

IMPERIAL OIL LIMITED  
2012 SUMMARY ANNUAL REPORT

# Responsible Growth



# Imperial Oil Limited (Imperial) is one of Canada's leading companies. It is a significant producer of crude oil and natural gas, Canada's major petroleum refiner, a key petrochemical producer and a national marketer with coast-to-coast supply and retail networks.

## Table of contents

2012 YEAR IN REVIEW	01
LETTER TO SHAREHOLDERS	02
OPERATING HIGHLIGHTS	04
FINANCIAL HIGHLIGHTS	05
UPSTREAM	06
DOWNSTREAM	10
CHEMICAL	13
KEARL FEATURE	14
SOLVENT TECHNOLOGIES FEATURE	20
FINANCIAL SUMMARY	25
FREQUENTLY USED TERMS	30
INFORMATION FOR INVESTORS	32
DIRECTORS AND OFFICERS	33

## Imperial online

*Imperial's website provides services to investors, customers and other interested parties. The information for investors section offers a complete range of investor news, reports and presentations. The home page features regular share price updates from the Toronto Stock Exchange, as well as news highlights and easy links to a variety of other corporate information.*

[www.imperialoil.ca](http://www.imperialoil.ca)

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## Forward-looking statements

*Statements of future events or conditions in this report, including projections, targets, expectations, estimates, and business plans are forward-looking statements. Actual future results, including demand growth and energy source mix; production growth and mix; project plans, dates, costs and capacities; production rates and resource recoveries; cost savings; product sales; financing sources; and capital and environmental expenditures could differ materially depending on a number of factors, such as changes in the price, supply of and demand for crude oil, natural gas, and petroleum and petrochemical products; political or regulatory events; project schedules; commercial negotiations; the receipt, in a timely manner, of regulatory and third-party approvals; unanticipated operational disruptions; unexpected technological developments; and other factors discussed in this report and Item 1A of Imperial's most recent Form 10-K. Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, some that are similar to other oil and gas companies and some that are unique to Imperial. Imperial's actual results may differ materially from those expressed or implied by its forward-looking statements and readers are cautioned not to place undue reliance on them.*

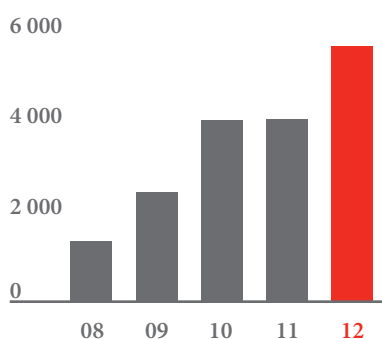
*The term "project" as used in this report does not necessarily have the same meaning as under SEC Rule 13q-1 relating to government payment reporting. For example, a single project for purposes of the rule may encompass numerous properties, agreements, investments, developments, phases, work efforts, activities and components, each of which we may also informally describe as a "project."*

*Reserves and contingent resource information presented in this report are an estimate of the company's net interest after royalties at year-end 2012, as determined by Imperial's internal qualified reserves evaluator. Contingent resources are those quantities of petroleum considered to be potentially recoverable from known accumulations using established technology or technology under development, but are currently not considered to be commercially recoverable due to one or more contingencies. Contingencies on resources may include, but are not limited to, factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. There is no certainty that it will be economically viable or technically feasible to produce any portion of the resource.*

## 2012 year in review

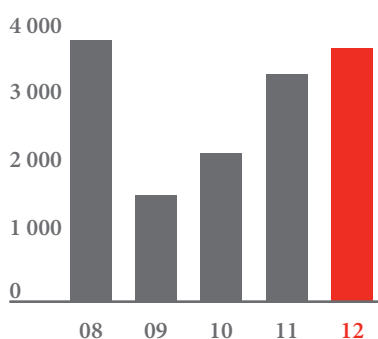
- **Responsible growth is the key to Imperial's long-term success. Imperial is reducing environmental impact and lowering development costs through technology innovation and operational excellence.**
- **Imperial maintained its balance sheet flexibility at a time of record investments in company growth projects.**
- **All three of its businesses – Upstream, Downstream and Chemical – delivered excellent results, allowing the company to fund its unprecedented growth mostly with cash flow from operations.**
- **The company continued to advance breakthrough research to reliably deliver affordable energy from the oil sands in a responsible manner.**

