

IMPERIAL OIL LTD  
Form 10-Q  
May 02, 2008

**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, 2008**

**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)

**98-0017682**

(I.R.S. Employer  
Identification No.)

**237 Fourth Avenue S.W.**  
**Calgary, Alberta, Canada**

(Address of principal executive offices)

**T2P 3M9**

(Postal Code)

Registrant's telephone number, including area code: 1-800-567-3776

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 90 days.

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a 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, 2008, was 892,487,053.**

IMPERIAL OIL LIMITED  
INDEX

|  | PAGE |
|--|------|
| <b>PART I Financial Information</b>  |      |
| Item 1 - Financial Statements  |      |
| Consolidated Statement of Income   |      |
| Three months ended March 31, 2008 and 2007   | 3    |
| Consolidated Statement of Cash Flows   |      |
| Three months ended March 31, 2008 and 2007   | 4    |
| Consolidated Balance Sheet   |      |
| As at March 31, 2008 and December 31, 2007   | 5    |
| Notes to the Consolidated Financial Statements   | 6    |
| Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations | 11   |
| Item 3 Quantitative and Qualitative Disclosures About Market Risk                            | 14   |
| Item 4 Controls and Procedures   | 14   |
| <b>PART II Other Information</b>   |      |
| Item 2 Unregistered Sales of Equity Securities and Use of Proceeds                           | 15   |
| Item 4 Submission of Matters to a Vote of Security Holders                                   | 15   |
| Item 6 Exhibits  | 16   |
| <b>SIGNATURES</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, 2007.

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.

IMPERIAL OIL LIMITED  
PART I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

CONSOLIDATED STATEMENT OF INCOME

(U.S. GAAP, unaudited)

|  | Three months<br>to March 31 |              |
|--|-----------------------------|--------------|
| millions of Canadian dollars                             | 2008                        | 2007         |
| <b>REVENUES AND OTHER INCOME</b>                         |                             |              |
| Operating revenues (a)(b)                                | 7,231                       | 5,767        |
| Investment and other income (4)                          | 32                          | 167          |
| <b>TOTAL REVENUES AND OTHER INCOME</b>                   | <b>7,263</b>                | <b>5,934</b> |
| <br>   |                             |              |
| <b>EXPENSES</b>  |                             |              |
| Exploration  | 40                          | 28           |
| Purchases of crude oil and products (c)                  | 4,496                       | 3,153        |
| Production and manufacturing (5)(d)                      | 977                         | 846          |
| Selling and general (5)                                  | 295                         | 286          |
| Federal excise tax (a)                                   | 312                         | 305          |
| Depreciation and depletion                               | 181                         | 189          |
| Financing costs (6)(e)                                   | (3)                         | 12           |
| <b>TOTAL EXPENSES</b>                                    | <b>6,298</b>                | <b>4,819</b> |
| <br>   |                             |              |
| <b>INCOME BEFORE INCOME TAXES</b>                        | <b>965</b>                  | <b>1,115</b> |
| <br>   |                             |              |
| <b>INCOME TAXES</b>                                      | <b>284</b>                  | <b>341</b>   |
| <br>   |                             |              |
| <b>NET INCOME (3)</b>                                    | <b>681</b>                  | <b>774</b>   |
| <br>   |                             |              |
| <b>NET INCOME PER COMMON SHARE BASIC (dollars) (8)</b>   | <b>0.76</b>                 | <b>0.82</b>  |
| <b>NET INCOME PER COMMON SHARE DILUTED (dollars) (8)</b> | <b>0.75</b>                 | <b>0.81</b>  |
| <b>DIVIDENDS PER COMMON SHARE (dollars) (8)</b>          | <b>0.09</b>                 | <b>0.08</b>  |

|  |       |     |
|--|-------|-----|
| (a) Federal excise tax included in operating revenues                            | 312   | 305 |
| (b) Amounts from related parties included in operating revenues                  | 591   | 439 |
| (c) Amounts to related parties included in purchases of crude oil and products   | 1,259 | 654 |
| (d) Amounts to related parties included in production and manufacturing expenses | 47    | 43  |
| (e) Amounts to related parties included in financing costs                       |       | 9   |

The notes to the financial statements are an integral part of these financial statements.

