Share-based incentive compensation liabilities	175	140



Other obligations	<b>240</b>	245
<b>Total other long-term obligations</b>	<b>3,114</b>	<b>3,091</b>

- (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 \$155 million in current liabilities (2013 - \$154 million).

Table of Contents

## IMPERIAL OIL LIMITED

**8. Net income per share**

	Three Months to	
	March 31	
	2014	2013
<b>Net income per common share basic</b>		
Net income (millions of dollars)	946	798
Weighted average number of common shares outstanding (millions of shares)	847.6	847.6
Net income per common share (dollars)	1.12	0.94
<b>Net income per common share diluted</b>		
Net income (millions of dollars)	946	798
Weighted average number of common shares outstanding (millions of shares)	847.6	847.6
Effect of share-based awards (millions of shares)	2.9	3.0
Weighted average number of common shares outstanding, assuming dilution (millions of shares)	850.5	850.6
Net income per common share (dollars)	1.11	0.94

**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	38	51
Balance at March 31	(1,721)	(2,506)
<b>Amounts reclassified out of accumulated other comprehensive income -</b>		

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

millions of dollars	Three Months to	
	2014	2013
Amortization of post-retirement benefits liability adjustment included in net periodic benefit cost (a)	(51)	(69)

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

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

millions of dollars	Three Months to	
	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	13	18
		(17)

**Table of Contents**

IMPERIAL OIL LIMITED

**10. Subsequent event**

On May 1, 2014, the company completed the sale of its interests in conventional oil and gas assets located in Boundary Lake, Cynthia/West Pembina and Rocky Mountain House in western Canada for cash proceeds of approximately \$855 million. The assets involved in the transaction produced about 15,000 oil-equivalent barrels per day in 2013 on a net before royalty basis. The company's gain on the sale, which is subject to final closing adjustments, is anticipated to be in the range of \$635 million to \$700 million (\$475 million to \$525 million, after tax).

---

**Table of Contents**

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

**First quarter 2014 vs. first quarter 2013**

The company's net income for the first quarter of 2014 was \$946 million or \$1.11 per share on a diluted basis, compared with \$798 million or \$0.94 per share for the same period last year.

Upstream net income in the first quarter was \$452 million, \$152 million higher than the same period of 2013. Earnings increased primarily due to higher liquids realizations of about \$200 million, along with the impact of Kearn production and higher Syncrude volumes totalling \$90 million. Earnings were also higher by about \$85 million due to the impact of a weaker Canadian dollar. These factors were partially offset by higher royalty costs of about \$115 million, lower Cold Lake volumes of about \$65 million and higher energy costs of about \$40 million.

The company's average realizations from the sales of synthetic crude oil increased 11 percent in the first quarter of 2014 versus the first quarter of 2013. The increased realizations reflected increases in West Texas Intermediate (WTI) crude oil benchmark price, which was up about five percent, and the impact of a weaker Canadian dollar. The company's average bitumen realizations in Canadian dollars in the first quarter were \$65.19 per barrel versus \$43.63 per barrel in the first quarter of 2013 as the price spread between light crude oil and bitumen narrowed. The company's average realizations on natural gas sales of \$6.56 per thousand cubic feet in the first quarter of 2014 were higher by \$3.06 per thousand cubic feet versus the same period in 2013.

Gross production of Cold Lake bitumen averaged 147,000 barrels per day, down from 164,000 barrels from the same period last year. Lower volumes were primarily due to the cyclic nature of steaming and associated production, along with the impact of several unplanned third-party power outages.

The company's share of Syncrude's gross production in the first quarter was 73,000 barrels per day, up from 65,000 barrels in the first quarter of 2013. Increased production was the result of improved reliability.

Gross production from the Kearn initial development was 70,000 barrels per day (50,000 barrels Imperial's share). Production continued to ramp up during the quarter as progress was made towards stabilizing production at the targeted rate of 110,000 barrels per day (78,000 barrels Imperial's share).

Gross production of conventional crude oil averaged 22,000 barrels per day in the first quarter, versus 20,000 barrels in the corresponding period in 2013.

Gross production of natural gas during the first quarter of 2014 was 205 million cubic feet per day, up from 187 million cubic feet in the same period last year, reflecting contributions from the Celtic (XTO Energy Canada) acquisition completed in the first quarter of 2013.

Downstream net income was \$488 million in the first quarter compared to \$478 million in the first quarter of 2013. Increased earnings were primarily due to improved reliability in the first quarter of 2014 partially offset by lower industry refining margins.

Chemical net income was \$43 million in the first quarter, up from \$35 million in the same quarter in 2013. Higher margins across all major product lines contributed to the increase.



**Table of Contents**

Net income effects from Corporate and Other were negative \$37 million in the first quarter, versus negative \$15 million in the same period of 2013, primarily due to changes in share-based compensation charges.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash flow generated from operating activities was \$1,085 million in the first quarter, versus \$597 million in the corresponding period in 2013. Higher cash flow was primarily due to higher earnings and working capital effects.

Investing activities used net cash of \$1,143 million in the first quarter, compared with \$2,935 million in the same period of 2013 (which included \$1,602 million for the Celtic acquisition). Additions to property, plant and equipment were \$1,206 million in the first quarter, compared with \$1,345 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 used in financing activities was \$112 million in the first quarter, compared with cash from financing activities of \$2,179 million in the first quarter of 2013. Dividends paid in the first quarter of 2014 were \$110 million, \$8 million higher than the corresponding period in 2013. Per-share dividend paid in the first 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 \$102 million at March 31, 2014, from \$272 million at the end of 2013.

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

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

Earnings sensitivity

millions of dollars after tax

Nine dollars (U.S.) per barrel change in crude oil prices	+ (-)	435
---	-------	-----

Nine cents decrease (increase) in the value of the Canadian dollar		
--	--	--

versus the U.S. dollar	+ (-)	620
------------------------	-------	-----

The sensitivity of net income to changes in crude oil prices decreased from year-end 2013 by about \$6 million (after tax) a year for each one U.S. dollar change. The decrease was primarily a result of the impact of higher royalty costs for production at Syncrude and Cold Lake due to higher prices for bitumen at the end of the first quarter of 2014.

The sensitivity of net income to changes in the Canadian dollar versus the U.S. dollar increased from year-end 2013 by about \$13 million (after tax) a year for each one-cent change, primarily due to the increase in bitumen prices.

**Item 4. Controls and Procedures.**

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

<b>Period</b>	<b>(a) Total number of shares (or units) purchased</b>	<b>(b) Average price paid per share (or unit)</b>	<b>(c) Total number of shares (or units) purchased as part of publicly announced plans or programs</b>	<b>(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs</b>
<b>January 2014</b> (January 1 - January 31)	0	0	0	1,000,000
<b>February 2014</b> (February 1 - February 28)	0	0	0	1,000,000
<b>March 2014</b> (March 1 - March 31)	0	0	0	1,000,000

- (1) On June 21, 2013, 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, 2013 to June 24, 2014. Unlike prior programs, this maximum amount is not

reduced by common shares purchased for the company's employee savings plan, the company's employee retirement plan and from Exxon Mobil Corporation. If not previously terminated, the program will end on June 24, 2014.

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.

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)

Date: May 6, 2014

*/s/ Paul J. Masschelin*

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

Date: May 6, 2014

*/s/ Brent A. Latimer*

-----  
(Signature)  
Brent A. Latimer  
Assistant Secretary