

IMPERIAL OIL LTD  
Form 10-K  
February 27, 2012  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year-ended December 31, 2011

Commission file number: 0-12014

## IMPERIAL OIL LIMITED

(Exact name of registrant as specified in its charter)

CANADA

98-0017682

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

237 FOURTH AVENUE S.W., CALGARY, AB, CANADA

T2P 3M9

(Address of principal executive offices)

(Postal Code)

Registrant's telephone number, including area code:

1-800-567-3776

Securities registered pursuant to Section 12(b) of the Act:

Name of each exchange on

Title of each class

which registered

None

None

Securities registered pursuant to Section 12(g) of the Act:

Common Shares (without par value)

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## (Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Exchange Act of 1934).

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether 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 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Securities Exchange Act of 1934).

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Securities Exchange Act of 1934).

Yes  No

As of the last business day of the 2011 second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant was Canadian \$11,574,568,203 based upon the reported last sale price of such stock on the Toronto Stock Exchange on that date.

The number of common shares outstanding, as of February 15, 2012, was 847,670,521.

**Table of Contents**

| <b>Table of contents</b> |   | <b>Page</b> |
|--------------------------|---|-------------|
| <b><u>PART I</u></b>     |   | <b>3</b>    |
| Item 1.                  | <u>Business</u>   | 3           |
|                          | <u>Upstream</u>   | 3           |
|                          | <u>Disclosure of Reserves</u>   | 3           |
|                          | <u>Proved undeveloped reserves</u>  | 5           |
|                          | <u>Oil and gas production, production prices and production costs</u>   | 5           |
|                          | <u>Drilling and other exploratory and development activities</u>  | 7           |
|                          | <u>Present activities</u>   | 9           |
|                          | <u>Delivery commitments</u>   | 10          |
|                          | <u>Oil and gas properties, wells, operations, and acreage</u>   | 11          |
|                          | <u>Downstream</u>   | 13          |
|                          | <u>Supply</u>   | 13          |
|                          | <u>Refining</u>   | 13          |
|                          | <u>Distribution</u>   | 13          |
|                          | <u>Marketing</u>  | 13          |
|                          | <u>Chemical</u>   | 14          |
|                          | <u>Research</u>   | 15          |
|                          | <u>Environmental protection</u>   | 15          |
|                          | <u>Human resources</u>  | 15          |
|                          | <u>Competition</u>  | 15          |
|                          | <u>Government regulation</u>  | 16          |
|                          | <u>The company online</u>   | 17          |
| Item 1A.                 | <u>Risk factors</u>   | 17          |
| Item 1B.                 | <u>Unresolved staff comments</u>  | 20          |
| Item 2.                  | <u>Properties</u>   | 20          |
| Item 3.                  | <u>Legal proceedings</u>  | 20          |
| Item 4.                  | <u>Mine safety disclosures</u>  | 20          |
| <b><u>PART II</u></b>    |   | <b>21</b>   |
| Item 5.                  | <u>Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities</u> | 21          |
| Item 6.                  | <u>Selected financial data</u>  | 22          |
| Item 7.                  | <u>Management's discussion and analysis of financial condition and results of operations</u>                        | 22          |
| Item 7A.                 | <u>Quantitative and qualitative disclosures about market risk</u>   | 23          |
| Item 8.                  | <u>Financial statements and supplementary data</u>  | 23          |
| Item 9.                  | <u>Changes in and disagreements with accountants on accounting and financial disclosure</u>                         | 23          |
| Item 9A.                 | <u>Controls and procedures</u>  | 23          |
| Item 9B.                 | <u>Other information</u>  | 23          |
| <b><u>PART III</u></b>   |   | <b>24</b>   |
| Item 10.                 | <u>Directors, executive officers and corporate governance</u>   | 24          |
| Item 11.                 | <u>Executive compensation</u>   | 24          |
| Item 12.                 | <u>Security ownership of certain beneficial owners and management and related stockholder matters</u>               | 25          |
| Item 13.                 | <u>Certain relationships and related transactions, and director independence</u>                                    | 25          |
| Item 14.                 | <u>Principal accountant fees and services</u>   | 25          |
| <b><u>PART IV</u></b>    |   | <b>26</b>   |
| Item 15.                 | <u>Exhibits, financial statement schedules</u>  | 26          |
|                          | <u>Financial section</u>  | 31          |
|                          | <u>Proxy information section</u>  | 82          |

All dollar amounts set forth in this report are in Canadian dollars, except where otherwise indicated.

Note that numbers may not add due to rounding.

The following table sets forth (i) the rates of exchange for the Canadian dollar, expressed in United States (U.S.) dollars, in effect at the end of each of the periods indicated, (ii) the average of exchange rates in effect on the last day of each month during such periods, and (iii) the high and low exchange rates during such periods, in each case based on the noon buying rate in New York City for wire transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York.

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| dollars                    | <b>2011</b>   | 2010   | 2009   | 2008   | 2007   |
|----------------------------|---------------|--------|--------|--------|--------|
| Rate at end of period      | <b>0.9835</b> | 0.9991 | 0.9559 | 0.8170 | 1.0120 |
| Average rate during period | <b>1.0144</b> | 0.9659 | 0.8793 | 0.9335 | 0.9376 |
| High                       | <b>1.0584</b> | 1.0040 | 0.9719 | 1.0291 | 1.0908 |
| Low                        | <b>0.9430</b> | 0.9280 | 0.7695 | 0.7710 | 0.8437 |

On February 15, 2012, the noon buying rate in New York City for wire transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York was \$1.0035 U.S. = \$1.00 Canadian.

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**Table of Contents**

## **Forward-looking statements**

Statements in this report regarding expectations, plans and future events or conditions are forward-looking statements. Actual future results, including demand growth and energy source mix; production growth and mix; project start-ups; the effect of changes in prices and other market conditions; financing sources; and capital and environmental expenditures could differ materially depending on a number of factors, such as changes in the supply of and demand for crude oil, natural gas, and petroleum and petrochemical products; political or regulatory events; project schedules; commercial negotiations; and other factors discussed in Item 1A of this annual report on Form 10-K and in the management's discussion and analysis of financial condition and results of operations contained in Item 7.

# **PART I**

## **Item 1. Business**

Imperial Oil Limited was incorporated under the laws of Canada in 1880 and was continued under the Canada Business Corporations Act (the CBCA) by certificate of continuance dated April 24, 1978. The head and principal office of the company is located at 237 Fourth Avenue S.W. Calgary, Alberta, Canada T2P 3M9; telephone 1-800-567-3776. Exxon Mobil Corporation owns approximately 69.6 percent of the outstanding shares of the company. In this report, unless the context otherwise indicates, reference to the company or Imperial includes Imperial Oil Limited and its subsidiaries.

The company is one of Canada's largest integrated oil companies. It is active in all phases of the petroleum industry in Canada, including the exploration for, and production and sale of, crude oil and natural gas. In Canada, it is a major producer of crude oil and natural gas and the largest petroleum refiner and a leading marketer of petroleum products. It is also a major producer of petrochemicals.

The company's operations are conducted in three main segments: Upstream, Downstream and Chemical. Upstream operations include the exploration for, and production of, conventional crude oil, natural gas, synthetic oil and bitumen. Downstream operations consist of the transportation and refining of crude oil, blending of refined products, and the distribution and marketing of those products. Chemical operations consist of the manufacturing and marketing of various petrochemicals.

Financial information about segments for the company are contained in the Financial section of this report under Note 2 to the consolidated financial statements: Business segments.

## **Upstream**

### **Disclosure of Reserves**

#### *Summary of oil and gas reserves at year-end*

The table below summarizes the net proved reserves for the company, as at December 31, 2011, as detailed in the Oil and gas reserves part of the Financial section, starting on page 79 of this report.

All of the company's reported reserves are located in Canada. The company has reported proved reserves based on the average of the first-day-of-the-month price for each month during the last 12-month period ending December 31. Natural gas is converted to an oil-equivalent basis at six million cubic feet per one thousand barrels. No major discovery or other favorable or adverse event has occurred since December 31, 2011 that would cause a significant change in the estimated proved reserves as of that date, except for the following. In February 2012, the Nabiye expansion project at Cold Lake was approved by the company's board. Proved reserves from the Nabiye project will be included in 2012 year-end reporting for the first time.

**Table of Contents**

|                             | Liquids<br>(a)         | Natural<br>gas            | Synthetic<br>oil          | Bitumen                | Total oil-<br>equivalent<br>basis<br>millions<br>of<br>barrels |
|-----------------------------|------------------------|---------------------------|---------------------------|------------------------|--|
|                             | millions of<br>barrels | billions of<br>cubic feet | millions<br>of<br>barrels | millions of<br>barrels |  |
| <b>Net proved reserves:</b> |                        |                           |                           |                        |  |
| Developed                   | <b>55</b>              | <b>360</b>                | <b>653</b>                | <b>519</b>             | <b>1,287</b>   |
| Undeveloped                 |                        | <b>62</b>                 |                           | <b>1,894</b>           | <b>1,904</b>   |
| <b>Total net proved</b>     | <b>55</b>              | <b>422</b>                | <b>653</b>                | <b>2,413</b>           | <b>3,191</b>   |

(a) Liquids include crude oil, condensate and natural gas liquids (NGLs). NGL proved reserves are not material and are therefore included under liquids. The estimation of proved reserves, which is based on the requirement of reasonable certainty, is an ongoing process based on rigorous technical evaluations, commercial and market assessments and detailed analysis of well information such as flow rates and reservoir pressure declines. Furthermore, the company only records proved reserves for projects which have received significant funding commitments by management made toward the development of the reserves. Although the company is reasonably certain that proved reserves will be produced, the timing and amount recovered can be affected by a number of factors including completion of development projects, reservoir performance, regulatory approvals and significant changes in projections of long-term oil and gas price levels.

*Technologies used in establishing proved reserves estimates*

Additions to Imperial's proved reserves in 2011 were based on estimates generated through the integration of available and appropriate data, utilizing well established technologies that have been demonstrated in the field to yield repeatable and consistent results.

Data used in these integrated assessments included information obtained directly from the subsurface via wellbores, such as well logs, reservoir core samples, fluid samples, static and dynamic pressure information, production test data, and surveillance and performance information. The data utilized also included subsurface information obtained through indirect measurements, including high-quality 2-D and 3-D seismic data, calibrated with available well control information. Where applicable, surface geological information was also utilized. The tools used to interpret the data included proprietary seismic processing software, proprietary reservoir modeling and simulation software and commercially available data analysis packages.

In some circumstances, where appropriate analog reservoirs were available, reservoir parameters from these analogs were used to increase the quality of and confidence in the reserves estimates.

*Preparation of reserves estimates*

Imperial has a dedicated reserves management group that is separate from the base operating organization. Primary responsibilities of this group include oversight of the reserves estimation process for compliance with Securities and Exchange Commission (SEC) rules and regulations, review of annual changes in reserves estimates, and the reporting of Imperial's proved reserves. In addition, this group provides training to personnel involved in the reserve estimation and reporting processes within Imperial.

Key components of the reserves estimation process include technical evaluations and analysis of well and field performance and a rigorous peer review. The reserves management group maintains a central computerized database containing the official company reserves estimates and production data. Appropriate controls, including limitations on database access and update capabilities, are in place to ensure data integrity within this central computerized database. An annual review of the system's controls is performed by internal audit. No changes may be made to reserves estimates in the central database, including the addition of any new initial reserves estimates or subsequent revisions, unless those changes have been thoroughly reviewed and evaluated by duly authorized personnel within the base operating organization. In addition, changes to reserves estimates that exceed certain thresholds will require further review and approval of the appropriate level of management within the operating organization, culminating in reviews with and approval by senior management and the company's board of directors.

## Table of Contents

The Operations Technical Subsurface Engineering Manager, who is an employee of the company, has evaluated the company's reserves data and filed a report to the Canadian securities regulatory authorities. The company's internal reserves evaluation staff consists of about 59 persons with an average of approximately 15 years of relevant experience in evaluating reserves, of whom about 37 persons are qualified reserves evaluators for purposes of Canadian securities regulatory requirements. The company's internal reserves evaluation management team is made up of about 12 persons with an average of approximately 12 years of relevant experience in evaluating and managing the evaluation of reserves. No independent qualified reserves evaluator or auditor was involved in the preparation of the company's reserves data.

### **Proved undeveloped reserves**

As of December 31, 2011, approximately 60 percent of the company's proved reserves were proved undeveloped reserves reflecting volumes of 1,904 million oil-equivalent barrels. Nearly all of those undeveloped reserves are associated with either the Kearl project or Cold Lake field. This compared to approximately 47 percent or 1,209 million oil-equivalent barrels of proved undeveloped reserves reported at the end of 2010. In December 2011, Kearl expansion was approved by the company's board. Increased proved undeveloped reserves in 2011 were primarily due to the initial booking of the approved Kearl expansion.

One of the company's requirements to report resources as proved reserves is that management has made significant funding commitments towards the development of the reserves. The company has a disciplined investment strategy and many major fields require a significant lead-time in order to be developed. The company made investments of about \$3.1 billion during the year to progress the development of reported proved undeveloped reserves. The largest project under development in 2011 was the initial development of Kearl which was 87 percent complete at 2011 year-end and is expected to start-up in late 2012. Proved undeveloped reserves at Cold Lake are associated with the ongoing drilling program. In 2011, Imperial moved 68 million barrels from proved undeveloped to proved developed reserves at Cold Lake.

### **Oil and gas production, production prices and production costs**

#### *Average daily production of oil*

The company's average daily oil production by final products sold during the three years ended December 31, 2011 was as follows. All reported production volumes were from Canada.

| thousands of barrels a day |             | 2011 | 2010 | 2009 |
|----------------------------|-------------|------|------|------|
| Liquids:                   | - gross (a) | 23   | 30   | 33   |
|                            | - net (b)   | 17   | 22   | 26   |
| Bitumen (c):               | - gross (a) | 160  | 144  | 141  |
|                            | - net (b)   | 120  | 115  | 120  |
| Synthetic oil (d):         | - gross (a) | 72   | 73   | 70   |
|                            | - net (b)   | 67   | 67   | 65   |
| Total:                     | - gross (a) | 255  | 247  | 244  |
|                            | - net (b)   | 204  | 204  | 211  |

(a) Gross production is the company's share of production (excluding purchases) before deduction of the mineral owners' or governments' share or both.

(b) Net production is gross production less the mineral owners' or governments' share or both.

(c) All of the company's bitumen production volumes were from the Cold Lake production operation.

(d) All of the company's synthetic oil production volumes were from the company's share of production volumes in the Syncrude joint venture.

In 2011, third party pipeline unplanned downtime, which resulted in reduced production at the Norman Wells field, and natural reservoir decline were the main contributors to lower conventional liquids production. Higher gross bitumen volumes were due to contributions from new wells steamed in 2010 and 2011, increased recoveries as a result of technology applications and the cyclic nature of production at Cold Lake.

Synthetic oil production at Syncrude was in line with 2010.

In 2010, planned maintenance activities at the Norman Wells field and natural reservoir decline were the main contributors to the lower liquids production. Higher gross bitumen volumes in 2010 were due to improved facility reliability as well as the cyclic nature of production at Cold Lake. Net bitumen production at Cold Lake was lower due to higher royalties. Synthetic oil production at Syncrude was higher primarily due to improved operational reliability.





**Table of Contents**

*Average daily production and sales of natural gas*

The company's average daily production and sales of natural gas during the three years ended December 31, 2011 are set forth below. All reported production volumes were from Canada. All gas volumes in this report are calculated at a pressure base of 14.73 pounds per square inch absolute at 60 degrees Fahrenheit.

| millions of cubic feet a day | 2011 | 2010 | 2009 |
|------------------------------|------|------|------|
| Gross production (a) (b)     | 254  | 280  | 295  |
| Net production (c)           | 228  | 254  | 274  |
| Sales (d)                    | 237  | 264  | 272  |

- (a) Gross production is the company's share of production (excluding purchases) before deduction of the mineral owners' or governments' share or both.
- (b) Production of natural gas includes amounts used for internal consumption with the exception of the amounts reinjected.
- (c) Net production is gross production less the mineral owners' or governments' share or both.
- (d) Sales are sales of the company's share of production (before deduction of the mineral owners' and/or governments' share) and sales of gas purchased, processed and/or resold.

In 2011, lower gross gas production volume was primarily a result of natural reservoir decline.

In 2011, the company sold its interests in shallow gas properties in the Medicine Hat, Alberta area, Coleville-Hoosier natural gas producing property in Saskatchewan and the Rainbow Lake producing property in Alberta, realizing a gain of about \$76 million. Production for the company's share of the properties averaged about 56 million cubic feet of natural gas a day and one thousand barrels of crude oil a day in 2010.

In 2010, lower gross gas production volume was primarily a result of natural reservoir decline and maintenance activities.

*Total average daily oil-equivalent basis production*

The company's total average daily production expressed in oil-equivalent basis is set forth below, with natural gas converted to an oil-equivalent basis at six million cubic feet per one thousand barrels.

| thousands of barrels a day             | 2011 | 2010 | 2009 |
|--|------|------|------|
| Total production oil-equivalent basis: |      |      |      |
| - gross (a)                            | 297  | 294  | 293  |
| - net (b)                              | 242  | 246  | 257  |

- (a) Gross production is the company's share of production (excluding purchases) before deduction of the mineral owners' or governments' share or both.
- (b) Net production is gross production less the mineral owners' or governments' share or both.

*Average unit sales price*

The company's average unit sales price and average unit production costs by product type for the three years ended December 31, 2011, were as follows:

| dollars a barrel | 2011   | 2010  | 2009  |
|------------------|--------|-------|-------|
| Liquids          | 77.34  | 65.84 | 53.91 |
| Synthetic oil    | 101.43 | 80.63 | 69.69 |
| Bitumen          | 63.95  | 58.36 | 51.81 |

| dollars per thousand cubic feet | 2011 | 2010 | 2009 |
|---------------------------------|------|------|------|
| Natural gas                     | 3.59 | 4.04 | 4.11 |



**Table of Contents***Average unit production costs*

| dollars a barrel               | 2011         | 2010  | 2009  |
|--------------------------------|--------------|-------|-------|
| Synthetic oil                  | <b>48.33</b> | 45.17 | 43.95 |
| Bitumen                        | <b>19.30</b> | 18.43 | 17.17 |
| Total oil-equivalent basis (a) | <b>26.63</b> | 24.76 | 23.66 |

(a) Includes liquids, bitumen, synthetic oil and natural gas.

Canadian crude oil prices are mainly determined by international crude oil markets and the impact of foreign exchange rates.

Canadian natural gas prices are determined by North American gas markets and the impact of foreign exchange rates.

In 2011, unit production costs increased on a net basis primarily due to lower net volumes as a result of higher royalty costs, increased maintenance costs at Syncrude and pre-startup costs associated with the Kearl initial development project.

In 2010, unit production costs increased on a net basis primarily due to lower net volumes as a result of higher royalty costs.

**Drilling and other exploratory and development activities**

The company has been involved in the exploration for and development of petroleum and natural gas in Canada only.

*Wells Drilled*

The following table sets forth the conventional and bitumen net exploratory and development wells that were drilled or participated in by the company during the three years ending December 31, 2011.

| wells                       | 2011      | 2010 | 2009 |
|-----------------------------|-----------|------|------|
| Net productive exploratory: |           |      |      |
| Oil and gas                 | <b>3</b>  | 6    | 2    |
| Bitumen                     |           |      |      |
| Net dry exploratory:        |           |      |      |
| Oil and gas                 |           |      |      |
| Bitumen                     |           |      |      |
| Net productive development: |           |      |      |
| Oil and gas                 | <b>62</b> | 73   | 218  |
| Bitumen                     | <b>34</b> | 110  | 60   |
| Net dry development:        |           |      |      |
| Oil and gas                 |           |      |      |
| Bitumen                     |           |      |      |
| Total                       | <b>99</b> | 189  | 280  |

In 2011, the following wells were drilled to add productive capacity: 34 bitumen development wells in undeveloped areas of existing phases at Cold Lake; 60 gas development wells in the shallow gas area and two net tight oil wells in the company's existing conventional acreage.

Two net exploratory gas wells were drilled in the Horn River shale gas play, as part of the company's ongoing evaluation of its holdings in the area, and one net exploratory tight oil well was drilled to evaluate some of the company's holdings in Alberta.

In 2010, 110 bitumen development wells were drilled to add new productive capacity from undeveloped areas of existing phases at Cold Lake. In addition, 71 gas development wells were drilled in 2010 adding productivity primarily in the shallow gas area. Additionally, one oil development well was drilled in Norman Wells and one oil development well was drilled in the Pembina area.

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Also in 2010, six net exploratory gas wells were drilled in the Horn River shale gas play, as part of the company's ongoing evaluation of its holdings in the area.

**Table of Contents**

In 2009, 60 bitumen development wells were drilled to add new productive capacity from undeveloped areas of existing phases at Cold Lake. In addition, 216 gas development wells were drilled in 2009 adding productivity primarily in the shallow gas area. Additionally, two oil development wells were drilled in Norman Wells. Also in 2009, two net exploratory gas wells were drilled in the Horn River shale gas play as part of the company's ongoing evaluation of its holdings in the area.

*Wells drilling*

At December 31, 2011, the company was participating in the drilling of the following exploratory and development wells. All wells were located in Canada.

| wells        | 2011      |           |
|--------------|-----------|-----------|
|              | Gross     | Net       |
| Oil and gas  | <b>12</b> | <b>6</b>  |
| Bitumen      | <b>28</b> | <b>28</b> |
| <b>Total</b> | <b>40</b> | <b>34</b> |

*Exploratory and development activities regarding oil and gas resources**Cold Lake*

To maintain production at Cold Lake, capital expenditures for additional production wells and associated facilities are required periodically. In 2011, the company executed a development drilling program of 34 wells on existing phases.

In 2012, a development drilling program is planned within the approved development area to add productive capacity from undeveloped areas of existing Cold Lake phases. In February 2012, the Nabiye expansion project at Cold Lake was approved by the company's board and appropriated for \$2 billion. The expansion is expected to bring on additional production of more than 40,000 barrels a day, before royalties, at Cold Lake. Start-up is expected to be year-end 2014.

The company also conducts experimental pilot operations to improve recovery of bitumen from wells by means of new drilling, production and recovery techniques.

*Western provinces*

In 2011, drilling and facility construction were underway on the production pilot of an eight horizontal-well pad (four net wells) in the Horn River shale gas acreage to evaluate well productivity and cost performance. The pilot production is scheduled to start-up in late 2012.

*Mackenzie Delta*

In 1999, the company and three other companies entered into an agreement to study the feasibility of developing Mackenzie Delta gas, anchored by three large onshore natural gas fields. The company retains a 100 percent interest in the largest of these fields.

The commercial viability of these natural gas resources, and the pipeline required to transport this natural gas to markets, is dependent on a number of factors. These factors include natural gas markets, support from northern parties, regulatory approvals, environmental considerations, pipeline participation, fiscal framework and the cost of constructing, operating and abandoning the field production and pipeline facilities.

In October 2004, the company and its co-venturers filed regulatory applications and environmental impact statements for the project with the National Energy Board (NEB) and other boards, panels and agencies responsible for assessing and regulating energy developments in the Northwest Territories. All the scheduled public hearings by the Joint Review Panel (JRP) and the NEB were concluded in late 2007. The JRP report was released in late 2009. In late 2010, the NEB announced its approval of plans to build and operate the project and 264 conditions in areas such as engineering, safety and environmental protection. Federal cabinet approved the project in early 2011.

*Beaufort Sea*

In 2007, the company acquired a 50 percent interest in an exploration licence in the Beaufort Sea. As part of the evaluation, a 3-D seismic survey was conducted in 2008. In 2009, 2010 and 2011, the company carried out data collection programs to support environmental studies and safe exploration drilling operations.

## **Table of Contents**

In 2010, the company executed an agreement to cross-convey interests with another company to acquire a 25 percent interest in an additional Beaufort Sea exploration licence. As a result of that agreement, the company's interest in its original licence was reduced to 25 percent.

### *Atlantic offshore*

The company holds a 15 percent interest in deepwater exploration blocks in the Orphan Basin, located off the east coast of Newfoundland. In 2004 and 2005, the company participated in 3-D seismic surveys in this area. Exploration wells were drilled in 2007 and 2010. In 2009, the company participated in a remote reservoir resistivity survey of the area.

### *Other oil sands activity*

The company also has interests in other oil sands leases in the Athabasca and Peace River areas of northern Alberta. Evaluation wells completed on these leased areas established the presence of bitumen. The company continues to evaluate these leases to determine their potential for future development.

## *Exploratory and development activities regarding oil and gas resources extracted by mining methods*

### *Kearl project*

The company holds a 70.96 percent participating interest in the Kearl oil sands project, a joint venture with ExxonMobil Canada Properties, a subsidiary of Exxon Mobil Corporation. The Kearl project will recover shallow deposits of oil sands using open-pit mining methods. The project is located approximately 40 miles north of Fort McMurray, Alberta.

The Kearl project received approvals from the Province of Alberta in 2007 and the Government of Canada in 2008. The Province of Alberta issued an operating and construction licence in 2008, which permits the project to mine oil sands and produce bitumen from approved development areas on oil sands leases.

Production from the initial development is expected to be at an initial rate of approximately 110,000 barrels of bitumen a day, before royalties, of which the company's share would be about 78,000 barrels a day. In 2011, the initial development was reconfigured with a capital appropriation of \$10.9 billion, of which the company's share would be \$7.7 billion. At the end of 2011, initial development was 87 percent complete, with expected start-up in late 2012.

In 2011, the expansion was approved by the company's board and appropriated for \$8.9 billion, of which the company's share is \$6.3 billion. It is expected to bring on additional production of 110,000 barrels of bitumen a day, before royalties, by late 2015, of which the company's share would be about 78,000 barrels a day.

Future debottlenecking of both the initial development and expansion will increase output to reach the regulatory capacity of 345,000 barrels a day by 2020.

Bitumen from the Kearl project will be extracted from oil sands produced from open-pit mining operations and processed through a bitumen extraction and froth treatment plant. The product, a blend of bitumen and diluent, is planned to be shipped via pipelines for distribution to North American markets. Diluent is natural gas condensate or other light hydrocarbons added to the crude bitumen to facilitate transportation to market by pipeline.

Kearl will be subject to the revised Alberta generic oil sands royalty regime, which took effect in 2009. Royalty rates are based upon a sliding scale determined by the price of crude oil.

### *Other oil sands activity*

The company is continuing to evaluate other undeveloped, mineable oil sands acreage in the Athabasca region.

## **Present activities**

### *Review of principal ongoing activities*

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### *Cold Lake*

During 2011, average net production at Cold Lake was about 120,000 barrels a day and gross production was about 160,000 barrels a day.



## **Table of Contents**

Most of the production from Cold Lake is sold to refineries in the northern U.S. The majority of the remainder of Cold Lake production is shipped to certain of the company's refineries and to third-party Canadian refineries.

The Province of Alberta, in its capacity as lessor of Cold Lake oil sands leases, is entitled to a royalty on production at Cold Lake. Cold Lake is subject to the revised Alberta generic oil sands royalty regime, which took effect in 2009. Royalty rates are based upon a sliding scale determined by the price of crude oil.

### *Syncrude operations*

The company holds a 25 percent participating interest in Syncrude, a joint venture established to recover shallow deposits of oil sands using open-pit mining methods to extract the crude bitumen, and to produce a high-quality, light (32 degree API), sweet, synthetic crude oil. The Syncrude operation, located near Fort McMurray, Alberta, mines a portion of the Athabasca oil sands deposit. The produced synthetic crude oil is shipped from the Syncrude site to Edmonton, Alberta by Alberta Oil Sands Pipeline Ltd.

In 2011, Syncrude's net production of synthetic crude oil was about 268,000 barrels a day and gross production was about 288,000 barrels a day. The company's share of net production in 2011 was about 67,000 barrels a day.

There are no approved plans for major future expansion projects.

In November 2008, Imperial, along with the other Syncrude joint-venture owners, signed an agreement with the Government of Alberta to amend the existing Syncrude Crown Agreement. Under the amended agreement, starting in 2010 and through 2015 Syncrude will pay the existing Crown royalty rates plus an incremental royalty, the amount of which will be subject to minimum production thresholds, before transitioning to the new generic royalty framework in 2016. Also, beginning January 1, 2009, Syncrude's royalty is based on bitumen value with upgrading costs and revenues excluded from the calculation.

On May 1, 2007, the company implemented a management services agreement under which Syncrude will be provided with operational, technical and business management services from Imperial and Exxon Mobil Corporation. The agreement has an initial term of 10 years, automatically renews for successive five-year periods and may be terminated with at least two years prior written notice.

### *Conventional oil and gas*

The company's largest conventional oil producing asset is the Norman Wells oil field in the Northwest Territories, which currently accounts for about 60 percent of the company's gross production of conventional crude oil. In 2011, gross production of crude oil from Norman Wells was about 11,000 barrels a day. Production was adversely impacted due to third party pipeline reliability issues in the second and third quarter of 2011. The Government of Canada has a one-third carried interest and receives a production royalty of five percent in the Norman Wells oil field. The Government of Canada's carried interest entitles it to receive payment of a one-third share of an amount based on revenues from the sale of Norman Wells production, net of operating and capital costs.

Most of the company's larger oil fields in the Western provinces have been in production for several decades, and the amount of oil that is produced from conventional fields is declining.

The company produces natural gas from a large number of gas fields located in the Western provinces, primarily in Alberta. The company also has a nine percent interest in a project to develop and produce natural gas reserves in the Sable Island area off the coast of the Province of Nova Scotia.

## **Delivery commitments**

The company is contractually committed to deliver approximately 30 billion cubic feet of natural gas in Canada for the period from 2012 through 2014, which is substantially less than the company's proved natural gas reserves.

**Table of Contents****Oil and gas properties, wells, operations, and acreage***Production wells*

The company's production of liquids, bitumen and natural gas is derived from wells located exclusively in Canada. The total number of wells capable of production, in which the company had interests at December 31, 2011 and 2010, is set forth in the following table. The statistics in the table are determined in part from information received from other operators.

| wells           | Year-ended December 31, 2011 |       |             |     | Year-ended December 31, 2010 |       |             |       |
|-----------------|------------------------------|-------|-------------|-----|------------------------------|-------|-------------|-------|
|                 | Crude oil                    |       | Natural gas |     | Crude oil                    |       | Natural gas |       |
|                 | Gross                        | Net   | Gross       | Net | Gross                        | Net   | Gross       | Net   |
| Oil and gas (c) | 1,070                        | 734   | 2,404       | 847 | 883                          | 588   | 5,372       | 2,833 |
| Bitumen (c)     | 4,068                        | 4,068 |             |     | 4,358                        | 4,358 |             |       |

(a) Gross wells are wells in which the company owns a working interest.

(b) Net wells are the sum of the fractional working interests owned by the company in gross wells, rounded to the nearest whole number.

(c) Multiple completion wells are permanently equipped to produce separately from two or more distinctly different geological formations. At year-end 2011, the company had an interest in four gross wells with multiple completions (2010 - four gross wells).

The decrease in natural gas wells is primarily attributed to the company's divestments in 2011.

*Land holdings*

At December 31, 2011 and 2010, the company held the following oil and gas rights, bitumen and synthetic oil leases, all of which are located in Canada, specifically in the Western provinces, in the Canada lands and in the Atlantic offshore:

| thousands of acres |             | Acres     |       |             |       |       |        |
|--------------------|-------------|-----------|-------|-------------|-------|-------|--------|
|                    |             | Developed |       | Undeveloped |       | Total |        |
|                    |             | 2011      | 2010  | 2011        | 2010  | 2011  | 2010   |
| Western provinces: |             |           |       |             |       |       |        |
| Liquids and gas    | - gross (a) | 2,156     | 2,520 | 629         | 592   | 2,785 | 3,112  |
|                    | - net (b)   | 709       | 983   | 341         | 323   | 1,050 | 1,306  |
| Bitumen            | - gross (a) | 103       | 103   | 636         | 645   | 739   | 748    |
|                    | - net (b)   | 103       | 103   | 363         | 373   | 466   | 476    |
| Synthetic oil      | - gross (a) | 114       | 114   | 139         | 139   | 253   | 253    |
|                    | - net (b)   | 28        | 28    | 35          | 35    | 63    | 63     |
| Canada lands (c):  |             |           |       |             |       |       |        |
| Liquids and gas    | - gross (a) | 4         | 4     | 2,314       | 1,871 | 2,318 | 1,875  |
|                    | - net (b)   | 2         | 2     | 722         | 500   | 724   | 502    |
| Atlantic offshore: |             |           |       |             |       |       |        |
| Liquids and gas    | - gross (a) | 65        | 65    | 1,780       | 4,469 | 1,845 | 4,534  |
|                    | - net (b)   | 6         | 6     | 270         | 673   | 276   | 679    |
| Total (d):         | - gross (a) | 2,442     | 2,806 | 5,498       | 7,716 | 7,940 | 10,522 |
|                    | - net (b)   | 848       | 1,122 | 1,731       | 1,904 | 2,579 | 3,026  |

(a) Gross acres include the interests of others.

(b) Net acres exclude the interests of others.

(c) Canada lands include the Arctic Islands, Beaufort Sea/Mackenzie Delta, and other Northwest Territories, Nunavut and Yukon regions.

(d) Certain land holdings are subject to modification under agreements whereby others may earn interests in the company's holdings by performing certain exploratory work (farm-out) and whereby the company may earn interests in others' holdings by performing certain exploratory work (farm-in).

## **Table of Contents**

### *Western provinces*

The company's bitumen leases include about 194,000 acres of oil sands leases near Cold Lake and an area of about 34,000 net acres at Kearn. The company has about 89,000 net acres of undeveloped, mineable oil sands acreage in the Athabasca region. In addition, the company also has interests in other bitumen oil sands leases in the Athabasca and Peace River areas totaling about 149,000 net acres. In 2011, the company exchanged oil sands leases in the Athabasca area with a third party, where two leases totaling about 21,000 acres were relinquished in exchange for rights to one strategic lease of about 12,000 acres.

The company's share of Syncrude joint-venture leases covering about 63,000 net acres accounts for the entire synthetic oil acreage.

The company holds interest in an additional 1,050,000 net acres of developed and undeveloped land in Western Canada related to conventional oil and natural gas. Included in this number is a total acreage position of about 170,000 net acres at Horn River, British Columbia. In 2011, the company relinquished a total of about 256,000 net acres in Western Canada.

### *Canada lands*

In the Arctic Islands, the company has an interest in 16 significant discovery licences granted by the Government of Canada. These licences are managed by another company on behalf of all participants and total about 50,000 net acres. The company has not participated in wells drilled in this area since 1984.

Also within the Canada lands, the company holdings in the Mackenzie Delta include majority interests in 21, and minority interests in six, significant discovery licences granted by the Government of Canada, as the result of previous oil and gas discoveries, all of which are managed by the company, and majority interests in two, and minority interests in 17, other significant discovery licences managed by others. Total acreage held in the Mackenzie Delta is 184,000 net acres.

In 2011, two exploration licences were acquired from the Government of Canada in the Summit Creek area of central Mackenzie Valley totaling 222,000 net acres.

In 2007, the company acquired a 50 percent interest in an offshore exploration licence in the Beaufort Sea of about 507,000 gross acres. In 2010, the company reduced its interest to 25 percent and acquired a 25 percent interest in another Beaufort Sea exploration licence, as part of a cross-conveyance agreement, of about 500,000 gross acres. The company holds interest in the Beaufort Sea of about 252,000 net acres.

The balance of the Canada lands acreage, 16,000 net acres, consists of multiple leases and significant discovery licences throughout the Northwest Territories and Yukon.

### *Atlantic offshore*

The company manages five significant discovery licences granted by the Government of Canada in the Atlantic offshore. The company also has minority interests, managed by others, in 27 significant discovery licences, and six production licences.

In early 2004, the company acquired a 25 percent interest in eight deep-water exploration licences offshore Newfoundland in the Orphan Basin for about 5,251,000 gross acres. In February 2005, the company reduced its interest to 15 percent through an agreement with another company. In early 2009, one exploration licence in its entirety and most of a second exploration licence, for about 1,069,000 gross acres, expired. The remaining exploration licences were consolidated into two exploration licences, for a total of about 627,000 net acres. In 2011, one exploration licence and a portion of the second exploration licence, for about 403,000 net acres, were surrendered. The remaining total Orphan Basin acreage is 224,000 net acres.

**Table of Contents****Downstream****Supply**

To supply the requirements of its own refineries and condensate requirements for blending with crude bitumen, the company supplements its own production with substantial purchases from others.

The company purchases domestic crude oil at freely negotiated prices from a number of sources. Domestic purchases of crude oil are generally made under renewable contracts with 30 to 60 day cancellation terms.

Crude oil from foreign sources is purchased by the company at market prices mainly through Exxon Mobil Corporation (which has beneficial access to major market sources of crude oil throughout the world).

**Refining**

The company owns and operates four refineries. The Strathcona refinery operates lubricating oil production facilities. The Strathcona refinery processes Canadian crude oil, and the Dartmouth, Sarnia and Nanticoke refineries process a combination of Canadian and foreign crude oil. In addition to crude oil, the company purchases finished products to supplement its refinery production.

In 2011, capital expenditures of about \$85 million were made at the company's refineries. Capital expenditures focused mainly on refinery projects to improve reliability, feedstock flexibility, energy efficiency and environmental performance.

The approximate average daily volumes of refinery throughput during the five years ended December 31, 2011, and the daily rated capacities of the refineries at December 31, 2011 and 2006, were as follows:

| thousands of barrels a day | Refinery throughput (a)<br>Year-ended December 31 |            |            |            |            | Rated capacities<br>at (b)<br>December 31 |            |
|----------------------------|---|------------|------------|------------|------------|---|------------|
|                            | 2011  | 2010       | 2009       | 2008       | 2007       | 2011                                      | 2006       |
| Strathcona, Alberta        | 169   | 168        | 145        | 155        | 170        | 189                                       | 187        |
| Sarnia, Ontario            | 102   | 102        | 100        | 108        | 103        | 119                                       | 121        |
| Nanticoke, Ontario         | 93  | 104        | 94         | 107        | 100        | 113                                       | 112        |
| Dartmouth, Nova Scotia     | 66  | 70         | 74         | 76         | 69         | 85  | 82         |
| <b>Total</b>               | <b>430</b>  | <b>444</b> | <b>413</b> | <b>446</b> | <b>442</b> | <b>506</b>                                | <b>502</b> |

(a) Refinery throughput is the volume of crude oil and feedstocks that is processed in the refinery atmospheric distillation units.

(b) Rated capacities are based on definite specifications as to types of crude oil and feedstocks that are processed in the refinery atmospheric distillation units, the products to be obtained and the refinery process, adjusted to include an estimated allowance for normal maintenance shutdowns. Accordingly, actual capacities may be higher or lower than rated capacities due to changes in refinery operation and the type of crude oil available for processing.

Refinery throughput was 85 percent of capacity in 2011, three percent lower than the previous year. The lower rate was primarily a result of higher planned and unplanned maintenance activities.

**Distribution**

The company maintains a nation-wide distribution system, including 22 primary terminals, to handle bulk and packaged petroleum products moving from refineries to market by pipeline, tanker, rail and road transport. The company owns and operates natural gas liquids and products pipelines in Alberta, Manitoba and Ontario and has interests in the capital stock of one crude oil and two products pipeline companies.

**Marketing**

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The company markets more than 580 petroleum products throughout Canada under well-known brand names, most notably Esso and Mobil, to all types of customers.

The company sells to the motoring public through Esso retail service stations. On average during the year, there were more than 1,800 retail service stations, of which about 480 were company owned or leased, but none of which were company operated. The company continues to improve its Esso retail service station network, providing more customer services such as car washes and convenience stores, primarily at high volume sites in urban centres.

**Table of Contents**

The Canadian farm, residential heating and small commercial markets are served through about 70 branded agents and resellers. The company also sells petroleum products to large industrial and commercial accounts as well as to other refiners and marketers.

The approximate daily volumes of net petroleum products (excluding purchases/sales contracts with the same counterparty) sold during the five years ended December 31, 2011, are set out in the following table:

| thousands of barrels a day         | 2011       | 2010       | 2009       | 2008       | 2007       |
|------------------------------------|------------|------------|------------|------------|------------|
| Gasolines                          | 220        | 218        | 200        | 204        | 208        |
| Heating, diesel and jet fuels      | 157        | 153        | 143        | 157        | 164        |
| Heavy fuel oils                    | 29         | 28         | 27         | 30         | 33         |
| Lube oils and other products       | 41         | 43         | 39         | 47         | 43         |
| <b>Net petroleum product sales</b> | <b>447</b> | <b>442</b> | <b>409</b> | <b>438</b> | <b>448</b> |

The total domestic sales of petroleum products, as a percentage of total sales of petroleum products during the five years ended December 31, 2011, were as follows:

| percentage  | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|------|------|------|------|------|
| Domestic petroleum product sales as a percentage of total petroleum product sales volumes | 93.3 | 92.8 | 90.3 | 93.0 | 94.8 |

The company continues to evaluate and adjust its Esso retail service station and distribution system to increase productivity and efficiency. During 2011, the company closed or debranded about 86 Esso retail service stations, about 13 of which were company owned, and added about 51 sites. The company's average annual throughput in 2011 per Esso retail service station was about 25 thousand barrels (4.0 million litres), unchanged from 2010. Average throughput per company owned or leased Esso retail service station was about 45 thousand barrels (7.2 million litres) in 2011, unchanged from 2010.

Total Downstream capital expenditures were \$166 million in 2011 and are expected to be about \$200 million in 2012.

**Chemical**

The company's Chemical operations manufacture and market ethylene, benzene, aromatic and aliphatic solvents, plasticizer intermediates and polyethylene resin. Its major petrochemical and polyethylene manufacturing operations are located in Sarnia, Ontario, adjacent to the company's petroleum refinery. There is also a heptene and octene plant located in Dartmouth, Nova Scotia.

The company's total sales volumes of petrochemicals during the five years ended December 31, 2011, were as follows:

| thousands of tonnes           | 2011  | 2010 | 2009  | 2008  | 2007  |
|-------------------------------|-------|------|-------|-------|-------|
| Total sales of petrochemicals | 1,016 | 989  | 1,026 | 1,021 | 1,121 |

Higher volumes in 2011 were primarily due to lower planned maintenance activities at the Sarnia facility.

Capital expenditures in 2011 were \$4 million, with planned expenditures in 2012 of about \$14 million.

## **Table of Contents**

### **Research**

In 2011, the company's total gross research expenditures, before credits, were about \$163 million, as compared with \$119 million in 2010, and \$138 million in 2009. Total gross research expenditures included capital expenditures of \$1 million, \$3 million and \$19 million in 2011, 2010 and 2009, respectively. These expenditures were used mainly for developing technologies to reduce the environmental impact and improve bitumen recovery in the Upstream and for supporting environmental and process improvements in the refineries, as well as accessing ExxonMobil's data worldwide.

A research facility to support the company's Upstream operations is located in Calgary, Alberta. Research in these laboratories is aimed at developing new technology for the production and processing of crude bitumen. About 40 people were involved in this type of research in 2011. The company also participated in bitumen recovery and processing research for oil sands development through its interest in Syncrude, which maintains research facilities in Edmonton, Alberta. The company also participated in research arrangements with others, including for tailings management.

In company laboratories in Sarnia, Ontario, research and advanced technical support is focused on several areas including supporting environmental and process improvements, and the refineries' readiness to process Kearn crude. About 105 people were employed in this type of research and advanced technical support at the end of 2011.

The company has scientific research agreements with affiliates of Exxon Mobil Corporation, which provide for technical and engineering work to be performed by all parties, the exchange of technical information and the assignment and licensing of patents and patent rights. These agreements provide mutual access to scientific and operating data related to nearly every phase of the petroleum and petrochemical operations of the parties.

### **Environmental protection**

The company is concerned with and active in protecting the environment in connection with its various operations. The company works in cooperation with government agencies, industry associations and communities to deal with existing, and to anticipate potential, environmental protection issues. In the past five years, the company has made capital and operating expenditures of about \$3.3 billion on environmental protection and facilities. In 2011, the company's environmental capital and operating expenditures totaled approximately \$724 million, which was spent primarily on emissions reductions at company owned facilities and Syncrude, remediation of idled facilities and operations, as well as on protection of freshwater near Imperial facilities. Capital and operating expenditures relating to environmental protection are expected to be about \$1.1 billion in 2012.

### **Human resources**

At December 31, 2011, the company employed about 5,085 persons on a full-time basis, compared with about 4,970 at the end of 2010 and about 5,015 at the end of 2009. About eight percent of the company's employees are members of unions. The company continues to maintain a broad range of benefits, including health, dental, disability and survivor benefits, vacation, savings plan and pension plan.

### **Competition**

The Canadian petroleum, natural gas and chemical industries are highly competitive. Competition exists in the search for and development of new sources of supply, the construction and operation of crude oil, natural gas and refined products pipelines and facilities and the refining, distribution and marketing of petroleum products and chemicals. The petroleum industry also competes with other industries in supplying energy, fuel and other needs of consumers.

## **Table of Contents**

### **Government regulation**

#### **Petroleum and natural gas rights**

Most of the company's petroleum and natural gas rights were acquired from governments, either federal or provincial. These rights in the form of leases or licences are generally acquired for cash. A lease or licence entitles the holder to produce petroleum and/or natural gas from the leased lands. The holder of a lease or licence relating to Canada lands and the Atlantic Offshore is generally required to make cash payments or to undertake specified work commitments or exploration expenditures in order to retain the holder's interest in the land, and may become entitled to produce petroleum or natural gas from the leased or licenced land.

#### **Crude oil**

##### *Production*

The maximum allowable gross production of crude oil from wells in Canada is subject to limitation by various regulatory authorities on the basis of engineering and conservation principles.

##### *Exports*

Export contracts of more than one year for light crude oil and petroleum products and two years for heavy crude oil (including crude bitumen) require the prior approval of the NEB and the Government of Canada.

#### **Natural gas**

##### *Production*

The maximum allowable gross production of natural gas from wells in Canada is subject to limitations by various regulatory authorities. These limitations are to ensure oil recovery is not adversely impacted by accelerated gas production practices. These limitations do not impact gas reserves, only the timing of production of the reserves, and did not have a significant impact on 2011 gas production rates.

##### *Exports*

The Government of Canada has the authority to regulate the export price for natural gas and has a gas export pricing policy, which accommodates export prices for natural gas negotiated between Canadian exporters and U.S. importers.

Exports of natural gas from Canada require approval by the NEB and the Government of Canada. The Government of Canada allows the export of natural gas by NEB order without volume limitation for terms not exceeding 24 months.

#### **Royalties**

The Government of Canada and the provinces in which the company produces crude oil and natural gas impose royalties on production from lands where they own the mineral rights. Some producing provinces also receive revenue by imposing taxes on production from lands where they do not own the mineral rights.

Different royalties are imposed by the Government of Canada and each of the producing provinces. Royalties imposed on crude oil, natural gas and natural gas liquids vary depending on a number of parameters, including well production volumes, selling prices and recovery methods. For information with respect to royalty rates for Norman Wells, Cold Lake, Syncrude and Kearn, see "Upstream" section under Item 1.

#### **Investment Canada Act**

The Investment Canada Act requires Government of Canada approval, in certain cases, of the acquisition of control of a Canadian business by an entity that is not controlled by Canadians. The acquisition of natural resource properties may, in certain circumstances, be considered a



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transaction that constitutes an acquisition of control of a Canadian business requiring Government of Canada approval.

The Act also requires notification of the establishment of new unrelated businesses in Canada by entities not controlled by Canadians, but does not require Government of Canada approval except when the new business is related to Canada's cultural heritage or national identity. The Government of Canada is also authorized to take any measures that it considers advisable to protect national security, including the outright prohibition of a foreign investment in Canada. By virtue of the majority stock ownership of the company by Exxon Mobil Corporation, the company is considered to be an entity which is not controlled by Canadians.

## **Table of Contents**

### **The company online**

The company's website [www.imperialoil.ca](http://www.imperialoil.ca) contains a variety of corporate and investor information which is available free of charge, including the company's annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to these reports, as well as required interactive data filings. These reports are made available as soon as reasonably practicable after they are filed or furnished to the U.S. SEC.

## **Item 1A. Risk factors**

### **Volatility of oil and natural gas prices**

The company's results of operations and financial condition are dependent on the prices it receives for its oil and natural gas production. Crude oil and natural gas prices are determined by global and North American markets and are subject to changing supply and demand conditions. These can be influenced by a wide range of factors including economic conditions, international political developments and weather. Disruptions to pipelines linking production to markets may reduce the price for that production or lead to curtailment of production. In the past, crude oil and natural gas prices have been volatile, and the company expects that volatility to continue. Any material decline in oil or natural gas prices could have a material adverse effect on the company's operations, financial condition, proven reserves and the amount spent to develop oil and natural gas reserves.

A significant portion of the company's production is bitumen. The market prices for bitumen differ from the established market indices for light and medium grades of oil principally due to the higher transportation and refining costs associated with bitumen and limited refining capacity capable of processing bitumen. As a result, the price received for bitumen is generally lower than the price for medium and light oil. Future differentials are uncertain and increases in the bitumen differentials could have a material adverse effect on the company's business.

Industry crude oil and natural gas commodity prices and petroleum and chemical product prices are commonly benchmarked in U.S. dollars. The majority of Imperial's sales and purchases are related to these industry U.S. dollar benchmarks. As the company records and reports its financial results in Canadian dollars, to the extent that the Canadian/U.S. dollar exchange rate fluctuates, the company's earnings will be affected.

The company does not use derivative instruments to offset exposures associated with hydrocarbon prices, currency exchange rates and interest rates that arise from existing assets, liabilities and transactions. The company does not engage in speculative derivative activities nor does it use derivatives with leveraged features.

### **Competitive factors**

The oil and gas industry is highly competitive, particularly in the following areas: searching for and developing new sources of supply; constructing and operating crude oil, natural gas and refined products pipelines and facilities; and the refining, distribution and marketing of petroleum products and chemicals. The company's competitors include major integrated oil and gas companies and numerous other independent oil and gas companies. The petroleum industry also competes with other industries in supplying energy, fuel and related products to customers.

Competitive forces may result in shortages of prospects to drill, services to carry out exploration, development or operating activities and infrastructure to produce and transport production. It may also result in an oversupply of crude oil, natural gas, petroleum products and chemicals. Each of these factors could have a negative impact on costs and prices and, therefore, the company's financial results.