## IMPERIAL OIL LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

(U.S. GAAP, unaudited)

inflow/(outflow)

|  | Three months<br>to March 31 |              |
|--|-----------------------------|--------------|
| millions of Canadian dollars                               | 2008                        | 2007         |
| <b>OPERATING ACTIVITIES</b>                                |                             |              |
| Net income   | 681                         | 774          |
| Adjustment for non-cash items:                             |                             |              |
| Depreciation and depletion                                 | 181                         | 189          |
| (Gain)/loss on asset sales (4)                             | (11)                        | (131)        |
| Deferred income taxes and other                            | (65)                        | 94           |
| Changes in operating assets and liabilities:               |                             |              |
| Accounts receivable  | (398)                       | (116)        |
| Inventories and prepaids                                   | (572)                       | (269)        |
| Income taxes payable                                       | (11)                        | (409)        |
| Accounts payable   | 584                         | 270          |
| All other items net (a)                                    | (91)                        | (127)        |
| <b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>            | <b>298</b>                  | <b>275</b>   |
| <b>INVESTING ACTIVITIES</b>                                |                             |              |
| Additions to property, plant and equipment and intangibles | (260)                       | (188)        |
| Proceeds from asset sales                                  | 13                          | 169          |
| <b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>            | <b>(247)</b>                | <b>(19)</b>  |
| <b>FINANCING ACTIVITIES</b>                                |                             |              |
| Reduction in capitalized lease obligations                 | (1)                         | (1)          |
| Issuance of common shares under stock option plan          | 4                           | 2            |
| Common shares purchased (8)                                | (590)                       | (569)        |
| Dividends paid   | (82)                        | (76)         |
| <b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>            | <b>(669)</b>                | <b>(644)</b> |
| <b>INCREASE (DECREASE) IN CASH</b>                         | <b>(618)</b>                | <b>(388)</b> |
| <b>CASH AT BEGINNING OF PERIOD</b>                         | <b>1,208</b>                | <b>2,158</b> |
| <b>CASH AT END OF PERIOD</b>                               | <b>590</b>                  | <b>1,770</b> |
| (a) Includes contribution to registered pension plans      | (147)                       | (147)        |

The notes to the financial statements are an integral part of these financial statements.

-4-

---

## IMPERIAL OIL LIMITED

CONSOLIDATED BALANCE SHEET  
(U.S. GAAP, unaudited)

|   | As at<br>Mar.31<br>2008 | As at<br>Dec.31<br>2007 |
|---|-------------------------|-------------------------|
| millions of Canadian dollars  |                         |                         |
| <b>ASSETS</b>   |                         |                         |
| Current assets  |                         |                         |
| Cash  | 590                     | 1,208                   |
| Accounts receivable, less estimated doubtful accounts                         | 2,530                   | 2,132                   |
| Inventories of crude oil and products   | 1,089                   | 566                     |
| Materials, supplies and prepaid expenses                                      | 177                     | 128                     |
| Deferred income tax assets  | 745                     | 660                     |
| Total current assets  | 5,131                   | 4,694                   |
| Long-term receivables, investments and other long-term assets                 | 769                     | 766                     |
| Property, plant and equipment,<br>less accumulated depreciation and depletion | 23,160<br>12,521        | 22,962<br>12,401        |
| Property, plant and equipment, net  | 10,639                  | 10,561                  |
| Goodwill  | 204                     | 204                     |
| Other intangible assets, net  | 62                      | 62                      |
| <b>TOTAL ASSETS</b>   | <b>16,805</b>           | <b>16,287</b>           |
| <b>LIABILITIES</b>  |                         |                         |
| Current liabilities   |                         |                         |
| Short-term debt   | 105                     | 105                     |
| Accounts payable and accrued liabilities (7)(a)                               | 3,918                   | 3,335                   |
| Income taxes payable  | 1,487                   | 1,498                   |
| Current portion of capitalized lease obligations                              | 3                       | 3                       |
| Total current liabilities   | 5,513                   | 4,941                   |
| Capitalized lease obligations   | 37                      | 38                      |
| Other long-term obligations (7)   | 1,801                   | 1,914                   |
| Deferred income tax liabilities   | 1,499                   | 1,471                   |
| <b>TOTAL LIABILITIES</b>  | <b>8,850</b>            | <b>8,364</b>            |
| <b>SHAREHOLDERS EQUITY</b>  |                         |                         |
| Common shares at stated value (8)(b)  | 1,584                   | 1,600                   |
| Earnings reinvested (9)   | 7,100                   | 7,071                   |

|   |        |        |
|---|--------|--------|
| Accumulated other comprehensive income (10) | (729)  | (748)  |
| TOTAL SHAREHOLDERS EQUITY                   | 7,955  | 7,923  |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY   | 16,805 | 16,287 |