**CAPITAL AND EXPLORATION EXPENDITURES**  
millions of dollars



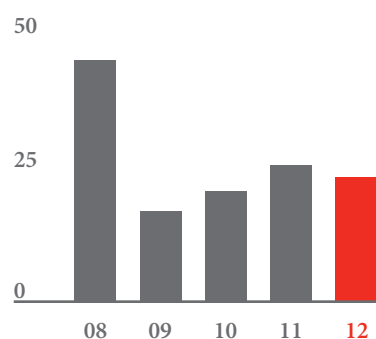
Completed a \$5.7 billion capital and exploration program focused on advancing major Upstream projects.

**NET EARNINGS**  
millions of dollars



Imperial achieved its second highest earnings in 2012.

**RETURN ON CAPITAL EMPLOYED (ROCE)**  
percent



ROCE is a key measure of success in a long-term capital intensive industry and Imperial continues to have a leading ROCE relative to its peers.

## To our shareholders

# Outstanding results backed by a commitment to responsible growth

*Imperial continues to deliver superior long-term shareholder value by leveraging its competitive advantages of disciplined investing, development of innovative technologies and operational excellence. These competitive advantages, combined with a commitment to responsible growth, position the company well to meet its plan of doubling Upstream production.*



Our ability to maintain a relentless focus on operational excellence and disciplined management of our integrated business has produced another year of outstanding results.

As always, the safety of our workforce and the public comes first. Our employees and contractors continued to deliver industry-leading safety results during 2012 through a period of increased activities. After disappointing safety results in 2011, we achieved a best-ever 2012 performance in a number of areas.

Second-highest earnings of \$3.8 billion, up from last year's \$3.4 billion, were underpinned by best-ever Downstream and Chemical results. Return

on average capital employed, considered the best measure of capital efficiency, was 23 percent, down from 25 percent in 2011 despite continued large capital

## **Indicative of our long-life oil sands assets, Kearl will be a major earnings contributor for decades.**

expenditures. Cash flow from operations and asset sales was \$4.9 billion.

These strong results underscore the value of Imperial's long-term, proven business approach of focusing on the business elements we can control and making disciplined investment decisions

to grow, while maintaining financial flexibility to capture new opportunities when they arise.

In 2012, capital and exploration expenditures were \$5.7 billion. We anticipate 2013 capital expenditures to be about \$7 billion. Most of the current capital expenditures program has been for the Kearl oil sands project, the largest initiative the company has ever undertaken. The start-up of the initial phase is the first major milestone on our path to producing 345,000 barrels per day of bitumen (245,000 barrels per day Imperial's share) at Kearl.

Although the capital cost of the initial development is higher than we had forecast when we

sanctioned the project in 2009, future phases of Kearl will be less capital intensive. Indicative of our long-life oil sands assets, Kearl will be a major earnings contributor for decades. The special feature article in this report (pages 14-19) provides more detail about this groundbreaking project and the people behind it.

## In the development of any energy resource, the goal must be to balance economic, social and environmental responsibilities.

The theme of our 2012 report is responsible growth, and it is the key to our long-term success. As conventional crude oil and natural gas production declines, we believe that in order to provide the affordable and reliable energy the world needs, investing in and developing Canada's oil sands is a logical part of the answer.

In the development of any energy resource, the goal must be to balance economic, social and environmental responsibilities. This is true for all energy sources – from renewable fuels to Canada's oil

sands. Today, no energy resource is perfect in this regard but we believe our development in Canada's oil sands achieves a good balance of these responsibilities.

Canada's oil sands have the immense scale to provide energy resources for decades. They also represent compelling economic and social benefits for Canadians.