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## **Table of Contents**

### **Environmental risks**

All phases of the Upstream, Downstream and Chemical businesses are subject to environmental regulation pursuant to a variety of Canadian federal, provincial and municipal laws and regulations, as well as international conventions (collectively, environmental legislation ).

Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. As well, environmental regulations are imposed on the qualities and compositions of the products sold and imported. Environmental legislation also requires that wells, facility sites and other properties associated with the company's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations, including exploration and development projects and significant changes to certain existing projects, may require the submission and approval of environmental impact assessments. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for clean up costs and damages. The company cannot assure that the costs of complying with environmental legislation in the future will not have a material adverse effect on its financial condition or results of operations. The company anticipates that changes in environmental legislation may require, among other things, reductions in emissions to the air from its operations and result in increased capital expenditures. Future changes in environmental legislation could occur and result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, which could have a material adverse effect on the company's financial condition or results of operations.

The company's activities in deep water oil and gas exploration are limited. However, there are operational risks inherent in oil and gas exploration and production activities, as well as the potential to incur substantial financial liabilities if those risks are not effectively managed. The ability to insure such risks is limited by the capacity of the applicable insurance markets, which may not be sufficient to cover the likely cost of a major adverse operating event such as a deepwater well blowout. Accordingly, the company's primary focus is on prevention, including through its rigorous operations integrity management system. The company's future results will depend on the continued effectiveness of these efforts.

### **Climate change**

In April 2007, the Government of Canada announced its intent to introduce a set of regulations to limit emissions of greenhouse gas and air pollutants from major industrial facilities in Canada, although the details of the regulations have not been finalized. In the fall of 2009, the Government further expressed its intent that Canadian policy in this area be aligned with that of the U.S., which also remains under development. Consequently, attempts to assess the impact on the company are premature. The company will continue to monitor the development of legal requirements in this area.

In the Province of Alberta, regulations governing greenhouse gas emissions from large industrial facilities came into effect July 1, 2007. These regulations cover industrial facilities emitting more than 100,000 tonnes (carbon dioxide equivalent) of greenhouse gas emissions annually and require a reduction by 12 percent in the greenhouse gas emissions per unit of production from each facility's average annual intensity compared with the period 2003 through 2005. Allowed compliance measures include participation in an Alberta emission-trading system or payment (at a rate of \$15 per excess tonne of emissions) to Alberta's Climate Change and Emissions Management Fund. Impact on the overall operations of the company has not been material.

The Province of British Columbia introduced a carbon tax in 2008 at an initial rate of \$10 per tonne of carbon dioxide and applicable to purchases of hydrocarbon fuels and emissions of greenhouse gases. The applicable tax rate was increased to \$25 in 2011, and a further increase of \$5 per tonne to a level of \$30 per tonne is planned in 2012. It is the current policy of the Government of British Columbia to offset revenues from this tax by reductions in corporate and personal income taxes. Impacts on the company and its operations have not been and are not expected to be material.

The Province of Quebec announced in 2011 that it would regulate greenhouse gas emissions from industrial facilities starting in 2012 and from transportation sources in 2015, with a cap-and-trade system. There are no company operations affected by the regulations for industrial facilities. As there are currently limited details on the planned inclusion of the transportation sources in the cap-and-trade system, attempts to assess the impact of these plans on the company are premature.

## **Table of Contents**

The Province of Ontario has passed legislation authorizing the issuing of regulations for the creation of a provincial cap-and-trade system controlling greenhouse gas emissions. However, details on such possible regulations have not been provided and consequently attempts to assess any impacts on the company are premature.

The Province of British Columbia has introduced Low Carbon Fuel Standard (LCFS) regulations requiring suppliers of transportation fuels to report the carbon intensity of fuels sold in British Columbia, and beginning in 2013 to reduce the carbon intensity by an increasing amount over a 10-year period. California has introduced similar requirements and some other U.S. states are considering comparable measures. Such measures in California and other U.S. states may have implications for the company's marketing of oil sands production, but the impact cannot be determined at this time. The company's marketing in British Columbia will not be significantly impacted in the early years of the LCFS regulations.

The U.S. Energy Independence and Security Act of 2007 precludes agencies of the U.S. Federal Government from procuring motive fuels from non-conventional petroleum sources that have lifecycle greenhouse gas emissions greater than equivalent conventional fuel. To date, sales of the company's oil sands production have not been affected by this Act.

Further federal or provincial legislation or regulation controlling greenhouse gas emissions could occur and result in increased capital expenditures and operating costs, affect demand and have a material adverse effect on the company's financial condition or results of operations, but any potential impact cannot be estimated at this time.

## **Other regulatory risk**

The company is subject to a wide range of legislation and regulation governing its operations and industry transportation infrastructure, over which it has no control. Changes may affect every aspect of the company's operations and financial performance. In addition, the company's longer-term development plans may be adversely affected if, for regulatory or other reasons, necessary additional transportation infrastructure is not added in a timely fashion.

## **Need to replace reserves**

The company's future liquids, bitumen, synthetic oil and natural gas reserves and production, and therefore cash flows, are highly dependent upon the company's success in exploiting its current reserve base and acquiring or discovering additional reserves. Without additions to the company's reserves through exploration, acquisition or development activities, reserves and production will decline over time as reserves are depleted. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient to fund capital expenditures and external sources of capital become limited or unavailable, the company's ability to make the necessary capital investments to maintain and expand oil and natural gas reserves will be impaired. In addition, the company may be unable to find and develop or acquire additional reserves to replace oil and natural gas production at acceptable costs.

## **Other business risks**

Exploring for, producing and transporting petroleum substances involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to mitigate. These activities are subject to a number of hazards, which may result in fires, explosions, spills, blow-outs or other unexpected or dangerous conditions causing personal injury, property damage, environmental damage and interruption of operations. The company's insurance may not provide adequate coverage in certain unforeseen circumstances.

Business risks also include the risk of cyber security breaches. If management's systems for protecting against cyber security risk prove not to be sufficient, the company could be adversely affected such as by having its business systems compromised, its proprietary information altered, lost or stolen, or its business operations disrupted.

## **Table of Contents**

### **Uncertainty of reserve estimates**

There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the company's control. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flow are based upon a number of factors and assumptions made as of the date on which the reserve estimates were determined, such as geological and engineering estimates which have inherent uncertainties, the assumed effects of regulation by governmental agencies and future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves, the classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different reserves evaluators or by the same evaluators at different times, may vary substantially. Actual production, revenues, taxes, and development, abandonment and operating expenditures with respect to reserves will likely vary from such estimates, and such variances could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated reserves.

### **Project factors**

The company's results depend on its ability to develop and operate major projects and facilities as planned. The company's results will, therefore, be affected by events or conditions that affect the advancement, operation, cost or results of such projects or facilities. These risks include the company's ability to obtain the necessary environmental and other regulatory approvals; changes in resources and operating costs including the availability and cost of materials, equipment and qualified personnel; the impact of general economic, business and market conditions; and the occurrence of unforeseen technical difficulties.

## **Item 1B. Unresolved staff comments**

Not applicable.

## **Item 2. Properties**

Reference is made to Item 1 above.

## **Item 3. Legal proceedings**

Not applicable.

## **Item 4. Mine safety disclosures**

Not applicable.

Table of Contents**PART II****Item 5. Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities****Market information**

The company's common shares trade on the Toronto Stock Exchange and the NYSE Amex LLC, a subsidiary of NYSE Euronext.

**Dividends**

The following table sets forth the frequency and amount of all cash dividends declared by the company on its outstanding common shares for the two most recent fiscal years:

| dollars                      | 2011 |      |      |      | 2010 |      |      |      |
|------------------------------|------|------|------|------|------|------|------|------|
|                              | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   |
| Declared dividend per share: | 0.11 | 0.11 | 0.11 | 0.11 | 0.10 | 0.11 | 0.11 | 0.11 |

**Information for security holders outside Canada**

Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to a Canadian nonresident withholding tax of 15 percent.

The withholding tax is reduced to five percent on dividends paid to a corporation resident in the U.S. that owns at least 10 percent of the voting shares of the company.

Imperial is a qualified foreign corporation for purposes of the reduced U.S. capital gains tax rates (15 percent and as low as zero percent for certain individuals), which are applicable to dividends paid by U.S. domestic corporations and qualified foreign corporations.

There is no Canadian tax on gains from selling shares or debt instruments owned by nonresidents not carrying on business in Canada.

Reference is made to the Quarterly financial and stock trading data portion of the Financial section on page 81 of this report.

As of February 15, 2012 there were 12,711 holders of record of common shares of the company.

During the period October 1, 2011 to December 31, 2011, the company issued 233,148 common shares to employees or former employees outside the U.S. for \$15.50 per share upon the exercise of stock options. During the period October 1, 2011 to December 31, 2011, the company issued 3,903 shares to employees or former employees outside the U.S. under its restricted stock unit plan. These issuances were not registered under the *Securities Act* in reliance on Regulation S thereunder.

In June, 2011 the company received approval from the Toronto Stock Exchange for a new normal course issuer bid to replace its existing share-purchase program that expired on June 24, 2011. The new share-purchase program enables the company to repurchase up to about 42 million shares during the period from June 25, 2011 to June 24, 2012, including shares purchased for the company's employee savings plan, the company's employee retirement plan and from ExxonMobil. If not previously terminated, the program will end on June 24, 2012.

Table of Contents**Securities authorized for issuance under equity compensation plans**

Sections of the company's management proxy circular are contained in the Proxy information section, starting on page 82. The company's management proxy circular is prepared in accordance with Canadian securities regulations.

Reference is made to the section under the IV. Company executives and executive compensation :

entitled Performance graph within the Compensation discussion and analysis section on page 124 of this report; and  
entitled Equity compensation plan information, within the Compensation discussion and analysis section, on page 130 of this report.

**Issuer purchases of equity securities**

|   | Total<br>number<br>of<br>shares<br>purchased | Average<br>price paid<br>per<br>share<br>(dollars) | Total number<br>of shares<br>purchased as<br>part of publicly<br>announced<br>plans or<br>programs | Maximum<br>number<br><br>(or approximate<br>dollar value)<br>of<br>shares that may<br>yet be purchased<br>under the<br>plans<br>or programs |
|---|--|--|--|---|
| October 2011<br>(October 1 - October 31)    |  | n/a  |  | <b>41,947,526</b>   |
| November 2011<br>(November 1 - November 30) | <b>82,656</b>                                | <b>41.40</b>                                       | <b>82,656</b>  | <b>41,779,970</b>   |
| December 2011<br>(December 1 - December 31) | <b>213,120</b>                               | <b>43.29</b>                                       | <b>213,120</b>   | <b>41,484,665</b>   |

**Item 6. Selected financial data**

|   |               |        |        |        |        |
|---|---------------|--------|--------|--------|--------|
| millions of dollars                     | <b>2011</b>   | 2010   | 2009   | 2008   | 2007   |
| Operating revenues                      | <b>30,474</b> | 24,946 | 21,292 | 31,240 | 25,069 |
| Net income                              | <b>3,371</b>  | 2,210  | 1,579  | 3,878  | 3,188  |
| Total assets at year-end                | <b>25,429</b> | 20,580 | 17,473 | 17,035 | 16,287 |
| Long term debt at year-end              | <b>843</b>    | 527    | 31     | 34     | 38     |
| Total debt at year-end                  | <b>1,207</b>  | 756    | 140    | 143    | 146    |
| Other long term obligations at year-end | <b>3,876</b>  | 2,753  | 2,839  | 2,254  | 1,914  |
| dollars                                 |               |        |        |        |        |
| Net income/share basic                  | <b>3.98</b>   | 2.61   | 1.86   | 4.39   | 3.43   |
| Net income/share diluted                | <b>3.95</b>   | 2.59   | 1.84   | 4.36   | 3.41   |
| Dividends/share                         | <b>0.44</b>   | 0.43   | 0.40   | 0.38   | 0.35   |

Reference is made to the table setting forth exchange rates for the Canadian dollar, expressed in U.S. dollars, on page 2 of this report.

## **Item 7. Management's discussion and analysis of financial condition and results of operations**

Reference is made to the section entitled "Management's discussion and analysis of financial condition and results of operations" in the Financial section, starting on page 35 of this report.



**Table of Contents**

**Item 7A. Quantitative and qualitative disclosures about market risk**

Reference is made to the section entitled "Market risks and other uncertainties" in the Financial section, starting on page 47 of this report. All statements other than historical information incorporated in this Item 7A are forward-looking statements. The actual impact of future market changes could differ materially due to, among other things, factors discussed in this report.

**Item 8. Financial statements and supplementary data**

Reference is made to the table of contents in the Financial section on page 31 of this report:

Consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP (PwC) dated February 23, 2012, beginning with the section entitled "Report of independent registered public accounting firm" on page 52 and continuing through note 16, "Transactions with related parties" on page 76;  
Supplemental information on oil and gas exploration and production activities (unaudited) starting on page 77; and  
Quarterly financial and stock trading data (unaudited) on page 81.

**Item 9. Changes in and disagreements with accountants on accounting and financial disclosure**

None.

**Item 9A. 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 December 31, 2011. 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 SEC's rules and forms.

Reference is made to page 51 of this report for "Management's report on internal control over financial reporting" and page 52 for the "Report of independent registered public accounting firm" on the company's internal control over financial reporting as of December 31, 2011.

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.

**Item 9B. Other information**

None.

Table of Contents

## PART III

### Item 10. Directors, executive officers and corporate governance

Sections of the company's management proxy circular are contained in the Proxy information section, starting on page 82. The company's management proxy circular is prepared in accordance with Canadian securities regulations.

The company currently has seven directors. The articles of the company require that the board have between five and fifteen directors. Each director is elected to hold office until the close of the next annual meeting. Each of the seven individuals listed in the section entitled "Director information" on pages 83 to 89 of this report has been nominated for election at the annual meeting of shareholders to be held May 2, 2012. All of the nominees are directors and have been since the dates indicated.

Reference is made to the sections under III. Board of directors :

Director information , on pages 83 to 89 of this report;

The table entitled "Audit committee" under "Board and committee structure" , on page 95 of this report; and

Other public company directorships , on page 103 of this report.

Reference is made to the sections under IV. Company executives and executive compensation :

Named executive officers of the company and Other executive officers of the company , on page 109 and page 110 of this report.

Reference is made to the sections under V. Other important information :

Largest shareholder , on page 133 of this report; and

Ethical business conduct , starting on page 134 of this report.

### Item 11. Executive compensation

Sections of the company's management proxy circular are contained in the Proxy information section, starting on page 82. The company's management proxy circular is prepared in accordance with Canadian securities regulations.

Reference is made to the sections under III. Board of directors :

Share ownership guidelines for directors , on page 102 of this report; and

Directors' compensation program , on pages 104 to 108 of this report.

Reference is made to the following sections under IV. Company executives and executive compensation :

Report of executive resources committee on executive compensation , starting on page 110 of this report; and

Compensation discussion and analysis , on pages 111 to 132 of this report.

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**Table of Contents**

## **Item 12. Security ownership of certain beneficial owners and management and related stockholder matters**

Sections of the company's management proxy circular are contained in the Proxy information section, starting on page 82. The company's management proxy circular is prepared in accordance with Canadian securities regulations.

Reference is made to the section under IV. Company executives and executive compensation entitled Equity compensation plan information, within the Compensation discussion and analysis section, on page 130 of this report.

Reference is made to the section under V. Other important information entitled Largest shareholder, on page 133 of this report.

Reference is also made to the security ownership information for directors and executive officers of the company under the preceding Items 10 and 11. As of February 15, 2012, P.J. Masschelin was the owner of 4,554 common shares of the company and held 43,100 restricted stock units of the company. T.G. Scott did not own any common shares of the company and held 42,050 restricted stock units of the company. R.G. Courtemanche was the owner of 65,684 common shares of the company and held 114,250 restricted stock units of the company. B.W. Livingston was the owner of 36,222 common shares of the company and held 117,250 restricted stock units of the company.

The directors and the executive officers of the company, whose compensation for the year-ended December 31, 2011 is described in the sections under III. Board of directors starting on pages 83 and IV. Company executives and executive compensation starting on pages 109, consist of 14 persons, who, as a group, own beneficially 212,642 common shares of the company, being approximately 0.02 percent of the total number of outstanding shares of the company, and 523,398 shares of Exxon Mobil Corporation (including 307,645 restricted shares). This information not being within the knowledge of the company has been provided by the directors and the executive officers individually. As a group, the directors and executive officers of the company held options to acquire 6,000 common shares of the company and held restricted stock units to acquire 449,300 common shares of the company, as of February 15, 2012.

## **Item 13. Certain relationships and related transactions, and director independence**

Sections of the company's management proxy circular are contained in the Proxy information section, starting on page 82. The company's management proxy circular is prepared in accordance with Canadian securities regulations.

Reference is made to the section under V. Other important information entitled Transactions with Exxon Mobil Corporation, on page 133 of this report.

Reference is made to the section under III. Board of directors entitled Independence of the directors, on page 92 of this report.

R.C. Olsen is deemed a non-independent member of the executive resources committee, environmental, health and safety committee, nominations and corporate governance committee and contributions committee under the relevant standards. As an employee of ExxonMobil Production Company, R.C. Olsen is independent of the company's management and is able to assist these committees by reflecting the perspective of the company's shareholders.

## **Item 14. Principal accountant fees and services**

Sections of the company's management proxy circular are contained in the Proxy information section, starting on page 82. The company's management proxy circular is prepared in accordance with Canadian securities regulations.

Reference is made to the section under V. Other important information entitled Auditor information, on page 134 of this report.



Table of Contents**PART IV****Item 15. Exhibits, financial statement schedules**

Reference is made to the table of contents in the Financial section on page 31 of this report.

The following exhibits, numbered in accordance with Item 601 of Regulation S-K, are filed as part of this report:

- (3) (i) Restated certificate and articles of incorporation of the company (Incorporated herein by reference to Exhibit (3.1) to the company's Form 8-Q filed on May 3, 2006 (File No. 0-12014)).
- (ii) By-laws of the company (Incorporated herein by reference to Exhibit (3)(ii) to the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 0-12014)).
- (4) The company's long-term debt authorized under any instrument does not exceed 10 percent of the company's consolidated assets. The company agrees to furnish to the Commission upon request a copy of any such instrument.
- (10) (ii)
  - (1) Alberta Crown Agreement, dated February 4, 1975, relating to the participation of the Province of Alberta in Syncrude (Incorporated herein by reference to Exhibit 13(a) of the company's Registration Statement on Form S-1, as filed with the Securities and Exchange Commission on August 21, 1979 (File No. 2-65290)).
  - (2) Amendment to Alberta Crown Agreement, dated January 1, 1983 (Incorporated herein by reference to Exhibit (10)(ii)(2) of the company's Annual Report on Form 10-K for the year ended December 31, 1983 (File No. 2-9259)).
  - (3) Syncrude Ownership and Management Agreement, dated February 4, 1975 (Incorporated herein by reference to Exhibit 13(b) of the company's Registration Statement on Form S-1, as filed with the Securities and Exchange Commission on August 21, 1979 (File No. 2-65290)).
  - (4) Letter Agreement, dated February 8, 1982, between the Government of Canada and Esso Resources Canada Limited, amending Schedule C to the Syncrude Ownership and Management Agreement filed as Exhibit (10)(ii)(2) (Incorporated herein by reference to Exhibit (20) of the company's Annual Report on Form 10-K for the year ended December 31, 1981 (File No. 2-9259)).
  - (5) Norman Wells Pipeline Agreement, dated January 1, 1980, relating to the operation, tolls and financing of the pipeline system from the Norman Wells field (Incorporated herein by reference to Exhibit 10(a)(3) of the company's Annual Report on Form 10-K for the year ended December 31, 1981 (File No. 2-9259)).
  - (6) Norman Wells Pipeline Amending Agreement, dated April 1, 1982 (Incorporated herein by reference to Exhibit (10)(ii)(5) of the company's Annual Report on Form 10-K for the year ended December 31, 1982 (File No. 2-9259)).
  - (7) Letter Agreement clarifying certain provisions to the Norman Wells Pipeline Agreement, dated August 29, 1983 (Incorporated herein by reference to Exhibit (10)(ii)(7) of the company's Annual Report on Form 10-K for the year ended December 31, 1983 (File No. 2-9259)).
  - (8) Norman Wells Pipeline Amending Agreement, made as of February 1, 1985, relating to certain amendments ordered by the National Energy Board (Incorporated herein by reference to Exhibit (10)(ii)(8) of the company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 0-12014)).
  - (9) Norman Wells Pipeline Amending Agreement, made as of April 1, 1985, relating to the definition of Operating Year (Incorporated herein by reference to Exhibit (10)(ii)(9) of the company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 0-12014)).
  - (10) Norman Wells Expansion Agreement, dated October 6, 1983, relating to the prices and royalties payable for crude oil production at Norman Wells (Incorporated herein by reference to Exhibit (10)(ii)(8) of the company's Annual Report on Form 10-K for the year ended December 31, 1983 (File No. 2-9259)).
  - (11) Alberta Cold Lake Crown Agreement, dated June 25, 1984, relating to the royalties payable and the assurances given in respect of the Cold Lake production project (Incorporated herein by reference to Exhibit (10)(ii)(11) of the company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 0-12014)).
  - (12) Amendment to Alberta Crown Agreement, dated January 1, 1986 (Incorporated herein by reference to Exhibit (10)(ii)(12) of the company's Annual Report on Form 10-K for the year ended December 31, 1987 (File No. 0-12014)).



**Table of Contents**

- (13) Amendment to Alberta Crown Agreement, dated November 25, 1987 (Incorporated herein by reference to Exhibit (10)(ii)(13) of the company's Annual Report on Form 10-K for the year ended December 31, 1987 (File No. 0-12014)).
  - (14) Amendment to Syncrude Ownership and Management Agreement, dated March 10, 1982 (Incorporated herein by reference to Exhibit (10)(ii)(14) of the company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 0-12014)).
  - (15) Amendment to Alberta Crown Agreement, dated August 1, 1991 (Incorporated herein by reference to Exhibit (10)(ii)(15) of the company's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 0-12014)).
  - (16) Norman Wells Settlement Agreement, dated July 31, 1996. (Incorporated herein by reference to Exhibit (10)(ii)(16) of the company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 0-12014)).
  - (17) Amendment to Alberta Crown Agreement, dated January 1, 1997. (Incorporated herein by reference to Exhibit (10)(ii)(17) of the company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 0-12014)).
  - (18) Norman Wells Pipeline Amending Agreement, dated December 12, 1997. (Incorporated herein by reference to Exhibit (10)(ii)(18) of the company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-12014)).
  - (19) Norman Wells Pipeline 1999 Amending Agreement, dated May 1, 1999. (Incorporated herein by reference to Exhibit (10)(ii)(19) of the company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-12014)).
  - (20) Alberta Cold Lake Transition Agreement, effective January 1, 2000, relating to the royalties payable in respect of the Cold Lake production project and terminating the Alberta Cold Lake Crown Agreement. (Incorporated herein by reference to Exhibit (10)(ii)(20) of the company's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 0-12014)).
  - (21) Amendment to Alberta Crown Agreement effective January 1, 2001 (Incorporated herein by reference to Exhibit (10)(ii)(21) of the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).
  - (22) Amendment to Syncrude Ownership and Management Agreement effective January 1, 2001 (Incorporated herein by reference to Exhibit (10)(ii)(22) of the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).
  - (23) Amendment to Syncrude Ownership and Management Agreement effective September 16, 1994 (Incorporated herein by reference to Exhibit (10)(ii)(23) of the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).
  - (24) Amendment to Alberta Crown Agreement dated November 29, 1995 (Incorporated herein by reference to Exhibit (10)(ii)(24) of the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).
  - (25) Syncrude Royalty Amending Agreement, dated November 18, 2008, setting out various items, including the amount of additional royalties that are to be paid to the Province of Alberta in the period from January 1, 2010 to December 31, 2015 in return for certain assurances from the Government of Alberta (Incorporated herein by reference to Exhibit 1.01(10)(ii)(1) of the company's Form 8-K filed on November 19, 2008 (File No. 0-12014)).
  - (26) Syncrude Bitumen Royalty Option Agreement, dated November 18, 2008, setting out the terms of the exercise by the Syncrude Joint Venture owners of the option contained in the existing Crown Agreement to convert to a royalty payable on the value of bitumen, effective January 1, 2009 (Incorporated herein by reference to Exhibit 1.01(10)(ii)(2) of the company's Form 8-K filed on November 19, 2008 (File No. 0-12014)).
  - (27) Project Approval Order No. OSR045 made under the Alberta Mines and Minerals Act and Oil Sands Royalty Regulation, 1997 in respect of the Syncrude Project (Incorporated herein by reference to Exhibit 1.01(10)(ii)(3) of the company's Form 8-K filed on November 19, 2008 (File No. 0-12014)).
- (iii)(A) (1) Form of Letter relating to Supplemental Retirement Income (Incorporated herein by reference to Exhibit (10)(c)(3) of the company's Annual Report on Form 10-K for the year ended December 31, 1980 (File No. 2-9259)).
  - (2) Incentive Share Unit Plan and Incentive Share Units granted in 2001 are incorporated herein by reference to Exhibit (10)(iii)(A)(2) of the company's Annual Report on Form 10-K for the year -ended December 31, 2001. Units granted in 2000 are incorporated herein by reference to Exhibit (10)(iii)(A)(2) of the company's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 0-12014); units granted in 1999 are incorporated herein by reference to Exhibit (10)(iii)(A)(3) of the company's Annual Report on Form 10-K for the year





**Table of Contents**

- ended December 31, 1999 (File No. 0-12014); units granted in 1998 are incorporated herein by reference to Exhibit (10)(iii)(A)(3) of the company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-12014).
- (3) Deferred Share Unit Plan. (Incorporated herein by reference to Exhibit (10)(iii)(A)(5) of the company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-12014)).
  - (4) Deferred Share Unit Plan for Nonemployee Directors. (Incorporated herein by reference to Exhibit (10)(iii)(A)(6) of the company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-12014)).
  - (5) Form of Earnings Bonus Units (Incorporated herein by reference to Exhibit (10)(iii)(A)(5) of the company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 0-12014)) and Earnings Bonus Unit Plan (Incorporated herein by reference to Exhibit (10)(iii)(A)(5) of the company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 0-12014)).
  - (6) Incentive Stock Option Plan and Incentive Stock Options granted in 2002 (Incorporated herein by reference to Exhibit (10)(iii)(A)(6) of the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).
  - (7) Restricted Stock Unit Plan and Restricted Stock Units granted in 2002 (Incorporated herein by reference to Exhibit (10)(iii)(A)(7) of the company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 0-12014)).
  - (8) Restricted Stock Unit Plan and Restricted Stock Units granted in 2003 (Incorporated herein by reference to Exhibit (10)(iii)(A)(8) of the company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 0-12014)).
  - (9) Restricted Stock Unit Plan and general form for Restricted Stock Units, as amended effective December 31, 2004 (Incorporated herein by reference to Exhibit 99.1 of the company's Form 8-K dated December 31, 2004 (File No. 0-12014)).
  - (10) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2002, as amended effective August 4, 2006 (Incorporated herein by reference to Exhibit 99.10(III)(A)(1) of the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-12014)).
  - (11) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2003, as amended effective August 4, 2006 (Incorporated herein by reference to Exhibit 99.10(III)(A)(2) of the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-12014)).
  - (12) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2004 and 2005, as amended effective August 4, 2006 (Incorporated herein by reference to Exhibit 99.10(III)(A)(3) of the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-12014)).
  - (13) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2006 and subsequent years, as amended effective August 4, 2006 (Incorporated herein by reference to Exhibit 99.10(III)(A)(4) of the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-12014)).
  - (14) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2002, as amended effective February 1, 2007 (Incorporated herein by reference to Exhibit 99.1 of the company's Form 8-K filed on February 2, 2007 (File No. 0-12014)).
  - (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 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(15)] of the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).
  - (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 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(16)] of the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).
  - (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 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(17)] of the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).
  - (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 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(18)] of the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).

**Table of Contents**

- (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 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(19)] of the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).
- (20) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2002, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(1)] of the company's Form 8-K filed on November 25, 2008 (File No. 0-12014)).
- (21) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2003, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(2)] of the company's Form 8-K filed on November 25, 2008 (File No. 0-12014)).
- (22) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2004 and 2005, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(3)] of the company's Form 8-K filed on November 25, 2008 (File No. 0-12014)).
- (23) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2006 and 2007, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(4)] of the company's Form 8-K filed on November 25, 2008 (File No. 0-12014)).
- (24) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2008 and subsequent years, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(5)] of the company's Form 8-K filed on November 25, 2008 (File No. 0-12014)).
- (25) Amended Deferred Share Unit Plan for selected executives effective November 20, 2008 (Incorporated herein by reference to Exhibit 15(10)(iii)(A)(25) of the company's Form 10-K filed on February 27, 2009) (File No. 0-12014)).
- (26) Termination of Deferred Share Unit Plan for selected executives effective February 2, 2010 (Reference is made to the company's Form 8-K filed on February 3, 2010 (File No. 0-12014)).
- (27) Short Term Incentive Program for selected executives effective February 2, 2012 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(1)] of the company's Form 8-K filed on February 7, 2012 (File No. 0-12014)).
- (28) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2011 and subsequent years, as amended effective November 14, 2011 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(1)] of the company's Form 8-K filed on February 23, 2012 (File No. 0-12014)).

(21) Imperial Oil Resources Limited, McColl-Frontenac Petroleum Inc., Imperial Oil Resources N.W.T. Limited and Imperial Oil Resources Ventures Limited, all incorporated in Canada, are wholly-owned subsidiaries of the company. The names of all other subsidiaries of the company are omitted because, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary as of December 31, 2011.

(23) (ii) (A) Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).

(31.1) Certification by principal executive officer of Periodic Financial Report pursuant to Rule 13a-14(a).

(31.2) Certification by principal financial officer of Periodic Financial Report pursuant to Rule 13a-14(a).

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

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

Copies of Exhibits may be acquired upon written request of any shareholder to the investor relations manager, Imperial Oil Limited, 237 Fourth Avenue S.W., Calgary, Alberta, Canada T2P 3M9, and payment of processing and mailing costs.



Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf on February 23, 2012 by the undersigned, thereunto duly authorized.

Imperial Oil Limited

By */s/ Bruce H. March*  
 (Bruce H. March, Chairman of the Board,  
 President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 23, 2012 by the following persons on behalf of the registrant and in the capacities indicated.

| Signature   | Title  |
|---|--|
| <i>/s/ Bruce H. March</i><br>(Bruce H. March)               | Chairman of the Board, President and<br>Chief Executive Officer and Director<br>(Principal Executive Officer)                            |
| <i>/s/ Paul J. Masschelin</i><br>(Paul J. Masschelin)       | Senior Vice-President,<br>Finance and Administration, and Treasurer<br>(Principal Financial Officer and Principal<br>Accounting Officer) |
| <i>/s/ Krystyna T. Hoeg</i><br>(Krystyna T. Hoeg)           | Director   |
| <i>/s/ Jack M. Mintz</i><br>(Jack M. Mintz)                 | Director   |
| <i>/s/ Robert C. Olsen</i><br>(Robert C. Olsen)             | Director   |
| <i>/s/ David S. Sutherland</i><br>(David S. Sutherland)     | Director   |
| <i>/s/ Sheelagh D. Whittaker</i><br>(Sheelagh D. Whittaker) | Director   |

*/s/ Victor L. Young*  
(Victor L. Young )

Director

**Table of Contents****Financial section**

| <b>Table of contents</b>   | <b>Page</b> |
|--|-------------|
| <u>Financial summary (U.S. GAAP)</u>   | 32          |
| <u>Frequently used terms</u>   | 33          |
| <u>Management's discussion and analysis of financial condition and results of operations</u> | 35          |
| <u>Overview</u>  | 35          |
| <u>Business environment and risk assessment</u>  | 35          |
| <u>Results of operations</u>   | 38          |
| <u>Liquidity and capital resources</u>   | 42          |
| <u>Capital and exploration expenditures</u>  | 46          |
| <u>Market risks and other uncertainties</u>  | 47          |
| <u>Critical accounting estimates</u>   | 48          |
| <u>Management's report on internal control over financial reporting</u>                      | 51          |
| <u>Report of independent registered public accounting firm</u>                               | 52          |
| <u>Consolidated statement of income (U.S. GAAP)</u>  | 53          |
| <u>Consolidated balance sheet (U.S. GAAP)</u>  | 54          |
| <u>Consolidated statement of shareholders' equity (U.S. GAAP)</u>                            | 55          |
| <u>Consolidated statement of cash flows (U.S. GAAP)</u>                                      | 56          |
| <u>Notes to consolidated financial statements</u>  | 57          |
| <u>1. Summary of significant accounting policies</u>   | 57          |
| <u>2. Business segments</u>  | 60          |
| <u>3. Income taxes</u>   | 62          |
| <u>4. Employee retirement benefits</u>   | 63          |
| <u>5. Other long-term obligations</u>  | 69          |
| <u>6. Derivatives and financial instruments</u>  | 69          |
| <u>7. Share-based incentive compensation programs</u>  | 69          |
| <u>8. Investment and other income</u>  | 71          |
| <u>9. Litigation and other contingencies</u>   | 71          |
| <u>10. Common shares</u>   | 72          |
| <u>11. Miscellaneous financial information</u>   | 73          |
| <u>12. Financing costs</u>   | 74          |
| <u>13. Leased facilities</u>   | 74          |
| <u>14. Long-term debt</u>  | 74          |
| <u>15. Accounting for suspended exploratory well costs</u>                                   | 75          |
| <u>16. Transactions with related parties</u>   | 76          |
| <u>Supplemental information on oil and gas exploration and production activities</u>         | 77          |
| <u>Quarterly financial and stock trading data</u>  | 81          |

**Table of Contents****Financial summary (U.S. GAAP)**

| millions of dollars                     | 2011          | 2010   | 2009   | 2008   | 2007   |
|---|---------------|--------|--------|--------|--------|
| Operating revenues                      | <b>30,474</b> | 24,946 | 21,292 | 31,240 | 25,069 |
| Net income by segment:                  |               |        |        |        |        |
| Upstream                                | <b>2,457</b>  | 1,764  | 1,324  | 2,923  | 2,369  |
| Downstream                              | <b>884</b>    | 442    | 278    | 796    | 921    |
| Chemical                                | <b>122</b>    | 69     | 46     | 100    | 97     |
| Corporate and other                     | <b>(92)</b>   | (65)   | (69)   | 59     | (199)  |
| Net income                              | <b>3,371</b>  | 2,210  | 1,579  | 3,878  | 3,188  |
| Cash and cash equivalents at year end   | <b>1,202</b>  | 267    | 513    | 1,974  | 1,208  |
| Total assets at year end                | <b>25,429</b> | 20,580 | 17,473 | 17,035 | 16,287 |
| Long-term debt at year end              | <b>843</b>    | 527    | 31     | 34     | 38     |
| Total debt at year end                  | <b>1,207</b>  | 756    | 140    | 143    | 146    |
| Other long-term obligations at year end | <b>3,876</b>  | 2,753  | 2,839  | 2,254  | 1,914  |
| Shareholders' equity at year-end        | <b>13,321</b> | 11,177 | 9,439  | 9,065  | 7,923  |
| Cash flow from operating activities     | <b>4,489</b>  | 3,207  | 1,591  | 4,263  | 3,626  |
| Per-share information (dollars)         |               |        |        |        |        |
| Net income per share - basic            | <b>3.98</b>   | 2.61   | 1.86   | 4.39   | 3.43   |
| Net income per share - diluted          | <b>3.95</b>   | 2.59   | 1.84   | 4.36   | 3.41   |
| Dividends                               | <b>0.44</b>   | 0.43   | 0.40   | 0.38   | 0.32   |

**Table of Contents****Frequently used terms**

Listed below are definitions of several of Imperial's key business and financial performance measures. The definitions are provided to facilitate understanding of the terms and how they are calculated.

**Capital employed**

Capital employed is a measure of net investment. When viewed from the perspective of how capital is used by the business, it includes the company's property, plant and equipment and other assets, less liabilities, excluding both short-term and long-term debt. When viewed from the perspective of the sources of capital employed in total for the company, it includes total debt and equity. Both of these views include the company's share of amounts applicable to equity companies, which the company believes should be included to provide a more comprehensive measurement of capital employed.

| millions of dollars   | 2011    | 2010    | 2009    |
|---|---------|---------|---------|
| <b>Business uses: asset and liability perspective</b>             |         |         |         |
| Total assets  | 25,429  | 20,580  | 17,473  |
| Less: total current liabilities excluding notes and loans payable | (5,585) | (4,348) | (3,659) |
| total long-term liabilities excluding long-term debt              | (5,316) | (4,299) | (4,235) |
| Add: Imperial's share of equity company debt                      | 28      | 33      | 36      |
| Total capital employed  | 14,556  | 11,966  | 9,615   |
| <b>Total company sources: debt and equity perspective</b>         |         |         |         |
| Notes and loans payable   | 364     | 229     | 109     |
| Long-term debt  | 843     | 527     | 31      |
| Shareholders' equity  | 13,321  | 11,177  | 9,439   |
| Add: Imperial's share of equity company debt                      | 28      | 33      | 36      |
| Total capital employed  | 14,556  | 11,966  | 9,615   |

**Return on average capital employed (ROCE)**

ROCE is a financial performance ratio. From the perspective of the business segments, ROCE is annual business-segment net income divided by average business-segment capital employed (an average of the beginning- and end-of-year amounts). Segment net income includes Imperial's share of segment net income of equity companies, consistent with the definition used for capital employed, and excludes the cost of financing. The company's total ROCE is net income excluding the after-tax cost of financing divided by total average capital employed. The company has consistently applied its ROCE definition for many years and views it as the best measure of historical capital productivity in a capital-intensive, long-term industry to both evaluate management's performance and demonstrate to shareholders that capital has been used wisely over the long term. Additional measures, which are more cash flow based, are used to make investment decisions.

| millions of dollars   | 2011   | 2010   | 2009  |
|---|--------|--------|-------|
| Net income  | 3,371  | 2,210  | 1,579 |
| Financing costs (after tax), including Imperial's share of equity companies | 1      | 2      | 2     |
| Net income excluding financing costs  | 3,372  | 2,212  | 1,581 |
| Average capital employed  | 13,261 | 10,791 | 9,432 |
| Return on average capital employed (percent) - corporate total              | 25.4   | 20.5   | 16.8  |



**Table of Contents****Cash flow from operating activities and asset sales**

Cash flow from operating activities and asset sales is the sum of the net cash provided by operating activities and proceeds from asset sales reported in the consolidated statement of cash flows. This cash flow reflects the total sources of cash both from operating the company's assets and from the divesting of assets. The company employs a long-standing and regular disciplined review process to ensure that all assets are contributing to the company's strategic objectives. Assets are divested when they no longer meet these objectives or are worth considerably more to others. Because of the regular nature of this activity, the company believes it is useful for investors to consider sales proceeds together with cash provided by operating activities when evaluating cash available for investment in the business and financing activities, including shareholder distributions.

| millions of dollars                                       | 2011  | 2010  | 2009  |
|---|-------|-------|-------|
| Cash from operating activities                            | 4,489 | 3,207 | 1,591 |
| Proceeds from asset sales                                 | 314   | 144   | 67    |
| Total cash flow from operating activities and asset sales | 4,803 | 3,351 | 1,658 |

**Operating costs**

Operating costs are the combined total production, manufacturing, selling, general, exploration, depreciation and depletion from the Consolidated Statement of Income and Imperial's share of similar costs for equity companies. Operating costs are the costs during the period to produce, manufacture, and otherwise prepare the company's products for sale including energy costs, staffing, maintenance, and other costs to explore for and produce oil and gas, and operate refining and chemical plants. Distribution and marketing expenses are also included. Operating costs exclude the cost of raw materials, taxes, and financing costs. These expenses are on a before-tax basis. While the company is responsible for all revenue and expense elements of net income, operating costs, as defined below, represent the expenses most directly under the company's control. Information regarding these costs is, therefore, useful in evaluating the company's performance.

**Reconciliation of Operating Costs**

| millions of dollars                                     | 2011   | 2010   | 2009   |
|---|--------|--------|--------|
| <b>From Imperial's Consolidated Statement of Income</b> |        |        |        |
| Total expenses  | 26,308 | 22,138 | 19,198 |
| Less:   |        |        |        |
| Purchases of crude oil and products                     | 18,847 | 14,811 | 11,934 |
| Federal excise tax                                      | 1,320  | 1,316  | 1,268  |
| Financing costs   | 3      | 7      | 5      |
| Subtotal  | 20,170 | 16,134 | 13,207 |
| Imperial's share of equity company expenses             | 39     | 39     | 39     |
| Total operating costs                                   | 6,177  | 6,043  | 6,030  |

**Components of Operating Costs**

| millions of dollars                                     | 2011  | 2010  | 2009  |
|---|-------|-------|-------|
| <b>From Imperial's Consolidated Statement of Income</b> |       |       |       |
| Production and manufacturing                            | 4,114 | 3,996 | 3,951 |
| Selling and general                                     | 1,168 | 1,070 | 1,106 |
| Depreciation and depletion                              | 764   | 747   | 781   |
| Exploration   | 92    | 191   | 153   |
| Subtotal  | 6,138 | 6,004 | 5,991 |
| Imperial's share of equity company expenses             | 39    | 39    | 39    |
| Total operating costs                                   | 6,177 | 6,043 | 6,030 |



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**Table of Contents**

**Management's discussion and analysis of financial condition and results of operations**

**Overview**

The following discussion and analysis of Imperial's financial results, as well as the accompanying financial statements and related notes to consolidated financial statements to which they refer, are the responsibility of the management of Imperial Oil Limited.

The company's accounting and financial reporting fairly reflect its straightforward business model involving the extracting, refining and marketing of hydrocarbons and hydrocarbon-based products. The company's business involves the production (or purchase), manufacture and sale of physical products, and all commercial activities are directly in support of the underlying physical movement of goods.

Imperial, with its resource base, financial strength, disciplined investment approach and technology portfolio, is well-positioned to participate in substantial investments to develop new Canadian energy supplies. While commodity prices remain volatile on a short-term basis depending upon supply and demand, Imperial's investment decisions are based on its long-term business outlook, using a disciplined approach in selecting and pursuing the most attractive investment opportunities. The corporate plan is a fundamental annual management process that is the basis for setting near-term operating and capital objectives, in addition to providing the longer-term economic assumptions used for investment evaluation purposes. Potential investment opportunities are tested over a wide range of economic scenarios to establish the resiliency of each opportunity. Once investments are made, a reappraisal process is completed to ensure relevant lessons are learned and improvements are incorporated into future projects.

**Business environment and risk assessment**

**Long-term business outlook**

By 2040, the world's population is projected to grow to approximately 8.7 billion people, or about 1.9 billion more than in 2010. Coincident with this population increase, the company expects worldwide economic growth to average close to 3 percent per year. Expanding prosperity across a growing global population is expected to coincide with an increase in primary energy demand of about 30 percent by 2040 versus 2010, even with substantial efficiency gains around the world. This demand increase is expected to be concentrated in emerging and developing countries (i.e., those that are not member nations of the Organization for Economic Cooperation and Development).

As economic progress drives demand higher, increasing penetration of energy-efficient and lower-emission fuels, technologies and practices are expected to contribute to significantly lower levels of energy consumption and emissions per unit of economic output over time. Efficiency gains will result from anticipated improvements in the transportation and power generation sectors, driven by the introduction of new technologies, as well as many other improvements that span the residential, commercial and industrial sectors.

Energy for transportation - including cars, trucks, ships, trains and airplanes - is expected to increase by about 40 percent from 2010 to 2040. The global growth in transportation demand is likely to account for approximately 75 percent of the growth in liquids demand over this period. Nearly all the world's transportation fleets are likely to continue to run on liquid fuels because they provide a large quantity of energy in small volumes, making them easy to transport and widely available.

Demand for electricity around the world is estimated to increase approximately 80 percent by 2040, led by growth in developing countries. Consistent with this projection, power generation will remain the largest and fastest-growing major segment of global energy demand. Meeting the expected growth in power demand will require a diverse set of energy sources. Natural gas demand is likely to grow most significantly and gain the most market share. Coal is likely to retain the leading share of power generation fuels in 2040, albeit at a much lower share than in 2010 as policies are gradually adopted to reduce environmental impacts including those related to local air quality and greenhouse gas emissions. Nuclear power and renewables, led by wind, are likely to grow significantly over the period.

Liquid fuels provide the largest share of energy supply today due to their broad-based availability, affordability and ease of transport to meet consumer needs. By 2040, global demand for liquids is expected to grow to

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**Table of Contents**

**Management's discussion and analysis of financial condition and results of operations (continued)**

approximately 112 million barrels of oil-equivalent a day, an increase of more than 25 percent from 2010. Global demand for liquid fuels will be met by a wide variety of sources. Conventional crude and condensate production is expected to remain relatively flat through 2040. However, growth is expected from a wide variety of sources, including deep-water resources, oil sands, tight oil, natural gas liquids, and biofuels. The world's resource base is sufficient to meet projected demand through 2040 as technology advances continue to expand the availability of economic supply options. However, access to resources and timely investments will remain critical to meeting global needs with reliable, affordable supplies.

Natural gas is a versatile fuel for a wide variety of applications, and is expected to be the fastest growing major fuel source through 2040. Global demand is expected to rise 60 percent by 2040 compared to 2010, with demand increases in major regions around the world requiring new sources of supply. We expect that a significant growth in supplies of unconventional gas - the natural gas found in shale and other rock formations that was once considered uneconomic to produce will help meet these needs. By 2040, unconventional gas is likely to account for about 30 percent of global gas supplies, up from 10 percent in 2010. Growing natural gas demand is likely to also stimulate significant growth in the worldwide liquefied natural gas (LNG) market, which is expected to reach 15% of global gas demand by 2040.

The world's energy mix is highly diverse and will remain so through 2040. Oil is expected to remain the largest source of energy with its share remaining close to one-third in 2040. Coal is currently the second largest source of energy, but it is likely to lose that position to natural gas by approximately 2025. The share of natural gas is expected to exceed 25% by 2040, while the share of coal falls to less than 20 percent. Nuclear power is projected to grow significantly, albeit at a slower pace than otherwise expected in the aftermath of the Fukushima incident in Japan following the earthquake and tsunami in March 2011. Total renewable energy is likely to reach close to 15 percent of total energy by 2040, including biomass, hydro and geothermal at a combined share of about 11 percent. Total energy supplied from wind, solar and biofuels is expected to increase close to 500 percent from 2010 to 2040, reaching a combined share of approximately 4 percent of world energy.

The company anticipates that the world's available oil and gas resource base will grow not only from new discoveries, but also from reserve increases in previously discovered fields. Technology will underpin these increases. The cost to develop and supply these resources will be significant. According to the International Energy Agency, the investment required to meet total oil and gas energy needs worldwide over the period 2011- 2035 will be close to \$20 trillion (measured in 2010 dollars), or close to \$780 billion per year on average.

International accords and underlying regional and national regulations for greenhouse gas reduction are evolving with uncertain timing and outcome, making it difficult to predict their business impact. Imperial's estimates of potential costs related to possible public policies covering energy-related greenhouse gas emissions are consistent with those incorporated in ExxonMobil's long-term Energy Outlook, which is used for assessing the business environment and Imperial's investment evaluations.

The information provided in the Long-term Business Outlook includes internal estimates and forecasts based upon internal data and analyses as well as publicly available information from external sources including the International Energy Agency.

**Upstream**

Imperial produces crude oil and natural gas for sale into the North American markets. Crude oil and natural gas prices are determined by global and North American markets and are subject to changing supply and demand conditions. These can be influenced by a wide range of factors, including economic conditions, international political developments and weather. Prices for most of the company's crude oil sold are set on West Texas Intermediate (WTI) oil markets, a common benchmark for mid-continent North American markets. In 2011, the average price of WTI crude oil diverged from historical pattern due to WTI market weakness and was markedly lower than that of Brent crude oil, a common benchmark for Atlantic Basin oil markets.

Imperial's Upstream business strategies guide the company's exploration, development, production, research and gas marketing activities. These strategies include identifying and pursuing all attractive exploration opportunities, investing in projects that deliver superior returns and maximizing profitability of existing

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**Table of Contents**

**Management's discussion and analysis of financial condition and results of operations (continued)**

production and resource value through high-impact technologies. These strategies are underpinned by a relentless focus on operational excellence, commitment to innovative technologies, development of employees and investment in the communities in which the company operates.

Imperial's proven development approach supported the company's continued investment in several key growth projects during a weak and uncertain economic environment following the global financial crisis in 2008. In 2012, the company will be entering its third year of a decade-long growth strategy in which \$35 to \$40 billion will be invested resulting in an Upstream production of about 600,000 oil-equivalent barrels a day, which is approximately double the current volumes. Actual spending and production volumes could vary depending on the progress of individual projects.

Imperial has a large portfolio of oil and gas resources in Canada, both developed and undeveloped, which helps reduce the risks of dependence on potentially limited supply sources in the Upstream. With the relative maturity of conventional production in established producing areas, Imperial's production is expected to come increasingly from unconventional and frontier sources, particularly oil sands, unconventional natural gas and from Canada's North, where Imperial has large undeveloped resource opportunities.

**Downstream**

The downstream business environment is expected to continue being very competitive in the mature North America market. Over the prior 20-year period, inflation adjusted refining margins have been flat, reflecting an excess of refining capacity and an increase in regulatory-related policies. Crude oil, the primary raw material in a refinery operation, and its many refined products are widely traded with published international prices. Prices for these commodities are determined by the marketplace and are affected by many factors, including global and regional supply/demand balances, inventory levels, refinery operations, import/export balances, transportation logistics, currency fluctuations, seasonality and weather. The average prices the company paid for most of its crude oil processed at three of the company's four refineries are set on WTI markets. In 2011, the average price of WTI crude oil diverged from historical pattern due to WTI market weakness and was markedly lower than that of Brent crude oil. Canadian wholesale prices of refined products in particular are largely determined by wholesale prices in adjacent U.S. regions. These prices and factors are continually monitored and provide input to operating decisions about which raw materials to buy, facilities to operate and products to make. However, there are no reliable indicators of future market factors that accurately predict changes in margins from period to period.