(a) Accounts payable and accrued liabilities include amounts to related parties of \$300 million (2007 \$260 million).

(b) Number of common shares outstanding was 892 million (2007 903 million).

The notes to the financial statements are an integral part of these financial statements.



IMPERIAL OIL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**1. Basis of financial statement presentation**

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles of the United States of America and follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent annual consolidated financial statements. In the opinion of the management, the information furnished herein reflects all known accruals and adjustments necessary for a fair presentation of the financial position of the company as at March 31, 2008, and December 31, 2007, and the results of operations and changes in cash flows for the three months ending March 31, 2008 and 2007. All such adjustments are of a normal recurring nature. The company's exploration and production activities are accounted for under the successful efforts method. Certain reclassifications to the prior year have been made to conform to the 2008 presentation.

The results for the three months ending March 31, 2008, are not necessarily indicative of the operations to be expected for the full year.

All amounts are in Canadian dollars unless otherwise indicated.

**2. Accounting changes**

**Uncertainty in income taxes**

As of January 1, 2007, the company adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. The cumulative adjustment for the accounting change reported in the first quarter of 2007 was an after-tax gain of \$14 million.

**Fair value measurements**

Effective January 1, 2008, the company adopted the Financial Accounting Standards Board's (FASB) Statement No. 157 (SFAS 157), Fair Value Measurements for financial assets and liabilities that are measured at fair value and nonfinancial assets and liabilities that are remeasured at fair value on a recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value when an entity is required to use a fair value measure for recognition or disclosure purposes and expands the disclosures about fair value measurements. The initial application of SFAS 157 has no impact on the company's financial statements.

On January 1, 2009, the company will adopt SFAS 157 for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis. The application of SFAS 157 to the company's nonfinancial assets and liabilities will mostly be limited to the recognition and measurement of nonmonetary exchange transactions, asset retirement obligations and asset impairments. The company does not expect the adoption to have a material impact on the company's financial statements.

## IMPERIAL OIL LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued ...)

(unaudited)

**3. Business Segments**

| Three months to March 31<br>millions of dollars              | Upstream            |       | Downstream   |         | Chemical     |       |
|--|---------------------|-------|--------------|---------|--------------|-------|
|  | 2008                | 2007  | 2008         | 2007    | 2008         | 2007  |
| <b>REVENUES AND OTHER INCOME</b>                             |                     |       |              |         |              |       |
| External sales (a)   | 1,449               | 1,139 | 5,429        | 4,318   | 353          | 310   |
| Intersegment sales   | 1,292               | 918   | 779          | 506     | 101          | 82    |
| Investment and other income                                  | 4                   | 135   | 14           | 10      | 1            |       |
|  | 2,745               | 2,192 | 6,222        | 4,834   | 455          | 392   |
| <b>EXPENSES</b>  |                     |       |              |         |              |       |
| Exploration (b)  | 40                  | 28    |              |         |              |       |
| Purchases of crude oil and products                          | 1,085               | 718   | 5,234        | 3,657   | 349          | 284   |
| Production and manufacturing                                 | 581                 | 509   | 346          | 291     | 50           | 46    |
| Selling and general  | 2                   | 2     | 233          | 233     | 18           | 18    |
| Federal excise tax   |                     |       | 312          | 305     |              |       |
| Depreciation and depletion                                   | 117                 | 124   | 59           | 61      | 3            | 3     |
| Financing costs  |                     | 2     | (4)          |         |              |       |
| <b>TOTAL EXPENSES</b>  | 1,825               | 1,383 | 6,180        | 4,547   | 420          | 351   |
| <b>INCOME BEFORE INCOME TAXES</b>                            |                     |       |              |         |              |       |
| TAXES  | 920                 | 809   | 42           | 287     | 35           | 41    |
| INCOME TAXES   | 270                 | 246   | 12           | 89      | 11           | 13    |
| <b>NET INCOME</b>  | 650                 | 563   | 30           | 198     | 24           | 28    |
| Export sales to the United States                            | 736                 | 475   | 225          | 222     | 221          | 179   |
| Cash flows from (used in) operating activities               | 487                 | 267   | (174)        | (19)    | (8)          | (52)  |
| CAPEX (b)  | 264                 | 171   | 32           | 35      | 2            | 3     |
| Total assets as at March 31                                  | 8,555               | 7,971 | 7,539        | 6,737   | 516          | 495   |
| <b>Reconciliation of Corporate and Other to Consolidated</b> |                     |       |              |         |              |       |
| Three months to March 31<br>millions of dollars              | Corporate and Other |       | Eliminations |         | Consolidated |       |
|  | 2008                | 2007  | 2008         | 2007    | 2008         | 2007  |
| <b>REVENUES AND OTHER INCOME</b>                             |                     |       |              |         |              |       |
| External sales (a)   |                     |       |              |         | 7,231        | 5,767 |
| Intersegment sales   |                     |       | (2,172)      | (1,506) |              |       |

Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

|  |             |             |                |                |              |              |
|--|-------------|-------------|----------------|----------------|--------------|--------------|
| Investment and other income                    | 13          | 22          |                |                | 32           | 167          |
|  | 13          | 22          | (2,172)        | (1,506)        | 7,263        | 5,934        |
| <b>EXPENSES</b>                                |             |             |                |                |              |              |
| Exploration (b)                                |             |             |                |                | 40           | 28           |
| Purchases of crude oil and products            |             |             | (2,172)        | (1,506)        | 4,496        | 3,153        |
| Production and manufacturing                   |             |             |                |                | 977          | 846          |
| Selling and general                            | 42          | 33          |                |                | 295          | 286          |
| Federal excise tax                             |             |             |                |                | 312          | 305          |
| Depreciation and depletion                     | 2           | 1           |                |                | 181          | 189          |
| Financing costs                                | 1           | 10          |                |                | (3)          | 12           |
| <b>TOTAL EXPENSES</b>                          | <b>45</b>   | <b>44</b>   | <b>(2,172)</b> | <b>(1,506)</b> | <b>6,298</b> | <b>4,819</b> |
| <b>INCOME BEFORE INCOME TAXES</b>              |             |             |                |                |              |              |
| TAXES  | (32)        | (22)        |                |                | 965          | 1,115        |
| INCOME TAXES                                   | (9)         | (7)         |                |                | 284          | 341          |
| <b>NET INCOME</b>                              | <b>(23)</b> | <b>(15)</b> |                |                | <b>681</b>   | <b>774</b>   |
| Export sales to the United States              |             |             |                |                | 1,182        | 876          |
| Cash flows from (used in) operating activities | (7)         | 79          |                |                | 298          | 275          |
| CAPEX (b)                                      | 2           | 7           |                |                | 300          | 216          |
| Total assets as at March 31                    | 629         | 1,777       | (434)          | (332)          | 16,805       | 16,648       |

(a) Includes crude oil sales made by Downstream in order to optimize refining operations.

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

## IMPERIAL OIL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued ...)  
(unaudited)**4. Investment and other income**

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

| millions of dollars                        | Three months<br>to March 31 |      |
|--|-----------------------------|------|
|  | 2008                        | 2007 |
| Proceeds from asset sales                  | 13                          | 169  |
| Book value of assets sold                  | 2                           | 38   |
| Gain/(loss) on asset sales, before tax (a) | 11                          | 131  |
| Gain/(loss) on asset sales, after tax (a)  | 9                           | 93   |

(a) First quarter of 2007 included a gain of \$129 million (\$91 million, after tax) from the sale of a producing property.