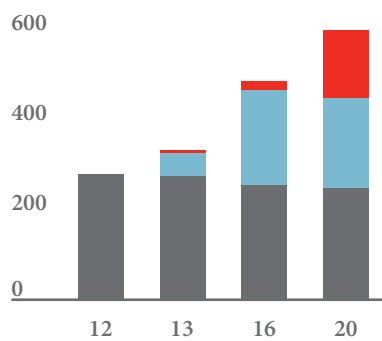
The industry continues to use innovative technology to reduce the environmental impacts of oil sands development. As history demonstrates, *we can and will* do more.

Technology remains vital to meeting the challenge of responsible growth in Canada's oil sands. Another feature story (pages 20-24) on the use of solvents in oil sands extraction expands on this drive to improve both the environmental performance and the economics of current and future developments. It also highlights Imperial's position as a pioneer and the leading technology innovator in the oil sands.

Imperial holds an extensive and attractive portfolio of future development opportunities with a proved and non-proved resource base of 16 billion oil-equivalent barrels. This includes holdings in the oil sands, unconventional areas of Cardium tight oil and Horn River natural gas, the Mackenzie Delta and the Beaufort Sea.

Canada and Imperial are poised to contribute to meeting the world's growing energy needs. Our capable and motivated workforce has always made our company great. Employees' dedication continues to set us apart from industry competition, allowing us to offer rewarding careers and attract top talent and, as a result, generate superior returns for you, our shareholders. We are well positioned for a future of responsible and profitable growth.

**RESOURCE DEVELOPMENT  
BUILDING PRODUCTION  
VOLUME**  
thousands of oil-equivalent barrels per day  
before royalties



Imperial's goal is to double production.

- To be sanctioned
- Under construction
- Existing

**Bruce March**  
Chairman, President and CEO



## Operating highlights

# Focused on providing affordable, responsible energy

### Management discipline

Imperial's focus on operational excellence resulted in industry-leading safety and environmental performance, record Downstream and Chemical earnings, and sustained best-in-class reliability at Cold Lake.

- We continue to make progress toward "Nobody Gets Hurt." In 2012, there were no employee safety incidents that resulted in lost time.
- In 2012, more than 19,000 workers new to the Kearl site received detailed safety orientation. We had only one contractor lost-time incident at Kearl. The lost-time incident rate was 0.01, which compares to an Alberta oil and gas industry average of about 0.50.
- Spills and environmental compliance incidents have consistently improved and continue to be industry-leading.
- Average daily production of crude oil, natural gas and natural gas liquids was 282,000 barrels of oil equivalent per day before royalties. Cold Lake continued to operate with industry-leading reliability, achieving a production rate of 154,000 barrels per day.
- Imperial's four refineries processed 435,000 barrels per day of crude oil, achieving an 86 percent utilization rate. Petroleum product sales volumes were 445,000 barrels per day and gasoline sales averaged 221,000 barrels per day.

### Responsible growth

- By year-end, the construction of the initial development of the Kearl oil sands mining project was complete and start-up was underway.
- Construction of the 110,000-barrels-per-day Kearl expansion was advanced in 2012, incorporating the design and experience from the initial development to lower cost and achieve a late 2015 start-up.
- The 40,000-barrels-per-day Cold Lake Nabiye expansion was 37 percent complete by year-end. This project is expected to be online by late 2014.
- The Horn River pilot (50:50 share with ExxonMobil Canada) started up in the third quarter of 2012, with production of 30 million cubic feet per day. Results over the next few years will be assessed to establish full-field production economics.
- Imperial began preparing the regulatory applications for new in situ oil sands projects at Aspen (south of Kearl) and Cold Lake Grand Rapids.
- The Preliminary Information Package outlining potential Beaufort Sea exploration activities and environmental protection programs was shared with communities and stakeholders.

### Industry-leading technologies

- Kearl includes the first commercial application of Imperial's patented paraffinic froth treatment process, which

will produce saleable bitumen without the need for an on site upgrader. The result will be increased reliability, reduced GHG emissions, and lower capital and operating costs.

- Other promising oil sands technologies, such as solvent-assisted steam-assisted gravity drainage, cyclical solvent process, non-aqueous extraction and liquid addition to steam to enhance recovery, are discussed on pages 20-24.