The company will continue to focus on the business elements within its control. Imperial's Downstream strategies are to provide customers with quality, valued products and services at the lowest total cost offer, have the lowest unit costs among industry competitors, ensure efficient and effective use of capital, maximize value from leading edge technologies and capitalize on the integration with the company's other businesses.

Imperial owns and operates four refineries in Canada, with aggregate distillation capacity of 506,000 barrels a day and lubricant manufacturing capacity of about 2,900 barrels a day. Imperial's fuels marketing business includes retail operations across Canada serving customers through more than 1,800 Esso-branded retail service stations, of which about 480 are company-owned or leased, as well as wholesale and industrial operations through a network of 22 primary distribution terminals, as well as a secondary distribution network.

**Chemical**

The North American petrochemical industry continued to improve in 2011 from the weak levels experienced in the recent economic recession. In North America, unconventional natural gas continued to provide advantaged ethane feedstock for steam crackers and a favourable margin environment for integrated chemical producers. In 2011, the company signed a long-term supply agreement for ethane from the Marcellus shale formation to use as cost advantaged feedstock for the Sarnia chemical plant. The company's strategy for its Chemical business is to reduce costs and maximize value by continuing to increase the integration of its chemical plants at Sarnia and Dartmouth with the refineries. The company also benefits from its integration within ExxonMobil's North American chemical businesses, enabling Imperial to maintain a leadership position in its key market segments.

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)****Results of operations****Consolidated**

| millions of dollars | 2011  | 2010  | 2009  |
|---------------------|-------|-------|-------|
| Net income          | 3,371 | 2,210 | 1,579 |
| 2011                |       |       |       |

Net income in 2011 was \$3,371 million or \$3.95 a share on a diluted basis, versus \$2,210 million or \$2.59 a share in 2010. Increased earnings were primarily attributable to higher crude oil commodity prices, stronger industry refining margins and increased Cold Lake bitumen production. These factors were partially offset by the unfavourable impacts of higher royalty costs, the stronger Canadian dollar and lower conventional crude oil volumes due to third-party pipeline reliability issues. 2011 earnings also included higher gains of about \$70 million on asset divestments.

In 2011, there was an unusually large spread between the prices of Brent crude oil and WTI crude oil, two common benchmarks for world oil markets. Increase in 2011 in the average Brent crude oil price more than doubled that of the average WTI price due to continued weakness in WTI crude oil markets. Increases in the company's Upstream realizations in 2011 followed more closely the trend of WTI prices, while margins in the company's Downstream segment benefited as the overall cost of crude oil processed at three of the company's four refineries were more in line with WTI prices.

## 2010

Net income in 2010 was \$2,210 million or \$2.59 a share on a diluted basis, versus \$1,579 million or \$1.84 a share for the full year 2009. Earnings increased primarily due to the impacts of higher upstream commodity prices, improved refinery operations and lower refinery maintenance activities, increased Cold Lake bitumen production and Syncrude volumes, and higher Downstream sales volumes and margins. These factors were partially offset by the unfavourable effects of the stronger Canadian dollar and higher royalty costs due to higher commodity prices. Gains from sale of non-operating assets in 2010 were about \$40 million higher than the previous year.

**Upstream**

| millions of dollars | 2011  | 2010  | 2009  |
|---------------------|-------|-------|-------|
| Net income          | 2,457 | 1,764 | 1,324 |
| 2011                |       |       |       |

Net income for the year was \$2,457 million, up \$693 million from 2010. Earnings increased primarily due to the impacts of higher crude oil commodity prices of about \$925 million and increased Cold Lake bitumen production of about \$260 million. These factors were partially offset by the unfavourable effects of higher royalty costs due to higher crude oil commodity prices of about \$245 million, the stronger Canadian dollar of about \$150 million, and lower conventional crude oil volumes of about \$150 million, of which about \$80 million was a result of third-party pipeline reliability issues. Included in 2011 earnings were gains of \$116 million on asset divestments, about \$95 million higher than 2010.

## 2010

Net income for the year was \$1,764 million, up \$440 million from 2009. Higher crude oil and natural gas commodity prices in 2010 increased revenues, contributing to higher earnings of about \$880 million. Earnings were also positively impacted by higher Cold Lake bitumen production of about \$90 million and higher Syncrude volumes, reflecting improved reliability, of about \$70 million. These factors were partially offset by the impact of the stronger Canadian dollar of about \$320 million and higher royalty costs due to higher commodity prices of about

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\$255 million. Third-party pipeline reliability issues in the second half of 2010 negatively impacted the supply and transportation of western crude oil. The company estimates the negative impact on earnings of about \$80 million mostly from lower realizations in the third quarter and October of 2010, the net effect of which has been reflected in the commodity price factor above.

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)****Average realizations**

| Canadian dollars                                 | 2011          | 2010  | 2009  |
|--|---------------|-------|-------|
| Conventional crude oil realizations (a barrel)   | <b>85.22</b>  | 71.64 | 60.32 |
| Natural gas liquids realizations (a barrel)      | <b>59.08</b>  | 50.09 | 41.19 |
| Natural gas realizations (a thousand cubic feet) | <b>3.59</b>   | 4.04  | 4.11  |
| Synthetic oil realizations (a barrel)            | <b>101.43</b> | 80.63 | 69.69 |
| Bitumen realizations (a barrel)                  | <b>63.95</b>  | 58.36 | 51.81 |

**2011**

The average price of Brent crude oil in U.S. dollars, a common benchmark for Atlantic Basin oil markets, was \$111.29 a barrel in 2011, up about 40 percent from the previous year. Increase in the average price of West Texas Intermediate (WTI) crude oil, a common benchmark for mid-continent North American oil markets, was limited to 19 percent, due to the continued weakness in WTI crude oil markets. Increases in the company's average realizations on sales of Canadian conventional crude oil and synthetic crude oil were in line with that of WTI.

The company's average bitumen realizations in Canadian dollars in 2011 increased ten percent to \$63.95 per barrel as the price spread between light crude oil and Cold Lake bitumen widened.

Canadian natural gas prices in 2011 were lower than the previous year. The average of 30-day spot prices for natural gas in Alberta at \$3.67 a thousand cubic feet were down from \$4.39 in 2010. The company's realizations for natural gas averaged \$3.59 a thousand cubic feet, down from \$4.04 in 2010.

**2010**

The average price of Brent crude oil in U.S. dollars, a common benchmark for Atlantic Basin oil markets, was \$79.50 a barrel in 2010, up about 29 percent from the previous year. The company's average realizations on sales of Canadian conventional crude oil and synthetic oil from Syncrude production also increased.

The company's average bitumen realizations were higher in 2010, but by less than the relative increase in light crude oil prices, reflecting a widened price spread between the lighter crude oils and Cold Lake bitumen, primarily attributable to third-party pipeline outages.

Canadian natural gas prices in 2010 were unchanged from the previous year. The average of 30-day spot prices for natural gas in Alberta at \$4.39 a thousand cubic feet were the same as in 2009. The company's realizations for natural gas averaged \$4.04 a thousand cubic feet, down slightly from \$4.11 in 2009.

**Crude oil and NGLs - production and sales (a)**

| thousands of barrels a day             | 2011       |            | 2010  |     | 2009  |     |
|--|------------|------------|-------|-----|-------|-----|
|  | gross      | net        | gross | net | gross | net |
| Bitumen                                | <b>160</b> | <b>120</b> | 144   | 115 | 141   | 120 |
| Synthetic oil                          | <b>72</b>  | <b>67</b>  | 73    | 67  | 70    | 65  |
| Conventional crude oil                 | <b>18</b>  | <b>13</b>  | 23    | 17  | 25    | 20  |
| Total crude oil production             | <b>250</b> | <b>200</b> | 240   | 199 | 236   | 205 |
| NGLs available for sale                | <b>5</b>   | <b>4</b>   | 7     | 5   | 8     | 6   |
| Total crude oil and NGL production     | <b>255</b> | <b>204</b> | 247   | 204 | 244   | 211 |
| Cold Lake sales, including diluent (b) | <b>209</b> |            | 188   |     | 184   |     |



NGL sales

9

10

10

39

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)****Natural gas - production and sales (a)**

| millions of cubic feet a day | 2011  |     | 2010  |     | 2009  |     |
|------------------------------|-------|-----|-------|-----|-------|-----|
|                              | gross | net | gross | net | gross | net |
| Production (c)               | 254   | 228 | 280   | 254 | 295   | 274 |
| Sales                        | 237   |     | 264   |     | 272   |     |

(a) Daily volumes are calculated by dividing total volumes for the year by the number of days in the year. Gross production is the company's share of production (excluding purchases) before deducting the share of mineral owners or governments or both. Net production excludes those shares.

(b) Diluent is natural gas condensate or other light hydrocarbons added to Cold Lake bitumen to facilitate transportation to market by pipeline.

(c) Production of natural gas includes amounts used for internal consumption with the exception of the amounts re-injected.

**2011**

Gross production of Cold Lake bitumen increased to a record 160,000 barrels a day in 2011 from 144,000 barrels in 2010. Increased volumes were due to contributions from new wells steamed in 2010 and 2011, increased recoveries as a result of technology applications and the cyclic nature of production at Cold Lake.

The company's share of gross production from Syncrude averaged 72,000 barrels a day, in line with 73,000 barrels in 2010.

Gross production of conventional crude oil averaged 18,000 barrels a day, compared with 23,000 barrels in 2010. Lower volumes were primarily due to third-party pipeline unplanned downtime, which reduced production at the Norman Wells field, along with natural reservoir decline.

Gross production of natural gas in 2011 was 254 million cubic feet a day, down from 280 million cubic feet in 2010. The lower production volume was primarily a result of natural reservoir decline.

In 2011, the company sold its interests in shallow gas properties in the Medicine Hat, Alberta area, the Coleville-Hoosier natural gas producing property in Saskatchewan and the Rainbow Lake producing property in Alberta, realizing a gain of about \$76 million. Production for the company's share of the properties averaged about 56 million cubic feet of natural gas a day and one thousand barrels of crude oil a day in 2010. Also in the year, the company recorded a gain of about \$40 million from an exchange of oil sands leases with a third party.

**2010**

Gross production of Cold Lake bitumen increased to 144,000 barrels a day in 2010 from 141,000 barrels in 2009. Higher volumes in 2010 were due to improved facility reliability as well as the cyclic nature of production at Cold Lake.

The company's share of gross production from Syncrude averaged 73,000 barrels a day, up from 70,000 barrels in 2009. Increased production was due to improved operational reliability.

Gross production of conventional crude oil averaged 23,000 barrels a day, compared with 25,000 barrels in 2009. Planned maintenance activities at the Norman Wells field and natural reservoir decline were the main contributors to the lower production.

Gross production of natural gas in 2010 was 280 million cubic feet a day, down from 295 million cubic feet in 2009. The lower production volume was primarily a result of natural reservoir decline and maintenance activities.

**Downstream**

| millions of dollars | 2011 | 2010 | 2009 |
|---------------------|------|------|------|
|---------------------|------|------|------|

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|            |            |     |     |
|------------|------------|-----|-----|
| Net income | <b>884</b> | 442 | 278 |
| 2011       |            |     |     |

Net income was \$884 million, an increase of \$442 million over 2010. Higher earnings were primarily due to the favourable impact of stronger industry refining margins of about \$590 million. Refining margins benefited as the overall cost of crude oil processed at three of the company's four refineries followed the trend of WTI prices.

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)**

This factor was partially offset by the unfavourable impacts of higher maintenance activities on refinery operations and expenses totalling about \$60 million and the stronger Canadian dollar of about \$55 million. Earnings in 2010 included a gain of about \$25 million from sale of non-operating assets.

2010

Net income was \$442 million, an increase of \$164 million over 2009. Higher earnings were primarily due to favourable impacts of about \$145 million associated with improved refinery operations and lower refinery maintenance activities, improved sales volumes of about \$35 million and an additional contribution from sale of non-operating assets of about \$35 million. Stronger overall margins also contributed about \$30 million to the earnings increase, despite a negative impact from alternate sourcing of crude oil as a result of third-party pipeline outages. These factors were partially offset by the unfavourable effects of the stronger Canadian dollar of about \$90 million.

**Refinery utilization**

| thousands of barrels a day (a)                   | 2011 | 2010 | 2009 |
|--|------|------|------|
| Total refinery throughput (b)                    | 430  | 444  | 413  |
| Refinery capacity at December 31                 | 506  | 502  | 502  |
| Utilization of total refinery capacity (percent) | 85   | 88   | 82   |

**Sales**

| thousands of barrels a day (a) | 2011 | 2010 | 2009 |
|--------------------------------|------|------|------|
| Gasolines                      | 220  | 218  | 200  |
| Heating, diesel and jet fuels  | 157  | 153  | 143  |
| Heavy fuel oils                | 29   | 28   | 27   |
| Lube oils and other products   | 41   | 43   | 39   |
| Net petroleum product sales    | 447  | 442  | 409  |

(a) Volumes a day are calculated by dividing total volumes for the year by the number of days in the year.

(b) Crude oil and feedstocks sent directly to atmospheric distillation units.

2011

Total refinery throughput was 430,000 barrels a day, down from 2010, and average refinery capacity utilization decreased to 85 percent from the previous year's 88 percent. Lower volumes and utilization were primarily a result of higher planned and unplanned maintenance activities. Total net petroleum sales increased to 447,000 barrels a day, 5,000 barrels higher than 2010.

2010

Total refinery throughput was 444,000 barrels a day, up from 2009, and average refinery capacity utilization increased to 88 percent from the previous year's 82 percent. Improved reliability and lower maintenance activities as well as improved market conditions helped to increase volumes and utilization. Total net petroleum sales also increased and were up to 442,000 barrels a day, compared to the low levels of 409,000 barrels in 2009.

**Chemical**

| millions of dollars | 2011 | 2010 | 2009 |
|---------------------|------|------|------|
|---------------------|------|------|------|

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|            |            |    |    |
|------------|------------|----|----|
| Net income | <b>122</b> | 69 | 46 |
|------------|------------|----|----|

**Sales**

| thousands of tonnes          | <b>2011</b>  | 2010 | 2009  |
|------------------------------|--------------|------|-------|
| Polymers and basic chemicals | <b>748</b>   | 711  | 765   |
| Intermediate and others      | <b>268</b>   | 278  | 261   |
| Total petrochemical sales    | <b>1,016</b> | 989  | 1,026 |

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)**

2011

Net income was \$122 million, up \$53 million from 2010. Improved margins for intermediate and aromatic products, lower costs due to lower planned maintenance activities and higher polyethylene sales volumes were the main contributors to the increase. These factors were partially offset by lower margins for polyethylene products.

2010

Net income was \$69 million, up \$23 million from 2009. Improved industry margins were partially offset by lower sales volumes for polyethylene products and higher costs due to planned maintenance activities.

**Corporate and other**

| millions of dollars | 2011 | 2010 | 2009 |
|---------------------|------|------|------|
| Net income          | (92) | (65) | (69) |

2011

Net income effects were negative \$92 million, versus negative \$65 million reported last year. Unfavourable effects in 2011 were primarily due the impact of the share price change on share-based compensation charges.

2010

Net income effects were negative \$65 million, in line with the negative \$69 million reported last year.

**Liquidity and capital resources****Sources and uses of cash**

| millions of dollars                              | 2011    | 2010    | 2009    |
|--|---------|---------|---------|
| Cash provided by/(used in)                       |         |         |         |
| Operating activities                             | 4,489   | 3,207   | 1,591   |
| Investing activities                             | (3,593) | (3,709) | (2,216) |
| Financing activities                             | 39      | 256     | (836)   |
| Increase/(decrease) in cash and cash equivalents | 935     | (246)   | (1,461) |

|  |       |     |     |
|--|-------|-----|-----|
| Cash and cash equivalents at end of year | 1,202 | 267 | 513 |
|--|-------|-----|-----|

Although the company issues long-term debt from time to time and maintains a commercial paper program, internally generated funds largely cover the majority of its financial requirements. Cash that may be temporarily surplus to the company's immediate needs is carefully managed through counterparty quality and investment guidelines to ensure that it is secure and readily available to meet the company's cash requirements.

Cash flows from operating activities are highly dependent on crude oil and natural gas prices, as well as petroleum and chemical product margins. In addition, to provide for cash flow in future periods, the company needs to continually find and develop new resources, and continue to develop and apply new technologies to existing fields, in order to maintain or increase production. Projects are planned or underway to increase production capacity. However, these volume increases are subject to a variety of risks, including project execution, operational outages, reservoir performance and regulatory changes.

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The company's financial strength enables it to make large, long-term capital expenditures. Imperial's portfolio of development opportunities and the complementary nature of its business segments help mitigate the overall risks for the company and its cash flows. Further, due to its financial strength, debt capacity and portfolio of opportunities, the risk associated with failure or delay of any single project would not have a significant impact on the company's liquidity or ability to generate sufficient cash flows for its operations and fixed commitments.

An independent actuarial valuation of the company's registered retirement benefit plans was completed as at December 31, 2010. As a result of the valuation, the company contributed \$361 million to the registered retirement benefit plans in 2011. The next required independent actuarial valuation will be as at December 31,

**Table of Contents**

**Management's discussion and analysis of financial condition and results of operations (continued)**

2011 and the company will continue to contribute within the requirements of pension regulations. Future funding requirements are not expected to affect the company's existing capital investment plans or its ability to pursue new investment opportunities.

**Cash flow from operating activities**

2011

Cash flow generated from operating activities was \$4,489 million, an increase of \$1,282 million from 2010 and in line with the earnings increase versus 2010.

2010

Cash flow generated from operating activities was \$3,207 million, an increase of \$1,616 million from the full year 2009. Higher cash flow was primarily due to higher earnings and working capital effects, partially offset by higher 2010 funding contributions to the company's registered pension plans.

**Cash flow from investing activities**

2011

Investing activities used net cash of \$3,593 million in 2011, compared to \$3,709 million in 2010. Additions to property, plant and equipment were \$3,919 million, compared with \$3,856 million last year. Proceeds from asset sales were \$314 million compared with \$144 million in 2010.

2010

Investing activities used net cash of \$3,709 million in 2010, compared to \$2,216 million in 2009. Additions to property, plant and equipment were \$3,856 million, compared with \$2,285 million last year. Proceeds from asset sales were \$144 million compared with \$67 million in 2009.

**Cash flow from financing activities**

2011

Cash from financing activities was \$39 million, compared with \$256 million in 2010.

The company raised new debt of \$455 million by drawing on existing facilities. At the end of 2011, total debt outstanding was \$1,207 million, compared with \$756 million at the end of 2010.

During 2011, the company did not make any share repurchases except those to offset the dilutive effects from the exercise of share-based awards. The company will continue to evaluate its share repurchase program in the context of its operating performance and overall capital project activities.

Cash dividends of \$373 million were paid in 2011 compared with \$356 million in 2010. Per-share dividends paid in 2011 totaled \$0.44, up from \$0.42 in 2010.

In the second quarter, the company extended the maturity date of its existing stand-by \$200 million long term bank credit facility to July 2013. The company has not drawn on this facility.

2010

Cash from financing activities was \$256 million, compared with cash used in financing activities of \$836 million in 2009.



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The company raised new debt of \$620 million by drawing on existing facilities. At the end of 2010, total debt outstanding was \$756 million, compared with \$140 million at the end of 2009.

During 2010, the company did not make any share repurchases except those to offset the dilutive effects from the exercise of share-based awards. The company will continue to evaluate its share repurchase program in the context of its overall capital project activities.

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)**

Cash dividends of \$356 million were paid in 2010 compared with dividends of \$341 million in 2009. Per-share dividends paid in 2010 totaled \$0.42, up from \$0.40 in 2009.

In the third quarter, to support the commercial paper program, the company entered into an unsecured committed bank credit facility in the amount of \$200 million that matures in July 2012. The company has not drawn on this facility.

**Financial percentages and ratios**

|  | <b>2011</b> | 2010 | 2009 |
|--|-------------|------|------|
| Total debt as a percentage of capital (a)    | <b>9</b>    | 7    | 2    |
| Interest coverage ratio – earnings basis (b) | <b>260</b>  | 370  | 276  |

(a) Current and long-term debt (page 54) and the company's share of equity company debt, divided by debt and shareholders' equity (page 54).

(b) Net income (page 53), debt-related interest before capitalization, including the company's share of equity company interest, and income taxes (page 53), divided by debt-related interest before capitalization, including the company's share of equity company interest.

Debt represented nine percent of the company's capital structure at the end of 2011, two percent higher than 2010.

Debt-related interest incurred in 2011, before capitalization of interest, was \$16 million, compared with \$6 million in 2010. The average effective interest rate on the company's debt was 1.5 percent in 2011, compared with 1.3 percent in 2010.

The company's financial strength, as evidenced by the above financial ratios, represents a competitive advantage of strategic importance. The company's sound financial position gives it the opportunity to access capital markets in the full range of market conditions and enables the company to take on large, long-term capital commitments in the pursuit of maximizing shareholder value.

The company does not use any derivative instruments to offset exposures associated with hydrocarbon prices, currency exchange rates and interest rates that arise from existing assets, liabilities and transactions. The company does not engage in speculative derivative activities nor does it use derivatives with leveraged features.

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)****Commitments**

The following table shows the company's commitments outstanding at December 31, 2011. It combines data from the consolidated balance sheet and from individual notes to the consolidated financial statements.

| millions of dollars                               | Financial<br>statement<br>note reference | Payment due by period<br>2013 |         |                    | Total<br>amount |
|---|--|-------------------------------|---------|--------------------|-----------------|
|   |  | 2012                          | to 2016 | 2017 and<br>beyond |                 |
| Long-term debt (a)                                | Note 14                                  | -                             | 834     | 9                  | 843             |
| - Due in one year                                 |  | 4                             |         |                    | 4               |
| Operating leases (b)                              | Note 13                                  | 186                           | 220     | 24                 | 430             |
| Unconditional purchase obligations (c)            | Note 9                                   | 48                            | 158     | 163                | 369             |
| Firm capital commitments (d)                      |  | 1,551                         | 121     | 71                 | 1,743           |
| Pension and other post-retirement obligations (e) | Note 4                                   | 652                           | 226     | 1,815              | 2,693           |
| Asset retirement obligations (f)                  | Note 5                                   | 97                            | 433     | 406                | 936             |
| Other long-term purchase agreements (g)           |  | 249                           | 851     | 1,327              | 2,427           |

- (a) Long-term debt includes a long-term loan from an affiliated company of Exxon Mobil Corporation of \$820 million and capital lease obligations of \$27 million, \$4 million of which is due in one year. The payment by period for the related party long-term loan is estimated based on the right of the related party to cancel the loan on at least 370 days advance written notice.
- (b) Minimum commitments for operating leases, shown on an undiscounted basis, primarily cover office buildings, rail cars and service stations.
- (c) Unconditional purchase obligations are those long-term commitments that are non-cancelable or cancellable only under certain conditions and that third parties have used to secure financing for the facilities that will provide the contracted goods and services. They mainly pertain to pipeline throughput agreements.
- (d) Firm capital commitments related to capital projects, shown on an undiscounted basis. The largest commitments outstanding at year-end 2011 were \$1,287 million associated with the company's share of the Kearn project.
- (e) The amount by which the benefit obligations exceeded the fair value of fund assets for pension and other post-retirement plans at year-end. The payments by period include expected contributions to funded pension plans in 2012 and estimated benefit payments for unfunded plans in all years.
- (f) Asset retirement obligations represent the fair value of legal obligations associated with site restoration on the retirement of assets with determinable useful lives.
- (g) Other long-term purchase agreements are non-cancelable, long-term commitments other than unconditional purchase obligations. They include primarily raw material supply and transportation services agreements.

Unrecognized tax benefits totalling \$134 million have not been included in the company's commitments table because the company does not expect there will be any cash impact from the final settlements as sufficient funds have been deposited with the Canada Revenue Agency. Further details on the unrecognized tax benefits can be found in note 3 to the financial statements on page 62.

**Litigation and other contingencies**

As discussed in note 9 to the consolidated financial statements on page 71, a variety of claims have been made against Imperial Oil Limited and its subsidiaries. Based on a consideration of all relevant facts and circumstances, the company does not believe the ultimate outcome of any currently pending lawsuits against the company will have a material adverse effect on the company's operations, financial condition, or financial statements taken as a whole. There are no events or uncertainties beyond those already included in reported financial information that would indicate a material change in future operating results or financial condition.

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)****Capital and exploration expenditures**

| millions of dollars | 2011  | 2010  |
|---------------------|-------|-------|
| Upstream (a)        | 3,880 | 3,844 |
| Downstream          | 166   | 184   |
| Chemical            | 4     | 10    |
| Other               | 16    | 7     |
| Total               | 4,066 | 4,045 |

(a) Exploration expenses included.

Total capital and exploration expenditures were \$4,066 million in 2011, an increase of \$21 million from 2010.

The funds were used mainly to advance the Kearl oil sands project, advance other Upstream growth projects and invest in environmental performance initiatives.

For the Upstream segment, capital expenditures were \$3,880 million, compared with \$3,844 million in 2010. Expenditures were primarily directed towards the advancement of the initial development and expansion at Kearl. Other investments included advancing the Nabiye expansion project at Cold Lake, environmental and efficiency projects at Syncrude, as well as the advancement of the production pilot at Horn River and acreage acquisitions.

In 2011, Kearl initial development was reconfigured with a capital appropriation of \$10.9 billion, of which the company's share would be \$7.7 billion. At the end of 2011, Kearl initial development was 87 percent complete with expected start up in late 2012.

In 2011, Kearl expansion was approved by the company's board and appropriated for \$8.9 billion, of which the company's share is \$6.3 billion. It is expected to bring on additional production of 110,000 barrels of bitumen a day, before royalties, by late 2015, of which the company's share would be about 78,000 barrels a day.

In February 2012, the Nabiye expansion project at Cold Lake was approved by the company's board and appropriated for \$2 billion. The expansion is expected to bring on additional production of more than 40,000 barrels a day, before royalties, at Cold Lake. Start-up is expected to be by year-end 2014.

Planned capital and exploration expenditures in the Upstream segment are forecast at about \$5 billion for 2012. Investments are mainly planned for Kearl initial development and expansion. Other investments include advancing the Nabiye expansion project at Cold Lake, environmental and efficiency projects at Syncrude, as well as exploration drilling and the advancement of the production pilot at Horn River.

For the Downstream segment, capital expenditures were \$166 million in 2011, compared with \$184 million in 2010. In 2011, Downstream capital expenditures focused mainly on refinery projects to improve reliability, feedstock flexibility, energy efficiency and environmental performance.

Planned capital expenditures for the Downstream segment in 2012 are about \$200 million focused on improving refinery reliability and environmental and safety performance, as well as continuing upgrades to the retail network.

In 2012, the company will be entering the third year of a decade-long growth strategy in which between \$35 billion and \$40 billion will be invested. Total capital and exploration expenditures for the company in 2012 are expected to be about \$5 billion. Actual spending could vary depending on the progress of individual projects.

**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)****Market risks and other uncertainties**

Crude oil, natural gas, petroleum product and chemical prices have fluctuated in response to changing market forces. The impacts of these price fluctuations on earnings from Upstream, Downstream and Chemical operations have varied. In addition, industry crude oil and natural gas commodity prices and petroleum and chemical product prices are commonly benchmarked in U.S. dollars. The majority of Imperial's sales and purchases are related to these industry U.S. dollar benchmarks. As the company records and reports its financial results in Canadian dollars, to the extent that the Canadian/U.S. dollar exchange rate fluctuates, the company's earnings will be affected. The company's potential exposure to commodity price and margin and Canadian/U.S. dollar exchange rate fluctuations is summarized in the earnings sensitivities table below, which shows the estimated annual effect, under current conditions, of the company's after-tax net income.

**Earnings sensitivities (a)**

|  |       |     |
|--|-------|-----|
| millions of dollars, after tax   |       |     |
| Ten dollars (U.S.) a barrel change in crude oil prices                                   | + (-) | 330 |
| Thirty cents a thousand cubic feet change in natural gas prices                          | + (-) | 1   |
| One dollar (U.S.) a barrel change in sales margins for total petroleum products          | + (-) | 135 |
| One cent (U.S.) a pound change in sales margins for polyethylene                         | + (-) | 6   |
| One-quarter percent decrease (increase) in short-term interest rates                     | + (-) | 2   |
| Ten cents decrease (increase) in the value of the Canadian dollar versus the U.S. dollar | + (-) | 480 |

(a) The amount quoted to illustrate the impact of each sensitivity represents a change of about 10 percent in the value of the commodity or rate in question at the end of 2011. Each sensitivity calculation shows the impact on net income resulting from a change in one factor, after tax and royalties and holding all other factors constant. While these sensitivities are applicable under current conditions, they may not apply proportionately to larger fluctuations.

The sensitivity of net income to changes in crude oil prices decreased from year-end 2010 by about \$4 million (after tax) a year for each one U.S. dollar change. The decrease was primarily a result of the combined impacts of higher royalty costs for bitumen production due to higher crude oil commodity prices and lower conventional crude oil production.

The global energy markets can give rise to extended periods in which market conditions are adverse to one or more of the company's businesses. Such conditions, along with the capital-intensive nature of the industry and very long lead times associated with many of our projects, underscore the importance of maintaining a strong financial position. Management views the company's financial strength as a competitive advantage.

In general, segment results are not dependent on the ability to sell and/or purchase products to/from other segments. Instead, where such sales take place, they are the result of efficiencies and competitive advantages of integrated refinery/chemical complexes. Additionally, intersegment sales are at market-based prices. The products bought and sold between segments can also be acquired in worldwide markets that have substantial liquidity, capacity and transportation capabilities. About 60 percent of the company's intersegment sales are crude oil produced by the Upstream and sold to the Downstream. Other intersegment sales include those between refineries and chemical plants related to raw materials, feedstocks and finished products.

Although price levels of crude oil and natural gas may rise or fall significantly over the short to medium term, industry economics over the long term will continue to be driven by market supply and demand. Accordingly, the company tests the viability of all of its investments over a broad range of future prices. The company's assessment is that its operations will continue to be successful in a variety of market conditions. This is the outcome of disciplined investment and asset management programs.

The company has an active asset management program in which underperforming assets are either improved to acceptable levels or considered for divestment. The asset management program includes a disciplined, regular review to ensure that all assets are contributing to the company's strategic objectives. The result is an efficient capital base, and the company has seldom had to write down the carrying value of assets, even during periods of low commodity prices.



## **Table of Contents**

### **Management's discussion and analysis of financial condition and results of operations (continued)**

#### **Risk management**

The company's size, strong capital structure and the complementary nature of the Upstream, Downstream and Chemical businesses reduce the company's enterprise-wide risk from changes in commodity prices and currency rates. The company's financial strength and debt capacity give it the opportunity to advance business plans in the pursuit of maximizing shareholder value in the full range of market conditions. Also, the company progresses large capital projects in a phased manner so that adjustments can be made when significant changes in market conditions occur. As a result, the company does not make use of derivative instruments to mitigate the impact of such changes. The company does not engage in speculative derivative activities or derivative trading activities nor does it use derivatives with leveraged features. The company maintains a system of controls that includes a policy covering the authorization, reporting and monitoring of derivative activity.

#### **Critical accounting estimates**

The company's financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP). GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The company's accounting and financial reporting fairly reflect its straightforward business model. Imperial does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. The company's significant accounting policies are summarized in note 1 to the consolidated financial statements on page 57.

#### **Oil and gas reserves**

Evaluations of oil and gas reserves are important to the effective management of Upstream assets. They are integral to making investment decisions about oil and gas properties such as whether development should proceed. Oil and gas reserve quantities are also used as the basis for calculating unit-of-production depreciation rates and for evaluating impairment.

Oil and gas reserves include both proved and unproved reserves. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible. Unproved reserves are those with less than reasonable certainty of recoverability and include probable reserves. Probable reserves are reserves that are more likely to be recovered than not.

The estimation of proved reserves is an ongoing process based on rigorous technical evaluations, commercial and market assessment, and detailed analysis of well information such as flow rates and reservoir pressure declines. The estimation of proved reserves is controlled by the company through long-standing approval guidelines. Reserve changes are made within a well-established, disciplined process driven by senior level geoscience and engineering professionals, assisted by the reserves management group which has significant technical experience, culminating in reviews with and approval by senior management and the company's board of directors. Notably, the company does not use specific quantitative reserve targets to determine compensation. Key features of the reserve estimation process are covered in Disclosure of Reserves in Item 1.

Although the company is reasonably certain that proved reserves will be produced, the timing and amount recovered can be affected by a number of factors, including completion of development projects, reservoir performance, regulatory approvals and significant changes in long-term oil and gas price levels.

Revisions can include upward or downward changes in previously estimated volumes of proved reserves for existing fields due to the evaluation or revaluation of already available geologic, reservoir or production data; new geologic, reservoir or production data; or changes in prices and costs that are used in the estimation of reserves. Revisions can also result from significant changes in either development strategy or production equipment/facility capacity.

The company uses the successful-efforts method to account for its exploration and production activities. Under this method, costs are accumulated on a field-by-field basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred. Costs of productive wells and development dry holes are capitalized and amortized using the unit-of-production method.





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**Table of Contents**

**Management's discussion and analysis of financial condition and results of operations (continued)**

***Impact of oil and gas reserves on depreciation***

The calculation of unit-of-production depreciation is a critical accounting estimate that measures the depreciation of upstream assets. It is the ratio of actual volumes produced to total proved developed reserves (those reserves recoverable through existing wells with existing equipment and operating methods) applied to the asset cost. The volumes produced and asset cost are known and, while proved developed reserves have a high probability of recoverability, they are based on estimates that are subject to some variability. While the revisions the company has made in the past are an indicator of variability, they have had little impact on the unit-of-production rates of depreciation.

***Impact of oil and gas reserves and prices on testing for impairment***

Proved oil and gas properties held and used by the company are reviewed for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The company estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. In general, impairment analyses are based on reserve estimates used for internal planning and capital investment decisions. Where probable reserves exist, an appropriately risk-adjusted amount of these reserves may be included in the impairment evaluation. An asset would be impaired if the undiscounted cash flows were less than the asset's carrying value. Impairments are measured by the amount by which the asset's carrying value exceeds its fair value.

Significant unproved properties are assessed for impairment individually and valuation allowances against the capitalized costs are recorded based on the estimated economic chance of success and the length of time that the company expects to hold the properties. Properties that are not individually significant are aggregated by groups and amortized based on development risk and average holding period.

The company performs asset valuation analyses on an ongoing basis as a part of its asset management program. These analyses assist the company in assessing whether the carrying amounts of any of its assets may not be recoverable. In addition to estimating oil and gas reserve volumes in conducting these analyses, it is also necessary to estimate future oil and gas prices. Trigger events for impairment evaluations include a significant decrease in current and projected prices or reserve volumes, an accumulation of project costs significantly in excess of the amount originally expected and historical and forecast operating losses.

In general, the company does not view temporarily low oil prices as a triggering event for conducting impairment tests. The markets for crude oil and natural gas have a history of significant price volatility. Although prices will occasionally drop significantly, the relative growth/decline in supply versus demand will determine industry prices over the long term, and these cannot be accurately predicted. Accordingly, any impairment tests that the company performs make use of the company's price assumptions developed in the annual planning and budgeting process for crude oil and natural gas markets, petroleum products and chemicals. These are the same price assumptions that are used for capital investment decisions. Volumes are based on field production profiles, which are also updated annually.

Supplemental information regarding oil and gas results of operations, capitalized costs and reserves is provided following the notes to the consolidated financial statements. Future prices used for any impairment tests will vary from the one used in the supplemental oil and gas disclosure and could be lower or higher for any given year.

**Pension benefits**

The company's pension plan is managed in compliance with the requirements of governmental authorities and meets funding levels as determined by independent third-party actuaries. Pension accounting requires explicit assumptions regarding, among others, the discount rate for the benefit obligations, the expected rate of return on plan assets and the long-term rate of future compensation increases. All pension assumptions are reviewed annually by senior management. These assumptions are adjusted only as appropriate to reflect long-term changes in market rates and outlook. The long-term expected rate of return on plan assets of 7.00 percent used in 2011 compares to actual returns of 6.0 percent and 8.3 percent achieved over the last 10- and 20-year periods ending December 31, 2011. If different assumptions are used, the expense and obligations could



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**Table of Contents****Management's discussion and analysis of financial condition and results of operations (continued)**

increase or decrease as a result. The company's potential exposure to changes in assumptions is summarized in note 4 to the consolidated financial statements on page 63. At Imperial, differences between actual returns on plan assets and the long-term expected returns are not recorded in pension expense in the year the differences occur. Such differences are deferred, along with other actuarial gains and losses, and are amortized into pension expense over the expected average remaining service life of employees. Employee benefit expense represented less than two percent of total expenses in 2011.

**Asset retirement obligations and other environmental liabilities**

Legal obligations associated with site restoration on the retirement of assets with determinable useful lives are recognized when they are incurred, which is typically at the time the assets are installed. The obligations are initially measured at fair value and discounted to present value. Over time, the discounted asset retirement obligation amount will be accreted for the change in its present value, with this effect included in production and manufacturing expenses. As payments to settle the obligations occur on an ongoing basis and will continue over the lives of the operating assets, which can exceed 25 years, the discount rate will be adjusted only as appropriate to reflect long-term changes in market rates and outlook. For 2011, the obligations were discounted at six percent and the accretion expense was \$46 million, before tax, which was significantly less than one percent of total expenses in the year. There would be no material impact on the company's reported financial results if a different discount rate had been used.

Asset retirement obligations are not recognized for assets with an indeterminate useful life. Asset retirement obligations for these facilities generally become firm at the time the facilities are permanently shut down and dismantled. These obligations may include the costs of asset disposal and additional soil remediation. However, these sites have indeterminate lives based on plans for continued operations, and as such, the fair value of the conditional legal obligations cannot be measured, since it is impossible to estimate the future settlement dates of such obligations. For these and non-operating assets, the company accrues provisions for environmental liabilities when it is probable that obligations have been incurred and the amount can be reasonably estimated.

Asset retirement obligations and other environmental liabilities are based on engineering estimated costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, current technology and the possible use of the location. Since these estimates are specific to the locations involved, there are many individual assumptions underlying the company's total asset retirement obligations and provision for other environmental liabilities. While these individual assumptions can be subject to change, none of them is individually significant to the company's reported financial results.

**Suspended exploratory well costs**

The company carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the company is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. The facts and circumstances that support continued capitalization of suspended wells as of year-end 2011 are disclosed in note 15 to the consolidated financial statements.

**Tax contingencies**

The operations of the company are complex, and related tax interpretations, regulations and legislation are continually changing. Significant management judgment is required in the accounting for income tax contingencies and tax disputes because the outcomes are often difficult to predict.

The benefits of uncertain tax positions that the company has taken or expects to take in its income tax returns are recognized in the financial statements if management concludes that it is more likely than not that the position will be sustained with the tax authorities. For a position that is likely to be sustained, the benefit recognized in the financial statements is measured at the largest amount that is greater than 50 percent likely of being realized. A reserve is established for the difference between a position taken or expected to be taken in an income tax return and the amount recognized in the financial statements. The company's unrecognized tax benefits and a description of open tax years are summarized in note 3 to the consolidated financial statements on page 62.



**Table of Contents**

**Management's report on internal control over financial reporting**

Management, including the company's chief executive officer and principal accounting officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over the company's financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Imperial Oil Limited's internal control over financial reporting was effective as of December 31, 2011.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited the effectiveness of the company's internal control over financial reporting as of December 31, 2011, as stated in their report which is included herein.

*/s/ Bruce H. March*

B.H. March

Chairman, president and

chief executive officer

*/s/ Paul J. Masschelin*

P.J. Masschelin

Senior vice-president,

finance and administration, and treasurer

(Principal accounting officer and principal financial officer)

February 23, 2012

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**Table of Contents**

**Report of independent registered public accounting firm**

**To the Shareholders of Imperial Oil Limited**

We have audited the accompanying consolidated balance sheet of Imperial Oil Limited as of December 31, 2011 and December 31, 2010 and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited Imperial Oil Limited's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Imperial Oil Limited as of December 31, 2011 and December 31, 2010 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Imperial Oil Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the COSO.

*/s/ PricewaterhouseCoopers LLP*

Chartered Accountants

Calgary, Alberta, Canada

February 23, 2012

**Table of Contents****Consolidated statement of income (U.S. GAAP)**

millions of Canadian dollars

| For the years ended December 31                 | 2011          | 2010          | 2009          |
|---|---------------|---------------|---------------|
| <b>Revenues and other income</b>                |               |               |               |
| Operating revenues (a)(b)                       | 30,474        | 24,946        | 21,292        |
| Investment and other income (note 8)            | 240           | 146           | 106           |
| <b>Total revenues and other income</b>          | <b>30,714</b> | <b>25,092</b> | <b>21,398</b> |
| <b>Expenses</b>                                 |               |               |               |
| Exploration                                     | 92            | 191           | 153           |
| Purchases of crude oil and products (c)         | 18,847        | 14,811        | 11,934        |
| Production and manufacturing (d)                | 4,114         | 3,996         | 3,951         |
| Selling and general                             | 1,168         | 1,070         | 1,106         |
| Federal excise tax (a)                          | 1,320         | 1,316         | 1,268         |
| Depreciation and depletion                      | 764           | 747           | 781           |
| Financing costs (note 12)                       | 3             | 7             | 5             |
| <b>Total expenses</b>                           | <b>26,308</b> | <b>22,138</b> | <b>19,198</b> |
| <b>Income before income taxes</b>               | <b>4,406</b>  | <b>2,954</b>  | <b>2,200</b>  |
| <b>Income taxes (note 3)</b>                    | <b>1,035</b>  | <b>744</b>    | <b>621</b>    |
| <b>Net income</b>                               | <b>3,371</b>  | <b>2,210</b>  | <b>1,579</b>  |
| <b>Per-share information (Canadian dollars)</b> |               |               |               |
| Net income per common share - basic (note 10)   | 3.98          | 2.61          | 1.86          |
| Net income per common share - diluted (note 10) | 3.95          | 2.59          | 1.84          |
| Dividends                                       | 0.44          | 0.43          | 0.40          |

(a) Operating revenues include federal excise tax of \$1,320 million (2010 - \$1,316 million, 2009 - \$1,268 million).

(b) Operating revenues include amounts from related parties of \$2,818 million (2010 - \$2,250 million, 2009 - \$1,699 million), (note 16).

(c) Purchases of crude oil and products include amounts from related parties of \$3,636 million (2010- \$2,828 million, 2009 - \$3,111 million), (note 16).

(d) Production and manufacturing expenses include amounts to related parties of \$217 million (2010 - \$233 million, 2009 - \$217 million), (note 16).

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

**Table of Contents****Consolidated balance sheet (U.S. GAAP)**

millions of Canadian dollars

| At December 31  | 2011          | 2010          |
|---|---------------|---------------|
| <b>Assets</b>   |               |               |
| Current Assets  |               |               |
| Cash  | 1,202         | 267           |
| Accounts receivable, less estimated doubtful amounts                                | 2,290         | 2,000         |
| Inventories of crude oil and products (note 11)                                     | 762           | 527           |
| Materials, supplies and prepaid expenses  | 239           | 246           |
| Deferred income tax assets (note 3)   | 590           | 498           |
| Total current assets  | 5,083         | 3,538         |
| Long-term receivables, investments and other long-term assets                       | 920           | 870           |
| Property, plant and equipment, less accumulated depreciation and depletion (note 2) | 19,162        | 15,905        |
| Goodwill (note 2)   | 204           | 204           |
| Other intangible assets, net  | 60            | 63            |
| <b>Total assets (note 2)</b>  | <b>25,429</b> | <b>20,580</b> |
| <b>Liabilities</b>  |               |               |
| Current liabilities   |               |               |
| Notes and loans payable   | 364           | 229           |
| Accounts payable and accrued liabilities (a) (note 11)                              | 4,317         | 3,470         |
| Income taxes payable  | 1,268         | 878           |
| Total current liabilities   | 5,949         | 4,577         |
| Long-term debt (b)(note 14)   | 843           | 527           |
| Other long-term obligations (note 5)  | 3,876         | 2,753         |
| Deferred income tax liabilities (note 3)  | 1,440         | 1,546         |
| <b>Total liabilities</b>  | <b>12,108</b> | <b>9,403</b>  |
| Commitments and contingent liabilities (note 9)                                     |               |               |
| <b>Shareholders equity</b>  |               |               |
| Common shares at stated value (c)(note 10)  | 1,528         | 1,511         |
| Earnings reinvested   | 14,031        | 11,090        |
| Accumulated other comprehensive income  | (2,238)       | (1,424)       |
| <b>Total shareholders equity</b>  | <b>13,321</b> | <b>11,177</b> |
| <b>Total liabilities and shareholders equity</b>                                    | <b>25,429</b> | <b>20,580</b> |

(a) Accounts payable and accrued liabilities include amounts payable to related parties of \$215 million (2010 - amounts receivable of \$45 million), (note 16).

(b) Long-term debt includes amounts to related parties of \$820 million (2010 - \$500 million).

(c) Number of common shares outstanding was 848 million (2010 - 848 million), (note 10).

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

Approved by the directors

*/s/ Bruce H. March*B.H. March  
Chairman, president and

chief executive officer

*/s/ Paul J. Masschelin*P.J. Masschelin  
Senior vice-president,

finance and administration, and treasurer





**Table of Contents****Consolidated statement of shareholders equity (U.S. GAAP)**

millions of Canadian dollars

| At December 31  | 2011          | 2010          | 2009         |
|---|---------------|---------------|--------------|
| <b>Common shares at stated value</b> (note 10)  |               |               |              |
| At beginning of year  | 1,511         | 1,508         | 1,528        |
| Issued under the stock option plan  | 19            | 3             | 1            |
| Share purchases at stated value   | (2)           | -             | (21)         |
| At end of year  | 1,528         | 1,511         | 1,508        |
| <b>Earnings reinvested</b>  |               |               |              |
| At beginning of year  | 11,090        | 9,252         | 8,484        |
| Net income for the year   | 3,371         | 2,210         | 1,579        |
| Share purchases in excess of stated value   | (57)          | (8)           | (471)        |
| Dividends   | (373)         | (364)         | (340)        |
| At end of year  | 14,031        | 11,090        | 9,252        |
| <b>Accumulated other comprehensive income</b>   |               |               |              |
| At beginning of year  | (1,424)       | (1,321)       | (947)        |
| Post-retirement benefits liability adjustment (note 4)  | (953)         | (217)         | (468)        |
| Amortization of post-retirement benefits liability adjustment included in net periodic benefit cost | 139           | 114           | 94           |
| At end of year  | (2,238)       | (1,424)       | (1,321)      |
| <b>Shareholders equity at end of year</b>   | <b>13,321</b> | <b>11,177</b> | <b>9,439</b> |
| <b>Comprehensive income for the year</b>  |               |               |              |
| Net income for the year   | 3,371         | 2,210         | 1,579        |
| Other comprehensive income  |               |               |              |
| Post-retirement benefits liability adjustment   | (814)         | (103)         | (374)        |
| <b>Total comprehensive income for the year</b>  | <b>2,557</b>  | <b>2,107</b>  | <b>1,205</b> |

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

**Table of Contents****Consolidated statement of cash flows (U.S. GAAP)**

millions of Canadian dollars

Inflow/(outflow)

| For the years ended December 31                            | 2011           | 2010           | 2009           |
|--|----------------|----------------|----------------|
| <b>Operating activities</b>                                |                |                |                |
| Net income   | 3,371          | 2,210          | 1,579          |
| Adjustments for non-cash items:                            |                |                |                |
| Depreciation and depletion                                 | 764            | 747            | 781            |
| (Gain)/loss on asset sales                                 | (197)          | (95)           | (45)           |
| Deferred income taxes and other                            | 71             | 152            | (61)           |
| Changes in operating assets and liabilities:               |                |                |                |
| Accounts receivable  | (302)          | (289)          | (261)          |
| Inventories and prepaids                                   | (228)          | 38             | 42             |
| Income taxes payable                                       | 390            | 30             | (650)          |
| Accounts payable   | 846            | 651            | 271            |
| All other items - net (a)                                  | (226)          | (237)          | (65)           |
| <b>Cash flows from (used in) operating activities</b>      | <b>4,489</b>   | <b>3,207</b>   | <b>1,591</b>   |
| <b>Investing activities</b>                                |                |                |                |
| Additions to property, plant and equipment and intangibles | (3,919)        | (3,856)        | (2,285)        |
| Proceeds from asset sales                                  | 314            | 144            | 67             |
| Repayment of loan from equity company                      | 12             | 3              | 2              |
| <b>Cash flows from (used in) investing activities</b>      | <b>(3,593)</b> | <b>(3,709)</b> | <b>(2,216)</b> |
| <b>Financing activities</b>                                |                |                |                |
| Short-term debt - net                                      | 135            | 120            | -              |
| Long-term debt issued                                      | 320            | 500            | -              |
| Reduction in capitalized lease obligations                 | (3)            | (3)            | (4)            |
| Issuance of common shares under stock option plan          | 19             | 3              | 1              |
| Common shares purchased (note 10)                          | (59)           | (8)            | (492)          |
| Dividends paid   | (373)          | (356)          | (341)          |
| <b>Cash flows from (used in) financing activities</b>      | <b>39</b>      | <b>256</b>     | <b>(836)</b>   |
| <b>Increase (decrease) in cash</b>                         | <b>935</b>     | <b>(246)</b>   | <b>(1,461)</b> |
| <b>Cash at beginning of year</b>                           | <b>267</b>     | <b>513</b>     | <b>1,974</b>   |
| <b>Cash at end of year (b)</b>                             | <b>1,202</b>   | <b>267</b>     | <b>513</b>     |

(a) Includes contribution to registered pension plans of \$361 million (2010 - \$421 million, 2009 - \$180 million).

(b) Cash is composed of cash in bank and cash equivalents at cost. Cash equivalents are all highly liquid securities with maturity of three months or less when purchased.

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

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**Table of Contents**

**Notes to consolidated financial statements**

The accompanying consolidated financial statements and the supporting and supplemental material are the responsibility of the management of Imperial Oil Limited.

The company's principal business is energy, involving the exploration, production, transportation and sale of crude oil and natural gas and the manufacture, transportation and sale of petroleum products. The company is also a major manufacturer and marketer of petrochemicals.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Certain reclassifications to prior years have been made to conform to the 2011 presentation. All amounts are in Canadian dollars unless otherwise indicated.