**5. Employee retirement benefits**

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

| millions of dollars                | Three months<br>to March 31 |      |
|------------------------------------|-----------------------------|------|
|                                    | 2008                        | 2007 |
| Pension benefits:                  |                             |      |
| Current service cost               | 24                          | 25   |
| Interest cost                      | 66                          | 61   |
| Expected return on plan assets     | (82)                        | (82) |
| Amortization of prior service cost | 5                           | 5    |
| Recognized actuarial loss          | 20                          | 19   |
| Net benefit cost                   | 33                          | 28   |
| Other post-retirement benefits:    |                             |      |
| Current service cost               | 1                           | 1    |
| Interest cost                      | 6                           | 6    |
| Recognized actuarial loss          | 1                           | 2    |
| Net benefit cost                   | 8                           | 9    |

**6. Financing costs**Three months  
to March 31

Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

| millions of dollars   | 2008 | 2007 |
|-----------------------|------|------|
| Debt related interest | 2    | 16   |
| Capitalized interest  | (2)  | (7)  |
| Net interest expense  |      | 9    |
| Other interest        | (3)  | 3    |
| Total financing costs | (3)  | 12   |

-8-

---

## IMPERIAL OIL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued ...)  
(unaudited)**7. Other long-term obligations**

|  | As at<br>Mar.31<br>2008 | As at<br>Dec.31<br>2007 |
|--|-------------------------|-------------------------|
| millions of dollars  |                         |                         |
| Employee retirement benefits (a)                                     | 801                     | 954                     |
| Asset retirement obligations and other environmental liabilities (b) | 520                     | 522                     |
| Share-based incentive compensation liabilities                       | 252                     | 210                     |
| Other obligations  | 228                     | 228                     |
| Total other long-term obligations                                    | 1,801                   | 1,914                   |

(a) Total recorded employee retirement benefits obligations also include \$59 million in current liabilities (December 31, 2007 \$59 million).

(b) Total asset retirement obligations and other environmental liabilities also include \$74 million in current liabilities (December 31, 2007 \$74 million).

**8. Common shares**

|                           | As at<br>Mar.31<br>2008 | As at<br>Dec.31<br>2007 |
|---------------------------|-------------------------|-------------------------|
| thousands of shares       |                         |                         |
| Authorized                | 1,100,000               | 1,100,000               |
| Common shares outstanding | 892,487                 | 903,263                 |

From 1995 through 2006, the company purchased shares under twelve 12-month normal course issuer bid share repurchase programs, as well as an auction tender. On June 25, 2007, another 12-month normal course issuer bid program was implemented with an allowable purchase of 46.5 million shares (five percent of the total on June 22, 2007), less any shares purchased by the employee savings plan and company pension fund. The results of these activities are as shown below:

| Year                         | millions of |         |
|------------------------------|-------------|---------|
|                              | Shares      | Dollars |
| 1995 - 2006                  | 795.6       | 10,453  |
| 2007 - First quarter         | 13.6        | 569     |
| Full year                    | 50.5        | 2,358   |
| 2008 - First quarter         | 11.0        | 590     |
| Cumulative purchases to date | 857.1       | 13,401  |

Exxon Mobil Corporation's participation in the above share repurchase maintained its ownership interest in Imperial at 69.6 percent.

The excess of the purchase cost over the stated value of shares purchased has been recorded as a distribution of earnings reinvested.



## IMPERIAL OIL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued ...)  
(unaudited)

The following table provides the calculation of net income per common share:

|  | Three months<br>to March 31 |       |
|--|-----------------------------|-------|
|  | 2008                        | 2007  |
| <b>Net income per common share basic</b>   |                             |       |
| Net income (millions of dollars)   | 681                         | 774   |
| Weighted average number of common shares outstanding (millions of shares)                    | 899.7                       | 948.8 |
| Net income per common share (dollars)  | 0.76                        | 0.82  |
| <b>Net income per common share diluted</b>   |                             |       |
| Net income (millions of dollars)   | 681                         | 774   |
| Weighted average number of common shares outstanding (millions of shares)                    | 899.7                       | 948.8 |
| Effect of employee stock-based awards (millions of shares)                                   | 6.3                         | 5.5   |
| Weighted average number of common shares outstanding, assuming dilution (millions of shares) | 906.0                       | 954.3 |
| Net income per common share (dollars)  | 0.75                        | 0.81  |