**1. Summary of significant accounting policies**

**Principles of consolidation**

The consolidated financial statements include the accounts of subsidiaries the company controls. Intercompany accounts and transactions are eliminated. Subsidiaries include those companies in which Imperial has both an equity interest and the continuing ability to unilaterally determine strategic, operating, investing and financing policies. Significant subsidiaries included in the consolidated financial statements include Imperial Oil Resources Limited, Imperial Oil Resources N.W.T. Limited, Imperial Oil Resources Ventures Limited and McColl-Frontenac Petroleum Inc. All of the above companies are wholly owned. A significant portion of the company's Upstream activities is conducted jointly with other companies. The accounts reflect the company's share of undivided interest in such activities, including its 25 percent interest in the Syncrude joint venture and its nine percent interest in the Sable offshore energy project as well as its 70.96 percent interest in the Kearl project, which is currently under development.

**Inventories**

Inventories are recorded at the lower of cost or current market value. The cost of crude oil and products is determined primarily using the last-in, first-out (LIFO) method. LIFO was selected over the alternative first-in, first-out and average cost methods because it provides a better matching of current costs with the revenues generated in the period.

Inventory costs include expenditures and other charges, including depreciation, directly or indirectly incurred in bringing the inventory to its existing condition and final storage prior to delivery to a customer. Selling and general expenses are reported as period costs and excluded from inventory costs.

**Investments**

The company's interests in the underlying net assets of affiliates it does not control, but over which it exercises significant influence, are accounted for using the equity method. They are recorded at the original cost of the investment plus Imperial's share of earnings since the investment was made, less dividends received. Imperial's share of the after-tax earnings of these companies is included in investment and other income in the consolidated statement of income. Other investments are recorded at cost. Dividends from these other investments are included in investment and other income.

These investments represent interests in non-publicly traded pipeline companies that facilitate the sale and purchase of crude oil and natural gas in the conduct of company operations. Other parties who also have an equity interest in these companies share in the risks and rewards according to their percentage of ownership. Imperial does not invest in these companies in order to remove liabilities from its balance sheet.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost. Investment tax credits and other similar grants are treated as a reduction of the capitalized cost of the asset to which they apply.

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The company uses the successful-efforts method to account for its exploration and development activities. Under this method, costs are accumulated on a field-by-field basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred. Costs of productive wells and development dry holes are capitalized and amortized using the unit-of-production method. The company carries as an asset exploratory

## **Table of Contents**

### **Notes to consolidated financial statements (continued)**

well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the company is making sufficient progress assessing the reserves and the economic and operating viability of the project. Other exploratory expenditures, including geophysical costs and annual lease rentals are expenses as incurred.

Maintenance and repair costs, including planned major maintenance, are expensed as incurred. Improvements that increase or prolong the service life or capacity of an asset are capitalized.

Production costs are expensed as incurred. Production involves lifting the oil and gas to the surface and gathering, treating, field processing and field storage of the oil and gas. The production function normally terminates at the outlet valve on the lease or field production storage tank. Production costs are those incurred to operate and maintain the company's wells and related equipment and facilities. They become part of the cost of oil and gas produced. These costs, sometimes referred to as lifting costs, include such items as labour cost to operate the wells and related equipment; repair and maintenance costs on the wells and equipment; materials, supplies and energy costs required to operate the wells and related equipment; and administrative expenses related to the production activity.

Acquisition costs of proved properties are amortized using a unit-of-production method, computed on the basis of total proved oil and gas reserves. Depreciation and depletion for assets associated with producing properties begin at the time when production commences on a regular basis. Depreciation for other assets begins when the asset is in place and ready for its intended use. Assets under construction are not depreciated or depleted. Unit-of-production depreciation is applied to those wells, plant and equipment assets associated with productive depletable properties, and the unit-of-production rates are based on the amount of proved developed reserves of oil and gas. Depreciation of other plant and equipment is calculated using the straight-line method, based on the estimated service life of the asset. In general, refineries are depreciated over 25 years; other major assets, including chemical plants and service stations, are depreciated over 20 years.

Proved oil and gas properties held and used by the company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The company estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. Cash flows used in impairment evaluations are developed using annually updated corporate plan investment evaluation assumptions for crude oil and natural gas commodity prices and foreign-currency exchange rates. Annual volumes are based on field production profiles, which are also updated annually.

In general, impairment analyses are based on reserve estimates used for internal planning and capital investment decisions. Where probable reserves exist, an appropriately risk-adjusted amount of these reserves may be included in the impairment evaluation. An asset would be impaired if the undiscounted cash flows were less than its carrying value. Impairments are measured by the amount by which the carrying value exceeds its fair value.

Significant unproved properties are assessed for impairment individually and valuation allowances against the capitalized costs are recorded based on the estimated economic chance of success and the length of time the company expects to hold the properties. Properties that are not individually significant are aggregated by groups and amortized based on development risk and average holding period. The valuation allowances are reviewed at least annually.

Gains or losses on assets sold are included in investment and other income in the consolidated statement of income.

### **Interest capitalization**

Interest costs relating to major capital projects under construction are capitalized as part of property, plant and equipment. The project construction phase commences with the development of the detailed engineering design and ends when the constructed assets are ready for their intended use.



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## **Table of Contents**

### **Notes to consolidated financial statements (continued)**

#### **Goodwill and other intangible assets**

Goodwill is not subject to amortization. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate it might be impaired. Impairment losses are recognized in current period earnings. The evaluation for impairment of goodwill is based on a comparison of the carrying values of goodwill and associated operating assets with the estimated present value of net cash flows from those operating assets.

Intangible assets with determinable useful lives are amortized over the estimated service lives of the assets. Computer software development costs are amortized over a maximum of 15 years and customer lists are amortized over a maximum of 10 years. The amortization is included in depreciation and depletion in the consolidated statement of income.

#### **Asset retirement obligations and other environmental liabilities**

Legal obligations associated with site restoration on the retirement of assets with determinable useful lives are recognized when they are incurred, which is typically at the time the assets are installed. These obligations primarily relate to soil reclamation and remediation and costs of abandonment and demolition of oil and gas wells and related facilities. The company uses estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an asset retirement obligation, technical assessments of the assets, estimated amounts and timing of settlements, the credit-adjusted risk-free rate to be used, and inflation rates. The obligations are initially measured at fair value and discounted to present value. A corresponding amount equal to that of the initial obligation is added to the capitalized costs of the related asset. Over time, the discounted asset retirement obligation amount will be accreted for the change in its present value, and the initial capitalized costs will be depreciated over the useful lives of the related assets.

No asset retirement obligations are set up for those manufacturing, distribution and marketing facilities with an indeterminate useful life. Asset retirement obligations for these facilities generally become firm at the time the facilities are permanently shut down and dismantled. These obligations may include the costs of asset disposal and additional soil remediation. However, these sites have indeterminate lives based on plans for continued operations, and as such, the fair value of the conditional legal obligations cannot be measured, since it is impossible to estimate the future settlement dates of such obligations. Provision for environmental liabilities of these assets is made when it is probable that obligations have been incurred and the amount can be reasonably estimated. Provisions for environmental liabilities are determined based on engineering estimated costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, current technology and the possible use of the location. These liabilities are not discounted.

#### **Foreign-currency translation**

Monetary assets and liabilities in foreign currencies have been translated at the rates of exchange prevailing on December 31. Any exchange gains or losses are recognized in income.

#### **Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Hierarchy Levels 1, 2 or 3 are terms for the priority of inputs to valuation techniques used to measure fair value. Hierarchy Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Hierarchy Level 2 inputs are inputs other than quoted prices included within Level 1 that are directly or indirectly observable for the asset or liability. Hierarchy Level 3 inputs are inputs that are not observable in the market.

#### **Revenues**

Revenues associated with sales of crude oil, natural gas, petroleum and chemical products and other items are recorded when the products are delivered. Delivery occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. The company does not enter into ongoing arrangements whereby it is required to repurchase its products, nor does the company provide the customer with a right of return.



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Revenues include amounts billed to customers for shipping and handling. Shipping and handling costs incurred up to the point of final storage prior to delivery to a customer are included in purchases of crude oil and products in the consolidated statement of income. Delivery costs from final storage to customer are recorded as a marketing expense in selling and general expenses.

## **Table of Contents**

### **Notes to consolidated financial statements (continued)**

Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined and recorded as exchanges measured at the book value of the item sold.

#### **Share-based compensation**

The company awards share-based compensation to certain employees in the form of restricted stock units. Compensation expense is measured each reporting period based on the company's current stock price and is recorded as selling and general expenses in the consolidated statement of income over the requisite service period of each award. See note 7 to the consolidated financial statements on page 69 for further details.

#### **Consumer taxes**

Taxes levied on the consumer and collected by the company are excluded from the consolidated statement of income. These are primarily provincial taxes on motor fuels, the federal goods and services tax and the federal/provincial harmonized sales tax.

## **2. Business segments**

The company operates its business in Canada. The Upstream, Downstream and Chemical functions best define the operating segments of the business that are reported separately. The factors used to identify these reportable segments are based on the nature of the operations that are undertaken by each segment and the structure of the company's internal organization. The Upstream segment is organized and operates to explore for and ultimately produce crude oil and its equivalent, and natural gas. The Downstream segment is organized and operates to refine crude oil into petroleum products and the distribution and marketing of these products. The Chemical segment is organized and operates to manufacture and market hydrocarbon-based chemicals and chemical products. The above segmentation has been the long-standing practice of the company and is broadly understood across the petroleum and petrochemical industries.

These functions have been defined as the operating segments of the company because they are the segments (a) that engage in business activities from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the company's chief operating decision maker to make decisions about resources to be allocated to each segment and assess its performance; and (c) for which discrete financial information is available.

Corporate and other includes assets and liabilities that do not specifically relate to business segments—primarily cash, capitalized interest costs, short-term borrowings, long-term debt and liabilities associated with incentive compensation and post-retirement benefits liability adjustment. Net income in this segment primarily includes financing costs, interest income and share-based incentive compensation expenses.

Segment accounting policies are the same as those described in the summary of significant accounting policies. Upstream, Downstream and Chemical expenses include amounts allocated from the Corporate and other segment. The allocation is based on a combination of fee for service, proportional segment expenses and a three-year average of capital expenditures. Transfers of assets between segments are recorded at book amounts. Intersegment sales are made essentially at prevailing market prices. Assets and liabilities that are not identifiable by segment are allocated.

**Table of Contents****Notes to consolidated financial statements (continued)**

| millions of dollars                                   | Upstream      |               |               | Downstream    |               |               | Chemical     |              |              |
|---|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|
|   | 2011          | 2010          | 2009          | 2011          | 2010          | 2009          | 2011         | 2010         | 2009         |
| <b>Revenues and other income</b>                      |               |               |               |               |               |               |              |              |              |
| Operating revenues (a)                                | 5,278         | 4,283         | 3,552         | 23,909        | 19,565        | 16,793        | 1,287        | 1,098        | 947          |
| Intersegment sales                                    | 4,460         | 3,802         | 3,328         | 2,784         | 1,973         | 1,535         | 354          | 285          | 289          |
| Investment and other income                           | 168           | 59            | 39            | 63            | 81            | 53            | -            | 3            | -            |
|   | <b>9,906</b>  | <b>8,144</b>  | <b>6,919</b>  | <b>26,756</b> | <b>21,619</b> | <b>18,381</b> | <b>1,641</b> | <b>1,386</b> | <b>1,236</b> |
| <b>Expenses</b>                                       |               |               |               |               |               |               |              |              |              |
| Exploration   | 92            | 191           | 153           | -             | -             | -             | -            | -            | -            |
| Purchases of crude oil and products                   | 3,581         | 2,692         | 2,024         | 21,642        | 17,169        | 14,164        | 1,222        | 1,009        | 898          |
| Production and manufacturing                          | 2,484         | 2,375         | 2,385         | 1,451         | 1,413         | 1,372         | 179          | 209          | 194          |
| Selling and general (b)                               | 7             | 5             | 4             | 973           | 918           | 952           | 64           | 63           | 67           |
| Federal excise tax                                    | -             | -             | -             | 1,320         | 1,316         | 1,268         | -            | -            | -            |
| Depreciation and depletion                            | 528           | 514           | 536           | 214           | 213           | 225           | 13           | 12           | 12           |
| Financing costs (note 12)                             | 2             | 3             | 1             | (1)           | 1             | 2             | -            | -            | -            |
| <b>Total expenses</b>                                 | <b>6,694</b>  | <b>5,780</b>  | <b>5,103</b>  | <b>25,599</b> | <b>21,030</b> | <b>17,983</b> | <b>1,478</b> | <b>1,293</b> | <b>1,171</b> |
| <b>Income before income taxes</b>                     | <b>3,212</b>  | <b>2,364</b>  | <b>1,816</b>  | <b>1,157</b>  | <b>589</b>    | <b>398</b>    | <b>163</b>   | <b>93</b>    | <b>65</b>    |
| <b>Income taxes (note 3)</b>                          |               |               |               |               |               |               |              |              |              |
| Current   | 593           | 477           | 475           | 372           | 141           | 234           | 43           | 18           | 20           |
| Deferred  | 162           | 123           | 17            | (99)          | 6             | (114)         | (2)          | 6            | (1)          |
| <b>Total income tax expense</b>                       | <b>755</b>    | <b>600</b>    | <b>492</b>    | <b>273</b>    | <b>147</b>    | <b>120</b>    | <b>41</b>    | <b>24</b>    | <b>19</b>    |
| <b>Net income</b>                                     | <b>2,457</b>  | <b>1,764</b>  | <b>1,324</b>  | <b>884</b>    | <b>442</b>    | <b>278</b>    | <b>122</b>   | <b>69</b>    | <b>46</b>    |
| <b>Cash flows from (used in) operating activities</b> | <b>3,252</b>  | <b>2,494</b>  | <b>972</b>    | <b>1,315</b>  | <b>787</b>    | <b>658</b>    | <b>53</b>    | <b>65</b>    | <b>67</b>    |
| <b>Capital and exploration expenditures (c)</b>       | <b>3,880</b>  | <b>3,844</b>  | <b>2,167</b>  | <b>166</b>    | <b>184</b>    | <b>251</b>    | <b>4</b>     | <b>10</b>    | <b>15</b>    |
| <b>Property, plant and equipment</b>                  |               |               |               |               |               |               |              |              |              |
| Cost  | 25,327        | 21,990        | 18,455        | 6,990         | 6,933         | 6,901         | 760          | 758          | 748          |
| Accumulated depreciation and depletion                | (9,747)       | (9,740)       | (9,340)       | (3,803)       | (3,678)       | (3,572)       | (560)        | (546)        | (530)        |
| <b>Net property, plant and equipment (d)</b>          | <b>15,580</b> | <b>12,250</b> | <b>9,115</b>  | <b>3,187</b>  | <b>3,255</b>  | <b>3,329</b>  | <b>200</b>   | <b>212</b>   | <b>218</b>   |
| <b>Total assets (e)</b>                               | <b>17,222</b> | <b>13,852</b> | <b>10,663</b> | <b>6,700</b>  | <b>6,315</b>  | <b>6,183</b>  | <b>397</b>   | <b>425</b>   | <b>428</b>   |

| millions of dollars                                   | Corporate and other |              |              | Eliminations   |                |                | Consolidated  |               |               |
|---|---------------------|--------------|--------------|----------------|----------------|----------------|---------------|---------------|---------------|
|   | 2011                | 2010         | 2009         | 2011           | 2010           | 2009           | 2011          | 2010          | 2009          |
| <b>Revenues and other income</b>                      |                     |              |              |                |                |                |               |               |               |
| Operating revenues (a)                                | -                   | -            | -            | -              | -              | -              | 30,474        | 24,946        | 21,292        |
| Intersegment sales                                    | -                   | -            | -            | (7,598)        | (6,060)        | (5,152)        | -             | -             | -             |
| Investment and other income                           | 9                   | 3            | 14           | -              | -              | -              | 240           | 146           | 106           |
|   | <b>9</b>            | <b>3</b>     | <b>14</b>    | <b>(7,598)</b> | <b>(6,060)</b> | <b>(5,152)</b> | <b>30,714</b> | <b>25,092</b> | <b>21,398</b> |
| <b>Expenses</b>                                       |                     |              |              |                |                |                |               |               |               |
| Exploration   | -                   | -            | -            | -              | -              | -              | 92            | 191           | 153           |
| Purchases of crude oil and products                   | -                   | -            | -            | (7,598)        | (6,059)        | (5,152)        | 18,847        | 14,811        | 11,934        |
| Production and manufacturing                          | -                   | -            | -            | -              | (1)            | -              | 4,114         | 3,996         | 3,951         |
| Selling and general (b)                               | 124                 | 84           | 83           | -              | -              | -              | 1,168         | 1,070         | 1,106         |
| Federal excise tax                                    | -                   | -            | -            | -              | -              | -              | 1,320         | 1,316         | 1,268         |
| Depreciation and depletion                            | 9                   | 8            | 8            | -              | -              | -              | 764           | 747           | 781           |
| Financing costs (note 12)                             | 2                   | 3            | 2            | -              | -              | -              | 3             | 7             | 5             |
| <b>Total expenses</b>                                 | <b>135</b>          | <b>95</b>    | <b>93</b>    | <b>(7,598)</b> | <b>(6,060)</b> | <b>(5,152)</b> | <b>26,308</b> | <b>22,138</b> | <b>19,198</b> |
| <b>Income before income taxes</b>                     | <b>(126)</b>        | <b>(92)</b>  | <b>(79)</b>  | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>4,406</b>  | <b>2,954</b>  | <b>2,200</b>  |
| <b>Income taxes (note 3)</b>                          |                     |              |              |                |                |                |               |               |               |
| Current   | (53)                | (47)         | (35)         | -              | -              | -              | 955           | 589           | 694           |
| Deferred  | 19                  | 20           | 25           | -              | -              | -              | 80            | 155           | (73)          |
| <b>Total income tax expense</b>                       | <b>(34)</b>         | <b>(27)</b>  | <b>(10)</b>  | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>1,035</b>  | <b>744</b>    | <b>621</b>    |
| <b>Net income</b>                                     | <b>(92)</b>         | <b>(65)</b>  | <b>(69)</b>  | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>3,371</b>  | <b>2,210</b>  | <b>1,579</b>  |
| <b>Cash flows from (used in) operating activities</b> | <b>(131)</b>        | <b>(139)</b> | <b>(106)</b> | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>4,489</b>  | <b>3,207</b>  | <b>1,591</b>  |
| <b>Capital and exploration expenditures (c)</b>       | <b>16</b>           | <b>7</b>     | <b>5</b>     | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>4,066</b>  | <b>4,045</b>  | <b>2,438</b>  |
| <b>Property, plant and equipment</b>                  |                     |              |              |                |                |                |               |               |               |
| Cost  | 339                 | 323          | 317          | -              | -              | -              | 33,416        | 30,004        | 26,421        |
| Accumulated depreciation and depletion                | (144)               | (135)        | (127)        | -              | -              | -              | (14,254)      | (14,099)      | (13,569)      |
| <b>Net property, plant and equipment (d)</b>          | <b>195</b>          | <b>188</b>   | <b>190</b>   | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>19,162</b> | <b>15,905</b> | <b>12,852</b> |
| <b>Total assets (e)</b>                               | <b>1,418</b>        | <b>314</b>   | <b>546</b>   | <b>(308)</b>   | <b>(326)</b>   | <b>(347)</b>   | <b>25,429</b> | <b>20,580</b> | <b>17,473</b> |



**Table of Contents****Notes to consolidated financial statements (continued)**

(a) Includes export sales to the United States, as follows:

| millions of dollars | 2011  | 2010  | 2009  |
|---------------------|-------|-------|-------|
| Upstream            | 2,180 | 1,759 | 1,671 |
| Downstream          | 1,172 | 1,227 | 1,266 |
| Chemical            | 823   | 664   | 518   |
| Total export sales  | 4,175 | 3,650 | 3,455 |

(b) Consolidated selling and general expenses include delivery costs from final storage areas to customers of \$286 million in 2011 (2010 - \$280 million, 2009 - \$276 million).

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

(d) Includes property, plant and equipment under construction of \$9,147 million (2010 - \$6,070 million).

(e) All goodwill has been assigned to the Downstream segment. There have been no goodwill acquisitions, impairment losses or write-offs due to sales in the past three years. Fair value used in quantitative goodwill impairment tests was Level 3 (unobservable inputs).

**3. Income taxes**

| millions of dollars                    | 2011  | 2010  | 2009  |
|--|-------|-------|-------|
| Current income tax expense             | 955   | 589   | 694   |
| Deferred income tax expense (a)        | 80    | 155   | (73)  |
| Total income tax expense (b)           | 1,035 | 744   | 621   |
| Statutory corporate tax rate (percent) | 25.4  | 27.0  | 28.7  |
| Increase/(decrease) resulting from:    |       |       |       |
| Enacted tax rate change                | -     | -     | 0.2   |
| Other                                  | (1.9) | (1.8) | (0.7) |
| Effective income tax rate              | 23.5  | 25.2  | 28.2  |

(a) There were no material net (charges)/credits for the effect of changes in tax laws and rates included in the provisions for deferred income taxes in 2011, 2010 and 2009.

(b) Cash outflow from income taxes, plus investment credits earned, was \$667 million in 2011 (2010 - \$603 million, 2009 - \$1,330 million).

Income taxes (charged)/credited directly to shareholders' equity were:

| millions of dollars                                 | 2011 | 2010 | 2009 |
|---|------|------|------|
| Post-retirement benefits liability adjustment:      |      |      |      |
| Net actuarial loss/(gain)                           | 326  | 74   | 160  |
| Amortization of net actuarial (loss)/gain           | (42) | (35) | (29) |
| Amortization of prior service cost                  | (5)  | (4)  | (4)  |
| Total post-retirement benefits liability adjustment | 279  | 35   | 127  |

Deferred income taxes are based on differences between the accounting and tax values of assets and liabilities. These differences in value are re-measured at each year-end using the tax rates and tax laws expected to apply when those differences are realized or settled in the future.

Components of deferred income tax liabilities and assets as at December 31 were:

| millions of dollars                       | 2011  | 2010  | 2009  |
|---|-------|-------|-------|
| Depreciation and amortization             | 1,948 | 1,790 | 1,691 |
| Successful drilling and land acquisitions | 378   | 330   | 305   |

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|                                     |       |       |       |
|-------------------------------------|-------|-------|-------|
| Pension and benefits                | (720) | (414) | (427) |
| Site restoration                    | (267) | (224) | (233) |
| Capitalized interest                | 50    | 48    | 49    |
| Other                               | 51    | 16    | 11    |
| Deferred income tax liabilities     | 1,440 | 1,546 | 1,396 |
| LIFO inventory valuation            | (560) | (450) | (403) |
| Other                               | (30)  | (48)  | (64)  |
| Deferred income tax assets          | (590) | (498) | (467) |
| Valuation allowance                 | -     | -     | -     |
| Net deferred income tax liabilities | 850   | 1,048 | 929   |

**Table of Contents****Notes to consolidated financial statements (continued)****Unrecognized tax benefits**

Unrecognized tax benefits reflect the difference between positions taken or expected to be taken on tax returns and the amounts recognized in the financial statements. Resolution of the related tax positions will take many years to complete. It is difficult to predict the timing of resolution for tax positions, since such timing is not entirely within the control of the company. The company's effective tax rate will be reduced if any of these tax benefits are subsequently recognized.

The following table summarizes the movement in unrecognized tax benefits:

| millions of dollars                                   | 2011 | 2010 | 2009 |
|---|------|------|------|
| January 1 balance                                     | 147  | 165  | 150  |
| Additions based on current year's tax position        | -    | -    | -    |
| Additions for prior years' tax positions              | 20   | 24   | 17   |
| Reductions for prior years' tax positions             | (31) | (37) | (2)  |
| Reductions due to lapse of the statute of limitations | (2)  | (5)  | -    |
| December 31 balance                                   | 134  | 147  | 165  |

The 2011, 2010 and 2009 changes in unrecognized tax benefits did not have a material effect on the company's net income or cash flow. The company's tax filings from 2007 to 2010 are subject to examination by the tax authorities. The Canada Revenue Agency has proposed certain adjustments to the company's filings for several years in the period 1994 to 2006. Management is currently evaluating those proposed adjustments. Management believes that a number of outstanding matters before 2007 are expected to be resolved in 2012. The impact on unrecognized tax benefits and the company's effective income tax rate from these matters is not expected to be material.

The company classifies interest on income tax related balances as interest expense or interest income and classifies tax related penalties as operating expense.

**4. Employee retirement benefits**

Retirement benefits, which cover almost all retired employees and their surviving spouses, include pension income and certain health care and life insurance benefits. They are met through funded registered retirement plans and through unfunded supplementary benefits that are paid directly to recipients.

Pension income benefits consist mainly of company-paid defined benefit plans that are based on years of service and final average earnings. The company shares in the cost of health care and life insurance benefits. The company's benefit obligations are based on the projected benefit method of valuation that includes employee service to date and present compensation levels as well as a projection of salaries to retirement.

The expense and obligations for both funded and unfunded benefits are determined in accordance with United States generally accepted accounting principles and actuarial procedures. The process for determining retirement-income expense and related obligations includes making certain long-term assumptions regarding the discount rate, rate of return on plan assets and rate of compensation increases. The obligation and pension expense can vary significantly with changes in the assumptions used to estimate the obligation and the expected return on plan assets.

**Table of Contents****Notes to consolidated financial statements (continued)**

The benefit obligations and plan assets associated with the company's defined benefit plans are measured on December 31.

|  | Pension benefits |      | Other post-retirement benefits |      |
|--|------------------|------|--------------------------------|------|
|  | 2011             | 2010 | 2011                           | 2010 |
| Assumptions used to determine benefit obligations at December 31 (percent) |                  |      |                                |      |
| Discount rate  | 4.25             | 5.50 | 4.25                           | 5.50 |
| Long-term rate of compensation increase                                    | 4.50             | 4.50 | 4.50                           | 4.50 |

| millions of dollars                           |       |       |      |      |
|---|-------|-------|------|------|
| <b>Change in projected benefit obligation</b> |       |       |      |      |
| Projected benefit obligation at January 1     | 5,562 | 5,056 | 421  | 426  |
| Current service cost                          | 122   | 102   | 6    | 5    |
| Interest cost                                 | 314   | 307   | 23   | 24   |
| Actuarial loss/(gain)                         | 897   | 420   | 81   | (11) |
| Amendments                                    | 86    | -     | -    | -    |
| Benefits paid (a)                             | (335) | (323) | (23) | (23) |
| Projected benefit obligation at December 31   | 6,646 | 5,562 | 508  | 421  |
| Accumulated benefit obligation at December 31 | 5,970 | 5,001 |      |      |

The discount rate for calculating year-end post-retirement liabilities is based on the yield for high quality, long-term Canadian corporate bonds at year-end with an average maturity (or duration) approximately that of the liabilities. The measurement of the accumulated post-retirement benefit obligation assumes a health care cost trend rate of 4.50 percent in 2012 and subsequent years.

|  | Pension benefits |         | Other post-retirement benefits |       |
|--|------------------|---------|--------------------------------|-------|
|  | 2011             | 2010    | 2011                           | 2010  |
| millions of dollars  |                  |         |                                |       |
| <b>Change in plan assets</b>   |                  |         |                                |       |
| Fair value at January 1  | 4,296            | 3,753   |                                |       |
| Actual return/(loss) on plan assets  | 93               | 393     |                                |       |
| Company contributions  | 361              | 421     |                                |       |
| Benefits paid (b)  | (289)            | (271)   |                                |       |
| Fair value at December 31  | 4,461            | 4,296   |                                |       |
| Plan assets in excess of/(less than) projected benefit obligation at December 31 |                  |         |                                |       |
| Funded plans   | (1,595)          | (796)   |                                |       |
| Unfunded plans   | (590)            | (470)   | (508)                          | (421) |
| Total (c)  | (2,185)          | (1,266) | (508)                          | (421) |

(a) Benefit payments for funded and unfunded plans.

(b) Benefit payments for funded plans only.

(c) Fair value of assets less projected benefit obligation shown above.

Funding of registered retirement plans complies with federal and provincial pension regulations, and the company makes contributions to the plans based on an independent actuarial valuation. In accordance with authoritative guidance relating to the accounting for defined pension and other post-retirement benefits plans, the underfunded status of the company's defined benefit post-retirement plans was recorded as a liability in the balance sheet, and the changes in that funded status in the year in which the changes occurred was recognized through other comprehensive income.





**Table of Contents****Notes to consolidated financial statements (continued)**

| millions of dollars  | Pension benefits |         | Other post-retirement benefits |       |
|--|------------------|---------|--------------------------------|-------|
|  | 2011             | 2010    | 2011                           | 2010  |
| Amounts recorded in the consolidated balance sheet consist of:         |                  |         |                                |       |
| Current liabilities  | (24)             | (21)    | (24)                           | (26)  |
| Other long-term obligations  | (2,161)          | (1,245) | (484)                          | (395) |
| Total recorded   | (2,185)          | (1,266) | (508)                          | (421) |
| Amounts recorded in accumulated other comprehensive income consist of: |                  |         |                                |       |
| Net actuarial loss/(gain)  | 2,916            | 1,965   | 92                             | 15    |
| Prior service cost   | 107              | 43      | -                              | -     |
| Total recorded in accumulated other comprehensive income, before tax   | 3,023            | 2,008   | 92                             | 15    |

The company establishes the long-term expected rate of return on plan assets by developing a forward-looking long-term return assumption for each asset class, taking into account factors such as the expected real return for the specific asset class and inflation. A single long-term rate of return is then calculated as the weighted average of the target asset allocation and the long-term return assumption for each asset class. The 2011 long-term expected return of 7.00 percent used in the calculations of pension expense compares to an actual rate of return of 6.0 percent and 8.3 percent over the last 10- and 20-year periods ending December 31, 2011.

|   | Pension benefits |      |      | Other post-retirement benefits |      |      |
|---|------------------|------|------|--------------------------------|------|------|
|   | 2011             | 2010 | 2009 | 2011                           | 2010 | 2009 |
| Assumptions used to determine net periodic benefit cost for years ended December 31 (percent) |                  |      |      |                                |      |      |
| Discount rate   | 5.50             | 6.25 | 7.50 | 5.50                           | 6.25 | 7.50 |
| Long-term rate of return on funded assets   | 7.00             | 7.00 | 8.00 | -                              | -    | -    |
| Long-term rate of compensation increase   | 4.50             | 4.50 | 4.50 | 4.50                           | 4.50 | 4.50 |

| millions of dollars                            | Pension benefits |       |       | Other post-retirement benefits |     |     |
|--|------------------|-------|-------|--------------------------------|-----|-----|
| <b>Components of net periodic benefit cost</b> |                  |       |       |                                |     |     |
| Current service cost                           | 122              | 102   | 80    | 6                              | 5   | 4   |
| Interest cost                                  | 314              | 307   | 303   | 23                             | 24  | 27  |
| Expected return on plan assets                 | (308)            | (275) | (267) | -                              | -   | -   |
| Amortization of prior service cost             | 21               | 17    | 17    | -                              | (1) | -   |
| Recognized actuarial loss/(gain)               | 162              | 137   | 112   | 3                              | -   | (2) |
| Net periodic benefit cost                      | 311              | 288   | 245   | 32                             | 28  | 29  |

**Changes in amounts recorded in accumulated other comprehensive income**

|  |       |       |       |     |      |    |
|--|-------|-------|-------|-----|------|----|
| Net actuarial loss/(gain)  | 1,112 | 302   | 581   | 81  | (11) | 47 |
| Amortization of net actuarial (loss)/gain included in net periodic benefit cost        | (162) | (137) | (112) | (3) | -    | 2  |
| Prior service cost   | 86    | -     | -     | -   | -    | -  |
| Amortization of prior service cost included in net periodic benefit cost               | (21)  | (17)  | (17)  | -   | 1    | -  |
| Total recorded in other comprehensive income   | 1,015 | 148   | 452   | 78  | (10) | 49 |
| Total recorded in net periodic benefit cost and other comprehensive income, before tax | 1,326 | 436   | 697   | 110 | 18   | 78 |

**Table of Contents**

**Notes to consolidated financial statements (continued)**

Costs for defined contribution plans, primarily the employee savings plan, were \$36 million in 2011 (2010 - \$37 million, 2009 - \$36 million).

A summary of the change in accumulated other comprehensive income is shown in the table below:

| millions of dollars                                       | Total pension and other |       |       |
|---|-------------------------|-------|-------|
|   | 2011                    | 2010  | 2009  |
| (Charge)/credit to other comprehensive income, before tax | (1,093)                 | (138) | (501) |
| Deferred income tax (charge)/credit (note 3)              | 279                     | 35    | 127   |
| (Charge)/credit to other comprehensive income, after tax  | (814)                   | (103) | (374) |

The company's investment strategy for pension plan assets reflects a long-term view, a careful assessment of the risks inherent in various asset classes and broad diversification to reduce the risk of the portfolio. Consistent with the long-term nature of the liability, the plan assets are primarily invested in global, market-cap-weighted indexed equity and domestic indexed bond funds to diversify risk while minimizing costs. The equity funds hold Imperial Oil stock only to the extent necessary to replicate the relevant equity index. The balance of the plan assets is largely invested in high-quality corporate and government debt securities. Studies are periodically conducted to establish the preferred target asset allocation. The target asset allocation for equity securities is 46 percent. The target allocation for debt securities is 49 percent. Plan assets for the remaining 5 percent are invested in venture capital partnerships that pursue a strategy of investment in U.S. and international early stage ventures.

The 2011 fair value of the pension plan assets, including the level within the fair value hierarchy, is shown in the table below:

| millions of dollars             | Fair value measurements at December 31, 2011, using: |                      |                                   |                                     |
|---------------------------------|--|----------------------|-----------------------------------|-------------------------------------|
|                                 | Quoted prices  |                      |                                   |                                     |
|                                 | in<br>active<br>markets for<br>identical assets      | Significant<br>other |                                   | Significant                         |
|                                 |  | (Level<br>1)         | observable<br>inputs<br>(Level 2) | unobservable<br>inputs<br>(Level 3) |
| Asset class                     | <b>Total</b>   |                      |                                   |                                     |
| Equity securities               |  |                      |                                   |                                     |
| Canadian                        | 723  | 723                  | (a)                               |                                     |
| Non-Canadian                    | 1,408  | 1,408                | (a)                               |                                     |
| Debt securities - Canadian      |  |                      |                                   |                                     |
| Corporate                       | 487  | 487                  | (b)                               |                                     |
| Government                      | 1,671  | 1,671                | (b)                               |                                     |
| Asset backed                    | 15   | 15                   | (b)                               |                                     |
| Mortgage funds                  | 1  |                      |                                   | 1 (c)                               |
| Equities - Venture capital      | 148  |                      |                                   | 148 (d)                             |
| Cash                            | 8  | 6                    | 2 (e)                             |                                     |
| Total plan assets at fair value | 4,461  | 6                    | 4,306                             | 149                                 |

(a) For company equity securities held in the form of fund units that are redeemable at the measurement date, the unit value is treated as a Level 2 input. The fair value of the securities owned by the funds is based on observable quoted prices on active exchanges, which are Level 1 inputs.

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- (b) For corporate, government and asset-backed debt securities, fair value is based on observable inputs of comparable market transactions.
- (c) For mortgage funds, fair value represents the principal outstanding which is guaranteed by Canada Mortgage and Housing Corporation.
- (d) For venture capital partnership investments, fair value is generally established by using revenue or earnings multiples or other relevant market data including Initial Public Offerings.
- (e) For cash balances that are held in Level 2 funds prior to investment in those fund units, the cash value is treated as a Level 2 input.

**Table of Contents**

**Notes to consolidated financial statements (continued)**

The change in the fair value of Level 3 assets, which use significant unobservable inputs to measure fair value, is shown in the table below:

| millions of dollars             | Mortgage | Venture |
|---------------------------------|----------|---------|
|                                 | funds    | capital |
| Fair value at January 1, 2011   | 1        | 110     |
| Net realized gains/(losses)     | -        | (8)     |
| Net unrealized gains/(losses)   | -        | 27      |
| Net purchases/(sales)           | -        | 19      |
| Fair value at December 31, 2011 | 1        | 148     |

The 2010 fair value of the pension plan assets, including the level within the fair value hierarchy, is shown in the table below:

| millions of dollars             | Fair value measurements at December 31, 2010, using: |  |           |   |
|---------------------------------|--|--|-----------|---|
|                                 | Asset class  | Quoted prices                                    |           | Significant unobservable inputs (Level 3) |
|                                 |  | in active markets for identical assets (Level 1) |           |   |
|                                 |  | Significant other observable inputs (Level 2)    |           |   |
|                                 |  |  |           |   |
| Total                           | (Level 1)  | (Level 2)  | (Level 3) |   |
| Equity securities               |  |  |           |   |
| Canadian                        | 1,078  |  | 1,078     | (a)                                       |
| Non-Canadian                    | 1,392  |  | 1,392     | (a)                                       |
| Debt securities - Canadian      |  |  |           |   |
| Corporate                       | 439  |  | 439       | (b)                                       |
| Government                      | 1,229  |  | 1,229     | (b)                                       |
| Asset backed                    | 19   |  | 19        | (b)                                       |
| Mortgage funds                  | 1  |  |           | 1 (c)                                     |
| Equities Venture capital        | 110  |  |           | 110 (d)                                   |
| Cash                            | 28   | 25   | 3         | (e)                                       |
| Total plan assets at fair value | 4,296  | 25   | 4,160     | 111                                       |

(a) For company equity securities held in the form of fund units that are redeemable at the measurement date, the unit value is treated as a Level 2 input. The fair value of the securities owned by the funds is based on observable quoted prices on active exchanges, which are Level 1 inputs.

(b) For corporate, government and asset-backed debt securities, fair value is based on observable inputs of comparable market transactions.

(c) For mortgage funds, fair value represents the principal outstanding which is guaranteed by Canada Mortgage and Housing Corporation.

(d) For venture capital partnership investments, fair value is generally established by using revenue or earnings multiples or other relevant market data including Initial Public Offerings.

(e) For cash balances that are held in Level 2 funds prior to investment in those fund units, the cash value is treated as a Level 2 input.

The change in the fair value of Level 3 assets, which use significant unobservable inputs to measure fair value, is shown in the table below:

| millions of dollars | Mortgage | Venture |
|---------------------|----------|---------|
|---------------------|----------|---------|

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|                                 | funds | capital |
|---------------------------------|-------|---------|
| Fair value at January 1, 2010   | 2     | 95      |
| Net realized gains/(losses)     | (1)   | (3)     |
| Net unrealized gains/(losses)   | 1     | 2       |
| Net purchases/(sales)           | (1)   | 16      |
| Fair value at December 31, 2010 | 1     | 110     |

**Table of Contents****Notes to consolidated financial statements (continued)**

A summary of pension plans with accumulated benefit obligations in excess of plan assets is shown in the table below:

| millions of dollars  | Pension benefits |       |
|--|------------------|-------|
|  | 2011             | 2010  |
| <b>For funded pension plans with accumulated benefit obligations in excess of plan assets:</b> |                  |       |
| Projected benefit obligation   | 6,056            | 5,092 |
| Accumulated benefit obligation   | 5,436            | 4,584 |
| Fair value of plan assets  | 4,461            | 4,296 |
| Accumulated benefit obligation less fair value of plan assets                                  | 975              | 288   |
| <b>For unfunded plans covered by book reserves:</b>  |                  |       |
| Projected benefit obligation   | 590              | 470   |
| Accumulated benefit obligation   | 534              | 416   |
| <b>Estimated 2012 amortization from accumulated other comprehensive income</b>                 |                  |       |

| millions of dollars           | Pension benefits | Other post-retirement benefits |
|-------------------------------|------------------|--------------------------------|
| Net actuarial loss/(gain) (a) | 226              | 8                              |
| Prior service cost (b)        | 23               | -                              |

(a) The company amortizes the net balance of actuarial loss/(gain) as a component of net periodic benefit cost over the average remaining service period of active plan participants.

(b) The company amortizes prior service cost on a straight-line basis.

**Cash flows**

Benefit payments expected in:

| millions of dollars | Pension benefits | Other post-retirement benefits |
|---------------------|------------------|--------------------------------|
| 2012                | 321              | 28                             |
| 2013                | 328              | 28                             |
| 2014                | 336              | 27                             |
| 2015                | 346              | 27                             |
| 2016                | 354              | 27                             |
| 2017 - 2021         | 1,881            | 137                            |

In 2012, the company expects to make cash contributions of about \$600 million to its pension plans.

**Sensitivities**

A one percent change in the assumptions at which retirement liabilities could be effectively settled is as follows:

| Increase/(decrease) | One percent<br>One percent<br>increase | One percent<br>One percent<br>decrease |
|---------------------|--|--|
|---------------------|--|--|

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millions of dollars

|  |       |       |
|--|-------|-------|
| <b>Rate of return on plan assets:</b>  |       |       |
| Effect on net benefit cost, before tax | (45)  | 45    |
| <b>Discount rate:</b>                  |       |       |
| Effect on net benefit cost, before tax | (60)  | 70    |
| Effect on benefit obligation           | (855) | 1,070 |
| <b>Rate of pay increases:</b>          |       |       |
| Effect on net benefit cost, before tax | 35    | (30)  |
| Effect on benefit obligation           | 190   | (170) |



**Table of Contents****Notes to consolidated financial statements (continued)**

A one percent change in the assumed health-care cost trend rate would have the following effects:

| Increase/(decrease)                            | One percent | One percent |
|--|-------------|-------------|
|  | increase    | decrease    |
| millions of dollars                            |             |             |
| Effect on service and interest cost components | 3           | (2)         |
| Effect on benefit obligation                   | 43          | (36)        |

**5. Other long-term obligations**

| millions of dollars  | One percent <sup>0000</sup> | One percent <sup>0000</sup> |
|--|-----------------------------|-----------------------------|
|  | 2011                        | 2010                        |
| Employee retirement benefits (note 4)(a)                             | 2,645                       | 1,640                       |
| Asset retirement obligations and other environmental liabilities (b) | 914                         | 754                         |
| Share-based incentive compensation liabilities (note 7)              | 125                         | 127                         |
| Other obligations  | 192                         | 232                         |
| <b>Total other long-term obligations</b>                             | <b>3,876</b>                | <b>2,753</b>                |

(a) Total recorded employee retirement benefit obligations also include \$48 million in current liabilities (2010 \$47 million).

(b) Total asset retirement obligations and other environmental liabilities also include \$145 million in current liabilities (2010 \$134 million).

Asset retirement obligations incurred in the current period were Level 3 (unobservable inputs) fair value measurements. The following table summarizes the activity in the liability for asset retirement obligations:

| millions of dollars | One percent <sup>0000000000</sup> | One percent <sup>0000000000</sup> |
|---------------------|-----------------------------------|-----------------------------------|
|                     | 2011                              | 2010                              |
| January 1 balance   | 773                               | 810                               |
| Additions           | 217                               | -                                 |
| Accretion           | 46                                | 48                                |
| Settlement          | (100)                             | (85)                              |
| December 31 balance | 936                               | 773                               |

**6. Derivatives and financial instruments**

The company did not enter into any derivative instruments to offset exposures associated with hydrocarbon prices, foreign currency exchange rates and interest rates that arose from existing assets, liabilities and transactions in the past three years. The company did not engage in speculative derivative activities or derivative trading activities nor did it use derivatives with leveraged features. The company maintains a system of controls that includes a policy covering the authorization, reporting and monitoring of derivative activity.

The fair value of the company's financial instruments is determined by reference to various market data and other appropriate valuation techniques. There are no material differences between the fair values of the company's financial instruments and the recorded book value. The fair value hierarchy for long-term debt is primarily Level 2 (observable input).

**7. Share-based incentive compensation programs**

Share-based incentive compensation programs are designed to retain selected employees, reward them for high performance and promote individual contribution to sustained improvement in the company's future business performance and shareholder value.

**Restricted stock units, deferred share units and incentive share units**

Under the restricted stock unit plan, each unit entitles the recipient to the conditional right to receive from the company, upon exercise, an amount equal to the five-day average of the closing price of the company's common shares on the Toronto Stock Exchange on and immediately prior to the exercise dates. Fifty percent of the units are exercised three years following the grant date, and the remainder is exercised seven years following the grant date. The company may also issue units where 50 percent of the units are exercisable five years following the grant date and the remainder is exercisable on the later of ten years following the grant date or the retirement date of the recipient. For units granted in 2005, the exercise dates have been changed from December 31 to December 4. For units granted in 2005 to be exercised subsequent to the company's

**Table of Contents****Notes to consolidated financial statements (continued)**

May 2006 three-for-one share split, the company has indicated that it will increase the cash payment or number of shares issued per unit, as the case may be, by a factor of three.

The deferred share unit plan is made available to nonemployee directors. The nonemployee directors can elect to receive all or part of their directors' fees in units. The number of units granted is determined at the end of each calendar quarter by dividing the dollar amount of the nonemployee director's fees for that calendar quarter elected to be received as deferred share units by the average closing price of the company's shares for the five consecutive trading days immediately prior to the last day of the calendar quarter. Additional units are granted based on the cash dividend payable on the company's shares divided by the average closing price immediately prior to the payment date for that dividend and multiplying the resulting number by the number of deferred share units held by the recipient, as adjusted for any share splits. Deferred share units cannot be exercised until after resignation as a director and must be exercised no later than December 31 of the year following resignation. On the exercise date, the cash value to be received for the units is determined based on the average closing price of the company's shares for the five consecutive trading days immediately prior to the date of exercise, as adjusted for any share splits.

The company's incentive share units gave the recipient a right to receive cash equal to the amount by which the market price of the company's common shares at the time of exercise exceeds the issue price of the units. These units were granted prior to 2002. The issue price of the units granted to recipients was the closing price of the company's shares on the Toronto Stock Exchange on the grant date. The last grant expired in 2011.

All units require settlement by cash payments with the following exceptions. The restricted stock unit program was amended for units granted in 2002 and subsequent years by providing that the recipient may receive one common share of the company per unit or elect to receive the cash payment for the units to be exercised in the seventh year following the grant date. For units where 50 percent are exercisable five years following the grant date and the remainder exercisable on the later of ten years following the grant date or the retirement date of the recipient, the recipient may receive one common share of the company per unit or elect to receive cash payment for all units to be exercised.

The company accounts for all units by using the fair-value-based method. The fair value of awards in the form of restricted stock and deferred share units is the market price of the company's stock. Under this method, compensation expense related to the units of these programs is measured each reporting period based on the company's current stock price and is recorded in the consolidated statement of income over the requisite service period of each award.

The following table summarizes information about these units for the year ended December 31, 2011:

|                                  | Restricted<br>stock units | Deferred<br>share units | Incentive<br>share units |
|----------------------------------|---------------------------|-------------------------|--------------------------|
| Outstanding at January 1, 2011   | 9,900,358                 | 85,719                  | 2,197,350                |
| Granted                          | 1,792,340                 | 8,919                   | -                        |
| Exercised                        | (2,296,869)               | (22,341)                | (2,197,350)              |
| Forfeited and cancelled          | (62,116)                  | -                       | -                        |
| Outstanding at December 31, 2011 | 9,333,713                 | 72,297                  | -                        |

The compensation expense charged against income for these programs was \$91 million, \$57 million and \$59 million for the years ended December 31, 2011, 2010 and 2009, respectively. Income tax benefit recognized in income related to compensation expense for the years ended December 31, 2011, 2010 and 2009 was \$33 million, \$27 million and \$24 million, respectively. Cash payments of \$173 million, \$152 million and \$126 million for these programs were made in 2011, 2010 and 2009, respectively.

As of December 31, 2011, there was \$216 million of total before-tax unrecognized compensation expense related to non-vested restricted stock units based on the company's share price at the end of the current reporting period. The weighted average vesting period of nonvested restricted stock units is 3.8 years. All units under the deferred share programs have vested as of December 31, 2011.



**Table of Contents****Notes to consolidated financial statements (continued)****Incentive stock options**

In April 2002, incentive stock options were granted for the purchase of the company's common shares. For units exercised subsequent to the company's May 2006 three-for-one split, the company has indicated that it will give the option holders the right to purchase three shares for each original stock option granted. The exercise price is \$15.50 per share (adjusted to reflect the three-for-one share split). All options have vested as of December 31, 2011. Any unexercised options expire after April 29, 2012. The company has not issued incentive stock options since 2002 and has no plans to issue incentive stock options in the future.

Since incentive stock option awards vested prior to the effective date of current authoritative guidance relating to accounting for stock-based compensation, they continue to be accounted for under the prior prescribed method. Under this method, compensation expense of incentive stock option awards is not recognized, as the exercise price of the option is equal to the market price of the stock on the date of grant.

The aggregate intrinsic value of stock options exercised was \$40 million, \$5 million and \$1 million in the years ended December 31, 2011, 2010 and 2009, respectively, and for the outstanding stock options was \$83 million as at December 31, 2011.

The average fair value of each option granted during 2002 was \$4.23 (adjusted to reflect the three-for-one share split). The fair value was estimated at the grant date using an option-pricing model with the following weighted average assumptions: risk-free interest rate of 5.7 percent, expected life of five years, volatility of 25 percent and a dividend yield of 1.9 percent.

The company has purchased shares on the market to fully offset the dilutive effects from the exercise of stock options. Purchase may be discontinued at any time without prior notice.