**9. Earnings reinvested**

|  | Three months<br>to March 31 |       |
|--|-----------------------------|-------|
| millions of dollars                        | 2008                        | 2007  |
| Earnings reinvested at beginning of period | 7,071                       | 6,462 |
| Cumulative effect of accounting change (2) |                             | 14    |
| Net income for the period                  | 681                         | 774   |
| Share purchases in excess of stated value  | (571)                       | (545) |
| Dividends                                  | (81)                        | (75)  |
| Earnings reinvested at end of period       | 7,100                       | 6,630 |

**10. Comprehensive income**

|   | Three months<br>to March 31 |      |
|---|-----------------------------|------|
| millions of dollars   | 2008                        | 2007 |
| Net income  | 681                         | 774  |
| Post-retirement benefit liability adjustment (excluding amortization)                               |                             | (28) |
| Amortization of post retirement benefit liability adjustment included in net periodic benefit costs | 19                          | 17   |
| Other comprehensive income (net of income taxes)  | 19                          | (11) |



Total comprehensive income

700

763

-10-

---

**IMPERIAL OIL LIMITED**

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

**OPERATING RESULTS**

The company's net income for the first quarter of 2008 was \$681 million or \$0.75 a share on a diluted basis, compared with \$774 million or \$0.81 a share for the same period last year.

Earnings in the first quarter were lower than the same quarter of 2007 as higher Upstream earnings were more than offset by lower Downstream earnings. In the Upstream, higher crude oil and natural gas commodity prices were partially offset by the negative impacts of lower conventional volumes from expected reservoir decline, lower Syncrude volumes, higher royalties and a stronger Canadian dollar. Earnings in the Upstream were also negatively impacted by lower gains from asset divestments. The negative impacts of lower overall industry refining margins, unplanned shutdown at the Strathcona refinery and a stronger Canadian dollar contributed to lower Downstream earnings.

**Upstream**

Net income from Upstream in the first quarter was \$650 million, \$87 million higher than the same period in 2007. Increased earnings were primarily due to higher crude oil and natural gas commodity prices totaling about \$600 million. Improved realizations were partially offset by the negative impacts of lower conventional upstream volumes from expected reservoir decline of about \$120 million, lower Syncrude volumes of about \$60 million, higher royalties of about \$100 million and a stronger Canadian dollar of about \$110 million. Earnings were also negatively impacted by lower gains from asset divestments of about \$90 million and higher production and exploration expenses of about \$50 million.

In U.S. dollars, both Brent crude oil prices and average Cold Lake heavy oil realizations were higher by about 70 percent and 85 percent, respectively, in the first quarter compared with the same quarter last year. However, the effect of a stronger Canadian dollar dampened improvements in the company's average realizations for conventional crude oil to 50 percent and for Cold Lake heavy oil to about 55 percent in the first quarter of 2008.

The company's average realizations for natural gas averaged \$8.00 a thousand cubic feet in the first quarter, up from \$7.75 in the same quarter last year.

Total gross production of crude oil and NGLs in the first quarter was 260 thousand barrels a day, versus 266 thousand barrels in the first quarter of 2007.

Gross production of Cold Lake heavy oil averaged 154 thousand barrels a day during the first quarter, versus 144 thousand barrels in the same quarter last year. Higher production in 2008 was due to the cyclic nature of production at Cold Lake and increased volumes from the ongoing development drilling program.

The company's share of Syncrude's gross production was 67 thousand barrels a day in the first quarter compared with 74 thousand barrels during the same period a year ago. Production was temporarily reduced during the quarter as a result of unplanned shutdowns of several operating units, the recovery of which was aggravated by extremely cold temperatures. These operating units returned to normal production during the quarter.

**IMPERIAL OIL LIMITED**

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

In the first quarter, gross production of conventional crude oil averaged 27 thousand barrels a day, down from 30 thousand barrels a day in the same period last year primarily due to natural reservoir decline in the Western Canadian Basin.

Gross production of NGLs available for sale was 12 thousand barrels a day in the first quarter, down from 18 thousand barrels in the same quarter last year, mainly due to the decline, as expected, in production from the gas cap at Wizard Lake.

Gross production of natural gas during the first quarter of 2008 decreased to 325 million cubic feet a day from 525 million cubic feet in the same period last year. The lower production volume was primarily due to decline, as expected, in production from the gas cap at Wizard Lake, which is largely complete.