The following table summarizes information about stock options for the year ended December 31, 2011:

|                                  | (1,258,038) | (1,258,038)<br>Exercise | (1,258,038)                              |
|----------------------------------|-------------|-------------------------|--|
|                                  | Units       | price<br>(dollars)      | Remaining<br>contractual<br>term (years) |
| Incentive stock options          |             |                         |  |
| Outstanding at January 1, 2011   | 4,033,746   | 15.50                   |  |
| Granted                          | -           |                         |  |
| Exercised                        | (1,258,038) | 15.50                   |  |
| Forfeited and cancelled          | -           |                         |  |
| Outstanding at December 31, 2011 | 2,775,708   | 15.50                   | 0.3                                      |

**8. Investment and other income**

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

|  | (1,258,038) | (1,258,038) | (1,258,038) |
|--|-------------|-------------|-------------|
| millions of dollars                        | 2011        | 2010        | 2009        |
| Proceeds from asset sales                  | 314         | 144         | 67          |
| Book value of assets sold                  | 117         | 49          | 22          |
| Gain/(loss) on asset sales, before tax (a) | 197         | 95          | 45          |

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|  |     |    |    |
|--|-----|----|----|
| Gain/(loss) on asset sales, after tax (a)  | 153 | 80 | 38 |
| (a) 2011 included gains of \$104 million (\$76 million, after tax) from the sale of the company's interests in shallow gas properties in the Medicine Hat, Alberta area, the Coleville-Hoosier natural gas producing property in Saskatchewan and the Rainbow Lake producing property in Alberta. 2011 also included a gain of \$55 million (\$40 million, after tax) from an exchange of oil sands leases with a third party. |     |    |    |

### **9. Litigation and other contingencies**

A variety of claims have been made against Imperial Oil Limited and its subsidiaries in a number of lawsuits. Management has regular litigation reviews, including updates from corporate and outside counsel, to assess the need for accounting recognition or disclosure of these contingencies. The company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range

**Table of Contents****Notes to consolidated financial statements (continued)**

is a better estimate than any other amount, then the minimum of the range is accrued. The company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated or when the liability is believed to be only reasonably possible or remote. For contingencies where an unfavourable outcome is reasonably possible and which are significant, the company discloses the nature of the contingency and, where feasible, an estimate of the possible loss. For purposes of the company's contingency disclosures, significant includes material matters as well as other matters which management believes should be disclosed. Based on a consideration of all relevant facts and circumstances, the company does not believe the ultimate outcome of any currently pending lawsuits against the company will have a material adverse effect on the company's operations, financial condition, or financial statements taken as a whole.

Additionally, the company has other commitments arising in the normal course of business for operating and capital needs, all of which are expected to be fulfilled with no adverse consequences material to the company's operations or financial condition. Unconditional purchase obligations, as defined by accounting standards, are those long-term commitments that are non-cancelable or cancelable only under certain conditions and that third parties have used to secure financing for the facilities that will provide the contracted goods and services.

| millions of dollars                    | Payments due by period |           |           |           |           |            | Total      |
|--|------------------------|-----------|-----------|-----------|-----------|------------|------------|
|  | 2012                   | 2013      | 2014      | 2015      | 2016      | After 2016 |            |
| Unconditional purchase obligations (a) | <b>48</b>              | <b>40</b> | <b>40</b> | <b>39</b> | <b>39</b> | <b>163</b> | <b>369</b> |

(a) Undiscounted obligations of \$369 million mainly pertain to pipeline throughput agreements. Total payments under unconditional purchase obligations were \$73 million (2010 - \$78 million, 2009 - \$74 million). The present value of these commitments, excluding imputed interest of \$83 million, totaled \$286 million.

**10. Common shares**

|  |                     |                     |
|--|---------------------|---------------------|
|  | <b>0,000,000,00</b> | <b>0,000,000,00</b> |
|  | <b>As at</b>        | <b>As at</b>        |
|  | <b>Dec. 31</b>      | <b>Dec. 31</b>      |

| thousands of shares | 2011             | 2010      |
|---------------------|------------------|-----------|
| Authorized          | <b>1,100,000</b> | 1,100,000 |

From 1995 through 2010, the company purchased shares under sixteen 12-month normal course issuer bid share repurchase programs, as well as an auction tender. On June 25, 2011, another 12-month normal course issuer bid program was implemented with an allowable purchase of up to about 42 million shares, including shares purchased from Exxon Mobil Corporation and shares purchased by the employee savings plan and company pension fund. The results of these activities are as shown below.

| Year                         | shares<br>(thousands) | Millions of<br>dollars |
|------------------------------|-----------------------|------------------------|
| 1995 to 2009                 | 902,295               | 15,513                 |
| 2010                         | 208                   | 8                      |
| <b>2011</b>                  | <b>1,262</b>          | <b>59</b>              |
| Cumulative purchases to date | 903,765               | 15,580                 |

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

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



**Table of Contents****Notes to consolidated financial statements (continued)**

The company's common share activities are summarized below:

|   | Thousands of<br>shares | Millions of<br>dollars |
|---|------------------------|------------------------|
| Balance as at January 1, 2009                   | 859,402                | 1,528                  |
| Issued under employee share-based awards        | 58                     | 1                      |
| Purchases at stated value                       | (11,861)               | (21)                   |
| Balance as at December 31, 2009                 | 847,599                | 1,508                  |
| Issued under employee share-based awards        | 208                    | 3                      |
| Purchases at stated value                       | (208)                  | -                      |
| Balance as at December 31, 2010                 | 847,599                | 1,511                  |
| <b>Issued under employee share-based awards</b> | <b>1,262</b>           | <b>19</b>              |
| <b>Purchases at stated value</b>                | <b>(1,262)</b>         | <b>(2)</b>             |
| <b>Balance as at December 31, 2011</b>          | <b>847,599</b>         | <b>1,528</b>           |

The following table provides the calculation of basic and diluted earnings per share:

|  | 2011  | 2010  | 2009  |
|--|-------|-------|-------|
| <b>Net income per common share - basic</b>   |       |       |       |
| Net income (millions of dollars)   | 3,371 | 2,210 | 1,579 |
| Weighted average number of common shares outstanding   |       |       |       |
| (millions of shares)   | 847.7 | 847.6 | 849.8 |
| Net income per common share (dollars)  | 3.98  | 2.61  | 1.86  |
| <b>Net income per common share - diluted</b>   |       |       |       |
| Net income (millions of dollars)   | 3,371 | 2,210 | 1,579 |
| Weighted average number of common shares outstanding   |       |       |       |
| (millions of shares)   | 847.7 | 847.6 | 849.8 |
| Effect of employee share-based awards (millions of shares)                                   | 5.9   | 6.6   | 6.9   |
| Weighted average number of common shares outstanding, assuming dilution (millions of shares) | 853.6 | 854.2 | 856.7 |
| Net income per common share (dollars)  | 3.95  | 2.59  | 1.84  |

**11. Miscellaneous financial information**

In 2011, net income included an after-tax gain of \$10 million (2010 \$38 million gain, 2009 \$46 million gain) attributable to the effect of changes in last-in, first-out (LIFO) inventories. The replacement cost of inventories was estimated to exceed their LIFO carrying values at December 31, 2011 by \$2,196 million (2010 \$1,859 million). Inventories of crude oil and products at year-end consisted of the following:

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| millions of dollars   | 2011 | 2010 |
|-----------------------|------|------|
| Crude oil             | 448  | 285  |
| Petroleum products    | 247  | 180  |
| Chemical products     | 57   | 52   |
| Natural gas and other | 10   | 10   |

|   |     |     |
|---|-----|-----|
| Total inventories of crude oil and products | 762 | 527 |
|---|-----|-----|

Net research and development costs charged to expenses in 2011 were \$120 million (2010 - \$97 million, 2009 - \$110 million). These costs are included in expenses due to the uncertainty of future benefits.

Cash flow from operating activities included dividends of \$3 million received from equity investments in 2011 (2010 - \$9 million, 2009 - \$14 million).

Accounts payable and accrued liabilities included accrued taxes other than income taxes of \$540 million at December 31, 2011 (2010 - \$357 million).

**Table of Contents****Notes to consolidated financial statements (continued)****12. Financing costs**

| millions of dollars              | 000,000,000,<br>2011 | 000,000,000,<br>2010 | 000,000,000,<br>2009 |
|----------------------------------|----------------------|----------------------|----------------------|
| Debt-related interest            | 16                   | 6                    | 5                    |
| Capitalized interest             | (16)                 | (6)                  | (5)                  |
| Net interest expense             | -                    | -                    | -                    |
| Other interest                   | 3                    | 7                    | 5                    |
| <b>Total financing costs (a)</b> | <b>3</b>             | <b>7</b>             | <b>5</b>             |

(a) Cash interest payments in 2011 were \$16 million (2010 - \$12 million, 2009 - \$8 million). The weighted average interest rate on short-term borrowings in 2011 was 1.0 percent (2010 - 0.7 percent).

**13. Leased facilities**

At December 31, 2011, the company held non-cancelable operating leases covering office buildings, rail cars, service stations and other properties with minimum undiscounted lease commitments totalling \$430 million as indicated in the following table:

| millions of dollars                          | Payments due by period |      |      |      |      |               | Total |
|--|------------------------|------|------|------|------|---------------|-------|
|  | 2012                   | 2013 | 2014 | 2015 | 2016 | After<br>2016 |       |
| Lease payments under minimum commitments (a) | 186                    | 92   | 56   | 52   | 20   | 24            | 430   |

(a) Total rental expenditures incurred for operating leases in 2011 were \$226 million (2010 - \$173 million, 2009 - \$129 million), which included minimum rental expenditures of \$226 million (2010 - \$173 million, 2009 - \$128 million). Related rental income was not material.

**14. Long-term debt**

|                             | As at<br>Dec. 31<br>2011 | As at<br>Dec. 31<br>2010 |
|-----------------------------|--------------------------|--------------------------|
| millions of dollars         |                          |                          |
| Long-term debt (a)          | 820                      | 500                      |
| Capital leases (b)          | 23                       | 27                       |
| <b>Total long-term debt</b> | <b>843</b>               | <b>527</b>               |

- (a) In 2011, the company borrowed an additional \$320 million under an existing agreement with an affiliated company of Exxon Mobil Corporation (ExxonMobil) that provides for a long-term, variable-rate loan from ExxonMobil to the company of up to \$5 billion (Canadian) at interest equivalent to Canadian market rates. The agreement is effective until July 31, 2020, cancelable if ExxonMobil provides at least 370 days advance written notice. Average effective rate for the loan was 1.3 percent in 2011.
- (b) Capitalized lease obligations primarily relate to the capital lease for marine services, which are provided by the lessor commencing in 2004 for a period of 10 years, extendable for an additional five years. The average imputed rate was 11.4 percent in 2011 (2010 - 11.2 percent). Total capitalized lease obligations also

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include \$4 million in current liabilities (2010 - \$4 million). Principal payments on capital leases of approximately \$4 million a year are due in each of the remaining three years of the initial term of the arrangement.

In the second quarter of 2011, the company extended the maturity date of its existing stand-by \$200 million long-term bank credit facility to July 2013. The company has not drawn on the facility.

**Table of Contents****Notes to consolidated financial statements (continued)****15. Accounting for suspended exploratory well costs**

The company continues capitalization of exploratory well costs beyond one year after the well is completed if (a) the well found a sufficient quantity of reserves to justify its completion as a producing well and (b) sufficient progress is being made in assessing the reserves and the economic and operating viability of the project.

The following two tables provide details of the changes in the balance of suspended exploratory well costs as well as an aging summary of those costs.

Change in capitalized suspended exploratory well costs:

| millions of dollars   | 2011 | 2010 | 2009 |
|---|------|------|------|
| January 1 balance   | 120  | 45   | -    |
| Additions pending the determination of proved reserves  | 43   | 75   | 45   |
| Charged to expense  | -    | -    | -    |
| Reclassification to wells, facilities and equipment based on the determination of proved reserves | -    | -    | -    |
| December 31 balance   | 163  | 120  | 45   |

Period end capitalized suspended exploratory well costs:

| millions of dollars                                    | 2011 | 2010 | 2009 |
|--|------|------|------|
| Capitalized for a period of one year or less           | 43   | 75   | 45   |
| Capitalized for a period of between one and five years | 120  | 45   | -    |
| Capitalized for a period of greater than one year      | 120  | 45   | -    |
| Total  | 163  | 120  | 45   |

Exploration activity often involves drilling multiple wells, over a number of years, to fully evaluate a project. The table below provides a numerical breakdown of the number of projects with suspended exploratory well costs which had their first capitalized well drilled in the preceding 12 months and those that have had exploratory well costs capitalized for a period greater than 12 months.

|  | 2011 | 2010 | 2009 |
|--|------|------|------|
| Number of projects with first capitalized well drilled in the preceding 12 months                      | 1    | -    | 1    |
| Number of projects that have exploratory well costs capitalized for a period of greater than 12 months | 1    | 1    | -    |
| Total  | 2    | 1    | 1    |

The project with exploratory well costs capitalized for a period greater than 12 months as of December 31, 2011 has drilling in the preceding 12 months.

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**Table of Contents**

**Notes to consolidated financial statements (continued)**

**16. Transactions with related parties**

Revenues and expenses of the company also include the results of transactions with Exxon Mobil Corporation and affiliated companies (ExxonMobil) in the normal course of operations. These were conducted on terms as favourable as they would have been with unrelated parties and primarily consisted of the purchase and sale of crude oil, petroleum and chemical products, as well as technical, engineering and research and development costs. Transactions with ExxonMobil also included amounts paid and received in connection with the company's participation in a number of upstream activities conducted jointly in Canada.

In addition, the company has existing agreements with ExxonMobil to:

- a) provide computer and customer support services to the company and to share common business and operational support services that allow the companies to consolidate duplicate work and systems;
- b) operate the Western Canada production properties owned by ExxonMobil as well as provide for the delivery of management, business and technical services to ExxonMobil in Canada. These agreements are designed to provide organizational efficiencies and to reduce costs. No separate legal entities were created from these arrangements. Separate books of account continue to be maintained for the company and ExxonMobil. The company and ExxonMobil retain ownership of their respective assets, and there is no impact on operations or reserves;
- c) provide for the delivery of management, business and technical services to Syncrude Canada Ltd. by ExxonMobil; and
- d) provide for equal participation in new upstream opportunities.

Certain charges from ExxonMobil have been capitalized; they are not material in the aggregate.

As at December 31, 2011, the company had outstanding loans of \$820 million (2010 - \$500 million) from ExxonMobil (see note 14, long-term debt, on page 74 for further details).

As at December 31, 2011, the company had outstanding loans of \$18 million (2010 - \$30 million) to Montreal Pipe Line Limited, in which the company has an equity interest, for financing of the equity company's capital expenditure programs and working capital requirements.

**Table of Contents****Supplemental information on oil and gas exploration and production activities  
(unaudited)**

The information on pages 77 to 78 excludes items not related to oil and natural gas extraction, such as administrative and general expenses, pipeline operations, gas plant processing fees and gains or losses on asset sales. The company's 25 percent interest in proved synthetic oil reserves in the Syncrude joint-venture and 70.96 percent interest in proved bitumen reserves in the Kearl project are included as part of the company's total proved oil and gas reserves in accordance with U.S. Securities and Exchange Commission (SEC) and U.S. Financial Accounting Standards Board (FASB) rules. Similarly, the company's share of proved synthetic oil reserves from Syncrude and proved bitumen reserves from Kearl are included in the calculation of the standardized measure of discounted future cash flows. Results of operations, costs incurred in property acquisitions, exploration and development activities, and capitalized costs include the company's share of Syncrude, Kearl and other unproved mineable acreages in the following tables.

**Results of operations**

| millions of dollars        | 2011  | 2010  | 2009  |
|----------------------------|-------|-------|-------|
| Sales to customers (a)     | 2,185 | 2,094 | 1,887 |
| Intersegment sales (a)(b)  | 3,828 | 3,165 | 2,822 |
|                            | 6,013 | 5,259 | 4,709 |
| Production expenses        | 2,352 | 2,225 | 2,212 |
| Exploration expenses       | 90    | 190   | 151   |
| Depreciation and depletion | 530   | 521   | 540   |
| Income taxes               | 718   | 591   | 489   |
| Results of operations      | 2,323 | 1,732 | 1,317 |

**Costs incurred in property acquisitions, exploration and development activities**

| millions of dollars   | 2011  | 2010  | 2009  |
|---|-------|-------|-------|
| Property costs (c)  |       |       |       |
| Proved  | -     | -     | -     |
| Unproved  | 114   | 70    | 191   |
| Exploration costs   | 133   | 260   | 233   |
| Development costs   | 3,792 | 3,515 | 1,878 |
| Total costs incurred in property acquisitions, exploration and development activities | 4,039 | 3,845 | 2,302 |

The amounts reported as costs incurred in property acquisitions, exploration and development activities include both capitalized costs and costs charged to expense during the year. Costs incurred also include new asset retirement obligations established in the current year, as well as increases or decreases to the asset retirement obligation resulting from changes in cost estimates or abandonment.

**Capitalized costs**

| millions of dollars                    | 2011    | 2010    |
|--|---------|---------|
| Property costs (c)                     |         |         |
| Proved                                 | 2,984   | 3,163   |
| Unproved                               | 636     | 526     |
| Producing assets                       | 12,393  | 12,253  |
| Support facilities                     | 342     | 254     |
| Incomplete construction                | 8,876   | 5,785   |
| Total capitalized cost                 | 25,231  | 21,981  |
| Accumulated depreciation and depletion | (9,740) | (9,733) |
| Net capitalized costs                  | 15,491  | 12,248  |

(a) Sales to customers or intersegment sales do not include the sale of natural gas and natural gas liquids purchased for resale, as well as royalty payments. These items are reported gross in note 2 in operating revenues, intersegment sales and in purchases of crude oil and products.

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- (b) Sales of crude oil to consolidated affiliates are at market value, using posted field prices. Sales of natural gas liquids to consolidated affiliates are at prices estimated to be obtainable in a competitive, arms-length transaction.
- (c) Property costs are payments for rights to explore for petroleum and natural gas and for purchased reserves (acquired tangible and intangible assets such as gas plants, production facilities and producing-well costs are included under producing assets ). Proved represents areas where successful drilling has delineated a field capable of production. Unproved represents all other areas.



**Table of Contents****Supplemental information on oil and gas exploration and production activities**

(unaudited) (continued)

**Standardized measure of discounted future cash flows**

As required by the U.S. Financial Accounting Standards Board (FASB), the standardized measure of discounted future net cash flows is computed by applying first-day-of-the-month average prices, year-end costs and legislated tax rates and a discount factor of 10 percent to net proved reserves. The standardized measure includes costs for future dismantlement, abandonment and remediation obligations. The company believes the standardized measure does not provide a reliable estimate of the company's expected future cash flows to be obtained from the development and production of its oil and gas properties or of the value of its proved oil and gas reserves. The standardized measure is prepared on the basis of certain prescribed assumptions, including first-day-of-the-month average prices, which represent discrete points in time and therefore may cause significant variability in cash flows from year to year as prices change.

**Standardized measure of discounted future net cash flows related to proved oil and gas reserves**

| millions of dollars  | 2011            | 2010     | 2009     |
|--|-----------------|----------|----------|
| Future cash flows  | <b>224,130</b>  | 158,835  | 138,279  |
| Future production costs  | <b>(82,903)</b> | (62,051) | (58,057) |
| Future development costs   | <b>(27,259)</b> | (16,920) | (20,893) |
| Future income taxes  | <b>(26,671)</b> | (18,765) | (14,307) |
| Future net cash flows  | <b>87,297</b>   | 61,099   | 45,022   |
| Annual discount of 10 percent for estimated timing of cash flows | <b>(61,277)</b> | (39,848) | (31,647) |
| Discounted future cash flows                                     | <b>26,020</b>   | 21,251   | 13,375   |

**Changes in standardized measure of discounted future net cash flows related to proved oil and gas reserves**

|  |                |         |         |
|--|----------------|---------|---------|
| Balance at beginning of year   | <b>21,251</b>  | 13,375  | 1,258   |
| Changes resulting from:  |                |         |         |
| Sales and transfers of oil and gas produced, net of production costs         | <b>(3,764)</b> | (3,130) | (2,658) |
| Net changes in prices, development costs and production costs                | <b>2,845</b>   | 4,217   | 9,856   |
| Extensions, discoveries, additions and improved recovery, less related costs | <b>1,694</b>   | (2)     | 1       |
| Development costs incurred during the year                                   | <b>3,583</b>   | 3,360   | 1,802   |
| Revisions of previous quantity estimates                                     | <b>165</b>     | 4,085   | 7,265   |
| Accretion of discount  | <b>1,725</b>   | 998     | 178     |
| Net change in income taxes   | <b>(1,479)</b> | (1,652) | (4,327) |
| Net change   | <b>4,769</b>   | 7,876   | 12,117  |
| Balance at end of year   | <b>26,020</b>  | 21,251  | 13,375  |

**Table of Contents****Supplemental information on oil and gas exploration and production activities**

(unaudited) (continued)

**Net Proved Reserves (a)**

|   |             |              |               |              | Total          |
|---|-------------|--------------|---------------|--------------|----------------|
|   |             |              |               |              | oil-equivalent |
|   | Liquids (b) | Natural gas  | Synthetic oil | Bitumen      | basis (c)      |
|   | millions of | billions of  | millions of   | millions of  | millions of    |
|   | barrels     | cubic feet   | barrels       | barrels      | barrels        |
| Beginning of year 2009                      | 64          | 593          | -             | 630          | 793            |
| Revisions                                   | 8           | 98           | 715           | 1,075        | 1,814          |
| Improved recovery                           | -           | -            | -             | -            | -              |
| (Sale)/purchase of reserves in place        | -           | (1)          | -             | -            | -              |
| Discoveries and extensions                  | -           | -            | -             | -            | -              |
| Production                                  | (9)         | (100)        | (24)          | (44)         | (94)           |
| End of year 2009                            | 63          | 590          | 691           | 1,661        | 2,513          |
| Revisions                                   | 2           | 80           | 14            | 96           | 125            |
| Improved recovery                           | -           | -            | -             | -            | -              |
| (Sale)/purchase of reserves in place        | -           | (2)          | -             | -            | -              |
| Discoveries and extensions                  | -           | 1            | -             | -            | -              |
| Production                                  | (8)         | (93)         | (24)          | (42)         | (89)           |
| End of year 2010                            | 57          | 576          | 681           | 1,715        | 2,549          |
| <b>Revisions</b>                            | <b>4</b>    | <b>11</b>    | <b>(4)</b>    | <b>36</b>    | <b>38</b>      |
| <b>Improved recovery</b>                    | <b>-</b>    | <b>-</b>     | <b>-</b>      | <b>-</b>     | <b>-</b>       |
| <b>(Sale)/purchase of reserves in place</b> | <b>-</b>    | <b>(103)</b> | <b>-</b>      | <b>-</b>     | <b>(17)</b>    |
| <b>Discoveries and extensions</b>           | <b>-</b>    | <b>21</b>    | <b>-</b>      | <b>706</b>   | <b>709</b>     |
| <b>Production</b>                           | <b>(6)</b>  | <b>(83)</b>  | <b>(24)</b>   | <b>(44)</b>  | <b>(88)</b>    |
| <b>End of year 2011</b>                     | <b>55</b>   | <b>422</b>   | <b>653</b>    | <b>2,413</b> | <b>3,191</b>   |

**Net Proved Developed Reserves included above, as of**

|                          |           |            |            |            |              |
|--------------------------|-----------|------------|------------|------------|--------------|
| January 1, 2009          | 63        | 513        | -          | 425        | 574          |
| December 31, 2009        | 62        | 526        | 691        | 468        | 1,309        |
| December 31, 2010        | 56        | 507        | 681        | 519        | 1,340        |
| <b>December 31, 2011</b> | <b>55</b> | <b>360</b> | <b>653</b> | <b>519</b> | <b>1,287</b> |

**Net Proved Undeveloped Reserves included above, as of**

|                          |          |           |          |              |              |
|--------------------------|----------|-----------|----------|--------------|--------------|
| December 31, 2009        | 1        | 64        | -        | 1,193        | 1,204        |
| December 31, 2010        | 1        | 69        | -        | 1,196        | 1,209        |
| <b>December 31, 2011</b> | <b>-</b> | <b>62</b> | <b>-</b> | <b>1,894</b> | <b>1,904</b> |

(a) Net reserves are the company's share of reserves after deducting the shares of mineral owners or governments or both. All reported reserves are located in Canada. Reserves of natural gas are calculated at a pressure of 14.73 pounds per square inch at 60°F.

(b) Liquids include crude, condensate and natural gas liquids (NGLs). NGL proved reserves are not material and are therefore included under liquids.

(c) Gas converted to oil-equivalent at 6 million cubic feet per one thousand barrels.

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The information above describes changes during the years and balances of proved oil and gas reserves at year-end 2009, 2010 and 2011. The 2009, 2010 and 2011 year-end oil and gas reserves are reported in accordance with the definitions under the U.S. Securities and Exchange Commission's (SEC) Rule 4-10 (a) of Regulation S-X.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations prior to the time at which contracts providing the right to operate expire. In some

**Table of Contents**

**Supplemental information on oil and gas exploration and production activities**

(unaudited) (continued)

cases, substantial new investments in additional wells and other facilities will be required to recover these proved reserves.

In accordance with SEC rules, the year-end reserves volumes as well as the reserves change categories for 2009, 2010 and 2011 shown in the proved reserves tables were calculated using average prices during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period. The beginning-of-year oil and gas reserves volumes for 2009 were calculated using December 31 prices and costs. These reserves quantities were also used in calculating unit-of-production depreciation rates and in calculating the standardized measure of discounted net cash flow.

Revisions can include upward or downward changes in previously estimated volumes of proved reserves for existing fields due to the evaluation or revaluation of already available geologic, reservoir or production data; new geologic, reservoir or production data; or changes in prices and costs that are used in the determination of reserves. This category can also include significant changes in either development strategy or production equipment/facility capacity.

In 2011, the quantities shown in the discoveries and extensions category under proved reserves were due primarily to the initial booking of the approved Kearl expansion.

Net proved reserves are determined by deducting the estimated future share of mineral owners or governments or both. For liquids and natural gas, net proved reserves are based on estimated future royalty rates as of the date the estimate is made incorporating the applicable governments oil and gas royalty regimes. For bitumen, net proved reserves are based on the company's best estimate of average royalty rates over the life of each of the Cold Lake and Kearl projects, and they incorporate the Alberta government's revised oil sands royalty regime. For synthetic oil, net proved reserves are based on the company's best estimate of average royalty rates over the life of the project, and they incorporate amendments to the Syncrude Crown Agreement. In all cases, actual future royalty rates may vary with production, price and costs.

Net proved developed reserves are those volumes that are expected to be recovered through existing wells and facilities with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well or facility. Net proved undeveloped reserves are those volumes that are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or to install facilities to collect and deliver the production from existing and future wells and facilities.

In accordance with SEC rules, beginning with 2009 year-end, bitumen extracted through mining activities and hydrocarbons from other non-traditional resources are reported as oil and gas reserves.

The rules in 2009 adopted a reliable technology definition that permits reserves to be added based on technologies that have been field tested and have been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated.

No independent qualified reserves evaluator or auditor was involved in the preparation of the reserves data.

**Table of Contents****Quarterly financial and stock trading data (a)**

|   | 2011               |         |          |         | 2010               |         |          |         |
|---|--------------------|---------|----------|---------|--------------------|---------|----------|---------|
|   | three months ended |         |          |         | three months ended |         |          |         |
|   | Mar. 31            | June 30 | Sept. 30 | Dec. 31 | Mar. 31            | June 30 | Sept. 30 | Dec. 31 |
| <b>Financial data</b> (millions of dollars)       |                    |         |          |         |                    |         |          |         |
| Total revenues and other income                   | 6,871              | 7,774   | 7,945    | 8,124   | 6,166              | 6,139   | 5,851    | 6,936   |
| Total expenses                                    | 5,820              | 6,815   | 6,813    | 6,860   | 5,515              | 5,457   | 5,283    | 5,883   |
| Income before income taxes                        | 1,051              | 959     | 1,132    | 1,264   | 651                | 682     | 568      | 1,053   |
| Income taxes                                      | 270                | 233     | 273      | 259     | 175                | 165     | 150      | 254     |
| Net income  | 781                | 726     | 859      | 1,005   | 476                | 517     | 418      | 799     |
| <b>Segmented net income</b> (millions of dollars) |                    |         |          |         |                    |         |          |         |
| Upstream  | 528                | 624     | 534      | 771     | 444                | 446     | 348      | 526     |
| Downstream  | 276                | 64      | 272      | 272     | 39                 | 68      | 69       | 266     |
| Chemical  | 38                 | 36      | 37       | 11      | (1)                | 22      | 23       | 25      |
| Corporate and other                               | (61)               | 2       | 16       | (49)    | (6)                | (19)    | (22)     | (18)    |
| Net income  | 781                | 726     | 859      | 1,005   | 476                | 517     | 418      | 799     |
| <b>Per-share information</b> (dollars)            |                    |         |          |         |                    |         |          |         |
| Net earnings basic                                | 0.92               | 0.86    | 1.01     | 1.19    | 0.56               | 0.61    | 0.49     | 0.95    |
| Net earnings diluted                              | 0.91               | 0.85    | 1.01     | 1.18    | 0.56               | 0.60    | 0.49     | 0.94    |
| Dividends (declared quarterly)                    | 0.11               | 0.11    | 0.11     | 0.11    | 0.10               | 0.11    | 0.11     | 0.11    |
| <b>Share prices</b> (dollars) (b)                 |                    |         |          |         |                    |         |          |         |
| Toronto Stock Exchange                            |                    |         |          |         |                    |         |          |         |
| High  | 54.00              | 52.67   | 46.23    | 45.52   | 41.70              | 43.50   | 41.58    | 41.09   |
| Low   | 39.06              | 42.79   | 35.56    | 34.15   | 37.75              | 38.54   | 37.76    | 36.95   |
| Close   | 49.54              | 44.92   | 37.64    | 45.39   | 39.23              | 38.78   | 38.99    | 40.58   |
| NYSE Amex (U.S. dollars) (b)                      |                    |         |          |         |                    |         |          |         |
| High  | 55.63              | 55.00   | 48.09    | 44.73   | 40.29              | 43.54   | 43.54    | 41.08   |
| Low   | 39.32              | 43.49   | 34.51    | 32.18   | 35.18              | 35.66   | 35.18    | 35.98   |
| Close   | 51.07              | 46.59   | 36.11    | 44.48   | 38.87              | 36.42   | 37.82    | 40.52   |
| <b>Shares traded</b> (thousands) (c)              | 86,357             | 76,970  | 79,786   | 74,744  | 46,183             | 56,757  | 53,038   | 56,210  |

(a) Quarterly data has not been audited by the company's independent auditors.

(b) Imperial's shares are listed on the Toronto Stock Exchange. The company's shares also trade in the United States of America on the NYSE Amex LLC. Imperial has unlisted privileges on the NYSE Amex LLC, a subsidiary of NYSE Euronext. The symbol on these exchanges for Imperial's common shares is IMO. Share prices were obtained from stock exchange records. U.S. dollar share price presented is based on consolidated U.S. market data.

(c) The number of shares traded is based on transactions on the above stock exchanges.

**Table of Contents****Proxy information section**

|   | <b>Page</b> |
|---|-------------|
| <b>Table of contents</b>  | <b>83</b>   |
| <b><u>III. Board of directors</u></b>   |             |
| <u>Director information</u>   | 83          |
| <u>Director qualification and selection process</u>   | 90          |
| <u>Director orientation, education, development, tenure and performance assessment</u>      | 91          |
| <u>Independence of the directors</u>  | 92          |
| <u>Board and committee structure</u>  | 92          |
| <u>Committee memberships of the directors</u>   | 100         |
| <u>Number of meetings and director attendance in 2011</u>                                   | 100         |
| <u>Share ownership guidelines for directors</u>   | 102         |
| <u>Other public company directorships</u>   | 103         |
| <u>Interlocking directorships</u>   | 103         |
| <u>Director compensation</u>  | 104         |
| <u>Compensation discussion and analysis</u>   | 104         |
| <u>Director compensation details and tables</u>   | 105         |
| <b><u>IV. Company executives and executive compensation</u></b>                             | <b>109</b>  |
| <u>Named executive officers of the company</u>  | 109         |
| <u>Other executive officers of the company</u>  | 110         |
| <u>Report of executive resources committee on executive compensation</u>                    | 110         |
| <u>Compensation discussion and analysis</u>   | 111         |
| <u>Overview</u>   | 112         |
| <u>Compensation program</u>   | 115         |
| <u>Compensation decision making process and considerations for named executive officers</u> | 120         |
| <u>Executive compensation tables and narratives</u>   | 125         |
| <b><u>V. Other important information</u></b>  | <b>133</b>  |
| <u>Effective date</u>   | 133         |
| <u>Largest shareholder</u>  | 133         |
| <u>Transactions with Exxon Mobil Corporation</u>  | 133         |
| <u>Auditor Information</u>  | 134         |
| <u>Auditor fees</u>   | 134         |
| <u>Auditor independence</u>   | 134         |
| <u>Ethical business conduct</u>   | 134         |
| <b><u>Appendix B - Board of Director and Committee Charters</u></b>                         | <b>136</b>  |
| <u>Board of Directors Charter</u>   | 136         |
| <u>Audit Committee Charter</u>  | 143         |
| <u>Environment, Health and Safety Committee Charter</u>                                     | 145         |
| <u>Executive Resources Committee Charter</u>  | 146         |
| <u>Nominations and Corporate Governance Committee Charter</u>                               | 148         |
| <u>Contributions Committee Charter</u>  | 150         |

Table of Contents**III. Board of directors****Director information**

The tables on the following pages provide information on the seven nominees proposed for election to the board of directors of the company. All of the nominees are now directors and have been since the dates indicated.

Included in these tables is information relating to the directors' biographies, independence status, expertise, committee memberships, attendance, public board memberships and shareholdings in the company, as well as any shareholdings in Exxon Mobil Corporation. The information is as of February 15, 2012, the effective date of this circular unless otherwise indicated.

**Krystyna T. Hoeg**

Ms. Hoeg was the president and chief executive officer of Corby Distilleries Limited from 1996 until her retirement in February 2007. She previously held several positions in the finance and controllers functions of Allied Domecq PLC and Hiram Walker & Sons Limited. Prior to that, she spent five years in public practice as a chartered accountant with the accounting firm of Touche Ross. She is currently a director of Sun Life Financial Inc., Shoppers Drug Mart Corporation, Canadian Pacific Railway Limited and Canadian Pacific Railway Company, and is also a director of Ganong Brothers Limited and Samuel, Son & Co. Limited, both of which are privately owned corporations. Ms. Hoeg sits on the board of the Toronto East General Hospital.

Toronto, Ontario, Canada

**Board and Committee Membership****Attendance in 2011**

|                          |  |        |             |
|--------------------------|--|--------|-------------|
|                          | Imperial Oil Limited board                     | 9 of 9 | <b>100%</b> |
| <b>Age:</b> 62           | Audit committee                                | 5 of 5 | <b>100%</b> |
|                          | Executive resources committee ( <b>Chair</b> ) | 7 of 7 | <b>100%</b> |
| <b>Current Position:</b> | Environment, health and safety committee       | 3 of 3 | <b>100%</b> |
| Nonemployee director     | Nominations and corporate governance committee | 3 of 3 | <b>100%</b> |
|                          | Contributions committee                        | 4 of 4 | <b>100%</b> |
| <b>Independent</b>       | Annual meeting of shareholders                 | 1 of 1 | <b>100%</b> |

Director since May 1, 2008

**Overall Attendance 100%****Skills and experience:****Imperial Oil Limited Securities Held (a) (b) (c) (e)**

|                                   | Common       | Deferred Share | Restricted Stock | Total Common    | Total Market Value of |
|-----------------------------------|--------------|----------------|------------------|-----------------|-----------------------|
| Leadership of large organizations | Shares       | Units (DSU)    | Units (RSU)      | Shares, DSU and | Common Shares, DSU    |
| Project management                | (% of class) |                |                  | RSU             | and RSU (\$)          |
| Global experience                 | 0            | 11,450         | 7,000            | 18,450          | 876,560               |

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|  |   |             |         |                      |                          |
|--|---|-------------|---------|----------------------|--------------------------|
| Strategy development                                       | Share ownership guidelines have been met. |             |         |                      |                          |
| <b>Imperial Oil Limited Options Held (d) (e)</b>           |   |             |         |                      |                          |
| Audit committee financial expert                           | Date                                      | Expiry Date | Number  | Total Number of      | Total Value of           |
| Financial expertise  | Granted                                   |             | Granted | Unexercised          | Unexercised Options (\$) |
| Executive compensation                                     | --  | --          | --      | Options              | --                       |
| <b>Exxon Mobil Corporation Securities Held (a) (c) (f)</b> |   |             |         |                      |                          |
|  | Common Shares                             | Restricted  |         | Total Common Shares  | Total Market Value of    |
|  | (% of class)                              | Stock       |         | and Restricted Stock | Common Shares and        |
|  | 0   | 0           |         | 0                    | Restricted Stock (\$)    |
|  |   |             |         |                      | 0                        |
| <b>Public Company Directorships in the Past Five Years</b> |   |             |         |                      |                          |

Sun Life Financial Inc. (2002 - Present)

Shoppers Drug Mart Corporation (2006 - Present)

Canadian Pacific Railway Limited (2007 - Present)

Canadian Pacific Railway Company (2007 - Present)

Cineplex Galaxy Income Fund (2006 - 2010)

Corby Distilleries (1996 - 2007)

**Other Positions in the Past Five Years** (position, date office held and status of employer)

President and chief executive officer, Corby Distilleries (1996 - 2007)



**Table of Contents****Bruce H. March**

Mr. March is currently chairman, president and chief executive officer of Imperial Oil Limited. Mr. March has worked for Mobil Oil Corporation and ExxonMobil in refining, supply and upstream project development assignments in the United States and Europe. In his previous position, he was the director of refining Europe/Africa/Middle East with ExxonMobil Petroleum and Chemicals BVBA in Brussels, Belgium.

| <b>Board and Committee Membership</b> |  | <b>Attendance in 2011</b> |  |
|---------------------------------------|--|---------------------------|--|
|---------------------------------------|--|---------------------------|--|

|                          |   |        |      |
|--------------------------|---|--------|------|
| Calgary, Alberta, Canada | Imperial Oil Limited board ( <b>Chair</b> ) | 9 of 9 | 100% |
|                          | Contributions committee                     | 4 of 4 | 100% |
| Age: 55                  | Annual meeting of shareholders              | 1 of 1 | 100% |

**Current Position:** Chairman, president and chief executive officer, Imperial Oil Limited

**Overall Attendance 100%**

**Not independent**

| <b>Imperial Oil Limited Securities Held (a) (b) (c) (e)</b> |  |  |  |  |
|---|--|--|--|--|
|---|--|--|--|--|

|                                | Deferred     | Restricted Stock | Total Common    | Total Market Value of |
|--------------------------------|--------------|------------------|-----------------|-----------------------|
|                                | Share Units  |                  | Shares, DSU and | Common Shares, DSU    |
| Director since January 1, 2008 | (% of class) | Units (RSU)      | RSU             | and RSU (\$)          |
|                                | (DSU)        |                  |                 |                       |
|                                | 8,500        | 182,600          | 191,100         | 9,079,161             |
|                                | 0            |                  |                 |                       |
|                                | (<0.01%)     |                  |                 |                       |

Share ownership guidelines have been met.

| <b>Imperial Oil Limited Options Held (d) (e)</b> |  |  |  |  |  |
|--|--|--|--|--|--|
|--|--|--|--|--|--|

|                                   | Date        | Number  |                | Total Number of | Total Value of |
|-----------------------------------|-------------|---------|----------------|-----------------|----------------|
|                                   | Expiry Date | Granted | Exercise Price | Unexercised     | Unexercised    |
| Leadership of large organizations |             | Granted |                | Options         | Options (\$)   |
| Operations/technical              |             |         |                |                 |                |
| Project management                |             |         |                |                 |                |
| Global experience                 | --          | --      | --             | --              | --             |
| Strategy development              |             |         |                |                 |                |

| <b>Exxon Mobil Corporation Securities Held (a) (c) (f)</b> |  |  |  |
|--|--|--|--|
|--|--|--|--|

|                        | Common Shares | Restricted | Total Common Shares  | Total Market Value of |
|------------------------|---------------|------------|----------------------|-----------------------|
|                        | (% of class)  | Stock      | and Restricted Stock | Common Shares and     |
| Executive compensation |               |            |                      | Restricted Stock (\$) |
|                        | 35,752        | 18,350     | 54,102               | 4,535,132             |
|                        | (<0.01%)      |            |                      |                       |

| <b>Public Company Directorships in the Past Five Years</b> |  |
|--|--|
|--|--|

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None

### **Other Positions in the Past Five Years** (position, date office held and status of employer)

President, Imperial Oil Limited (January to April 2008)

Director, refining Europe/Africa/Middle East, ExxonMobil Petroleum and Chemicals BVBA

(2007 - 2008) (Affiliate)

Project executive, Qatar Gas to Liquids project, ExxonMobil Development Company

(2006 - 2007) (Affiliate)

**Table of Contents**

**Jack M. Mintz**

Dr. Mintz is currently the Palmer Chair in Public Policy for the University of Calgary. Prior to that he was a professor at the Joseph L. Rotman School of Management at the University of Toronto from 1989. Dr. Mintz is a director of Brookfield Asset Management and Morneau Shepell Inc. Dr. Mintz has published widely in the fields of public economics and fiscal federalism and has frequently published articles in national newspapers and magazines.

**Board and Committee Membership Attendance in 2011**

|                          |   |        |      |
|--------------------------|---|--------|------|
| Calgary, Alberta, Canada | Imperial Oil Limited board                                | 9 of 9 | 100% |
|                          | Audit committee   | 4 of 5 | 80%  |
| Age: 60                  | Executive resources committee                             | 7 of 7 | 100% |
|                          | Environment, health and safety committee ( <b>Chair</b> ) | 3 of 3 | 100% |
| <b>Current Position:</b> | Nominations and corporate governance committee            | 3 of 3 | 100% |
| Nonemployee director     | Contributions committee                                   | 3 of 4 | 75%  |
|                          | Annual meeting of shareholders                            | 1 of 1 | 100% |

**Independent**

**Overall Attendance 93.75%**

Director since April 21, 2005

**Imperial Oil Limited Securities Held (a) (b) (c) (e)**

| Common               | Deferred Share | Restricted Stock | Total Common    | Total Market Value of |
|----------------------|----------------|------------------|-----------------|-----------------------|
|                      |                |                  | Shares, DSU and | Common Shares, DSU    |
| Shares               | Units (DSU)    | Units (RSU)      | RSU             | and RSU (\$)          |
| Global experience    | (% of class)   |                  |                 |                       |
| 1,000                | 9,447          | 11,000           | 21,447          | 1,018,947             |
| Strategy development | (<0.01%)       |                  |                 |                       |

**Imperial Oil Limited Options Held (d) (e)**

| Date    | Expiry Date | Number  | Exercise Price | Total Number of | Total Value of |
|---------|-------------|---------|----------------|-----------------|----------------|
|         |             |         |                | Unexercised     | Unexercised    |
| Granted |             | Granted |                | Options         | Options (\$)   |
| --      | --          | --      | --             | --              | --             |

**Exxon Mobil Corporation Securities Held (a) (c) (f)**

| Common Shares | Restricted | Total Common Shares  | Total Market Value of |
|---------------|------------|----------------------|-----------------------|
| (% of class)  | Stock      | and Restricted Stock | Common Shares and     |

0 0 0 0

**Public Company Directorships in the Past Five Years**

Brookfield Asset Management Inc. (formerly Brascan Corporation) (2002 - Present)

Morneau Shepell Inc. (2010 - Present)

CHC Helicopter Corporation (2004 - 2008)

**Other Positions in the Past Five Years** (position, date office held and status of employer)

Palmer Chair in Public Policy, University of Calgary (2008 - Present)

Professor, Joseph L. Rotman School of Management, University of Toronto (1989 - 2007)

**Table of Contents**

**Robert C. Olsen**

Mr. Olsen is the executive vice-president of ExxonMobil Production Company, a division of Exxon Mobil Corporation, with responsibility for ExxonMobil's global oil and gas producing operations. He is located in Houston, Texas. Mr. Olsen has worked for ExxonMobil in a range of upstream management assignments in the United States, Asia, Russia, Australia, and Europe. In his previous position, he was located in London as chairman and production director of ExxonMobil International Limited with responsibility for the company's producing businesses in Europe, the Caspian and Russia.

**Board and Committee Membership Attendance in 2011**

|  |  |        |      |
|--|--|--------|------|
| Houston, Texas, United States of America   | Imperial Oil Limited board                     | 9 of 9 | 100% |
| Age: 61  | Executive resources committee                  | 7 of 7 | 100% |
|  | Environment, health and safety committee       | 3 of 3 | 100% |
|  | Nominations and corporate governance committee | 3 of 3 | 100% |
| <b>Current Position:</b> Executive vice-president, ExxonMobil Production Company | Contributions committee                        | 4 of 4 | 100% |
|  | Annual meeting of shareholders                 | 1 of 1 | 100% |

**Not independent**

**Overall Attendance 100%**

Director since May 1, 2008

**Imperial Oil Limited Securities Held (a) (b) (c) (e)**

|                                   | Common Shares                             | Deferred Share Units (DSU) | Restricted Stock Units (RSU) | Total Common Shares, DSU and RSU | Total Market Value of Common Shares, DSU and RSU (\$) |
|-----------------------------------|---|----------------------------|------------------------------|----------------------------------|---|
| <b>Skills and experience:</b>     | (% of class)                              |                            |                              |                                  |   |
| Leadership of large organizations | 20,000                                    | 0                          | 0                            | 20,000                           | 950,200   |
| Operations/technical              | (<0.01%)                                  |                            |                              |                                  |   |
|                                   | Share ownership guidelines have been met. |                            |                              |                                  |   |

**Imperial Oil Limited Options Held (d) (e)**

|                        | Date Granted | Expiry Date | Number Granted | Exercise Price | Total Number of Unexercised Options | Total Value of Unexercised Options (\$) |
|------------------------|--------------|-------------|----------------|----------------|-------------------------------------|---|
| Project management     |              |             |                |                |                                     |   |
| Global experience      |              |             |                |                |                                     |   |
| Strategy development   |              |             |                |                |                                     |   |
| Financial expertise    | --           | --          | --             | --             | --                                  | --                                      |
| Executive compensation |              |             |                |                |                                     |   |

**Exxon Mobil Corporation Securities Held (a) (c) (f)**

| Common Shares | Restricted | Total Common Shares | Total Market Value of |
|---------------|------------|---------------------|-----------------------|
|---------------|------------|---------------------|-----------------------|

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| (% of class) | Stock   | and Restricted Stock | Common Shares and<br>Restricted Stock (\$) |
|--------------|---------|----------------------|--|
| 111,933      | 210,000 | 321,933              | 26,986,220                                 |
| (<0.01%)     |         |                      |  |

### Public Company Directorships in the Past Five Years

None

### Other Positions in the Past Five Years (position, date office held and status of employer)

Executive vice-president, Exxon Mobil Production Company, a division of Exxon Mobil Corporation

(2008 - Present)

Chairman and production director, ExxonMobil International Limited (2004 - 2008)

**Table of Contents**

**David S. Sutherland**

In July 2007, Mr. Sutherland retired as president and chief executive officer of the former IPSCO, Inc. after spending 30 years with the company and more than five years as president and chief executive officer. Mr. Sutherland is a director of GATX Corporation and United States Steel Corporation and is a member of the Board of Governors of the University of Saskatchewan. Mr. Sutherland is a former chairman of the American Iron and Steel Institute and served as a member of the board of directors of the Steel Manufacturers Association, the International Iron and Steel Institute, the Canadian Steel Producers Association and the National Association of Manufacturers.

|                               |  | <b>Board and Committee Membership</b> |  | <b>Attendance in 2011</b> |                                |
|-------------------------------|--|---------------------------------------|--|---------------------------|--------------------------------|
| Waterloo, Ontario Canada      |  |                                       |  |                           |                                |
| Age: 62                       | Imperial Oil Limited board                     |                                       |  | 9 of 9                    | 100%                           |
|                               | Audit committee                                |                                       |  | 5 of 5                    | 100%                           |
| <b>Current Position:</b>      | Executive resources committee                  |                                       |  | 7 of 7                    | 100%                           |
| Nonemployee director          | Environment, health and safety committee       |                                       |  | 3 of 3                    | 100%                           |
|                               | Nominations and corporate governance committee |                                       |  | 3 of 3                    | 100%                           |
| <b>Independent</b>            | Contributions committee ( <b>Chair</b> )       |                                       |  | 4 of 4                    | 100%                           |
|                               | Annual meeting of shareholders                 |                                       |  | 1 of 1                    | 100%                           |
| Director since April 29, 2010 |  |                                       |  |                           |                                |
|                               |  |                                       |  |                           | <b>Overall Attendance 100%</b> |

**Skills and experience:**

|                                   |   | <b>Imperial Oil Limited Securities Held (a) (b) (c) (e)</b> |                  |                      |                       |
|-----------------------------------|---|---|------------------|----------------------|-----------------------|
| Leadership of large organizations | Common                                    |   |                  | Total Common         | Total Market Value of |
|                                   | Deferred Share                            |   | Restricted Stock |                      |                       |
| Operations/technical              | Shares                                    |   |                  | Shares, DSU and      | Common Shares, DSU    |
|                                   | Units (DSU)                               |   | Units (RSU)      |                      |                       |
| Global experience                 | (% of class)                              |   |                  | RSU                  | and RSU (\$)          |
|                                   | 45,000                                    |   |                  |                      |                       |
| Strategy development              |   | 5,232   | 4,000            | 54,232               | 2,576,562             |
|                                   | (<0.01%)                                  |   |                  |                      |                       |
| Audit committee financial expert  | Share ownership guidelines have been met. |   |                  |                      |                       |
|                                   |   | <b>Imperial Oil Limited Options Held (d) (e)</b>            |                  |                      |                       |
| Financial expertise               | Date                                      |   | Number           | Total Number of      | Total Value of        |
|                                   | Expiry Date                               |   |                  | Unexercised          | Unexercised           |
| Government relations              | Granted                                   |   | Granted          |                      |                       |
|                                   |   |   |                  | Options              | Options (\$)          |
| Executive compensation            | --  | --  | --               | --                   | --                    |
|                                   |   | <b>Exxon Mobil Corporation Securities Held (a) (c) (f)</b>  |                  |                      |                       |
|                                   | Common Shares                             |   | Restricted       | Total Common Shares  | Total Market Value of |
|                                   | (% of class)                              |   | Stock            | and Restricted Stock | Common Shares and     |
|                                   | 5,450                                     |   | 0                | 5,450                | Restricted Stock (\$) |
|                                   |   |   |                  |                      | 456,849               |

(<0.01%)

**Public Company Directorships in the Past Five Years**

IPSCO Inc. (2002 - 2007)

GATX Corporation (2007 - Present)

United States Steel Corporation (2008 - Present)

ZCL Composites Inc. (2008 - 2010)

**Other Positions in the Past Five Years** (position, date office held and status of employer)

President and chief executive officer, IPSCO Inc. (2002 - 2007)



**Table of Contents**

**Sheelagh D. Whittaker**

Ms. Whittaker spent much of her early business career as director and partner with The Canada Consulting Group, now Boston Consulting Group. From 1989 she was president and chief executive officer of Canadian Satellite Communications (Cancom). In 1993, Ms. Whittaker joined Electronic Data Systems of Plano, Texas, then one of the world's foremost providers of information technology services. Initially spending several years as president and chief executive officer of EDS Canada, Ms. Whittaker then undertook other key leadership roles globally, ultimately serving the company as managing director, United Kingdom, Middle East and Africa, until her retirement from EDS in November 2005. Ms. Whittaker is also a non-executive director of Standard Life plc.

London, England

**Board and Committee Membership** **Attendance in 2011**

|                          |   |        |      |
|--------------------------|---|--------|------|
|                          | Imperial Oil Limited board                                      | 9 of 9 | 100% |
| Age: 64                  | Audit committee   | 5 of 5 | 100% |
|                          | Executive resources committee                                   | 7 of 7 | 100% |
| <b>Current Position:</b> | Environment, health and safety committee                        | 3 of 3 | 100% |
| Nonemployee director     | Nominations and corporate governance committee ( <b>Chair</b> ) | 3 of 3 | 100% |
|                          | Contributions committee   | 4 of 4 | 100% |
| <b>Independent</b>       | Annual meeting of shareholders                                  | 1 of 1 | 100% |

Director since April 19, 1996

**Overall Attendance 100%**

**Skills and experience:**

**Imperial Oil Limited Securities Held (a) (b) (c) (e)**

|                                   | Common Shares | Deferred Share Units (DSU) | Restricted Stock Units (RSU) | Total Common Shares, DSU and RSU | Total Market Value of Common Shares, DSU and RSU (\$) |
|-----------------------------------|---------------|----------------------------|------------------------------|----------------------------------|---|
| Leadership of large organizations | 9,350         | 37,575                     | 11,000                       | 57,925                           | 2,752,017   |
| Global experience                 | (% of class)  |                            |                              |                                  |   |
| Strategy development              | 9,350         |                            |                              |                                  |   |
| Audit committee financial expert  | <0.01%        |                            |                              |                                  |   |

**Imperial Oil Limited Options Held (d) (e)**

|                        | Date Granted | Expiry Date | Number Granted | Exercise Price | Total Number of Unexercised Options | Total Value of Unexercised Options (\$) |
|------------------------|--------------|-------------|----------------|----------------|-------------------------------------|---|
| Financial expertise    |              |             |                |                |                                     |   |
| Information technology |              |             |                |                |                                     |   |
| Executive compensation |              |             |                |                |                                     |   |
|                        | --           | --          | --             | --             | --                                  | --                                      |

**Exxon Mobil Corporation Securities Held (a) (c) (f)**

| Common Shares | Restricted | Total Common Shares | Total Market Value of |
|---------------|------------|---------------------|-----------------------|
|---------------|------------|---------------------|-----------------------|

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| (% of class) | Stock | and Restricted Stock | Common Shares and<br>Restricted Stock (\$) |
|--------------|-------|----------------------|--|
| 0            | 0     | 0                    | 0  |

### Public Company Directorships in the Past Five Years

Standard Life plc (2009 - Present)

CanWest Mediaworks Income Fund (2005 - 2007)

### Other Positions in the Past Five Years (position, date office held and status of employer)

No other positions held in the last five years.

**Table of Contents**

**Victor L. Young, O.C.**

From November 1984 until May 2001, Mr. Young served as chairman and chief executive officer of Fishery Products International Limited, a frozen seafood products company. He is a director of Royal Bank of Canada and McCain Foods Limited. Mr. Young was appointed an Officer of the Order of Canada in 1996, and is currently vice chair of the capital campaign for Memorial University.

**Board and Committee Membership** **Attendance in 2011**

|   |  |        |      |
|---|--|--------|------|
| St. John's, Newfoundland and Labrador, Canada | Imperial Oil Limited board                     | 9 of 9 | 100% |
|   | Audit committee ( <b>Chair</b> )               | 5 of 5 | 100% |
|   | Executive resources committee                  | 7 of 7 | 100% |
| Age: 66                                       | Environment, health and safety committee       | 3 of 3 | 100% |
|   | Nominations and corporate governance committee | 3 of 3 | 100% |
| <b>Current Position:</b>                      | Contributions committee                        | 4 of 4 | 100% |
| Nonemployee director                          | Annual meeting of shareholders                 | 1 of 1 | 100% |

**Independent**

**Overall Attendance 100%**

**Imperial Oil Limited Securities Held (a) (b) (c) (e)**

|                               |               |                            |                              |                                  |   |
|-------------------------------|---------------|----------------------------|------------------------------|----------------------------------|---|
| Director since April 23, 2002 | Common Shares | Deferred Share Units (DSU) | Restricted Stock Units (RSU) | Total Common Shares, DSU and RSU | Total Market Value of Common Shares, DSU and RSU (\$) |
|                               | 17,750        | 8,594                      | 11,000                       | 37,344                           | 1,774,213   |

**Skills and experience:**

Leadership of large organizations

Strategy development

(% of class)  
<0.01%  
Share ownership guidelines have been met.

**Imperial Oil Limited Options Held (d) (e)**

|                                  |         |             |         |                |                                     |   |
|----------------------------------|---------|-------------|---------|----------------|-------------------------------------|---|
| Audit committee financial expert | Date    | Expiry Date | Number  | Exercise Price | Total Number of Unexercised Options | Total Value of Unexercised Options (\$) |
| Financial expertise              | Granted |             | Granted |                |                                     |   |
| Government relations             |         |             |         |                |                                     |   |

Executive compensation

-- -- -- -- -- --

**Exxon Mobil Corporation Securities Held (a) (c) (f)**

|               |                  |  |   |
|---------------|------------------|--|---|
| Common Shares | Restricted Stock | Total Common Shares and Restricted Stock | Total Market Value of Common Shares and |
| (% of class)  |                  |  |   |

0 0 0 0

**Public Company Directorships in the Past Five Years**

Bell Aliant Regional Communications Income Fund (2002 – 2010)

BCE Inc. (1995 – 2010)

Royal Bank of Canada (1991 – Present)

**Other Positions in the Past Five Years** (position, date office held and status of employer)

No other positions held in the last five years

**Footnotes to Directors Tables on pages 83 through 89:**

- (a) The information includes the beneficial ownership of common shares of Imperial Oil Limited and shares of Exxon Mobil Corporation, which information not being within the knowledge of the company has been provided by the nominees individually.
- (b) The company’s plan for restricted stock units for nonemployee directors is described on page 105. The company’s plan for deferred share units for nonemployee directors is described on page 105. The company’s plan for restricted stock units for selected employees is described on page 116.
- (c) The numbers for the company’s restricted stock units and deferred share units represent the total of the restricted stock units and deferred share units received in 2006 through 2011 after the three-for-one share split in May 2006, plus three times the number of restricted stock units and deferred share units granted before the share split and still held by the director. The numbers for Exxon Mobil Corporation restricted stock include restricted stock and restricted stock units granted under its restricted stock plan which is similar to the company’s restricted stock unit plan.
- (d) The number for stock options represents the total number of shares that may be purchased at the exercise price of \$15.50 after the three-for-one share split in May 2006. No stock options have been granted to non-employee directors.
- (e) The value for Imperial Oil Limited common shares, deferred share units, restricted stock units and unexercised options is based on the closing price for Imperial Oil Limited common shares on the Toronto Stock Exchange of \$47.51 on February 15, 2012.
- (f) The value for Exxon Mobil Corporation common shares and restricted stock is based on the closing price for Exxon Mobil Corporation common shares of \$84.12 U.S., which is converted to Canadian dollars at the noon rate of exchange of \$0.9965 provided by the Bank of Canada for February 15, 2012.

**Table of Contents**

## **Director qualification and selection process**

In considering the qualifications of potential nominees for election as directors, the nominations and corporate governance committee considers the work experience and other areas of expertise of the potential nominees. The following key criteria are considered to be relevant to the work of the board of directors and its committees:

### **Work Experience**

Experience in leadership of businesses or other large organizations (Leadership of large organizations)

Operations/technical experience (Operations/technical)

Project management experience (Project management)

Experience in working in a global work environment (Global experience)

Experience in development of business strategy (Strategy development)

### **Other Expertise**

Audit committee financial expert (also see the financial expert section in the audit committee chart on page 95)

Expertise in financial matters (Financial expertise)

Expertise in managing relations with government (Government relations)

Experience in academia or in research (Academic/research)

Expertise in information technology (Information technology)

Expertise in executive compensation policies and practices (Executive compensation)

### **Succession Planning**

The nominations and corporate governance committee is responsible for identifying and recommending new candidates for board nomination. The process for selection is described in paragraph 9(a) of the Board of Directors Charter attached as Appendix B. When the committee is recommending candidates for re-nomination, it assesses such candidates against the criteria for re-nomination as set out in paragraph 9(b) of the Board of Directors Charter. The committee maintains a list of potential director candidates for future consideration and reviews such list annually.

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**Skills and Experience of the Director Nominees**

The current nominees for election as director collectively have experience and expertise required to ensure effective stewardship and governance of the company. The key areas of work experience and skills and experience for each of the nominees for election as directors can also be found in each of the directors tables on pages 83 through 89 of this circular.

|   | K.T. Hoeg | B.H. March | J.M. Mintz | R.C. Olsen | D.S. Sutherland | S.D. Whittaker | V.L. Young |
|---|-----------|------------|------------|------------|-----------------|----------------|------------|
| <b>Leadership of Large Organization</b> | ü         | ü          |            | ü          | ü               | ü              | ü          |
| <b>Operations/ Technical</b>            |           | ü          |            | ü          | ü               |                |            |
| <b>Project Management</b>               | ü         | ü          |            | ü          |                 |                |            |
| <b>Global Experience</b>                | ü         | ü          | ü          | ü          | ü               | ü              |            |
| <b>Strategy Development</b>             | ü         | ü          | ü          | ü          | ü               | ü              | ü          |
| <b>Audit Committee Financial Expert</b> | ü         |            |            |            | ü               | ü              | ü          |
| <b>Financial Expertise</b>              | ü         | ü          |            | ü          | ü               | ü              | ü          |
| <b>Government Relations</b>             |           |            | ü          |            | ü               |                | ü          |
|   |           |            | ü          |            |                 |                |            |

Academic/ Research

Information  
Technology

ü

Executive  
Compensation

ü

ü

ü

ü

ü

ü

ü

**Table of Contents****Director orientation, education, development, tenure and performance assessment****Orientation, education and development**

The vice-president, general counsel and corporate secretary organizes an orientation program for all new directors that includes a detailed briefing by members of management on all significant areas of the company's operations. They also receive a comprehensive board manual which contains a record of historical information about the company, the charters of the board and its committees and other relevant company business information.

Continuing education is provided to board members by regular presentations by senior management on the main areas of company business. In August or September of each year, the board has an extended meeting that focuses on a particular area of the company's operations and includes a visit to one or more of the company's operating sites or a site of relevance to the company's operations. In September 2011, the board visited the Kearl site in northern Alberta, Canada. Other continuing education events in 2011, presented to all directors, included two reviews of best practices in corporate governance, various Kearl presentations, reviews of various aspects of risk management including tax, credit and information technology and a review of major environmental and public policy issues.

Members of the board also receive an extensive package of materials prior to each board meeting that provides a comprehensive summary on each agenda item to be discussed. Similarly, the committee members also receive a comprehensive summary on each agenda item to be discussed by that particular committee.

As part of its annual assessment process, the board members are canvassed as to whether there are any additional topics that they would like to see addressed. In addition, the directors meet prior to most regularly scheduled board meetings and this provides an opportunity for informal discussion. In some cases, where senior management is present, these gatherings provide an opportunity for a review of selected topics of interest.

**Tenure**

Collectively, the seven nominees for election as directors have 47 years of experience on this company's board and individually, the years of service range from two to 16 years. The board charter provides that incumbent directors will not be renominated if they have attained the age of 72 (revised in 2011 from the previous age of 70), except under exceptional circumstances at the request of the chief executive officer. The following chart shows the current years of service of the members of the board of directors and the year they would be normally be expected to retire from the board.

| <b>Director</b> | <b>Years of service on the board</b> | <b>Year of mandatory retirement from the board</b> |
|-----------------|--------------------------------------|--|
| K.T. Hoeg       | 4 years                              | 2022   |
| B.H. March      | 4 years                              | 2028   |



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|                 |          |      |
|-----------------|----------|------|
| J.M. Mintz      | 7 years  | 2023 |
| R.C. Olsen      | 4 years  | 2022 |
| D.S. Sutherland | 2 years  | 2021 |
| S.D. Whittaker  | 16 years | 2019 |
| V.L. Young      | 10 years | 2017 |

**Total of 47 years of experience on the board.**

**The average tenure is 6.7 years.**

**Table of Contents**

**Board performance assessment**

The board and its committees, as well as the performance of the directors, are assessed on an annual basis. In 2011, the directors provided their written response to a series of questions to evaluate the responsibility and effectiveness of the board and its committees. This response formed the basis for a discussion with the nominations and corporate governance committee at its February 2, 2012 meeting to review the effectiveness of the board and its committees. Given the small board size, the directors are able to provide continuous peer performance feedback as required. The committee also assesses the company’s response to issues raised in the previous year’s survey.

**Independence of the directors**

The current board is composed of seven directors, the majority of whom (five out of seven) are independent. The five independent directors are not employees of the company. Based on the directors’ response to an annual questionnaire, the board determined that none of the independent directors has any interest, business or other relationship that could or could reasonably be perceived to constitute a material relationship with the company. As chairman, president and chief executive officer, B.H. March is not considered to be independent and R.C. Olsen is also a non-independent director as he is an employee of Exxon Mobil Corporation and holds the position of executive vice-president of ExxonMobil Production Company, a division of Exxon Mobil Corporation. The board believes that B.H. March’s extensive knowledge of the company’s business is beneficial to the other directors and his participation as a director enhances the effectiveness of the board. The company believes that R.C. Olsen, although deemed non-independent under the relevant standards by virtue of his employment, can be viewed as independent of the company’s management and that his ability to reflect the perspective of the company’s shareholders enhances the effectiveness of the board.

| Name of director | Management | Independent | Not independent | Reason for non-independent status   |
|------------------|------------|-------------|-----------------|---|
| K.T. Hoeg        |            | ü           |                 |   |
| B.H. March       | ü          |             | ü               | B.H. March is chairman, president and chief executive officer of Imperial Oil Limited.                          |
| J.M. Mintz       |            | ü           |                 |   |
| R.C. Olsen       |            |             | ü               | R.C. Olsen is executive vice-president of ExxonMobil Production Company, a division of Exxon Mobil Corporation. |
| D.S. Sutherland  |            | ü           |                 |   |

S.D. Whittaker

ii

V.L. Young

ii

## **Board and committee structure**

### **Leadership structure**

The company has chosen to combine the positions of chairman, president and chief executive officer. B.H. March currently holds these positions. The company does not have a lead director. While the chairman of the board is not an independent director, S.D. Whittaker, chair of the executive sessions, provides leadership for the independent directors. The duties of the chair of the executive sessions include presiding at executive sessions of the board, and reviewing and modifying, if necessary, the agenda of the meetings of the board in advance to ensure that the board may successfully carry out its duties. The position description of the chair of the executive sessions is described in paragraph 8(3) of the Board of Directors Charter attached as Appendix B.

## **Table of Contents**

### **Independent director executive sessions**

The executive sessions of the board are meetings of the independent directors and are held in conjunction with every board meeting. These meetings are held in the absence of management. The independent directors held eight executive sessions in 2011. The purposes of the executive sessions of the board include the following:

Raising substantive issues that are more appropriately discussed in the absence of management;

Discussing the need to communicate to the chairman of the board any matter of concern raised by any committee or director;

Addressing issues raised but not resolved at meetings of the board and assessing any follow-up needs with the chairman of the board;

Discussing the quality, quantity, and timeliness of the flow of information from management that is necessary for the independent directors to effectively and responsibly perform their duties, and advising the chairman of the board of any changes required; and

Seeking feedback about board processes.

### **In camera sessions of the board committees**

Various committees also regularly hold in camera sessions without management present. The audit committee regularly holds private sessions of the committee members as well as private meetings of the committee with each of the external auditor, the internal auditor and senior management following every regularly scheduled committee meeting. Similarly, the nominations and corporate governance committee has also held in camera sessions without management present.

### **Committee structure**

The board has created five committees to help carry out its duties. Each committee is chaired by a different independent director and all of the five independent directors are members of each committee. R.C. Olsen is also a member of each committee, with the exception of the audit committee which is composed entirely of independent directors. B.H. March is also a member of the contributions committee. Board committees work on key issues in greater detail than would be possible at full board meetings allowing directors to more effectively discharge their stewardship responsibilities. The five independent chairs of the five committees are able to take a leadership role in executing the board's responsibility with respect to a specific area of the company's operations falling within the responsibility of the committee he or she chairs. The board and each committee have a written charter that can be found at Appendix B of this circular. The charters are reviewed and approved by the board annually. The charters set out the structure, position description for the chair and the process and responsibilities of that committee. The five committees of the board are:

audit committee,

executive resources committee,

environment, health and safety committee,

nominations and corporate governance committee, and

contributions committee.

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**Table of Contents**

The following tables provide additional information about the board and its five committees:

**Board of Directors**

|            |  |
|------------|--|
| Mandate    | The board of directors is responsible for the stewardship of the corporation. The stewardship process is carried out by the board directly or through one or more of the committees of the board. The formal mandate of the board can be found within the Board of Directors Charter in Appendix B of this circular. |
| Directors  | B.H. March (chair)<br>K.T. Hoeg<br>J.M. Mintz<br>R.C. Olsen<br>D.S. Sutherland<br>S.D. Whittaker<br>V.L. Young   |
| Highlights | Significant role in progressing Kearl project.<br>Monitored and reviewed other long-term growth projects (Horn River, Nabiye).<br>Review of investor relations program.<br>Credit review.<br>Risk management review, tax update.<br>Review of research activities.<br>Kearl site visit.                              |

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|                         |  |
|-------------------------|--|
| Role in Risk Management | The chairman, president and chief executive officer is charged with identifying, for review with the board of directors, the principal risks of the corporation's business, and ensuring appropriate systems are in place to manage such risks. The company's financial, execution and operational risk rests with corporate and business management and the company is governed by well-established risk management systems. The board of directors carefully considers these risks in evaluating the company's strategic plans and specific proposals for capital expenditures and budget additions. |
| Disclosure Policy       | The company is committed to full, true and plain public disclosure of all material information in a timely manner, in order to keep security holders and the investing public informed about the company's operations. The full details of the corporate disclosure policy can be found on the company's internet site at <a href="http://www.imperialoil.ca">www.imperialoil.ca</a> .   |
| Independence            | The current board of directors is composed of seven directors, the majority of whom (five out of seven) are independent. The five independent directors are not employees of the company.  |

**Table of Contents**

**Audit Committee**

**Mandate**                    The role of the audit committee includes assisting the board in overseeing the integrity of the company’s financial statements, the company’s compliance with legal and regulatory requirements and the quality and effectiveness of internal controls; reviewing the adequacy of the company’s insurance program; approving any changes in accounting principles and practices; reviewing the results of monitoring activity under the company’s business ethics compliance program and reviewing senior management’s expense accounts. The formal mandate of the audit committee can be found within the Audit Committee Charter in Appendix B of this circular.

**Members**                    V.L. Young(chair)  
  
S.D. Whittaker(vice-chair)  
  
K.T. Hoeg  
  
J.M. Mintz  
  
D.S. Sutherland

**Highlights**                    Reviewed the interim and annual financial statements and MD&A.  
  
Reviewed and assessed the results of the internal auditor’s audit program.  
  
Reviewed and assessed the external auditor plan and fees.  
  
Reviewed the committee’s mandate and committee self-assessment.  
  
Received a presentation on Exxon Mobil Corporation’s global audit program.  
  
Met in camera without management present at every meeting and also separately with the internal auditor and the external auditor at all meetings.

**Financial Expert**                    The company’s board of directors has determined that K.T. Hoeg, D.S. Sutherland, S.D. Whittaker and V.L. Young meet the definition of audit committee financial expert. The SEC has indicated that the designation of an audit committee financial expert does not make that person an expert for any purpose, or impose any duties, obligations or liability on that person that are greater than those imposed on members of the audit committee and board of directors in the absence of such designation or identification. All members of the audit committee are financially literate within the meaning of Multilateral Instrument 52-110 Audit Committees and the listing standards of the NYSE Amex LLC.



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|                         |   |
|-------------------------|---|
| Role in Risk Management | The audit committee also has an important role in risk management. It annually receives updates from management on the company's risk management systems, including credit risk. It reviews financial statements and results of internal and external audit results.  |
| Independence            | The audit committee is composed entirely of independent directors. All members met board approved independence standards, as that term is defined in Multilateral Instrument 52-110 Audit Committees, the Securities and Exchange Commission (SEC) rules and the listing standards of the NYSE Amex LLC, a subsidiary of NYSE Euronext and the New York Stock Exchange. |

**Table of Contents**

**Executive Resources Committee**

|  |  |
|--|--|
| Mandate  | The executive resources committee is responsible for corporate policy on compensation and for specific decisions on the compensation of the chief executive officer and key senior executives and officers reporting directly to that position. In addition to compensation matters, the committee is also responsible for succession plans and appointments to senior executive and officer positions, including the chief executive officer. The formal mandate of the executive resources committee can be found within the Executive Resources Committee Charter in Appendix B of this circular.             |
| Members  | <p>K.T. Hoeg(chair)</p> <p>V.L. Young(vice-chair)</p> <p>J.M. Mintz</p> <p>R.C. Olsen</p> <p>D.S. Sutherland</p> <p>S.D. Whittaker</p> <p>None of the members of the executive resources committee currently serves as a chief executive officer of another company.</p>   |
| Highlights                                       | <p>Improved focus on succession planning for senior executive positions.</p> <p>Reviewed and approved compensation for senior executive positions.</p> <p>Appointed two vice-president positions.</p>  |
| Committee members relevant skills and experience | Ms. Hoeg, Ms. Whittaker, Mr. Olsen, Mr. Sutherland and Mr. Young have extensive and lengthy experience in managing and implementing their respective companies' compensation policies and practices in their role as chief executive officers or members of senior management. Ms. Hoeg, Mr. Mintz, Mr. Sutherland and Ms. Whittaker sit on compensation committees of one or more public companies. Accordingly, committee members are able to use this experience and knowledge derived from their roles with other companies in judging the suitability of the company's compensation policies and practices. |

Independence

The members of the executive resources committee are independent, with the exception of R.C. Olsen, who is not considered to be independent under the rules of the U.S. Securities and Exchange Commission, Canadian securities rules and the rules of the Toronto Stock Exchange and the NYSE Amex due to his employment with Exxon Mobil Corporation. However, the Canadian Coalition for Good Governance's policy, Governance Differences of Equity Controlled Corporations October, 2011, would view Mr. Olsen as a related director and independent of management and who may participate as a member of the company's executive resources committee. Mr. Olsen's participation helps to ensure an objective process for determining compensation of the company's officers and directors and assists the deliberations of this committee by bringing the views and perspectives of the majority shareholder.

**Table of Contents**

**Environment, Health and Safety Committee**

|                         |   |
|-------------------------|---|
| Mandate                 | The role of the environment, health and safety committee is to review and monitor the company’s policies and practices in matters of the environment, health and safety and to monitor the company’s compliance with legislative, regulatory and corporate standards in these areas. The committee monitors trends and reviews current and emerging public policy in this area. The formal mandate of the environment, health and safety committee can be found within the Environment, Health and Safety Committee Charter in Appendix B of this circular. |
| Members                 | <p>J.M. Mintz(chair)</p> <p>D.S. Sutherland(vice-chair)</p> <p>K.T. Hoeg</p> <p>R.C. Olsen</p> <p>S.D. Whittaker</p> <p>V.L. Young</p>  |
| Highlights              | <p>Incident performance review.</p> <p>Annual emissions and managing systems performance review.</p> <p>Occupational health review.</p> <p>Environmental public policy issues review.</p>   |
| Role in Risk Management | The environment, health and safety committee reviews and monitors the company’s policies and practices in matters of environment, health and safety, which policies and practices are intended to mitigate and manage risk in these areas. The committee receives regular reports from management on these matters.   |
| Independence            | The members of the environment, health and safety committee are independent, with the exception of R.C. Olsen.  |



**Table of Contents**

**Nominations and Corporate Governance Committee**

|              |   |
|--------------|---|
| Mandate      | The role of the nominations and corporate governance committee is to oversee issues of corporate governance as they apply to the company, including the overall performance of the board, review potential nominees for directorship and review the charters of the board and any of its committees. The formal mandate of the nominations and corporate governance committee can be found within the Nominations and Corporate Governance Committee Charter in Appendix B of this circular.  |
| Members      | <p>S.D. Whittaker(chair)</p> <p>J.M. Mintz(vice-chair)</p> <p>K.T. Hoeg</p> <p>R.C. Olsen</p> <p>D.S. Sutherland</p> <p>V.L. Young</p>  |
| Highlights   | <p>Two corporate governance reviews.</p> <p>Review of director compensation.</p> <p>Review of director retirement policy.</p> <p>Director search update.</p> <p>Approved statement of corporate governance practice.</p>  |
| Independence | The members of the nominations and corporate governance committee are independent, with the exception of R.C. Olsen, who is not considered to be independent under the rules of the U.S. Securities and Exchange Commission, Canadian securities rules and the rules of the Toronto Stock Exchange and the NYSE Amex due to his employment with Exxon Mobil Corporation. However, the Canadian Coalition for Good Governance’s policy, Governance Differences of Equity Controlled Corporations – October, 2011, would view Mr. Olsen as a related director and independent of management and who may participate as a member of the company’s nominations and corporate governance committee. Mr. Olsen’s participation helps to ensure an objective nominations process and assists the deliberations of this committee by bringing the views and perspectives of the majority shareholder. |



**Table of Contents**

**Contributions Committee**

|              |   |
|--------------|---|
| Mandate      | The role of the contributions committee is to oversee all of the company's community investment activities, including charitable donations which are presently made through the Imperial Oil Foundation. The formal mandate of the contributions committee can be found within the Contributions Committee Charter in Appendix B of this circular.  |
| Members      | D.S. Sutherland(chair)<br><br>K.T. Hoeg(vice-chair)<br><br>B.H. March<br><br>J.M. Mintz<br><br>R.C. Olsen<br><br>S.D. Whittaker<br><br>V.L. Young   |
| Highlights   | Contribution of \$15 million to communities across Canada in 2011, with a focus on education in math and sciences, environmental and energy literacy initiatives and community opportunities with an emphasis on aboriginal communities.<br><br>Presentation by grant recipients on effectiveness of program funding.<br><br>Graduation of first class from newly launched aboriginal women's community leadership program. |
| Independence | The majority of the members of the contributions committee are independent (five out of seven) with the exception of B.H. March and R.C. Olsen.   |



**Table of Contents**

**Committee memberships of the directors**

The chart below shows the company's current committee memberships and the chair of each committee.

| Director | Board committees  |                           |  |                                     |                            |
|----------|---|---------------------------|--|-------------------------------------|----------------------------|
|          | Nominations<br>and corporate<br>governance<br>committee | Audit<br>committee<br>(b) | Environment<br>health and<br>safety<br>committee | Executive<br>resources<br>committee | Contributions<br>committee |

|                     |       |   |       |       |       |
|---------------------|-------|---|-------|-------|-------|
| K.T. Hoeg (c)       | ü     | ü | ü     | Chair | ü     |
| B.H. March (a)      | -     | - | -     | -     | ü     |
| J.M. Mintz          | ü     | ü | Chair | ü     | ü     |
| R.C. Olsen (a)      | ü     | - | ü     | ü     | ü     |
| D.S. Sutherland (c) | ü     | ü | ü     | ü     | Chair |
| S.D. Whittaker (c)  | Chair | ü | ü     | ü     | ü     |

V.L. Young (c)                                    ü                                    Chair                                    ü                                    ü                                    ü

- (a) Not independent directors.
- (b) All members of the audit committee are independent and financially literate within the meaning of *Multilateral Instrument 52-110 Audit Committees* and the listing standards of the NYSE Amex LLC.
- (c) Audit committee financial experts under US regulatory requirements.

## Number of meetings and director attendance in 2011

The chart below shows the number of board, committee and annual meetings held in 2011.

### Number of meetings

| Board or committee                             | Number of meetings held in 2011 |
|--|---------------------------------|
| Imperial Oil Limited board (a)                 | 9                               |
| Audit committee                                | 5                               |
| Executive resources committee (b)              | 7                               |
| Environment, health and safety committee       | 3                               |
| Nominations and corporate governance committee | 3                               |
| Contributions committee                        | 4                               |

- (a) There were eight regularly scheduled board meetings and one special board meeting. The special board meeting was held by telephone conference.
- (b) There were five regularly scheduled executive resources committee meetings and two special committee meetings held on regularly scheduled board days.

**Table of Contents****Director attendance**

The following chart provides a summary of the attendance record of each of the directors in 2011. The attendance record of each director nominee is also set out in his or her biographical information on pages 83 through 89. The attendance charts also provide an overall view of the attendance per committee. Senior management directors and other members of management periodically attend committee meetings at the request of the committee chair.

| Director        | Board          | Audit committee | Executive resources committee | Environment health and safety committee | Nominations and corporate governance committee | Contributions committee | Annual meeting | Total    | Percentage by director |
|-----------------|----------------|-----------------|-------------------------------|---|--|-------------------------|----------------|----------|------------------------|
| K.T. Hoeg       | 9 of 9         | 5 of 5          | 7 of 7 (chair)                | 3 of 3                                  | 3 of 3   | 4 of 4                  | 1 of 1         | 32 of 32 | 100%                   |
| B.H. March      | 9 of 9 (chair) | -               | -                             | -                                       | -  | 4 of 4                  | 1 of 1         | 14 of 14 | 100%                   |
| J.M. Mintz      | 9 of 9         | 4 of 5          | 7 of 7                        | 3 of 3 (chair)                          | 3 of 3   | 3 of 4                  | 1 of 1         | 30 of 32 | 93.75%                 |
| R.C. Olsen      | 9 of 9         | -               | 7 of 7                        | 3 of 3                                  | 3 of 3   | 4 of 4                  | 1 of 1         | 27 of 27 | 100%                   |
| D.S. Sutherland | 9 of 9         | 5 of 5          | 7 of 7                        | 3 of 3                                  | 3 of 3   | 4 of 4 (chair)          | 1 of 1         | 32 of 32 | 100%                   |

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|                            |             |                   |             |             |                   |              |             |                |   |
|----------------------------|-------------|-------------------|-------------|-------------|-------------------|--------------|-------------|----------------|---|
| S.D.<br>Whittaker          | 9 of 9      | 5 of 5            | 7 of 7      | 3 of 3      | 3 of 3<br>(chair) | 4 of 4       | 1 of 1      | 32 of 32       | 100%  |
| V.L.<br>Young              | 9 of 9      | 5 of 5<br>(chair) | 7 of 7      | 3 of 3      | 3 of 3            | 4 of 4       | 1 of 1      | 32 of 32       | 100%  |
| Percentage<br>by committee | <b>100%</b> | <b>96%</b>        | <b>100%</b> | <b>100%</b> | <b>100%</b>       | <b>96.4%</b> | <b>100%</b> | <b>199/201</b> | <b>Overall<br/>attendance<br/>percentage<br/>99.00%</b> |

Table of Contents**Share ownership guidelines for directors**

Directors are required to hold the equivalent of at least 15,000 shares of Imperial Oil Limited, including common shares, deferred share units and restricted stock units. Directors are expected to reach this level within five years from the date of appointment to the board. The board of directors believes that the share ownership guideline will result in an alignment of the interest of board members with the interests of all other shareholders.

| <b>Director</b> | <b>Director since</b> | <b>Amount acquired since last report (February 12, 2011 to February 15, 2012)</b> | <b>Total holdings (includes common shares, deferred share units and restricted stock units)</b> | <b>Total at-risk value of total holdings (b) (\$)</b> | <b>Minimum shareholding requirement</b> | <b>Minimum requirement met or date required to achieve minimum requirement</b> |
|-----------------|-----------------------|---|---|---|---|--|
| K.T. Hoeg       | May 1, 2008           | 4,077   | 18,450  | 876,560   | 15,000                                  | Minimum requirement met  |
| B.H. March (a)  | January 1, 2008       | 53,100  | 191,100   | 9,079,161   | 15,000                                  | Minimum requirement met  |
| J.M. Mintz      | April 21, 2005        | 2,576   | 21,447  | 1,018,947   | 15,000                                  | Minimum requirement met  |

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|                 |                   |        |        |           |        |                               |
|-----------------|-------------------|--------|--------|-----------|--------|-------------------------------|
| R.C. Olsen      | May 1,<br>2008    | 11,000 | 20,000 | 950,200   | 15,000 | Minimum<br>requirement<br>met |
| D.S. Sutherland | April 29,<br>2010 | 15,014 | 54,232 | 2,576,562 | 15,000 | Minimum<br>requirement<br>met |
| S.D. Whittaker  | April 19,<br>1996 | 27     | 57,925 | 2,752,017 | 15,000 | Minimum<br>requirement<br>met |
| V.L. Young      | April 23,<br>2002 | 2,827  | 37,344 | 1,774,213 | 15,000 | Minimum<br>requirement<br>met |

- (a) Paragraph 10(b) of the Board of Directors Charter also provides that B.H. March, as chairman, president and chief executive officer shall, within three years of his appointment, acquire shares of the company, including common shares, deferred share units and restricted stock units, of a value of no less than five times his base salary. B.H. March has achieved this requirement.
- (b) The amount shown in the column Total at-risk value of total holdings is equal to the Total holdings multiplied by the closing price of the company's shares on February 15, 2012 (\$47.51).

**Table of Contents****Other public company directorships**

The following table shows which current directors serve on the boards of other reporting issuers and the committee membership in those companies.

| Name of director | Other reporting issuers of which director is also a director | Committee appointments                                      |
|------------------|--|---|
|                  |  | Management resources committee (Chair)                      |
|                  | Sun Life Financial Inc.                                      | Risk review committee                                       |
|                  | Shoppers Drug Mart Corporation                               | Nominating and governance committee (Chair)                 |
| K.T. Hoeg        |  | Audit committee   |
|                  | Canadian Pacific Railway Limited                             |   |
|                  |  | Pension committee   |
|                  | Canadian Pacific Railway Company                             | Audit committee   |
| B.H. March       | --   | --  |
|                  | Brookfield Asset Management Inc.                             | Audit committee   |
|                  | Morneau Shepell Inc.   | Compensation, nominating and corporate governance committee |
| R.C. Olsen       |  |   |



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|                 |                                 |   |
|-----------------|---------------------------------|---|
|                 |                                 | Compensation committee  |
| D.S. Sutherland | GATX Corporation                | Audit committee   |
|                 | United States Steel Corporation | Compensation and organization committee<br>Corporate governance and public policy committee |
| S.D. Whittaker  | Standard Life plc               | Risk and capital committee  |
|                 |                                 | Remuneration committee  |
| V.L. Young      | Royal Bank of Canada            | Audit committee (Chair)   |
|                 |                                 | Risk committee  |

## Interlocking directorships

There are currently no interlocking directorships among the director nominees listed in this circular.

**Table of Contents**

**Director compensation**

**Compensation discussion and analysis**

**Philosophy and objectives**

Director compensation elements are designed to:

ensure alignment with long-term shareholder interests;

provide motivation to promote sustained improvement in the company's business performance and shareholder value;

ensure the company can attract and retain outstanding director candidates who meet the selection criteria outlined in section 9 of the Board of Directors Charter;

recognize the substantial time commitments necessary to oversee the affairs of the company; and

support the independence of thought and action expected of directors.

Nonemployee director compensation levels are reviewed by the nominations and corporate governance committee each year, and resulting recommendations are presented to the full board for approval.

Employees of the company or Exxon Mobil Corporation receive no extra pay for serving as directors. Nonemployee directors receive compensation consisting of cash and restricted stock units. Since 1999, the nonemployee directors have been able to receive all or part of their cash directors' fees in the form of deferred share units. The purpose of the deferred share unit plan for nonemployee directors is to provide them with additional motivation to promote sustained improvement in the company's business performance and shareholder value by allowing them to have all or part of their directors' fees tied to the future growth in value of the company's common shares. The deferred share unit plan is described in more detail on page 105.

**Compensation decision making process and considerations**

The nominations and corporate governance committee relies on market comparisons with a group of 23 major Canadian companies with national and international scope and complexity. The company draws its nonemployee directors from a wide variety of industrial sectors, so a broad sample is appropriate for this purpose. The nominations and corporate governance committee does not target any specific percentile among comparator companies at which to align compensation for this group. The 23 comparator companies included in the benchmark sample are as follows:

**Comparator companies for nonemployee directors**

|                                    |                                |                             |
|------------------------------------|--------------------------------|-----------------------------|
| Bank of Montreal                   | Cenovus Energy Inc.            | Sun Life Financial Inc.     |
| Bank of Nova Scotia                | EnCana Corporation             | Suncor Energy Inc.          |
| BCE Inc.                           | Husky Energy Inc.              | Talisman Energy Inc.        |
| Bombardier Inc.                    | Manulife Financial Corporation | TELUS Inc.                  |
| Canadian Imperial Bank of Commerce | Nexen Inc.                     | Thomson Reuters Corporation |
| Canadian National Railway Company  | Potash Corporation             | The Toronto-Dominion Bank   |
| Canadian Natural Resources Limited | Power Financial Corporation    | TransCanada Corporation     |
| Canadian Pacific Railway Limited   | Royal Bank of Canada           |                             |

Directors' compensation has not been changed since 2008 and will be maintained at current levels until at least July 1, 2012.

**Independent consultants**

Following the nominations and corporate governance committee decision to use an external research firm to assemble the comparator data for the prior year in the second quarter of each year, so as to determine compensation for the upcoming July 1<sup>st</sup> - June 30<sup>th</sup> twelve month period, the committee retained Patrick O. Callaghan and Associates, an independent consultant, to provide information on competitive practices for director compensation, which assisted the committee in making a compensation recommendation for the company's directors. The professional fees and expenses for this service in 2011 totalled \$48,612.

The nominations and corporate governance committee also retained Meridian Compensation Partners, an independent consultant, to provide an assessment of competitive compensation and market data for directors' compensation. The professional fees and expenses for this service totalled \$35,702.

**Table of Contents****Hedging policy**

Company policy prohibits all employees, including executives, and directors, from purchasing or selling puts, calls, other options or futures contracts on the company or Exxon Mobil Corporation stock.

**Director compensation details and tables****Compensation Details****Annual retainer**

In 2011, the base cash retainer for nonemployee directors was \$100,000 per year. Nonemployee directors were paid \$20,000 for membership on all board committees. Additionally, each board committee chair received a retainer of \$10,000 for each committee chaired (the annual retainer). Nonemployee directors were not paid a fee for attending board and committee meetings for each of the eight regularly-scheduled meetings. However, they were eligible to receive a fee of \$2,000 per board or committee meeting occurring on any other day. One board meeting occurred outside of the eight regularly-scheduled meeting days.

**Deferred share units**

In 1998, an additional form of long-term incentive compensation ( deferred share units ) was made available to nonemployee directors. Nonemployee directors may elect to receive all or a portion of their annual retainer for board membership, annual retainer for committee membership and annual retainer for committee chair, in the form of deferred share units.

The following table shows the portion of the annual retainer for board membership, annual retainer for committee membership and annual retainer for committee chair which each nonemployee director elected to receive in cash and deferred share units in 2011.

| Director        | Election for 2011 director |   |
|-----------------|----------------------------|---|
|                 | fees in cash               | Election for 2011 director fees in deferred share units |
|                 | (%)                        | (%)   |
| K.T. Hoeg       | 0                          | 100   |
| J.M. Mintz      | 50                         | 50  |
| D.S. Sutherland | 0                          | 100   |
| S.D. Whittaker  | 100                        | 0   |
| V.L. Young      | 75                         | 25  |

The number of deferred share units granted to a nonemployee director is determined at the end of each calendar quarter for that year by dividing (i) the dollar amount of the nonemployee director's fees for that calendar quarter that the director elected to receive as deferred share units by (ii) the average of the closing price of the company's shares on the Toronto Stock Exchange for the five consecutive trading days ( average closing price ) immediately prior to the last day of that calendar quarter. Those deferred share units are granted effective the last day of that calendar quarter.

A nonemployee director is granted additional deferred share units in respect of the unexercised deferred share units on the dividend payment dates for the common shares of the company. The number of such additional deferred share units is determined for each cash dividend payment date by (i) dividing the cash dividend payable for a common share of the company by the average closing price immediately prior to the payment date for that dividend and then (ii) multiplying that resultant number by the number of unexercised deferred share units held by the nonemployee directors on the record date for the determination of shareholders entitled to receive payment of such cash dividend.

A nonemployee director may only exercise these deferred share units after termination of service as a director of the company, including termination of service due to death. No deferred share units granted to a nonemployee director may be exercised unless all of the deferred share units are exercised on the same date.

**Restricted stock units**

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In addition to the cash fees described above, the company pays a significant portion of director compensation in restricted stock units to align director compensation with the long-term interests of shareholders. Restricted

**Table of Contents**

stock units are awarded annually with 50 percent vesting in cash three years from the date of grant and the remaining 50 percent vesting on the seventh anniversary of the grant date. Directors can elect to receive one common share for each unit or a cash payment for the units to be exercised on the seventh anniversary of the date of grant of the restricted stock units. The vesting periods are not accelerated upon separation or retirement from the board, except in the event of death. The restricted stock unit plan is described in more detail on page 116. In 2011, each nonemployee director received a grant of 2,000 restricted stock units.

In contrast to the forfeiture provisions for restricted stock units held by employees of the company, the restricted stock units awarded to nonemployee directors are not subject to risk of forfeiture at the time a director leaves the company's board. This provision is designed to reinforce the independence of these board members. However, while on the board and for a 24-month period after leaving the company's board, restricted stock units may be forfeited if the nonemployee director engages in direct competition with the company or otherwise engages in any activity detrimental to the company. The board agreed that the word "detrimental" shall not include any actions taken by a nonemployee director or former nonemployee director who acted in good faith and in the best interest of the company.

**Other reimbursement**

Nonemployee directors are also reimbursed for travel and other expenses incurred for attendance at board and committee meetings.

**Components of director compensation**

The following table sets out the details of compensation paid to the nonemployee directors for 2011.

| Director   | Annual<br>retainer for<br>board<br>membership<br>(\$) | Annual<br>retainer for<br>committee<br>membership<br>(\$) | Annual<br>retainer for<br>committee<br>chair<br>(\$) | Restricted<br>stock units<br>(RSU)<br>(#) | Fee for board and committee  |   | Total<br>fees<br>paid in<br>cash<br>(\$)<br>(a) | Total<br>value of<br>deferred<br>share<br>units<br>(\$)<br>(DSU)<br>(b) | Total<br>value of<br>restricted<br>stock<br>units<br>(\$)<br>(RSU)<br>(c) | All other<br>compensation<br>(\$)<br>(d) | Total<br>compensation<br>(\$) |
|------------|---|---|--|---|--|---|---|---|---|--|-------------------------------|
|            |   |   |  |   | Number of<br>non-<br>regularly<br>scheduled<br>meetings<br>attended<br>(#) | (\$2,000 x<br>number of<br>non-regularly<br>scheduled<br>meetings<br>attended)<br>(\$)<br>(e) |   |   |   |  |                               |
| K.T. Hoeg  | 100,000   | 20,000  | 10,000<br>(ERC)                                      | 2,000                                     | 1  | 2,000   | 2,000   | 130,000   | 88,400  | 6,591                                    | 226,991                       |
| J.M. Mintz | 100,000   | 20,000  | 10,000<br>(EH&S)                                     | 2,000                                     | 1  | 2,000   | 67,000  | 65,000  | 88,400  | 8,716                                    | 229,116                       |

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|                 |         |        |                  |       |   |       |         |         |        |        |         |
|-----------------|---------|--------|------------------|-------|---|-------|---------|---------|--------|--------|---------|
| D.S. Sutherland | 100,000 | 20,000 | 10,000<br>(CC)   | 2,000 | 1 | 2,000 | 2,000   | 130,000 | 88,400 | 2,113  | 222,513 |
| S.D. Whittaker  | 100,000 | 20,000 | 10,000<br>(N&CG) | 2,000 | 1 | 2,000 | 132,000 | -       | 88,400 | 21,542 | 241,942 |
| V.L. Young      | 100,000 | 20,000 | 10,000<br>(AC)   | 2,000 | 1 | 2,000 | 99,500  | 32,500  | 88,400 | 8,663  | 229,063 |

- (a) Total fees paid in cash is the portion of the Annual retainer for board membership , Annual retainer for committee membership and Annual retainer for committee chair which the director elected to receive as cash, plus the Fee for board and committee meetings not regularly scheduled . This amount is reported as Fees earned in the Director compensation table on page 107.
- (b) Total value of deferred share units is the portion of the Annual retainer for board membership , Annual retainer for committee membership , and Annual retainer for committee chair , which the director elected to receive as deferred share units, as set out in the previous table on page 105. This amount plus the Total value of restricted stock units amount is shown as Share-based awards in the Director compensation table on page 107.
- (c) The values of the restricted stock units shown are the number of units multiplied by the closing price of the company s shares on the date of grant, which was \$44.20.
- (d) Amounts under All other compensation consist of dividend equivalent payments on unexercised restricted stock units, the value of additional deferred share units granted in lieu of dividends on unexercised deferred share units and security provided for certain directors. In 2011, K.T. Hoeg received \$2,420 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$4,171 in lieu of dividends on deferred share units. J.M. Mintz received \$4,290 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$3,712 in lieu of dividends on deferred share units. D.S. Sutherland received \$660 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$1,453 in lieu of dividends on deferred share units. S.D. Whittaker received \$5,115 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$16,427 in lieu of dividends on deferred share units. V.L. Young received \$5,115 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$3,548 in lieu of dividends on deferred share units.

**Table of Contents****Compensation tables**

The following table summarizes the compensation paid, payable, awarded or granted for 2011 to each of the nonemployee directors of the company.

| Name<br>(a)         | Fees<br>earned<br>(\$)<br>(c) | Share-<br>based<br>awards<br>(\$)<br>(d) | Option-<br>based<br>awards<br>(\$)<br>(e) | Non-equity<br>incentive plan<br>compensation<br>(\$)<br>(f) | Pension<br>value<br>(#)<br>(g) | All other<br>compensation<br>(\$)<br>(h) | Total<br>(\$)<br>(i) |
|---------------------|-------------------------------|--|---|---|--------------------------------|--|----------------------|
| K.T. Hoeg (b)       | 2,000                         | 218,400                                  | -   | -   | -                              | 6,591                                    | 226,991              |
| J.M. Mintz (b)      | 67,000                        | 153,400                                  | -   | -   | -                              | 8,716                                    | 229,116              |
| D.S. Sutherland (b) | 2,000                         | 218,400                                  | -   | -   | -                              | 2,113                                    | 222,513              |
| S.D. Whittaker (b)  | 132,000                       | 88,400                                   | -   | -   | -                              | 21,542                                   | 241,942              |
| V.L. Young (b)      | 99,500                        | 120,900                                  | -   | -   | -                              | 8,663                                    | 229,063              |

- (a) As directors employed by the company or Exxon Mobil Corporation in 2011, B.H. March and R.C. Olsen did not receive compensation for acting as directors.
- (b) Starting in 1999, the nonemployee directors have been able to receive all or part of their directors' fees in the form of deferred share units.
- (c) Represents all fees awarded, earned, paid or payable in cash for services as a director, including retainer fees, committee, chair and meeting fees.
- (d) The values of the restricted stock units shown are the number of units multiplied by the closing price of the company's shares on the date of grant. The dollar value of deferred share units shown is the value of the portion of the Annual retainer for board membership, Annual retainer for committee membership and Annual retainer for committee chair which the director elected to receive as deferred share units as noted on page 105.
- (e) Amounts under All other compensation consist of dividend equivalent payments on unexercised restricted stock units, the value of additional deferred share units granted in lieu of dividends on unexercised deferred share units and security provided for certain directors. In 2011, K.T. Hoeg received \$2,420 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$4,171 in lieu of dividends on deferred share units. J.M. Mintz received \$4,290 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$3,712 in lieu of dividends on deferred share units. D.S. Sutherland received \$660 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$1,453 in lieu of dividends on deferred share units. S.D. Whittaker received \$5,115 in dividend equivalent payments on restricted stock units and additional deferred share units valued at \$16,427 in lieu of dividends on deferred share units. V.L. Young received \$5,115 in dividend equivalent payments on restricted



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stock units and additional deferred share units valued at \$3,548 in lieu of dividends on deferred share units.

| <b>Total compensation paid to non-employee directors</b> |               |
|--|---------------|
| <b>Year</b>  | <b>Amount</b> |
| 2008   | \$1,044,721   |
| 2009   | \$1,110,500   |
| 2010   | \$1,089,012   |
| 2011   | \$ 1,149,625  |

**Table of Contents****Outstanding share-based awards and option-based awards for directors**

The following table sets forth all outstanding awards held by nonemployee directors of the company as at December 31, 2011 and does not include common shares owned by the director.

| Name<br>(a)     | Option-based awards                                     |                            |                        | Share-based awards                             |  |   |
|-----------------|---|----------------------------|------------------------|--|--|---|
|                 | Number of securities underlying unexercised options (#) | Option exercise price (\$) | Option expiration date | Value of unexercised in-the-money options (\$) | Number of shares or units of shares that have not vested (#) (b) | Market or payout value of share-based awards that have not vested (\$ (c) |
| K.T. Hoeg       | -   | -                          | -                      | -  | 18,450   | 837,446   |
| J.M. Mintz      | -   | -                          | -                      | -  | 20,447   | 928,089   |
| D.S. Sutherland | -   | -                          | -                      | -  | 9,232  | 419,040   |
| S.D. Whittaker  | -   | -                          | -                      | -  | 48,575   | 2,204,819   |
| V.L. Young      | -   | -                          | -                      | -  | 19,594   | 889,372   |

(a) As directors employed by the company or Exxon Mobil Corporation in 2011, B.H. March and R.C. Olsen did not receive compensation for acting as directors.

(b) Represents restricted stock units and deferred share units held as of December 31, 2011.

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(c) Value is based on the closing price of the company's shares on December 31, 2011, which was \$45.39.