In March, the Federal court ordered the joint federal and provincial review panel that had previously granted approval for the company's proposed Kearl oil sands project to provide rationale for the greenhouse gas emissions aspect of its conclusions. The judgment did not direct the company to undertake or refrain from taking any particular course of action nor did it direct the project approval be altered in any way. Following this, the Federal Department of Fisheries notified the company that a permit it had issued earlier this year for the project had been nullified. The company is working to resolve this matter and is continuing to advance the project including further progress in engineering work consistent with the terms of the other permits and approvals that have been granted.

In recent land sales, Imperial, together with ExxonMobil Canada, acquired exploration rights in the natural gas prone Horn River area of northeastern British Columbia. Since September 2007, the companies have acquired total licence holdings of about 115,000 acres. The licences, in which the company and ExxonMobil Canada each have a 50-percent interest, are located about 70 kilometres northeast of Fort Nelson, British Columbia.

**Downstream**

Net income from Downstream was \$30 million in the first quarter of 2008, compared with \$198 million in the same period a year ago. Lower earnings were primarily driven by lower overall industry refining margins of about \$145 million and the negative impact of a stronger Canadian dollar of about \$20 million. As well, conversion units at the Strathcona refinery were shutdown for part of the quarter which temporarily reduced the availability of refined products in Western Canada. The Strathcona refinery returned to normal operation in early April. The impact on first quarter earnings was largely offset by the absence of operational events last year.

In April, the company and co-owners entered into an agreement to sell Rainbow Pipe Line Co. Ltd., in which the company has a one-third equity interest, for about \$540 million in total, subject to closing adjustments including the sale of the crude-oil line fill currently estimated at an additional \$120 million. The transaction is expected to close in the second quarter of 2008 subject to closing conditions and regulatory approvals.

**IMPERIAL OIL LIMITED**

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

**Chemical**

Net income from Chemical was \$24 million in the first quarter, compared with \$28 million in the same quarter last year. Lower earnings were primarily due to lower margins for intermediate and other chemical products partially offset by higher margins for polyethylene products.

**Corporate and other**

Net income from Corporate and other was negative \$23 million in the first quarter, compared with negative \$15 million in the same period of 2007. Unfavourable earnings effects were primarily due to higher share-based compensation charges.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash flow from operating activities was \$298 million during the first quarter of 2008, an increase of \$23 million from the same period last year. The favourable impact of the timing of income tax payments and the net effects of higher commodity prices on receivable and payable balances were essentially offset by higher seasonal inventory builds. Capital and exploration expenditures were \$300 million in the first quarter, compared with \$216 million during the same quarter of 2007. For the Upstream segment, capital and exploration expenditures included ongoing development drilling at Cold Lake to maintain and expand production capacity, advancing the Kearl oil sands project, investments in facilities improvement at Syncrude and drilling at conventional fields in Western Canada. The Downstream segment's capital expenditures were mainly on projects to improve operating efficiency.

During the first quarter of 2008, the company repurchased about 11 million shares for \$590 million. Under the current share repurchase program, which began on June 25, 2007, the company has purchased about 36 million shares.

Cash dividends of \$82 million were paid in the first quarter of 2008 compared with dividends of \$76 million in the first quarter of 2007. Per-share dividends declared in the first quarter was \$0.09, up from \$0.08 in 2007.

The above factors led to a decrease in the company's balance of cash and marketable securities to \$590 million at March 31, 2008, from \$1,208 million at the end of 2007.

**IMPERIAL OIL LIMITED**

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Information about market risks for the three months ended March 31, 2008 does not differ materially from that discussed on page 29 in the company's annual report on Form 10-K for the year ended December 31, 2007, except for the following:

Earnings sensitivity (a)

millions of dollars after tax

Ten cents decrease (increase) in the value of the Canadian dollar versus the U.S. dollar +(-) 560

The sensitivity of net income to changes in the Canadian dollar versus the U.S. dollar increased from 2007 year-end by about \$16 million (after tax) for each one-cent difference. This was primarily due to the narrowing price spread between light crude oil and Cold Lake heavy oil.