### Incentive plan awards for directors Value vested or earned during the year

The following table sets forth the value of the awards that vested or were earned by each nonemployee director of the company in 2011.

| Name<br>(a)        | Option-based awards                     | Share-based awards                      | Non-equity incentive plan                            |
|--------------------|---|---|--|
|                    | Value vested during<br>the year<br>(\$) | Value vested during the<br>year<br>(\$) | compensation Value earned<br>during the year<br>(\$) |
| K.T. Hoeg (b)      | -                                       | 42,760                                  | -  |
| J.M. Mintz (b)     | -                                       | 42,760                                  | -  |
| D.S. Sutherland    | -                                       | 0                                       | -  |
| S.D. Whittaker (c) | -                                       | 106,900                                 | -  |
| V.L. Young (c)     | -                                       | 106,900                                 | -  |

(a) As directors employed by the company or Exxon Mobil Corporation in 2011, B.H. March and R.C. Olsen did not receive compensation for acting as directors.

(b) Represents restricted stock units granted in 2008 and vesting in 2011.

(c) Represents restricted stock units granted in 2004 and 2008, which vested in 2011.

Table of Contents**IV. Company executives and executive compensation****Named executive officers of the company**

The named executive officers of the company at the end of 2011 were:

| <b>Name</b>  | <b>Age</b><br><br>(as of<br>February 15,<br>2012) | <b>Current Position</b><br><br>(date office held)   | <b>Other Positions in the Past Five Years</b><br><br>(position, date office held and status of employer)  |
|--|---|---|---|
| <b>Bruce H. March</b><br><br>Calgary, Alberta,<br><br>Canada     | 55  | Chairman, president and<br>chief executive officer<br><br>(2008 Present)                            | President,<br><br>Imperial Oil Limited<br><br>(January 2008 to April 2008)<br><br>Director, refining Europe/Africa/Middle East, ExxonMobil<br>Petroleum & Chemicals BVBA<br><br>(2007 - 2008)<br><br>(Affiliate)<br><br>Project executive, Qatar Gas to Liquids project<br><br>ExxonMobil Development Company<br><br>(2006 - 2007)<br><br>(Affiliate) |
| <b>Paul J. Masschelin</b><br><br>Calgary, Alberta,<br><br>Canada | 57  | Senior vice-president, finance<br>and administration, and<br>treasurer<br><br>(May 1, 2010 Present) | Controller, refining & supply and research & engineering,<br><br>ExxonMobil Fuels Marketing Company<br><br>(2007 - 2010)<br><br>(Affiliate)<br><br>Manager, global product movement and inventory<br><br>ExxonMobil Fuels Marketing Company<br><br>(2003 - 2007)<br><br>(Affiliate)   |

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|                                 |    |   |   |
|---------------------------------|----|---|---|
| <b>T. Glenn Scott</b>           | 48 | Senior vice-president,<br>resources                           | President, ExxonMobil Canada Limited and Production<br>manager, ExxonMobil Canada East, |
| Calgary, Alberta,<br><br>Canada |    | (July 1, 2010 Present)  | (2006 - 2010)<br><br>(Affiliate)  |
| <b>R. Gilles Courtemanche</b>   | 57 | Vice-president and general<br>manager, refining and supply    | Manager, Downstream & Chemicals, Safety, Health &<br>Environment                        |
| Calgary, Alberta,<br><br>Canada |    | (May 1, 2011 Present)   | ExxonMobil Refining and Supply Company<br><br>(2007 2011)<br><br>(Affiliate)            |
| <b>Brian W. Livingston</b>      | 57 | Vice-president, general<br>counsel and corporate<br>secretary | No other positions held in the last five years  |
| Calgary, Alberta,<br><br>Canada |    | (2004 Present)  |   |

**Table of Contents****Other executive officers of the company**

| <b>Name</b>  | <b>Age</b><br><br>(as of<br>February 15,<br>2012) | <b>Current Position</b><br><br>(date office held) | <b>Other Positions in the Past Five Years</b><br><br>(position, date office held and status of employer)  |
|--|---|---|---|
| <b>Sean R. Carleton</b><br><br>Calgary, Alberta,<br><br>Canada | 53  | Controller<br><br>(2008 Present)                  | Controller and treasurer,<br><br>Syncrude Canada Ltd.<br><br>(2007 - 2008)<br><br>Special project executive for the Syncrude joint venture<br><br>Imperial Oil Limited<br><br>(2005 - 2007) |
| <b>Phil Dranse</b><br><br>Calgary, Alberta,<br><br>Canada      | 58  | Assistant treasurer<br><br>(2002 Present)         | No other positions held in the last five years  |
| <b>Marvin A. Lamb</b><br><br>Calgary, Alberta,<br><br>Canada   | 56  | Director, corporate tax<br><br>(2001 Present)     | No other positions held in the last five years  |

**Report of executive resources committee on executive compensation****Compensation governance**

The executive resources committee is responsible for corporate policy on compensation and for specific decisions on the compensation of the chief executive officer and key senior executives and officers of the company as stated on page 96 of this circular. The committee members, their experience in compensation, committee responsibilities and details on the use of any compensation consultants are further outlined on page 96 and page 104.

As part of its ongoing governance, the committee's role ensures that the management of risk and a long term orientation are integral elements of the compensation policies and practices of the company. These policies and practices are designed to keep management, including named executive officers focused on the strategic objectives of the company over the long term and to effectively assess and mitigate risk in the execution of these objectives. The individual committee members, through their participation on all board committees, are able to understand the company's overall objectives, operating risks and financial risks. This understanding of the company's range of business risks allows an appropriate calibration to the company's compensation policies and practices.



**Table of Contents**

The executive resources committee of the board of directors has reviewed and discussed the Compensation discussion and analysis for 2011 with management of the company. Based on that review and discussion, the committee recommended to the board that the Compensation discussion and analysis be included in the company's management proxy circular for the 2012 annual meeting of shareholders.

Submitted on behalf of the executive resources committee:

|                         |                 |
|-------------------------|-----------------|
| K.T. Hoeg (chair)       | R.C. Olsen      |
| V.L. Young (vice-chair) | D.S. Sutherland |
| J.M. Mintz              | S.D. Whittaker  |

**Compensation discussion and analysis**

| <b>Index</b>                   | <b>Topic</b>  | <b>Page</b> |
|--------------------------------|---|-------------|
| <b>Overview</b>                | Business environment  | 112         |
|                                | Key business strategies   | 112         |
|                                | Key elements of the compensation program                        | 112         |
|                                | Management of risk  | 112         |
|                                | Other supporting compensation and staffing practices            | 114         |
|                                | Hedging policy  | 114         |
|                                | Business performance and basis for compensation                 | 114         |
|                                | Succession planning   | 114         |
| <b>Compensation program</b>    | Career orientation  | 115         |
|                                | Base salary   | 115         |
|                                | Annual bonus  | 115         |
|                                | Long term incentive compensation - Restricted stock units       | 116         |
|                                | - <i>Exercise of restricted stock units and plan amendments</i> | 117         |
|                                | - <i>Forfeiture risk</i>  | 118         |
|                                | Retirement benefits   | 119         |
|                                | - <i>Pension plan benefits</i>                                  | 119         |
| - <i>Savings plan benefits</i> | 120   |             |
| <b>Compensation</b>            | Benchmarking  | 120         |
| Table of Contents              |   | 184         |



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|                       |   |     |
|-----------------------|---|-----|
| <b>considerations</b> | Comparator companies  | 120 |
|                       | Analytical tools Compensation summary sheets  | 121 |
|                       | 2011 named executive officer compensation assessment                                  | 122 |
|                       | 2011 chief executive officer compensation assessment                                  | 123 |
|                       | Pay awarded to other named executive officers   | 123 |
|                       | Independent consultant  | 124 |
|                       | Performance graph   | 124 |
| <b>Executive</b>      | Summary compensation table  | 125 |
| <b>compensation</b>   | Outstanding share-based awards and option-based awards table                          | 127 |
| <b>tables and</b>     | Incentive plan awards table for named executive officers Value vested during the year | 128 |
| <b>narratives</b>     | Proceeds realized in 2011 from compensation awards granted in prior years             | 129 |
|                       | Equity compensation plan information  | 130 |
|                       | Pension plan benefits table   | 130 |
|                       | Details of former long-term incentive compensation plans                              | 132 |
|                       | - <i>Incentive share units</i>  | 132 |
|                       | - <i>Stock option plan</i>  | 132 |

## **Table of Contents**

### **Overview**

Providing energy to meet Canada's demands is a complex business. The company meets this challenge by taking a long-term view to managing its business rather than reacting to short-term business cycles. As such, the compensation program of the company aligns with this long-term business approach and supports key business strategies as outlined below.

### **Business environment**

Long investment horizons;

Large capital investments;

Complex operating and financial risks;

National scope of company operations; and

Commodity-based cyclical product prices.

### **Key business strategies**

Grow profitable sales volumes;

Disciplined, selective and long-term focus on improving the productivity of the company's asset mix;

Operational excellence; and

Best-in-class cost structure to ensure industry-leading returns on capital and superior cash flow.

Focus on these key business strategies is a company priority and ensures long-term growth in shareholder value.

### **Key elements of the compensation program**

The key elements of the company's compensation program that align with the business environment and support key business strategies are:

long-term career orientation with high individual performance standards (see page 115);

base salary that rewards individual performance and experience (see page 115);

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annual bonus grants to select executives based on company performance, as well as individual performance and experience (see page 115);

payment of a large portion of executive compensation in the form of restricted stock units with lengthy vesting periods and risk of forfeiture (see page 116); and

retirement benefits (pension and savings plans) that provide for financial security after employment (see pages 119 through 120). The company's executive compensation program is designed to ensure that executives place a priority on:

aligning with long-term shareholder interests;

reinforcing the company's orientation toward career employment and individual performance;

reinforcing its philosophy that the experience, skill and motivation of the company's executives are significant determinants of future business success; and

managing risk and taking a long-term view when making investments and managing the assets of the business.

### **Management of risk**

The company operates in an industry environment in which excellence in risk management is critical. For this reason, the company places a high premium on effective risk management, including safety, security, health, environmental, financial and reputational risks. The long-term orientation the company takes and risk of forfeiture in the compensation program reinforce this priority.

The company's success in managing risk over multiple year periods is achieved through emphasis on flawless execution through a disciplined management framework called the Operation Integrity Management System (OIMS). The OIMS framework establishes common expectations for addressing risks inherent in our business and takes priority over other business and financial objectives. The compensation program ensures that senior executives have a strong financial incentive to protect the safety and security of our employees and the communities and environment in which we operate, to effectively manage risk and operate the business with effective business controls, as well as to create value for company shareholders through their

## Table of Contents

actions to increase shareholder return, net income, return on capital employed, and advance the long-term strategic direction of the company.

The company also has strong controls and compliance programs to manage other types of risk, including fraud, regulatory compliance and litigation risks. These controls and compliance programs are reinforced by the same features of the compensation program. The influence of commodity prices on company compensation is indirect because it is limited to only one element of compensation via its effect on earnings per share or share price. The compensation program is composed of competitive salaries and performance-based incentives as the primary instruments to attract, develop and retain key personnel.

There is no material adverse risk resulting from how the company pays its executives; to the contrary, the compensation programs and practices are designed to encourage appropriate risk assessment and risk management. The underlying design and principles inherent in the company's compensation program, which are primarily long-term focused, discourage taking adverse risks.

The design of the compensation program helps reinforce these priorities and ensures that the compensation granted over multiple years and the shareholding net worth of senior executives is linked to the performance of the company's stock and resulting shareholder value.

The key design features of our compensation program that discourage inappropriate risk taking are summarized below and are also described in more detail under various sections of this proxy statement.

### *Pay mix*

The largest percentage of total compensation (excluding compensatory pension value) to senior executives is in the form of restricted stock units and an annual bonus. In the judgment of the committee, this mix of short and long term incentives strikes an appropriate balance in aligning the interests of the senior executives with the business priorities of the company and sustainable growth in long-term shareholder value.

### *Restricted stock units*

**Long holding periods** - As noted above, to further reinforce the importance of risk management and a long-term investment orientation, senior executives are required to hold a substantial portion of their equity incentive award for a long period of time and in some cases beyond retirement based on the vesting provisions described on page 117. These lengthy holding periods are tailored to the company's business model.

**Risk of forfeiture** - During these long holding periods, the restricted stock units are at risk of forfeiture for resignation or detrimental activity. The long vesting periods on restricted stock units and the risk of forfeiture together support an appropriate risk/reward profile that reinforces the long-term orientation expected of senior executives.

### *Annual bonus*

**Delayed payout** - Payout of 50 percent of the annual bonus is delayed and is subject to risk of forfeiture. The timing of the delayed payout is determined by earnings performance. This is a unique feature of the company's program relative to many comparator companies and further discourages inappropriate risk taking.

**Risk of forfeiture** - Similar to restricted stock units, the entire annual bonus is subject to risk of forfeiture for resignation or detrimental activity.

**Recoupment** - The entire annual bonus is subject to recoupment ( clawback ) in the event of material negative restatement of the company's reported financial or operating results. The clawback provision reinforces the importance of the company's financial controls and compliance programs.

## **Table of Contents**

### *Common programs*

All executives, including the named executive officers, participate in common programs (the same salary, incentive and retirement programs), which are reviewed by the committee; therefore, inappropriate risk taking is discouraged at all levels of the company through similar compensation design features and allocation of awards. Within these programs, the compensation of executives is differentiated based on individual performance assessment, level of responsibility and individual experience. All senior executives on loan assignment from Exxon Mobil Corporation participate in common programs, as well, which are administered by Exxon Mobil Corporation.

### *Pension*

The company's defined benefit pension plan and supplemental pension arrangements are highly dependent on executives remaining with the company for a career and performing at the highest levels until retirement. This dimension of total compensation encourages executives to take a long-term view when making business decisions and to focus on achieving sustainable growth for shareholders.

### **Other supporting compensation and staffing practices**

A long established program of management development and succession planning is in place to reinforce a career orientation and ensure continuity of leadership.

The use of perquisites at the company is very limited, and mainly composed of only two elements: financial planning for senior executives and the use of club memberships for select executives which are largely tied to building business relationships.

No tax assistance is provided by the company on any elements of executive officer compensation or perquisites other than relocation. The relocation program is broad-based and applies to all management, professional, technical and executive transferred employees.

### **Hedging policy**

Company policy prohibits all employees, including executives, and directors, from purchasing or selling puts, calls, other options or futures contracts on the company or Exxon Mobil Corporation stock.

### **Business performance and basis for compensation**

The assessment of individual performance is conducted through the company's employee appraisal program. Conducted annually, the appraisal process assesses performance against business performance measures and objectives relevant to each employee, including the means by which performance is achieved. These business performance measures include:

safety, health and environmental performance;

risk management;

total shareholder return;

net income;

return on capital employed;

cash distribution to shareholders;

operating performance of the upstream, downstream and chemical segments; and

effectiveness of actions that support the long-term strategic direction of the company.

The appraisal process involves comparative assessment of employee performance using a standard process throughout the organization and at all levels. This process is integrated with the compensation program which results in significant pay differentiation between high and low performers. The appraisal process is also integrated with the executive development process. Both have been in place for many years and are the basis for planning individual development and succession for management positions. The decision-making process with respect to compensation requires judgment, taking into account business and individual performance and responsibility. Quantitative targets or formulae are not used to assess individual performance or determine the amount of compensation.

### **Succession planning**

The employee appraisal process is an important aspect of succession planning for the position of chairman, president and chief executive officer, as well as other key senior executive positions. The succession planning process fosters the company's approach to a career orientation and promotion from within, which strengthens continuity of leadership at all levels, including that of the most senior positions. This process helps to assess the competence and readiness of individuals for senior executive positions. The executive

## **Table of Contents**

resources committee is responsible for approving specific succession plans for the position of chairman, president and chief executive officer and key senior executive positions reporting to him, including all officers of the company.

The executive resources committee regularly reviews the company's succession plans for the position of chairman, president and chief executive officer and other key senior executive positions. It considers candidates for these positions, from within the company and certain candidates from ExxonMobil. The executive resources committee makes recommendations to the board of directors for selection of all officers of the company, as well as other key senior executive positions reporting to the chairman, president and chief executive officer.

## **Compensation program**

### **Career orientation**

The company's objective is to attract, develop and retain over a career the best talent available. It takes a long period of time and significant investment to develop the experienced executive talent necessary to succeed in the company's business; senior executives must have experience with all phases of the business cycle to be effective leaders. The company's compensation program elements are designed to encourage a career orientation among employees at all levels of the company. Career orientation among a dedicated and highly skilled workforce, combined with the highest performance standards, contributes to the company's leadership in the industry and serves the interests of shareholders in the long term. The company service of the named executive officers reflects this strategy. Their career service ranges from approximately 26 to 36 years.

Consistent with the company's long-term career orientation, high-performing executives typically earn substantially higher levels of compensation in the final years of their careers than in the earlier years. This pay practice reinforces the importance of a long-term focus in making decisions that are key to business success.

The compensation program emphasizes individual experience and sustained performance; executives holding similar positions may receive substantially different levels of compensation.

The company's executive compensation program is composed of base salaries, cash bonuses and medium and long-term incentive compensation. The company **does not have written employment contracts** or any other agreement with its named executive officers providing for payments on change of control or termination of employment.

### **Base salary**

Salaries provide executives with a base level of income. The level of annual salary is based on the executive's responsibility, performance assessment and career experience. The salary program in 2011 maintained the company's competitive position on salaries in the marketplace. Individual salary increases vary depending on each executive's performance assessment and other factors such as time in position and potential for advancement. Salary decisions also directly affect the level of retirement benefits since salary is included in the retirement benefit calculation. Thus, the level of retirement benefits is also performance-based like other elements of compensation.

### **Annual bonus**

Annual bonuses were granted to approximately 90 executives to reward their contributions to the business during the past year. Bonuses are drawn from an aggregate bonus pool established annually by the executive resources committee based on the company's financial and operating performance, and can be highly variable depending on these results. This bonus reflects the combined value at grant of annual cash bonus and earnings bonus units.

In setting the size of the annual bonus pool and individual executive awards, the executive resources committee:

considers input from the chairman, president and chief executive officer on the performance of the company and from the company's internal compensation advisors regarding compensation trends as obtained from external consultants;

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considers total shareholder return, annual net income of the company and the other key business performance indicators as described on page 114; and



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## **Table of Contents**

uses judgment to manage the overall size of the annual bonus pool taking into consideration the cyclical nature and long-term orientation of the business.

The cost of the 2011 annual bonus program was \$12.3 million versus \$10.0 million in 2010. The company's operating and financial performance was achieved in an improving but still uncertain economic environment. The 2011 annual bonus pool was approved to increase by up to 30 percent from the previous year. This change reflects an increase in corporate earnings of 53 percent and strong operating performance in 2011, including management of controllable factors. The company's net income for 2011 was approximately \$3.4 billion, return on capital employed was approximately 25 percent. Changes in individual cash bonus awards vary depending on each executive's performance assessment.

The annual bonus program incorporates unique elements to further reinforce retention and recognize performance. Awards under this program are generally delivered as:

50 percent cash paid in the year of grant; and

50 percent earnings bonus units with a delayed payout based on cumulative earnings performance.

The cash component is intended to be a short-term incentive, while the earnings bonus unit plan is intended to be a medium-term incentive. Earnings bonus units are made available to selected executives to promote individual contribution to sustained improvement in the company's business performance and shareholder value. Earnings bonus units are generally equal to and granted in tandem with cash bonuses.

Specifically, earnings bonus units are cash awards that are tied to future cumulative earnings per share. Earnings bonus units pay out when a specified level of cumulative earnings per share is achieved or within three years, whichever is earlier. For earnings bonus units granted in 2011, the maximum settlement value (trigger) or cumulative earnings per share required for payout was increased to \$3.00, reinforcing the company's principle of continuous improvement in business performance. The trigger of \$3.00 is intentionally set at a level that is expected to be achieved within the three-year period.

If cumulative earnings per share did not reach \$3.00 within three years, the payment with respect to the earnings bonus unit would be reduced to an amount equal to the number of units times the actual cumulative earnings per share over the period.

The annual bonus includes the combined value of the cash bonus and delayed earnings bonus unit portion and is intended to be competitive with the annual bonus awards of other major comparator companies adjusted to reflect the company's performance relative to its comparators. The earnings bonus units are designed such that the timing and the amount of the payout is tied to the rate of the company's future earnings. The amount of the award, once vested, will never exceed the original grant value. In so doing, the delayed portion of the annual bonus, that is the earnings bonus unit, puts part of the annual bonus at risk of forfeiture and thus reinforces the performance basis of the annual bonus grant.

Prior to payment, the earnings bonus units may be forfeited if the executive leaves the company before age 65, or engages in activity that is detrimental to the company.

Starting in November 2011, for executives, the entire annual bonus will be subject to a forfeiture and clawback feature if there is a material negative restatement in the financial results of the company. This clawback feature may require the executives to forfeit some or all of the cash and earnings bonus units granted in the three years prior to the restatement. Executives may be required to repay to the company any cash amounts received from bonus or earnings bonus units that were paid out five years prior to the restatement. In addition, the forfeiture and clawback provisions also apply to the annual bonus in the event an executive engages in detrimental behavior during employment or up to 24 months after leaving the company, including working for a competitor.

### **Long-term incentive compensation    Restricted stock units**

In December 2002, the company introduced a restricted stock unit plan, which is the company's primary long-term incentive compensation plan. Given the long-term nature of the company's business, granting compensation in the form of restricted stock units with long vesting periods keeps executives focused on the key premise that decisions made today affect the performance of the organization and company stock for many years to come. This practice supports a risk/reward model that reinforces a long-term view, which is critical to the company's business success, and discourages inappropriate risk taking. The amount granted is intended to provide an incentive to promote individual contribution to the company's performance and



## **Table of Contents**

motivation to remain with the company. The amount is computed by reference to the most recent ranking of performance as an indication of future potential, but may also be considered for an adjustment at time of grant, if near-term performance is deemed to have changed significantly at time of grant. This type of compensation removes employee discretion in the exercise of restricted stock units, ensures alignment with the long-term interests of shareholders and reinforces retention objectives. As a matter of principle, the company does not re-price any equity awards. The utilization of restricted stock units and the determination of annual grants on a share-denominated versus price-denominated basis help reinforce this practice. Restricted stock units are not included in pension calculations.

The restricted stock unit plan is a straightforward approach to long-term incentive compensation. Grant level guidelines for the restricted stock unit program are generally held constant for long periods of time. The intent of the plan is not to frequently change the number of shares awarded for the same level of individual performance and classification or level of responsibility. A change may be required as a result of periodic checks against the market every three to five years or as a result of any subdivision, consolidation, or reclassification of the shares of the company or other relevant change in the capitalization of the company. The company does not offset losses on prior grants with higher share awards in subsequent grants, nor does the company re-price restricted stock units.

In 2006, the guidelines were reviewed in light of the company's three-for-one share split. Given the significant appreciation in the company's share price over the previous several years, restricted stock unit guidelines were adjusted on a two-for-one basis rather than the three-for-one share split. This had the effect of reducing grant values since 2006 compared to 2005 and earlier years. In 2011, after an analysis of the competitive positioning of the company's restricted stock unit program, the executive resources committee determined that current levels of restricted stock units appropriately position the plan. In 2011, 685 recipients, including 92 executives, were granted 1,782,340 restricted stock units.

### ***Exercise of restricted stock units and amendments to the restricted stock unit plan***

Restricted stock units will be exercised only during employment, except in the event of death, disability or retirement. Restricted stock units cannot be assigned. In the case of any subdivision, consolidation, or reclassification of the shares of the company or other relevant change in the capitalization of the company, the company, in its discretion, may make appropriate adjustments in the number of common shares to be issued and the calculation of the cash amount payable per restricted stock unit.

Each restricted stock unit entitles the recipient the right to receive from the company, upon vesting, an amount equal to the five day average closing price of the company's shares on the vesting date and the four preceding trading days. Fifty percent of the units will be exercised on the third anniversary of the grant date, and the remainder will be exercised on the seventh anniversary of the grant date. The chairman, president and chief executive officer's restricted stock units are subject to longer vesting periods as described on page 123. The company will pay the recipients cash with respect to each unexercised unit granted to the recipient corresponding in time and amount to the cash dividend that is paid by the company on a common share of the company. The restricted stock unit plan was amended for units granted in 2002 and future years to Canadian residents by providing that the recipient may receive one common share of the company per unit or elect to receive the cash payment for the units to be exercised on the seventh anniversary of the grant date.

There are 4,772,763 common shares that may be issued in the future with respect to outstanding restricted stock units that represent about 0.56 percent of the company's currently outstanding common shares. The company's directors, officers and vice-presidents as a group hold approximately 13 percent of the unexercised restricted stock units that give the recipient the right to receive common shares that represent about 0.07 percent of the company's currently outstanding common shares. The maximum number of common shares that any one person may receive from the exercise of restricted stock units is 226,600 common shares, which is about 0.03 percent of the currently outstanding common shares.

Exxon Mobil Corporation has a plan similar to the company's restricted stock unit plan, under which grantees may receive restricted stock or restricted stock units, both of which are referred to herein as Exxon Mobil Corporation restricted stock. T.G. Scott and P.J. Masschelin hold Exxon Mobil Corporation restricted stock granted in 2009 and previous years, as well as the company's restricted stock units granted in 2010 and 2011. B.H. March also holds Exxon Mobil Corporation restricted stock granted in 2007 and previous years, as well as the company's restricted stock units granted from 2008 to 2011.

In 2008, the company's restricted stock unit plan was amended to provide that the number of common shares of the company issuable under the plan to any insiders (as defined by the Toronto Stock Exchange) cannot

## **Table of Contents**

exceed 10 percent of the issued and outstanding common shares, whether at any time or as issued in any one year. The Toronto Stock Exchange advised that this amendment did not require shareholder approval.

In 2008, shareholders approved the following changes to the restricted stock unit plan:

Include an additional vesting period option for 50 percent of restricted stock units to vest on the fifth anniversary of the date of grant, with the remaining 50 percent of the grant to vest on the later of the tenth anniversary of the date of grant or the date of retirement of the grantee. The recipient of such restricted stock units may receive one common share of the company per unit or elect to receive the cash payment for all units to be exercised. The choice of which vesting period to use will be at the discretion of the company.

Set out which amendments in the future will require shareholder approval, and which amendments will only require director approval and to set an exercise price based on the weighted average price of the company's shares on the exercise date and the four consecutive trading days immediately prior to the exercise date.

In respect of restricted stock units granted in 2011:

to the chairman, president and chief executive officer:

50 percent of each grant is exercisable on the fifth anniversary of the date of grant; and  
the balance is exercisable on the tenth anniversary of the date of grant or the date of retirement, whichever is later; and

to all other senior executives:

50 percent of each grant is exercisable on the third anniversary of the date of grant; and  
the balance is exercisable on the seventh anniversary of the date of grant.

As of November 2011, the restricted stock unit plan was amended to include language confirming the long standing practice of not forfeiting any restricted stock units in the event that grantee's continued employment terminates on or after the date grantee reaches the age of 65 in circumstances where grantee becomes entitled to an annuity under the company's retirement plan.

The long vesting periods, which are longer than those in use by most other companies, reinforce the company's focus on growing shareholder value over the long term by subjecting a large percentage of executive compensation and the shareholding net worth of senior executives to the long-term return on the company's stock realized by shareholders. The vesting period for restricted stock unit awards is not subject to acceleration, except in the case of death. The long vesting periods ensure that a substantial portion of the compensation received by the chairman, president and chief executive officer, as well as other key senior executives, will be received subsequent to their retirement. The value of this compensation is at risk in the event that their decisions as senior executives prior to retirement negatively impact share market value after retirement. The objective of these long vesting periods is to hold senior executives accountable for many years into the future, and even into retirement, for investment and operating decisions made today.

### ***Forfeiture risk***

Restricted stock units are subject to forfeiture if:

A recipient retires or terminates employment with the company. The company has indicated its intention not to forfeit restricted stock units of employees who retire at age 65. In other circumstances, where a recipient retires or terminates employment, the company may determine that restricted stock units shall not be forfeited.

During employment or during the period of 24 months after the termination of employment, the recipient, without the consent of the company, engaged in any business that was in competition with the company or otherwise engaged in any activity that was detrimental

to the company.

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**Table of Contents****Retirement benefits**

Named executive officers participate in the same pension plan, including supplemental pension arrangements outside the registered plan, as other employees, except that B.H. March, P.J. Masschelin and T.G. Scott, participate in the Exxon Mobil Corporation pension plans (both tax-qualified and non-qualified).

***Pension plan benefits***

The estimated annual benefits that would be payable to each named executive officer of the company upon retirement under the company's pension plan and the supplemental pension arrangements, or under Exxon Mobil Corporation's tax-qualified and non-qualified pension plans, and the change in the accrued obligation for each named executive officer of the company in 2011 can be found in the table on page 130.

The current version of the company's historic 1.6 percent defined benefit plan has been in place since 1976; predecessor plans have been in place since 1919. This version of the plan was available to all employees including executives, with pre-1998 service.

The registered pension plan and supplemental pension arrangements can provide an annual benefit of 1.6 percent of final three year average earnings per each year of service with respect to the named executive officers, with a partial offset for applicable government pension benefits, plus an annual benefit of 1.6 percent of final average bonus earnings times years of service. The supplemental pension arrangements address any portions that cannot be paid from the registered plan due to tax regulations. Any amounts paid to an eligible employee, in this regard, are subject to the employee meeting the terms of the registered pension plan and the criteria of the supplemental pension arrangements, as applicable. Earnings, for the purpose of the registered pension plan, include average base salary during the last 36 consecutive months of service prior to retirement or the highest consecutive three calendar years of earnings in the last 10 years of service prior to retirement. Earnings, for the purpose of the supplemental pension arrangement related to cash bonus and earnings bonus units, include the average annual bonus for the highest three of the last five years prior to retirement for eligible executives, but do not include long-term compensation, including restricted stock units. By limiting inclusion of bonuses only to those granted in the five years prior to retirement, there is a strong motivation for executives to continue to perform at a high level. Annual bonus includes the cash amounts that are paid at grant and the value of any earnings bonus units received, as described starting on page 115. The aggregate maximum settlement value that could be paid for earnings bonus units is included in the employee's final three year average earnings for the year of grant of such units. The value of the earnings bonus units are expected to pay out subject to forfeiture provisions, and are included for supplemental pension arrangement purposes in the year of grant rather than the year of payment.

An employee may also elect to forego three of the six percent of the company's matching contributions to the savings plan under one of the options of that plan (except for B.H. March, P.J. Masschelin and T.G. Scott), to receive additional pension value equal to 0.4 percent of the employee's final three year average earnings, multiplied by the employee's years of service, while foregoing such company contributions.

The remuneration used to determine the payments on retirement to the individuals named in the summary compensation table on page 125 corresponds generally to the salary, bonus and earnings bonus units received in the current year, as described in the previous paragraph. As of February 15, 2012, the number of completed years of service with the company used to determine payments on retirement was 35.8 for R.G. Courtemanche and 27.5 for B.W. Livingston.

B.H. March, P.J. Masschelin and T.G. Scott are not members of the company's pension plan, but are members of Exxon Mobil Corporation's pension plans. Under those plans, B.H. March has 31.6 years of credited service, P.J. Masschelin has 34.2 years of credited service and T.G. Scott has 25.7 years of credited service. Their respective pensions are payable in U.S. dollars. Pay for the purpose of the pension calculation is based on final average base salary over the highest 36 consecutive months in the 10 years of service prior to retirement, and the average annual bonus for the three highest grants out of the last five grants prior to retirement.

**Table of Contents**

***Savings plan benefits***

The company maintains a savings plan into which career employees with more than one year of service may contribute between one and 30 percent of normal earnings. The company provides contributions which vary depending on the amount of employee contributions and on which defined-benefit pension arrangement the employee participates in. All named executive officers are members of the historic 1.6 percent defined-benefit pension plan, and are receiving a six percent company matching contribution, except for B.H. March, P.J. Masschelin and T.G. Scott, who participate in the Exxon Mobil Corporation savings plan and tax-qualified and non-qualified pension plans, which have provisions different from the company plan.

Employee and company contributions can be allocated in any combination to a non-registered (tax-paid) account or a registered (tax-deferred) group retirement savings plan (RRSP) account, subject in the latter case to contribution limits under the *Income Tax Act*.

Available investment options include cash savings, a money market mutual fund, a suite of four index-based equity or bond mutual funds and company shares. Company matching contributions must be allocated to company shares initially, and remain in that investment for a minimum of 24 months, after which they can be redeemed for other investment options. As of February 15, 2012, employees hold 10,698,804 shares through the company savings plan and the employees are allowed to vote these shares.

During employment, withdrawals are only permitted from employee contributions and investment earnings within the tax-paid account, to a maximum of three withdrawals per year. Assets in the RRSP account, and company contributions to the tax-paid account, may only be withdrawn upon retirement or termination of employment, reinforcing the company's long-term approach to total compensation. Income tax regulations require RRSPs to be closed by the end of the year in which the individual reaches age 71.

**Compensation decision making process and considerations for named executive officers**

**Benchmarking**

In addition to the assessment of business performance, individual performance and level of responsibility, the executive resources committee relies on market comparisons to a group of 24 major Canadian companies with revenues in excess of \$1 billion a year.

**Comparator Companies**

The following criteria are used to select comparator companies:

Canadian companies;

Large scope and complexity;

Capital intensive; and

Proven sustainability.

The 24 companies benchmarked are as follows:

**Comparator companies for named executive officers**

Agrium Inc.

ConocoPhillips Canada

Nexen Inc.

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|                                    |                         |                            |
|------------------------------------|-------------------------|----------------------------|
| BCE Inc.                           | Enbridge Inc.           | NOVA Chemicals Corporation |
| BP Canada Energy Company           | Encana Corporation      | Procter & Gamble Inc.      |
| Canadian Tire Corporation Limited  | General Electric Canada | Royal Bank of Canada       |
| Chevron Canada Limited             | Husky Energy Inc.       | Shell Canada Limited       |
| Canadian Natural Resources Limited | IBM Canada Ltd.         | Suncor Energy Inc.         |
| Canadian Pacific Railway Limited   | Irving Oil Limited      | Talisman Energy Inc.       |
| Cenovus Energy Inc.                | Lafarge Canada Inc.     | TransCanada Corporation    |



## **Table of Contents**

The company is a national employer drawing from a wide range of disciplines. It is important to understand its competitive position relative to a variety of oil and non-oil employers. Compensation trends across industries, based on survey data, are prepared annually by independent external consultant, Towers Watson, with additional analysis and recommendation provided by the company's internal compensation advisors. Consistent with the executive resources committee's practice of using well-informed judgment rather than formulae to determine executive compensation, the committee does not target any specific percentile among comparator companies to align compensation. Rather, on a case-by-case basis, depending on the scope of market coverage represented by a particular comparison, total compensation (excluding perquisites) is focused on a range between the mid-point and the upper quartile of comparable employers, reflecting the company's emphasis on quality management. This approach applies to salaries and the annual incentive program that includes bonus and restricted stock units.

As a secondary source of data, the company also considers a comparison with Exxon Mobil Corporation, when it determines the annual bonus program. For the restricted stock unit program, the executive resources committee also reviews a summary of data of the comparator companies provided by the same external consultant above in order to assist in assessing total value of long-term compensation grants.

This overall approach provides the company with the ability to:

better respond to changing business conditions;

manage salaries based on a career orientation;

minimize potential for automatic increasing of salaries, which could occur with an inflexible and narrow target among benchmarked companies; and

differentiate salaries based on performance and experience levels among executives.

### **Analytical tools    Compensation summary sheets**

A compensation summary sheet is a matrix used by the executive resources committee that shows the individual elements and total compensation for each senior executive. The sheets are used to understand how decisions on each individual element of compensation affect total compensation for each senior executive. The committee considers both current compensation recommendations and prior compensation results in its final determination.

The elements of the Exxon Mobil Corporation compensation program, including salary and annual bonus and equity (long-term) compensation considerations for B.H. March, P.J. Masschelin and T.G. Scott, are similar to those of the company. The data used for long-term compensation determination for B.H. March, P.J. Masschelin and T.G. Scott is as described above, as they received company restricted stock units in 2011. The executive resources committee reviews and approves recommendations for each named executive officer prior to implementation. B.H. March's compensation determination is described in more detail on page 123.

## **Table of Contents**

### **2011 named executive officer compensation assessment**

When determining the annual compensation for the named executive officers, the executive resources committee has reflected on the following business performance result indicators in its determination of 2011 salary and incentive compensation.

#### *Business performance results for consideration*

The operating and financial performance measurements listed below and the company's continued maintenance of sound business controls and a strong corporate governance environment formed the basis for the salary and incentive award decisions made by the executive resources committee in 2011. The executive resources committee considered the results over multiple years, in recognition of the long-term nature of the company's business.

Strong results in the areas of safety, health and environment.

Satisfactory management of risk through effective business controls, as confirmed by independent audit.

Net income of approximately \$3.4 billion, up by 53 percent.

Total shareholder return of approximately 13 percent. Ten-year annual average of approximately 13 percent.

Industry-leading return on average capital employed of approximately 25 percent, with an average of approximately 28 percent since the beginning of 2000.

Over 80 percent of capital investment on advancement of long term strategic initiatives, including the Kearn and Nabiye projects.

\$373 million distributed to shareholders as dividends in 2011.

Approximately \$59 million distributed to shareholders through the share purchase program in 2011 and approximately \$15,580 million since 1995.

#### *Performance assessment considerations*

The above results form the context in which the committee assesses the individual performance of each senior executive, taking into account experience and level of responsibility.

Annually, the chairman, president and chief executive officer reviews the performance of the senior executives in achieving business results and individual development needs.

The same long-term key business strategies noted on page 112 and results noted above are key elements in the assessment of the chairman, president and chief executive officer's performance by the executive resources committee.

The performance of all named executive officers is also assessed by the board of directors throughout the year during specific business reviews and board committee meetings that provide reports on strategy development; operating and financial results; safety, health, and environmental results; business controls; and other areas pertinent to the general performance of the company.

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The executive resources committee does not use quantitative targets or formulae to assess executive performance or determine compensation. The executive resources committee does not assign weights to the factors considered. Formula-based performance assessments and compensation typically require emphasis on two or three business metrics. For the company to be an industry leader and effectively manage the technical complexity and integrated scope of its operations, most senior executives must advance multiple strategies and objectives in parallel, versus emphasizing one or two at the expense of others that require equal attention.

Senior executives and officers are expected to perform at the highest level or they are replaced. If it is determined that another executive is ready and would make a stronger contribution than one of the current incumbents, a replacement plan is implemented.

## Table of Contents

### **2011 chief executive officer compensation assessment**

B.H. March was appointed chairman, president and chief executive officer of the company on April 1, 2008. Mr. March is a 32-year veteran of ExxonMobil, including service with heritage Mobil Corporation before the merger with Exxon Corporation on November 30, 1999. Mr. March has extensive operating and management experience in the oil and gas business, including assignments in multiple locations in the United States, as well as experience working in London and Brussels. His level of salary was determined by the executive resources committee based on his individual performance and to align with that of his peers in ExxonMobil. It was also the objective of the executive resources committee to ensure appropriate internal alignment with senior management in the company. The committee also approved a salary increase of \$40,000 U.S. to \$570,000 U.S., effective January 1, 2012.

Mr. March's 2011 annual bonus was based on his performance as assessed by the executive resources committee since his appointment to the position of chairman, president and chief executive officer. His long-term incentive award was paid in the form of company restricted stock units, not Exxon Mobil Corporation restricted stock, to reinforce alignment of his interests with that of the company's shareholders. His company restricted stock units are subject to vesting periods longer than those applied by most companies conducting business in Canada. Fifty percent of the restricted stock units awarded vest in five years and the other 50 percent vest on the later of 10 years from the date of grant or the date of retirement. The purpose of these long vesting periods is to reinforce the long investment lead times in the business and to link a substantial portion of Mr. March's shareholding net worth to the performance of the company. During these vesting periods, the awards are subject to risk of forfeiture based on detrimental activity, or if Mr. March should leave the company before normal retirement.

The executive resources committee has determined that the overall compensation of Mr. March is appropriate based on the company's financial and operating performance and its assessment of his effectiveness in leading the organization.

Key factors considered by the committee in determining his overall compensation level include:

safety metrics and environmental performance;

risk management;

continuing progress on advancing long term strategic interests such as the Kearl and Nabiye projects;

financial results;

government relations;

productivity;

leadership;

cost effectiveness; and

asset management.

Taking all factors into consideration, the committee's decisions on compensation of the chief executive officer reflect judgment, rather than the application of formulae or targets. The higher level of pay for Mr. March, compared to the other named executive officers, reflects his greater

level of responsibility, including his ultimate responsibility for the performance of the company, and oversight of the other senior executives.

**Pay awarded to other named executive officers**

Within the context of the compensation program structure and performance assessment processes described above, the value of 2011 incentive awards and salary adjustments align with:

performance of the company;

individual performance;

long-term strategic plan of the business; and

annual compensation of comparator companies.

Taking all factors into consideration, the executive resources committee's decisions on pay awarded to other named executive officers reflect judgment, rather than the application of formulae or targets. The executive resources committee approved the individual elements of compensation and the total compensation as shown in the summary compensation table on page 125.

## **Table of Contents**

### **Independent consultant**

In fulfilling its responsibilities during 2011, the executive resources committee did not retain an independent consultant or advisor in determining compensation for any of the company's officers or any other senior executives. The company's management retained Towers Watson, an independent consultant, to provide an assessment of competitive compensation and market data for all salaried levels of employees of the company. While providing this data, Towers Watson was not retained to provide individual compensation recommendations or advice for the company or committee in determining the compensation of the chief executive officer or long-term incentive compensation levels for senior executives.

### **Performance graph**

The following graph shows changes over the past 10 years in the value of \$100 invested in (i) Imperial Oil Limited common shares, (ii) the S&P/TSX Composite Index, and (iii) the S&P/TSX Equity Energy Index. The S&P/TSX Equity Energy Index is made up of share performance data for 64 oil and gas companies including integrated oil companies, oil and gas producers and oil and gas service companies.

The year-end values in the graph represent appreciation in share price and the value of dividends paid and reinvested. The calculations exclude trading commissions and taxes. Total shareholder returns from each investment, whether measured in dollars or percent, can be calculated from the year-end investment values shown beneath the graph.

During the past 10 years, the company's cumulative total shareholder return was approximately 344 percent, for an average annual return of approximately 13 percent. During that same 10-year period, while the average annual return was approximately 13 percent, the company's compensation (which compensation excluded the compensatory change in pension value) of its named executive officers, by comparison, decreased by approximately two percent on an average annual basis.

(a) Prior to December 2005, the S&P/TSX Energy Index and the S&P/TSX Composite Energy Index were used for comparison purposes.

**Table of Contents****Executive compensation tables and narratives****Summary compensation table**

The following table shows the compensation for the chairman, president and chief executive officer; the senior vice-president, finance and administration, and treasurer and the three other most highly compensated executive officers of the company who were serving as at the end of 2011. This information includes the Canadian dollar value of base salaries, cash bonus awards and units of other long-term incentive compensation and certain other compensation.

| Name and principal position at the end of 2011                   | Year        | Salary (\$)    | Share-based awards (\$) | Option-based awards (\$) | Non-equity incentive plan compensation (\$) |                               | Pension value (\$) | All other compensation (\$) | Total compensation (\$) |
|--|-------------|----------------|-------------------------|--------------------------|---|-------------------------------|--------------------|-----------------------------|-------------------------|
|  |             |                |                         |                          | Annual incentive plans (d)                  | Long-term incentive plans (e) |                    |                             |                         |
| <b>B.H. March (a)</b>  | <b>2011</b> | <b>524,223</b> | <b>2,192,320</b>        | <b>-</b>                 | <b>362,604</b>                              | <b>438,447</b>                | <b>1,308,434</b>   | <b>830,876</b>              | <b>5,656,904</b>        |
| Chairman, president and chief executive officer                  | 2010        | 525,249        | 1,731,648               | -                        | 290,638                                     | 276,430                       | 1,050,438          | (18,091)                    | 3,856,312               |
|  | 2009        | 553,870        | 1,706,020               | -                        | 183,862                                     | 0                             | 649,756            | 881,422                     | 3,974,930               |
| <b>P.J. Masschelin (a)</b>                                       | <b>2011</b> | <b>414,763</b> | <b>994,500</b>          | <b>-</b>                 | <b>181,401</b>                              | <b>262,248</b>                | <b>672,897</b>     | <b>578,196</b>              | <b>3,104,005</b>        |
| Senior vice-president, finance and administration, and treasurer | 2010        | 280,133        | 768,792                 | -                        | 166,947                                     | 165,826                       | 593,858            | (112,537)                   | 1,863,019               |
| (since May 1, 2010)  |             |                |                         |                          |   |                               |                    |                             |                         |

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|   |             |                |                |          |                |                |                |                |                  |
|---|-------------|----------------|----------------|----------|----------------|----------------|----------------|----------------|------------------|
| <b>T. Glenn Scott (a)</b>                                     | <b>2011</b> | <b>420,862</b> | <b>994,500</b> | <b>-</b> | <b>185,357</b> | <b>225,480</b> | <b>381,730</b> | <b>441,323</b> | <b>2,649,252</b> |
| Senior vice-president,<br>resources                           |             |                |                |          |                |                |                |                |                  |
| (since August 1, 2010)  | 2010        | 175,727        | 729,606        | -        | 148,821        | 143,257        | 258,001        | 177,284        | 1,632,696        |
| <br><b>R.G. Courtemanche</b>                                  |             |                |                |          |                |                |                |                |                  |
| Vice-president and general<br>manager, refining and supply    | <b>2011</b> | <b>283,333</b> | <b>994,500</b> | <b>-</b> | <b>212,400</b> | <b>236,225</b> | <b>742,900</b> | <b>105,211</b> | <b>2,574,569</b> |
| (since May 1, 2011)   |             |                |                |          |                |                |                |                |                  |
| <br><b>B.W. Livingston</b>                                    | <b>2011</b> | <b>421,167</b> | <b>994,500</b> | <b>-</b> | <b>189,600</b> | <b>249,150</b> | <b>567,700</b> | <b>73,724</b>  | <b>2,495,841</b> |
| Vice-president, general<br>counsel and corporate<br>secretary |             |                |                |          |                |                |                |                |                  |
|   | 2010        | 411,417        | 839,700        | -        | 146,439        | 171,875        | 317,800        | 72,042         | 1,959,273        |
|   | 2009        | 402,500        | 886,500        | -        | 103,278        | 0              | (259,300)      | 78,685         | 1,211,663        |



**Table of Contents****Footnotes to the Summary compensation table for named executive officers on the preceding page**

- (a) B.H. March, P.J. Masschelin and T.G. Scott have been on a loan assignment from Exxon Mobil Corporation since January 1, 2008, May 1, 2010 and July 1, 2010 respectively, however, T.G. Scott's compensation costs were incurred by the company since August 1, 2010 only. Their compensation is paid directly by Exxon Mobil Corporation in U.S. dollars, but is disclosed in Canadian dollars. They also receive employee benefits under Exxon Mobil Corporation's employee benefit plans, and not under the company's employee benefit plans. The company reimburses Exxon Mobil Corporation for the compensation paid and employee benefits provided to them. All amounts paid to B.H. March, P.J. Masschelin and T.G. Scott in U.S. dollars were converted to Canadian dollars at the average 2011 exchange rate of 0.9891. In 2009 and 2010, the average exchange rate was 1.142 and 1.0299 respectively. B.H. March's salary in 2011 was less than in 2010 due to the declining value of the U.S. dollar.
- (b) The grant date fair value equals the number of restricted stock units multiplied by the closing price of the company's shares on the date of grant. The closing price of the company's shares on the grant date in 2011 was \$44.20, which is the same as the accounting fair value for the restricted stock units on the date of grant. The closing price of the company's shares on the grant date in 2009 was \$39.40 and in 2010 was \$37.32, which is the same as the accounting fair value for the restricted stock units on the date of grant. The company chose this method of valuation as it believes it results in the most accurate representation of fair value.
- (c) The company has not granted stock options since 2002. The stock option plan is described on page 132.
- (d) The amounts listed in Annual incentive plans column for each named executive officer represent their 2011 cash bonus.
- (e) The amounts listed in Long-term incentive plans column represent earnings bonus units payout. These are paid when the maximum settlement value (trigger) or cumulative earnings per share is achieved or after three years if such value is not achieved. The plan is described on page 115. B.H. March, P.J. Masschelin and T.G. Scott received earnings bonus units under Exxon Mobil Corporation's program, which is similar to the company's plan. Their payouts are also subject to a maximum settlement value (trigger) or cumulative earnings per share.
- (f) Pension value is the Compensatory change in pensions as of December 31, 2011 as set out in the Pension plan benefits table on page 130.
- (g) Amounts under All other compensation, include dividend equivalent payments on restricted stock units granted, company savings plans contributions, other compensation and cost of perquisites including business club memberships and any costs associated with parking and security. For each named executive officer, the aggregate value of perquisites received was not greater than \$50,000 or 10 percent of the named executive officer's base salary. It is noted that in 2011, the actual dividend equivalent payments made were \$53,416 for B.H. March, \$6,798 for P.J. Masschelin, \$6,452 for T.G. Scott, \$52,305 for R.G. Courtemanche and \$54,285 for B.W. Livingston. The dividend equivalent payments on Exxon Mobil Corporation restricted stock in previous years were \$43,642 for B.H. March, \$77,951 for P.J. Masschelin and \$56,542 for T.G. Scott. These amounts were converted to Canadian dollars at the average 2011 exchange rate of 0.9891. In 2009 and 2010, the average exchange rate was 1.142 and 1.0299, respectively. The total under the All other compensation column for B.H. March, P.J. Masschelin and T.G. Scott consists mainly of expatriate allowances and tax reimbursement costs associated with their assignments in Canada. The increase in tax reimbursement costs compared to the prior year is primarily driven by higher current year Canadian tax payments made by the company during 2011. Tax reimbursement costs for 2010 were in a credit position as the company recognized a recuperation of taxes compensated, resulting in negative balances for the year.
- (h) Total compensation for 2011 consists of the total dollar value of Salary, Share-based awards, Option-based awards, Non-equity incentive plan compensation, Pension value and All other compensation.

**Table of Contents****Outstanding share-based awards and option-based awards for named executive officers**

The following table sets forth all share-based and option-based awards outstanding as at December 31, 2011 for each of the named executive officers of the company.

| Name                                    | Option-based awards                                     |                            |                        |  | Number of shares or units of shares that have not vested (#) | Share-based awards   |  |
|---|---|----------------------------|------------------------|--|--|--|--|
|   | Number of securities underlying unexercised options (#) | Option exercise price (\$) | Option expiration date | Value of unexercised in-the-money options (\$) |  | Market or payout value of share-based awards that have not vested (\$) | Market or payout value of vested share-based awards not paid out or distributed (\$) |
| B.H. March (a)                          | -   | -                          | -                      | -  | 182,600  | 8,288,214  | -  |
| P.J. Masschelin (b)                     | -   | -                          | -                      | -  | 43,100   | 1,956,309  | -  |
| T.G. Scott (c)                          | 0   | -                          | -                      | -  | 42,050   | 1,908,650  | -  |
| R.G. Courtemanche<br>(from May 1, 2011) | 0   | -                          | -                      | 0  | 114,250  | 5,185,808  | -  |
| B.W. Livingston                         | 0   | -                          | -                      | 0  | 117,250  | 5,321,978  | -  |

(a) B.H. March was granted restricted stock units from 2008 to 2011 under the company's plan. With respect to previous years, B.H. March participated in Exxon Mobil Corporation's restricted stock plan, which is similar to the company's restricted stock unit plan. Under that plan, B.H. March held 18,350 Exxon Mobil Corporation restricted stock whose value on December 31, 2011 was \$1,581,787 based on a closing price for Exxon Mobil Corporation shares on December 31, 2011 of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of Canada.

(b) P.J. Masschelin was granted restricted stock units in 2010 and 2011 under the company's plan. With respect to previous years, P.J. Masschelin participated in Exxon Mobil Corporation's restricted stock plan, which is similar to the company's restricted stock unit plan. Under that plan, P.J. Masschelin held 31,950 Exxon Mobil Corporation restricted stock whose value on December 31, 2011 was \$2,754,119 based on a closing price for Exxon Mobil Corporation shares on December 31, 2011 of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of

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Canada.

- (c) T.G. Scott was granted restricted stock units in 2010 and 2011 under the company's plan. T.G. Scott participated in Exxon Mobil Corporation's restricted stock plan, which is similar to the company's restricted stock unit plan. Under that plan, T.G. Scott held 23,550 Exxon Mobil Corporation restricted stock whose value on December 31, 2011 was \$2,030,032 based on a closing price for Exxon Mobil Corporation shares on December 31, 2011 of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of Canada.
- (d) Represents the total of the restricted stock units received from the company plan in 2006 through 2011 after the three-for-one share split in May 2006, plus three times the number of restricted stock units received before the share split and still held by the recipient. The value is based on the closing price of the company's shares on December 31, 2011 of \$45.39.

**Table of Contents****Incentive plan awards for named executive officers Value vested or earned during the year**

The following table sets forth the value of the incentive plan awards that vested for each named executive officer of the company for the year.

| Name                                    | Option-based awards | Share-based awards     | Value | Non-equity incentive plan compensation |
|---|---------------------|------------------------|-------|--|
|   | Value vested during | vested during the year |       | Value                                  |
|   | the year            |                        |       | earned during the year                 |
|   | (\$)                | (\$)                   |       | (\$)                                   |
|   | (b)                 | (d)                    |       | (e)                                    |
| B.H. March (a)                          | -                   | 0                      |       | 0                                      |
| P.J. Masschelin (b)                     | -                   | 0                      |       | 0                                      |
| T.G. Scott (c)                          | -                   | 0                      |       | 0                                      |
| R.G. Courtemanche<br>(from May 1, 2011) | -                   | 1,122,450              |       | 448,625                                |
| B.W. Livingston                         | -                   | 1,186,590              |       | 438,750                                |

- (a) Although B.H. March received restricted stock units under the company's plan from 2008 to 2011, none of these restricted stock units have vested. In previous years, B.H. March participated in Exxon Mobil Corporation's restricted stock plan under which the grantee may receive Exxon Mobil Corporation restricted stock, which plan is similar to the company's restricted stock unit plan. In 2011, restrictions were removed on 5,500 Exxon Mobil Corporation restricted stock having a value as at December 31, 2011 of \$474,105 based on the closing price of Exxon Mobil Corporation common shares of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of Canada. B.H. March received an annual bonus from Exxon Mobil Corporation in 2011 and participates in Exxon Mobil Corporation's earnings bonus unit plan, which is similar to the company's earnings bonus unit plan. B.H. March received \$801,051 with respect to annual bonus awarded in 2011 and earnings bonus units granted in 2009 and 2010 and paid out in 2011, which amount was paid in U.S. dollars and is converted to Canadian dollars at the average 2011 exchange rate of 0.9891.
- (b) Although P.J. Masschelin received restricted stock units under the company's plan in 2010 and 2011, none of these restricted stock units have vested. In previous years, P.J. Masschelin participated in Exxon Mobil Corporation's restricted stock plan under which the grantee may receive Exxon Mobil Corporation restricted stock, which plan is similar to the company's restricted stock unit plan. In 2011, restrictions were removed on 10,650 Exxon Mobil Corporation restricted stock having a value as at December 31, 2011 of \$918,040 based on the closing price of Exxon Mobil Corporation common shares of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of Canada. P.J. Masschelin received an annual bonus from Exxon Mobil Corporation in 2011 and participates in Exxon Mobil Corporation's earnings bonus unit plan, which is similar to the company's earnings bonus unit plan. P.J. Masschelin received \$443,649 with respect to annual bonus awarded in 2011 and earnings bonus units granted in 2009 and 2010 and paid out in 2011, which amount was paid in U.S. dollars and is converted to Canadian dollars at the average 2011 exchange rate of 0.9891.
- (c) Although T.G. Scott received restricted stock units under the company's plan in 2010 and 2011, none of these restricted stock units have vested. In previous years, T.G. Scott participated in Exxon Mobil Corporation's restricted stock plan under which the grantee may receive Exxon Mobil Corporation restricted stock, which plan is similar to the company's restricted stock unit plan. In 2011, restrictions were removed on 7,350 Exxon Mobil Corporation restricted stock

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having a value as at December 31, 2011 of \$633,577 based on the closing price of Exxon Mobil Corporation common shares of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of Canada. T.G. Scott received an annual bonus from Exxon Mobil Corporation in 2011 and participates in Exxon Mobil Corporation's earnings bonus unit plan, which is similar to the company's earnings bonus unit plan. T.G. Scott received \$410,837 with respect to annual bonus awarded in 2011 and earnings bonus units granted in 2009 and 2010 and paid out in 2011, which amount was paid in U.S. dollars and is converted to Canadian dollars at the average 2011 exchange rate of 0.9891.

- (d) These values show restricted stock units that vested in 2011.
- (e) These values show annual bonus received in 2011 and earnings bonus units granted in 2009 and 2010 and paid out in 2011.

**Table of Contents****Proceeds realized in 2011 from compensation awards granted in prior years - restricted stock units, stock options, incentive share units and earnings bonus units**

| Name                                    | Proceeds from                            | Proceeds from                | Proceeds from                           | Receipt of proceeds        |
|---|--|------------------------------|---|----------------------------|
|   | exercise of<br>restricted stock<br>units | exercise of stock<br>options | exercise of<br>incentive share<br>units | of earnings bonus<br>units |
|   | (\$)                                     | (\$)                         | (\$)                                    | (\$)                       |
|   | (d)                                      |                              |   | (e)                        |
| B.H. March (a)                          | 0  | -                            | -                                       | -                          |
| P.J. Masschelin (b)                     | 0  | -                            | -                                       | -                          |
| T.G. Scott (c)                          | 0  | -                            | -                                       | -                          |
| R.G. Courtemanche<br>(from May 1, 2011) | 1,122,450                                | 0                            | 0                                       | 236,225                    |
| B.W. Livingston                         | 1,186,590                                | 0                            | 0                                       | 249,150                    |

- (a) Although B.H. March received restricted stock units under the company's plan from 2008 to 2011, none of these restricted stock units have vested. In previous years B.H. March participated in Exxon Mobil Corporation's restricted stock plan under which the grantee may receive Exxon Mobil Corporation restricted stock, which plan is similar to the company's restricted stock unit plan. In 2011, restrictions were removed on 5,500 Exxon Mobil Corporation restricted stock having a value as at December 31, 2011 of \$474,105 based on the closing price of Exxon Mobil Corporation common shares of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of Canada. In 2001 and previous years, B.H. March participated in ExxonMobil Corporation's stock option plan and in 2011 he received proceeds of \$268,558 from the exercise of these stock options. B.H. March received payouts in the amount of \$438,447 with respect to earnings bonus units awarded in 2009 and 2010 under Exxon Mobil Corporation's program, which is similar to the company's plan.
- (b) Although P.J. Masschelin received restricted stock units under the company's plan in 2010 and 2011, none of these restricted stock units have vested. In previous years, P.J. Masschelin participated in Exxon Mobil Corporation's restricted stock plan under which the grantee may receive Exxon Mobil Corporation restricted stock, which plan is similar to the company's restricted stock unit plan. In 2011, restrictions were removed on 10,650 Exxon Mobil Corporation restricted stock having a value as at December 31, 2011 of \$918,040 based on the closing price of Exxon Mobil Corporation common shares of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of Canada. In 2001 and previous years, P.J. Masschelin participated in ExxonMobil Corporation's stock option plan and in 2011 he received proceeds of \$1,084,259 from the exercise of these stock options. P.J. Masschelin received payouts in the amount of \$262,248 with respect to earnings bonus units awarded in 2009 and 2010 under Exxon Mobil Corporation's program, which is similar to the company's plan.

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- (c) Although T.G. Scott received restricted stock units under the company's plan in 2010 and 2011, none of these restricted stock units have vested. In previous years, T.G. Scott received participated in Exxon Mobil Corporation's restricted stock plan under which the grantee may receive Exxon Mobil Corporation restricted stock, which plan is similar to the company's restricted stock unit plan. In 2011, restrictions were removed on 7,350 Exxon Mobil Corporation restricted stock having a value as at December 31, 2011 of \$633,577 based on the closing price of Exxon Mobil Corporation common shares of \$84.76 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2011 of 1.017 provided by the Bank of Canada. In 2001 and previous years, T.G. Scott participated in ExxonMobil Corporation's stock option plan and in 2011 he received proceeds of \$347,501 from the exercise of these stock options. T.G. Scott received payouts in the amount of \$225,480 with respect to earnings bonus units awarded in 2009 and 2010 under Exxon Mobil Corporation's program, which is similar to the company's plan.
- (d) Represents the proceeds of restricted stock units granted in 2004 and 2008, which vested in 2011.
- (e) Represents the proceeds of earnings bonus units granted in 2009 and 2010, which paid out in 2011.

**Table of Contents****Equity compensation plan information**

The following table provides information on the common shares of the company that may be issued as of the end of 2011 pursuant to compensation plans of the company.

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(c) | Weighted average  | Number of securities  |
|--|--|---|---|
|  |  | exercise price of outstanding options, warrants and rights<br>(\$)<br>(d) | remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)<br>(e) |
| Equity compensation plans approved by security holders (a)     | 2,775,708  | 15.50   | -   |
| Equity compensation plans not approved by security holders (b) | 4,772,763  | -   | 5,717,949   |
| <b>Total</b>   | 7,548,471  |   | 5,717,949   |

(a) This is a stock option plan, which is described on page 132.

(b) This is a restricted stock unit plan, which is described on page 116.

(c) The number of securities reserved for the stock option plan represents three times the number of stock options granted in 2002 before the three-for-one share split in May 2006 and still outstanding. The number of securities reserved for the restricted stock unit plan represents the securities reserved for restricted stock units issued in 2006 through 2011 after the three-for-one share split in May 2006, plus three times the number of securities reserved for restricted stock units issued before the share split and still outstanding.

(d) The weighted average exercise price of the outstanding stock options of \$15.50 was determined on a post share split basis.

**Pension plan benefits table**

| Name | Number of years credited service<br>(as of December 31, 2011)<br>(#) | Annual benefits payable<br>(\$) |                  | Opening present value of defined benefit obligation<br>(f) | Compensatory change<br>(\$)<br>(g) | Non-compensatory change<br>(\$)<br>(g) | Closing present value of defined benefit obligation<br>(\$) |
|------|--|---------------------------------|------------------|--|------------------------------------|--|---|
|      |  | At year end<br>(c)              | At age 65<br>(d) |  |                                    |  |   |



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|   | (e)  |         |         |           |         |           | (h)       |
|---|------|---------|---------|-----------|---------|-----------|-----------|
|   | (\$) |         |         |           |         |           |           |
| B.H. March (a)                              | -    | -       | -       | -         | -       | -         | -         |
| P.J. Masschelin (a)                         | -    | -       | -       | -         | -       | -         | -         |
| T.G. Scott (a)                              | -    | -       | -       | -         | -       | -         | -         |
| R.G. Courtemanche (b)<br>(from May 1, 2011) | 35.7 | 419,300 | 513,100 | 4,685,800 | 742,900 | 1,050,400 | 6,479,100 |
| B.W. Livingston (b)                         | 27.4 | 342,900 | 449,600 | 3,504,600 | 567,700 | 940,600   | 5,012,900 |

- (a) Member of the Exxon Mobil Corporation pension plans, including tax-qualified and non-qualified plans. As of December 31, 2011, B.H. March had 31.5 years of credited service, P.J. Masschelin had 34.1 years and T.G. Scott had 25.6 years. All amounts referenced were converted from U.S. dollars to Canadian dollars at the average 2011 exchange rate of 0.9891.
- (b) Member of the company's 1.6 percent pension plan as supplemented by payments from the company for amounts beyond the regulatory limits for the registered plan.

**Table of Contents**

- (c) For members of the company pension plan, the annual benefits include the amount of the accrued annual lifetime pension from the company's registered pension plan and supplemented by payments from the company. For members of the Exxon Mobil Corporation pension plans, the annual benefits include the accrued annual lifetime pension from the Exxon Mobil Corporation tax-qualified plan and the accrued annual amount calculated under the Exxon Mobil Corporation non-qualified plan. For B.H. March, this value was \$548,167, for P.J. Masschelin, this value was \$387,990 and for T.G. Scott, this value was \$280,112. Non-qualified plan benefits are payable only as a lump sum equivalent upon retirement.
- (d) For members of the company pension plan, the annual benefits include the amount of the accrued annual lifetime pension from the company's registered pension plan and supplemented by payments from the company that would be earned to age 65 assuming final average earnings as at December 31, 2011. For members of the Exxon Mobil Corporation pension plan, the annual benefits include the annual lifetime pension from Exxon Mobil Corporation's tax-qualified plan and the annual amount calculated under the Exxon Mobil Corporation non-qualified plan that would be earned to age 65 assuming final average earnings as at December 31, 2011. For B.H. March, this value was \$719,480, for P.J. Masschelin, this value was \$481,447 and for T.G. Scott, this value was \$468,722. Non-qualified plan benefits are payable only as a lump sum equivalent upon retirement.
- (e) For members of the company's pension plan, the Opening present value of defined benefit obligation is defined for purposes of authoritative guidance under U.S. generally accepted accounting principles (GAAP) for defined benefit pension plans and is calculated based on earnings eligible for pension as described below and Yearly Maximum Pensionable Earnings (YMPE) as defined by the Canada Revenue Agency, projected to retirement and pro-rated on service to the date of valuation, December 31, 2010. The calculations assume that the Canada Pension Plan offset is based on the annual maximum benefit at retirement and the Old Age Security (OAS) offset is based on the OAS benefit in the fourth quarter of 2010 projected to retirement. For members of the Exxon Mobil Corporation pension plans, the Opening present value of defined benefit obligation is defined under GAAP and is calculated based on earnings eligible for pension as described below. The calculations assume that the U.S. Social Security offset against the Exxon Mobil Corporation qualified plan benefit is calculated on the basis of the Social Security law in effect as of year end 2010. For B.H. March, this value was \$5,161,179, for P.J. Masschelin, this value was \$4,339,899 and for T.G. Scott, this value was \$1,710,854.
- (f) The value for Compensatory change includes service cost for 2011 and impact of change in earnings on projected benefit obligation. Service cost for 2011 is calculated by using the individual's additional pensionable service in 2011 and the actual salary and bonus received in 2011 as described below. There were no plan amendments in 2011 that affected these benefits. The service cost is calculated on a basis that is consistent with GAAP and with the valuation that was performed as at that date for accounting purposes for the plan as a whole. For B.H. March, this value was \$1,308,434, for P.J. Masschelin, this value was \$672,897 and for T.G. Scott, this value was \$381,730.
- (g) The value for Non-compensatory change includes impact of experience not related to earnings, benefit payments and change in measurement assumptions. With respect to the company pension plan, the discount rate used to determine the closing present value of defined benefit obligation at the end of 2011 decreased to 4.25 percent, down from 5.5 percent at the end of 2010, thereby causing the Non-compensatory change to be positive. For members of the Exxon Mobil Corporation pension plans, the value for Non-compensatory change includes the impact of experience not related to earnings or service. This includes the effect of interest, based on a discount rate of 5.0 percent at the end of 2011, down from 5.5 percent at the end of 2010 and operation of the plan's rules for converting annuities to lump sums upon retirement. For B.H. March, this value was \$319,688, for P.J. Masschelin, this value was \$206,063 and for T.G. Scott, this value was \$107,892.
- (h) For members of the company's pension plan, the Closing present value of defined benefit obligation is defined under GAAP and is calculated based on earnings eligible for pension as described below and YMPE, projected to retirement and pro-rated on service to the date of valuation, December 31, 2011. The calculations assume that the Canada Pension Plan offset is based on the annual maximum benefit at retirement and the OAS offset is based on the OAS benefit in the fourth quarter of 2010 projected to retirement. For members of the Exxon Mobil Corporation pension plans, the Closing present value of defined benefit obligation is defined under GAAP and is calculated based on earnings eligible for pension as described below. The calculations assume that the U.S. Social Security offset against the Exxon Mobil Corporation qualified plan benefit is calculated on the basis of the Social Security law in effect as of year end 2011. For B.H. March, this value was \$6,789,301, for P.J. Masschelin, this value was \$5,218,859 and for T.G. Scott, this value was \$2,200,476.

## **Table of Contents**

### **Details of former long-term incentive compensation plans**

The following describes forms of long-term incentive compensation formerly used by the company. While incentive share units and stock options are no longer granted, incentive share units and stock options formerly granted continue to remain outstanding and are referenced in the foregoing tables.

#### ***Incentive share units***

The company's incentive share units give the recipient a right to receive cash equal to the amount by which the market price of the company's common shares at the time of exercise exceeds the issue price of the units. These units were granted prior to 2002. The issue price of the units granted to executives was the closing price of the company's shares on the Toronto Stock Exchange on the grant date. Incentive share units are eligible for exercise up to 10 years from issuance. The last grant expired in 2011. No executive officer or director held incentive share units as at December 31, 2011.

#### ***Stock option plan***

Under the stock option plan adopted by the company in April 2002, a total of 9,630,600 options, on a post share split basis, were granted to select key employees on April 30, 2002 for the purchase of the company's common shares at an exercise price of \$15.50 per share on a post share split basis. All of the options are exercisable. Any unexercised options expire on April 29, 2012. As of February 15, 2012, there have been 5,169,690 common shares issued upon exercise of stock options and 1,944,834 common shares are issuable upon future exercise of stock options. The common shares that were issued and those that may be issued in the future represent about 0.84 percent of the company's currently outstanding common shares. The company's directors, officers and vice-presidents as a group hold 0.31 percent of the unexercised stock options.

The maximum number of common shares that any one person may receive from the exercise of stock options is 51,000 common shares, which is about 0.01 percent of the currently outstanding common shares. Stock options may be exercised only during employment with the company except in the event of death, disability or retirement. Also, stock options may be forfeited if the company believes that the employee intends to terminate employment or if during employment or during the period of 24 months after the termination of employment the employee, without the consent of the company, engaged in any business that was in competition with the company or otherwise engaged in any activity that was detrimental to the company. The company may determine that stock options will not be forfeited after the cessation of employment. Stock options cannot be assigned except in the case of death.

The company may amend or terminate the incentive stock option plan as it, in its sole discretion, determines appropriate. No such amendment or termination can be made to impair any rights of stock option holders under the incentive stock option plan unless the stock option holder consents, except in the event of (a) any adjustments to the share capital of the company or (b) a take-over bid, amalgamation, combination, merger or other reorganization, sale or lease of assets, or any liquidation, dissolution, or winding-up, involving the company. Appropriate adjustments may be made by the company to: (i) the number of common shares that may be acquired on the exercise of outstanding stock options; (ii) the exercise price of outstanding stock options; or (iii) the class of shares that may be acquired in place of common shares on the exercise of outstanding stock options in order to preserve proportionately the rights of the stock option holders and give proper effect to the event.

**Table of Contents**

## **V. Other important information**

### **Effective date**

The effective date of this management proxy circular is February 15, 2012.

### **Largest shareholder**

To the knowledge of the directors and executive officers of the company, the only shareholder who, as of February 15, 2012, owned beneficially, or exercised control or direction over, directly or indirectly, more than 10 percent of the outstanding common shares of the company is Exxon Mobil Corporation, 5959 Las Colinas Boulevard, Irving, Texas 75039-2298, which owns beneficially 589,928,303 common shares, representing 69.6 percent of the outstanding voting shares of the company. As a consequence, the company is a controlled company for purposes of the listing standards of the NYSE Amex LLC.

### **Transactions with Exxon Mobil Corporation**

On June 25, 2010, the company implemented a 12-month normal course share purchase program under which it purchased 1,028,244 of its outstanding shares between June 25, 2010 and June 24, 2011. On June 25, 2011, a 12-month share purchase program was implemented under which the company may purchase up to 42,385,463 of its outstanding shares, less any shares purchased by the employee savings plan and company pension fund. Exxon Mobil Corporation maintained its ownership at 69.6 percent. In 2011, such share purchases cost \$59.5 million, none of which was received by Exxon Mobil Corporation.

The amounts of purchases and sales by the company and its subsidiaries for other transactions in 2011 with Exxon Mobil Corporation and affiliates of Exxon Mobil Corporation were \$3,853 million and \$2,818 million, respectively. These transactions were conducted on terms as favourable as they would have been with unrelated parties, and primarily consisted of the purchase and sale of crude oil, natural gas, petroleum and chemical products, as well as technical, engineering and research and development services. Transactions with Exxon Mobil Corporation also included amounts paid and received in connection with the company's participation in a number of upstream activities conducted jointly in Canada. In addition, the company has existing agreements with affiliates of Exxon Mobil Corporation to provide computer and customer support services to the company and to share common business and operational support services to allow the companies to consolidate duplicate work and systems. The company has a contractual agreement with an affiliate of Exxon Mobil Corporation in Canada to operate the Western Canada production properties owned by ExxonMobil. There are no asset ownership changes. The company and that affiliate also have a contractual agreement to provide for equal participation in new upstream opportunities. During 2007, the company entered into agreements with Exxon Mobil Corporation and one of its affiliated companies that provide for the delivery of management, business and technical services to Syncrude Canada Ltd. by ExxonMobil.

As at December 31, 2011, the company had an outstanding loan of \$820 million under an existing agreement with Exxon Mobil Corporation that provides for a long term, variable rate loan from ExxonMobil to the company of \$5 billion (Canadian) at market interest rates. The agreement is effective until July 31, 2020, cancellable if ExxonMobil provides at least 370 days advance written notice.

**Table of Contents****Auditor Information**

PricewaterhouseCoopers LLP ( PwC ) have been the auditors of the company for more than five years and are located in Calgary, Alberta. PwC is a participating audit firm with the Canadian Public Accountability Board.

**Auditor fees**

The aggregate fees of PwC for professional services rendered for the audit of the company's financial statements and other services for the fiscal years ended December 31, 2011 and December 31, 2010 were as follows:

| thousands of dollars | 2011         | 2010         |
|----------------------|--------------|--------------|
| Audit fees           | 1,226        | 1,131        |
| Audit-related fees   | 62           | 62           |
| Tax fees             | 0            | 0            |
| All other fees       | 0            | 0            |
| <b>Total fees</b>    | <b>1,288</b> | <b>1,193</b> |

Audit fees included the audit of the company's annual financial statements, internal control over financial reporting, and a review of the first three quarterly financial statements in 2011. In 2011, fees also included a review of the implementation of a new information system.

Audit-related fees included other assurance services including the audit of the company's retirement plan and royalty statement audits for oil and gas producing entities.

The company did not engage the auditor for any other services.

The board, on the recommendation of the audit committee, recommends the external auditor be appointed by the shareholders, fixes its remuneration and oversees its work. The audit committee also approves the proposed current year audit program of the external auditor, assesses the results of the program after the end of the program period and approves in advance any non-audit services to be performed by the external auditor after considering the effect of such services on their independence.

All of the services rendered by the auditor to the company were approved by the audit committee.

**Auditor independence**

The audit committee continually discusses with PwC their independence from the company and from management. PwC has confirmed that they are independent with respect to the company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and the rules of the U.S. Securities and Exchange Commission. The company has concluded that the auditors' independence has been maintained.

**Ethical business conduct**

The board has adopted a written code of ethics and business conduct ( Code ) which can be found on the company's website at [www.imperialoil.ca](http://www.imperialoil.ca).

The Code is applicable to each of the company's directors, officers and employees, and consists of the ethics policy, the conflicts of interest policy, the corporate assets policy, the directorships policy and the procedures and open door communication. Under the company's procedures

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and open door communication, employees are encouraged and expected to refer suspected violations of the law, company policy or internal controls procedures to their supervisors. Suspected violations involving a director or executive officer, as well as any concern regarding questionable accounting or auditing matters are to be referred directly to the general auditor. The audit committee initially reviews all issues involving directors or executive officers, and then refers all issues to the board of directors. In the alternative, employees may also address concerns to individual nonemployee directors or to nonemployee directors as a group. In addition, the directors of the

## **Table of Contents**

company must comply with the conflict of interest provisions of the *Canada Business Corporations Act*, as well as the relevant securities regulatory instruments, in order to ensure that the directors exercise independent judgment in considering transactions and agreements in respect of which such director has a material interest.

Management provides the board of directors with a review of corporate ethics and conflicts of interest on an annual basis. Directors, officers and employees review the company's standards of business conduct (which includes the Code) on an annual basis, with employees in positions where there is a higher risk of exposure to ethical or conflict of interest situations being required to sign a declaration card confirming that they have read and are familiar with the standards of business conduct. In addition, every four years a business practices review is conducted in which managers review the standards of business conduct with employees in their respective work units.

The board, through its audit committee, examines the effectiveness of the company's internal control processes and management information systems. The board consults with the external auditor, the internal auditor and the management of the company to ensure the integrity of the systems.

There are a number of structures and processes in place to facilitate the functioning of the board independently of management. The board has a majority of independent directors. Each committee is chaired by a different independent director and all of the five independent directors are members of each committee. The audit committee is composed entirely of independent directors. Each other committee (except the contributions committee) is composed entirely of the independent directors and R.C. Olsen, who is an employee of ExxonMobil Production Company, a division of Exxon Mobil Corporation, and is, therefore, independent of the company's management. The agendas of each of the board and its committees are not set by management alone, but by the board as a whole and by each committee. A significant number of agenda items are mandatory and recurring. Board meetings are scheduled at least one full year in advance. Any director may call a meeting of the board or a meeting of a committee of which the director is a member. There is a board-prescribed flow of financial, operating and other corporate information to all directors.

The independent directors conduct executive sessions in the absence of members of management. These meetings are chaired by S.D. Whittaker, the independent director designated by the independent directors to chair and lead these discussions. Eight executive sessions were held in 2011. There has been no material change reports filed in the past 12 months pertaining to conduct of a director or executive officer that constitutes a departure from the Code.

The company's delegation of authority guide provides that certain matters of the company are reviewed by functional contacts within ExxonMobil. The company's employees are regularly reminded that they are expected to act in the best interests of the company, and are reminded of their obligation to identify any instances where the company's general interest may not be consistent with ExxonMobil's priorities. If such situations ever occurred, employees are expected to escalate such issues with successive levels of the company's management. Final resolution of any such issues is made by the company's chairman, president and chief executive officer.

**Table of Contents**

## **Appendix B - Board of Director and Committee Charters**

### **Board of Directors Charter**

The structure, process and responsibilities of the board of directors of the corporation shall include the following items and matters:

#### **1. Responsibility**

The directors shall be responsible for the stewardship of the corporation.

#### **2. Duty of care**

The directors, in exercising their powers and discharging their duties, shall:

- (a) act honestly and in good faith with a view to the best interests of the corporation; and
- (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

#### **3. Stewardship process**

- 1) In order to carry out their responsibility for stewardship within their duty of care, the directors shall, directly or through one or more committees of directors,
  - (a) contribute to the formulation of and approve strategic plans on at least an annual basis;
  - (b) identify the principal risks of the corporation's business where identifiable and oversee the implementation of appropriate systems to manage such risks;
  - (c) oversee succession planning for senior management, including the appointing, training and monitoring thereof;
  - (d) approve the corporate disclosure policy and monitor the external communications of the corporation;
  - (e) monitor the integrity of the corporation's internal control and management information systems;
  - (f) consider management's recommendations regarding major corporation decisions and actions, which have significant societal implications;
  - (g) monitor compliance with major corporate policies;



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- (h) charge the chief executive officer of the corporation with the general management and direction of the business and affairs of the corporation;
- (i) monitor the performance of the chief executive officer;
- (j) satisfy itself as to the integrity of the chief executive officer and other executive officers and ensure that the chief executive officer and the other executive officers create a culture of integrity throughout the company;
- (k) approve the corporation's code of ethics and business conduct;
- (l) monitor compliance with the code of ethics and business conduct, provided that any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board only;

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**Table of Contents**

- (m) meet with the frequency necessary to consider the range of items listed below;
- (n) by appropriate charter resolutions, establish the audit, executive resources, nominations and corporate governance, environment, health and safety, and contributions committees of the board with specific duties defined;
- (o) direct the distribution to them by management of information that will enhance their familiarity with the corporation's activities and the environment in which it operates, as set out in clause 5;
- (p) review the mandates of the board and of the committees and their effectiveness at least annually; and,
- (q) undertake such additional activities within the scope of their responsibilities as may be deemed appropriate in their discretion.

**4. Range of items to be considered by the board**

- 1) The following categories and specific items shall be referred to the board for information or decision on a regularly scheduled basis, to the extent appropriate:

**Organization/legal**

- fixing of the number of directors
- director appointments to fill interim vacancies
- director slate for election by the shareholders
- officer appointments
- board governance processes
- by-laws and administrative resolutions
- changes in fundamental structure of the corporation
- shareholder meeting notice and materials
- nonemployee director compensation
- policies adopted by the board
- investigations and litigation of a material nature

**Financial**

- equity or debt financing
- dividend declarations
- financial statements and the related management discussion and analysis, annual and quarterly
- status of the corporation's retirement plan and employee savings plan

**Strategic/investment/operating plans/performance**

- near-term and long-range outlooks
- capital, lease, loan and contributions budgets annually
- budget additions over \$100 million individually
- quarterly updates of actual and projected capital expenditures
- capital expenditures or dispositions in excess of \$100 million individually
- entering into any venture that is outside of the corporation's existing businesses
- financial and operating results quarterly
- Canadian and world economic outlooks
- regional socio-economic reviews

- 2) In addition to the items which are specific to the categories identified above, the chief executive officer shall refer to the board for information or decision all other items of corporate significance; and any member of the board may request a review of any such item.

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Items to be referred to the committees of the board are specified in their respective charters.

## **Table of Contents**

### **5. Information to be received by the board**

- 1) Material under the following general headings, including the specific items listed below and only other similar items, shall be distributed to directors on a regular basis:

#### **Information manual (Directors Digest)**

articles of incorporation, by-laws and administrative resolutions  
corporate policies  
corporate data  
board and management processes  
financial and operating report  
organization outline

#### **Social/political/economic environment**

public issues updates  
economic outlook  
external communications packages

#### **Major announcements**

press releases  
speeches by management  
organization changes

#### **Communications to shareholders**

#### **Other significant submissions, studies and reports**

- 2) All material distributed to employee directors shall be through normal corporation channels. All material distributed to nonemployee directors shall be through the office of the corporate secretary.

### **6. Unrelated and independent directors**

- 1) Subject to occasions when there is a temporary vacancy in respect of a director who is unrelated and independent or when there is a need to accommodate succession for one or more senior executives who are directors, the board intends to be composed of a majority of unrelated and independent directors.
- 2) In respect of each director to be appointed to fill a vacancy and each director to be nominated for election or re-election by the shareholders, the board shall make an express determination as to whether he or she is an unrelated or an independent director and, for a director who may become a member of the audit committee, whether he or she is an audit committee financial expert or financially literate.
- 3) The term *unrelated director*, as defined by the Toronto Stock Exchange, means a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding.
- 4) The term *independent*, within the meaning of applicable law, means that the director may not, other than in his or her capacity as a member of the board of directors, or any other board committee,

- (i) accept any consulting, advisory, or other compensatory fee from the issuer; or
- (ii) be an affiliated person of the issuer or any subsidiary thereof.

## **Table of Contents**

### **7. Independent legal or other advice**

The board and, with the approval of the board, any director, may engage independent counsel and other advisors at the expense of the corporation.

### **8. Meetings of the unrelated and independent directors in the absence of members of management**

- 1) Meetings of the unrelated and independent directors ( executive sessions of the board ) shall be held in conjunction with all board meetings including unscheduled telephonic board meetings.
- 2) The chair of the executive sessions of the board shall be chosen by the unrelated and independent directors.
- 3) The chair of the executive sessions of the board, or in the chair's absence an unrelated and independent director chosen by the unrelated and independent directors, shall
  - (a) preside at executive sessions of the board;
  - (b) ensure that meetings of the unrelated and independent directors are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of the board in advance to ensure that the board may successfully carry out its duties.
- 4) The purposes of the executive sessions of the board shall include the following:
  - (a) to raise substantive issues that are more appropriately discussed in the absence of management;
  - (b) to discuss the need to communicate to the chairman of the board any matter of concern raised by any committee or any director;
  - (c) to address issues raised but not resolved at meetings of the board and assess any follow-up needs with the chairman of the board;
  - (d) to discuss the quality, quantity, and timeliness of the flow of information from management that is necessary for the unrelated and independent directors to effectively and responsibly perform their duties, and advise the chairman of the board of any changes required; and
  - (e) to seek feedback about board processes.

### **9. Selection and tenure of directors**

The guidelines for selection and tenure of directors shall be as follows:

(a) *Selection*

In considering the qualifications of potential nominees for election as directors, the nominations and corporate governance committee considers the work experience and other areas of expertise of the potential nominees. The following key criteria are considered to be relevant to the work of the board of directors and its committees:

**Work Experience**

- Experience in leadership of businesses or other large organizations (Leadership of large organizations)
- Operations/technical experience (Operations/technical)
- Project management experience (Project management)
- Experience in working in a global work environment (Global experience)
- Experience in development of business strategy (Strategy development)

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**Table of Contents**

**Other Expertise**

Audit committee financial expert  
Expertise in financial matters (Financial expertise)  
Expertise in managing relations with government (Government relations)  
Experience in academia or in research (Academic/research)  
Expertise in information technology (Information technology)  
Expertise in executive compensation policies and practices (Executive compensation)

In addition, the nominations and corporate governance committee may consider the following additional factors:

possessing expertise in any of the following areas: finance, law, science, marketing, administration, government affairs, social/political environment or community and civic affairs; and

providing diversity of viewpoint, individual competencies in business, other areas of endeavour in contributing to the collective experience of the directors, age, gender or regional association.

The nominations and corporate governance committee shall then assess what work experience and other expertise each existing director possesses. The nominations and corporate governance committee shall identify individuals qualified to become new board members and recommend to the board the new director nominees. In making its recommendations, the nominations and corporate governance committee shall consider the work experience and other expertise that the board considers each existing director to possess and which each new nominee will bring. The nominations and corporate governance committee may also consider the additional factors noted above and any other factors which it believes to be relevant.

A candidate may be nominated for directorship after consideration has been given as to his or her degree of compatibility with the following criteria, i.e., as to whether he or she:

will not adversely affect the requirements with respect to citizenship and residency for the directors imposed by the Canada Business Corporations Act;

possesses the ability to contribute to the broad range of issues with which the directors and any one or all of the committees of directors must deal;

is able to devote the necessary amount of time to prepare for and attend all meetings of the directors and committees of directors, and to keep abreast of significant corporate developments;

is free of any present or apparent potential legal impediment or conflict of interest, such as:

- Ø serving as an employee or principal of any organization presently providing a significant level of service to the corporation or which might so provide to the corporation, for example, institutions engaged in commercial banking, underwriting, law, management consulting, insurance, or trust companies; or of any substantial customer or supplier of the corporation;
- Ø serving as an employee or director of a competitor of the corporation, such as petroleum or chemical businesses, or of a significant competitor of corporations represented by a director of this corporation;



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- Ø serving as the chief executive officer or a top administrator of an organization that has the chief executive officer or a top administrator of this corporation serving as director;

**Table of Contents**

is expected to remain qualified to serve for a minimum of five years;

will not, at the time that he or she stands for election or appointment, have attained the age of 72;

is, or will become within a period of five years of becoming a director, the beneficial owner, directly or indirectly, of not less than 15000 common shares, deferred share units or restricted stock units of the corporation.

*(b) Tenure*

*(i) Re-nomination*

An incumbent director shall be supported for re-nomination as long as he or she:

does not suffer from any disability that would prevent the effective discharge of his or her responsibilities as a director;

makes a positive contribution to the effective performance of the directors;

regularly attends directors and committee meetings;

has not made a change with respect to principal position or thrust of involvement or regional association that would significantly detract from his or her value as a director of the corporation;

is not otherwise, to a significant degree, incompatible with the criteria established for use in the selection process;

in a situation where it is known that a director will become incompatible with the criteria established for use in the selection process within a three-month period of election, such as retirement from principal position at age 65, this information would be included in the management proxy circular, and where possible, information regarding the proposed replacement would also be included;

will not, at the time that he or she stands for re-election, have attained the age of 72; however, under exceptional circumstances, at the request of the chief executive officer, the nominations and corporate governance committee may continue to support the nomination.

*(ii) Resignation*

An incumbent director will resign in the event that he or she:

experiences a change in circumstances such as a change in his or her principal occupation, but not merely a change in geographic location;

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displays a change in the exercise of his or her powers and in the discharge of duties that, in the opinion of at least 75 percent of the directors, is incompatible with the duty of care of a director as defined in the Canada Business Corporations Act;

has made a change in citizenship or residency that will adversely affect the requirements for directors with respect to those areas imposed by the Canada Business Corporations Act;

develops a conflict of interest, such as

- Ø assuming a position as an employee or principal with any organization providing a significant level of service to the corporation, for example, institutions engaged in commercial banking, underwriting, law, management consulting, insurance, or trust companies; or with any substantial customer or supplier of the corporation;

**Table of Contents**

- Ø assuming a position as an employee or director of any competitor of the corporation, such as petroleum or chemical businesses, or of a competitor of corporations represented by a director of this corporation;
  
- Ø assuming the position of chief executive officer or a top administrator of an organization that has the chief executive officer or a top administrator of this corporation serving as a director;
  
- Ø becomes unable to devote the necessary amount of time to prepare for and regularly attend meetings of the directors and committees of directors, and to keep abreast of significant corporate developments, and the nominations and corporate governance committee will make a recommendation to the board as to whether to accept or reject such resignation.

**10. Chairman and chief executive officer**

(a) Position description

The chairman and chief executive officer shall

1. Plan and organize all activities of the board of directors;
  
2. Ensure that the Board receives sufficient, timely information on all material aspects of the corporation's operations and financial affairs;
  
3. Chair annual and special meetings of the shareholders;
  
4. Conduct the general management and direction of the business and affairs of the corporation;
  
5. Recommend to the board of directors a strategic plan for the corporation's business and, when approved by the board of directors, implement this strategic plan and report to the board of directors on the implementation of this strategic plan;
  
6. Develop and implement operational policies to guide the corporation within the limits prescribed by the corporation's by-laws and the directions adopted by the board of directors;
  
7. Identify, for review with the board of directors, the principal risks of the corporation's business, where identifiable, and develop appropriate systems to manage such risks;
  
8. Under the oversight of the board of directors, develop plans for succession planning for senior management, including the appointing, training and monitoring thereof, and implement those plans;
  
- 9.

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Ensure compliance with the corporation's code of ethics and business conduct so as to foster a culture of integrity throughout the company; and

10. Ensure effective internal controls and management information systems are in place.

- (b) Minimum shareholding requirements. The chairman and chief executive officer shall hold, or shall, within three years after his appointment as chairman and chief executive officer, acquire shares of the corporation, including common shares, deferred share units and restricted stock units, of a value no less than five times his base salary.

**Table of Contents**

**Audit Committee Charter**

The structure, process and responsibilities of the audit committee shall include the following items and matters:

1. (1) The committee shall consist of five members, to be appointed by the board of directors from among the unrelated and independent directors, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation and are unrelated and independent.
- (2) The committee shall, if possible, have one or more members who is an audit committee financial expert within the meaning of applicable law.
- (3) Each member of the committee shall be able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement.
- (4) No committee member shall serve on the audit committee of more than two other public companies, unless the Board of Directors determines that such simultaneous service would not impair the ability of such director to effectively serve on the audit committee.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the audit committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member or by the external auditors of the corporation, and notice of every meeting shall be given to the external auditors.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.

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7. The external auditors and the internal auditor of the corporation shall report directly to the audit committee.
  
8. The committee shall:
  - (a) recommend the external auditors to be appointed by the shareholders, fix their remuneration, which shall be paid by the corporation, and oversee their work.
  
  - (b) approve the proposed current year audit program of the external auditors and assess the results of the program after the end of the program period.
  
  - (c) approve in advance any non-audit services that are permitted by applicable law to be performed by the external auditors after considering the effect of such services on their independence.
  
  - (d) receive from the external auditors a formal written statement delineating all relationships between the external auditor and the corporation consistent with Independence Standards Board Standard 1, and shall actively engage in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditor and shall recommend that the board take any appropriate action to oversee the independence of the external auditor.

**Table of Contents**

- (e) establish procedures for the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by employees of the corporation of concerns regarding questionable accounting or auditing matters.
- (f) approve the proposed current year audit program of the internal auditors and assess the results of the program after the end of each quarter.
- (g) review annually the adequacy of the corporation's liability and property insurance program.
- (h) review the adequacy of the corporation's system of internal controls and auditing procedures.
- (i) review the accounting and financial reporting processes of the corporation.
- (j) approve changes proposed by management in accounting principles and practices, and review changes proposed by the accounting profession or other regulatory bodies which impact directly on such principles and practices.
- (k) review the annual and quarterly financial statements of the corporation, accounting items affecting the statements and the overall format and content of the statements, and the related management discussion and analysis, prior to approval of such financial statements by the board of directors.
- (l) review the results of the monitoring activity under the corporation's business ethics compliance program.
- (m) review annually a summary of senior management expense accounts.
- (n) require attendances at its meetings by members of management, as the committee may direct.
- (o) review its mandate and its effectiveness at least annually.
- (p) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.



**Table of Contents**

**Environment, Health and Safety Committee Charter**

The structure, process and responsibilities of the environment, health and safety committee shall include the following items and matters:

1. The committee shall consist of no fewer than five members, to be appointed by the board of directors from among (a) the unrelated and independent directors; and (b) the non-independent directors who are not members of the corporation's management, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the environment health and safety committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.
7. The committee shall:
  - (a) review and monitor the corporation's policies and practices in matters of the environment, health and safety.
  - (b) monitor the corporation's compliance with legislative, regulatory and corporation standards for environmental, health and safety practices and matters, and advise the directors on the results and adequacy thereof.
  - (c) monitor trends and review current and emerging public policy issues in matters of the environment, health and safety as they may impact the corporation's operations.

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- (d) review the impact of proposed legislation in matters of the environment, health and safety on the operations of the corporation and advise the directors and management as to the appropriate response of the corporation thereto.
- (e) recommend to the directors and management desirable policies and actions arising from its review and monitoring activity.
- (f) require attendances at its meetings by members of management, as the committee may direct.
- (g) review its mandate and its effectiveness at least annually.
- (h) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.

**Table of Contents**

**Executive Resources Committee Charter**

The structure, process and responsibilities of the executive resources committee shall include the following items and matters:

1. The committee shall consist of no fewer than five members, to be appointed by the board of directors from among the (a) unrelated and independent directors; and (b) the non-independent members who are not members of the corporation's management, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the executive resources committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.
7. The committee shall:
  - (a) monitor the performance of the chief executive officer.
  - (b) review and approve corporate goals and objectives relevant to compensation of the chief executive officer and evaluate his performance in light of those goals and objectives.
  - (c) review data on competitive compensation practices and review and evaluate policies and programs through which the corporation compensates its employees.

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- (d) approve salaries and other compensation (including supplemental compensation such as cash bonuses and IEBU s, long-term incentive compensation such as RSU s, and any other payments for service), for the chief executive officer and other key senior executive management positions reporting directly to the chief executive officer, including all officers of the corporation.
- (e) produce an annual report on compensation for inclusion in the corporation s management proxy circular in accordance with applicable legal requirements.
- (f) review the executive development system to ensure that it:
  - i. foresees the company s senior management requirements;
  - ii. provides for early identification and development of key resources.

**Table of Contents**

- (g) approve specific succession plans for the chief executive officer and other key senior executive management positions reporting directly to the chief executive officer, including all officers of the corporation.
- (h) review the company's process in respect of employee conflicts of interest and directorships in non-affiliated commercial, financial and industrial organizations and the disclosures thereof.
- (i) require attendance at its meetings by members of management, as the committee may direct.
- (j) review its mandate and its effectiveness at least annually.
- (k) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.

**Table of Contents**

**Nominations and Corporate Governance Committee Charter**

The structure, process and responsibilities of the nominations and corporate governance committee shall include the following items and matters:

1. The committee shall consist of no fewer than five members, to be appointed by the board of directors from among (a) the unrelated and independent directors; and the (b) the non-independent directors who are not members of the company's management, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the nominations and corporate governance committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.
7. The committee shall:
  - (a) oversee issues of corporate governance as they apply to the corporation, including the effectiveness of the system of corporate governance, the evaluation of the overall performance of the board, and the board's relationship with management, and to report to the board on such matters.
  - (b) make recommendations to the board as to the appropriate size of the board with a view to facilitating effective decision-making.

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- (c) review and recommend to the board of directors the procedure for identifying potential nominees for directorships, including guidelines to be used in the selection process.
- (d) review and recommend to the board of directors any modifications to the charters of the board or any of its committees.
- (e) review and recommend to the board of directors guidelines to be adopted relating to tenure of directors.
- (f) assist the chief executive officer to assess potential candidates for directorships and recommend to the board of directors proposed candidates for board membership to fill anticipated vacancies.

**Table of Contents**

- (g) apply guidelines for board membership to incumbent directors and recommend to the chief executive officer and to the board of directors the slate of director candidates to be proposed for election by the shareholders at the annual meeting.
- (h) review and recommend the nonemployee directors' compensation.
- (i) require attendances at its meetings by members of management, as the committee may direct.
- (j) review its mandate and its effectiveness at least annually.
- (k) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.
- (l) make a recommendation to the board of directors as to whether to accept or reject any resignation tendered by a director as provided in subclause 9(b)(ii) of the board of directors charter.



**Table of Contents**

**Contributions Committee Charter**

The structure, process and responsibilities of the contributions and community investment committee shall include the following items and matters:

1. The committee shall consist of no fewer than five members, to be appointed by the board of directors from among the directors, who shall serve during the pleasure of the board but only so long as they continue to be directors of the corporation.
2. The chair and vice-chair shall be appointed by the board from among the members of the committee. The chair, or in that person's absence, the vice-chair or in the vice-chair's absence, an alternate designated by the committee, shall:
  - (a) preside at committee meetings;
  - (b) ensure that meetings of the contributions and community investment committee are held in accordance with this charter; and
  - (c) review, and modify if necessary the agenda of the meetings of this committee in advance to ensure that the committee may effectively carry out its duties.
3. The committee shall designate its secretariat.
4. A quorum for the meetings of the committee shall be three members.
5. Meetings of the committee may be called by any member.
6. The committee and, with the approval of the committee, any member, may engage independent counsel and other advisors at the expense of the corporation.
7. The committee shall:
  - (a) review and monitor the corporation's policies and practices in matters relating to Community Investment, which Community Investment shall consist of:
    - (i) charitable contributions, including those made by means of the Imperial Oil Foundation;
    - (ii) local community contributions by business units on community-serving projects that also benefit the corporation, which are charitable in nature;

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- (iii) the corporation's share of community-serving projects described in subparagraph 7(a)(ii) above by joint ventures operated by other companies;
  - (iv) funding for public policy groups;
  - (v) university research awards;
  - (vi) sponsorships whose primary purpose is to promote brand recognition, product sales or business development; and
  - (vii) expenditures required under socio-economic agreements to gain access to resources;
- (b) review each year, prior to the development of the following year's budget for Community Investment, proposed overall contributions objectives, policies and programs, including, as appropriate, goals and criteria, the level of corporate contributions, the subject areas to which contributions are to be made and the relative weighting thereof, and the need to make such contributions to gain access to resources or otherwise advance the business objectives of the company, and make such recommendations to the Board with respect thereto as it may deem advisable;

**Table of Contents**

- (c) approve the proposed budget for charitable contributions and local community contributions, as described in subparagraphs 7(a)(i) and (ii), of the corporation and its consolidated affiliates, and review the proposed budget for charitable contributions for the Imperial Oil Foundation prior to the meeting of the Imperial Oil Foundation to approve such budget, and to review such budgets for charitable contributions and local community contributions as to the consistency of such budgets with the contributions objectives, policies and programs established in respect of each year;
- (d) review the proposed budget for Community Investment other than as described in subparagraphs 7(a)(i) and (ii) of the corporation and its consolidated affiliates, as to the consistency of such budgets with the contributions objectives, policies and programs established in respect of each year, and possible contributions of an unusual amount;
- (e) approve all grants or contributions for charitable contributions and local community contributions as described in subparagraphs 7(a)(i) and (ii) above \$100,000;
- (f) require attendances at its meetings by members of management, as the committee may direct;
- (g) review its mandate and its effectiveness at least annually; and
- (h) undertake such additional activities within the scope of its responsibilities as may be deemed appropriate in its discretion.