(a) The amount quoted to illustrate the impact of the sensitivity represents a change of about 10 percent in the value of the commodity at the end of the first quarter 2008. The sensitivity calculation shows the impact on annual net income that results from a change in one factor, after tax and royalties and holding all other factors constant. While the sensitivity is applicable under current conditions, it may not apply proportionately to larger fluctuations.

**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, 2008. Based on that evaluation, these officers have concluded that the company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to them in a manner that allows for timely decisions regarding required disclosures and are effective in ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has not been any change in the company's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

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

During the period January 1, 2008 to March 31, 2008, the company issued 140,289 common shares to employees or former employees outside the U.S.A. for \$15.50 per share upon the exercise of stock options. These issuances were not registered under the *Securities Act* in reliance on Regulation S thereunder.

Issuer Purchases of Equity Securities (1)

| <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 2008</b><br>(January 1- January 31)   | 4,200  | \$53.91   | 4,200  | 20,665,956   |
| <b>February 2008</b><br>(February 1 February 28) | 5,391,510  | \$53.20   | 5,391,510  | 15,209,808   |
| <b>March 2008</b><br>(March 1 March 31)          | 5,604,114  | \$54.13   | 5,604,114  | 9,550,768  |

(1) On June 21, 2007, the company announced by news release that it had received final approval from the Toronto Stock Exchange for a new normal course issuer bid to continue its share repurchase program. The new program enables the company to

repurchase up to a maximum of 46,459,967 common shares, including common shares purchased for the company's employee savings plan and employee retirement plan during the period June 25, 2007 to June 24, 2008. If not previously terminated, the program will end on June 24, 2008.

**Item 4. Submission of Matters to a Vote of Security Holders.**

At the annual meeting of shareholders on May 1, 2008, all of the management's nominee directors were elected to hold office until the close of the next annual meeting. The votes for the directors were: K.T. Hoeg 769,706,295 shares for and 1,064,055 shares withheld, B. H. March 769,541,374 shares for and 1,228,976 shares withheld, J.M. Mintz 769,537,081 shares for and 1,233,269 shares withheld, R.C. Olsen 767,199,555 shares for and 3,570,795 shares withheld, R. Phillips 769,648,913 shares for and 1,121,437 shares withheld, P.A. Smith 767,422,771 shares for and 3,347,579 shares withheld, S.D. Whittaker 769,707,789 shares for and 1,062,561 shares withheld, and V.L. Young 769,681,060 shares for and 1,089,290 shares withheld.

At the same annual meeting of shareholders, PricewaterhouseCoopers LLP were reappointed as the auditors by a vote of 769,560,809 shares for and 1,215,339 shares withheld from the reappointment of the auditors.

-15-

---



At the same annual meeting of shareholders, the shareholders accepted a special resolution to amend various provisions of the restricted stock unit plan by a vote of 755,085,455 for and 6,777,425 against. These amendments relate to the following: (1) adding an amendment provision to the plan; (2) permitting the grant of alternative units with extended exercise dates; and (3) amending the definition of exercise price.

At the same annual meeting of shareholders, the shareholders rejected a shareholder proposal that the company establish a policy excluding incentive pay and prohibiting past service credits relating to the company's pension plan by a vote of 738,977,607 against and 22,880,868 for.

**Item 6. Exhibits.**

[10(iii)(A)(15)] Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2002, as amended effective February 26, 2008 and May 1, 2008.

[10(iii)(A)(16)] Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2003, as amended effective February 26, 2008 and May 1, 2008.

[10(iii)(A)(17)] Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2004 and 2005, as amended effective February 26, 2008 and May 1, 2008.

[10(iii)(A)(18)] Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2006 and 2007, as amended effective February 26, 2008 and May 1, 2008.

[10(iii)(A)(19)] Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2008 and subsequent years, as amended effective February 26, 2008 and May 1, 2008.

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

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

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

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

**SIGNATURES**

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

IMPERIAL OIL LIMITED  
(Registrant)

Date: May 1, 2008

*/s/ P.A. Smith*  
(Signature)  
Paul A. Smith  
Senior Vice-President, Finance and  
Administration and Treasurer  
(Principal Accounting Officer)

Date: May 1, 2008

*/s/ Brent. A. Latimer*  
(Signature)  
Brent A. Latimer  
Assistant Secretary

-17-