### Future plans

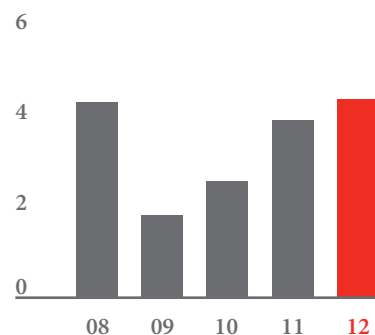
- Imperial will be consolidating its Calgary offices into a new suburban campus-style complex, with completion expected by mid-2016. The state-of-the-art facility, designed to promote collaboration, will have the capacity to accommodate about 3,000 staff.
- Imperial announced its intention to market the Dartmouth refinery and related supply terminals to prospective buyers. The marketing effort and evaluation of alternative options, such as conversion to a terminal, continues. A decision is expected by mid-2013.
- Imperial acquired a 50-percent participating interest in Celtic Exploration Ltd. following the close of its acquisition by ExxonMobil Canada. This occurred by means of a sale of a 50-percent interest in Celtic's assets and liabilities from ExxonMobil Canada to Imperial, which represents about a \$1.6 billion investment by Imperial.

## Financial highlights

# Superior long-term shareholder value

- Earnings of \$3.8 billion or \$4.42 per share, up from \$3.4 billion or \$3.95 per share in 2011.
- Downstream and Chemical earnings of \$1.9 billion were the highest on record, demonstrating the benefit of integration.
- Industry-leading return on capital employed of 23 percent, even with significant investments in assets under construction.
- Annual per share dividends paid increased for the 18th year in a row and totalled \$398 million.
- Capital and exploration expenditures of \$5.7 billion were primarily targeted at advancing major growth projects. Expenditures in 2013 are expected to be about \$7 billion, including about \$1.6 billion for the Celtic acquisition.
- Capital expenditures were primarily financed through internally generated funds. Debt as a percent of total capital was nine percent. Imperial maintained its AAA rating from Standard and Poor's and remains the only Canadian industrial company with this rating.
- Imperial does not hedge the price of its production, use special-purpose financial instruments, or off-balance-sheet financing structures.

INCOME PER SHARE  
dollars per share – diluted



Imperial's ability to leverage its integrated business model improved earnings in 2012.

## Financial highlights

(millions of dollars)

	2012	2011	2010	2009	2008
Operating revenues	31 053	30 474	24 946	21 292	31 240
Net income	3 766	3 371	2 210	1 579	3 878
Cash flow from operating activities and asset sales <sup>(a)</sup>	4 906	4 803	3 351	1 658	4 535
Cash and cash equivalents at year-end	482	1 202	267	513	1 974
Total debt at year-end	1 647	1 207	756	140	143
Average capital employed <sup>(b)</sup>	16 302	13 261	10 791	9 432	8 684
Capital and exploration expenditures	5 683	4 066	4 045	2 438	1 363
Dividends paid	398	373	356	341	330

(a) The definition of cash flow from operating activities and asset sales can be found on page 31.

(b) The definition of average capital employed can be found on page 30.

## Key financial ratios

	2012	2011	2010	2009	2008
Net income per share – diluted (dollars) <sup>(a)</sup>	4.42	3.95	2.59	1.84	4.36
Return on average capital employed (percent) <sup>(b)</sup>	23.1	25.4	20.5	16.8	44.7
Return on average shareholders' equity (percent) <sup>(c)</sup>	25.4	27.5	21.4	17.1	45.7
Annual shareholders' return (percent) <sup>(d)</sup>	(4.8)	12.9	0.9	0.2	(24.3)
Debt to capital (percent) <sup>(e)</sup>	9	9	7	2	2
Dividends per share (dollars)	0.48	0.44	0.43	0.40	0.38

(a) Calculated by reference to the average number of shares outstanding, weighted monthly on page 29.

(b) The definition of return on average capital employed can be found on page 30.

(c) Net income divided by average shareholders' equity on page 27.

(d) Includes share appreciation and dividends.

(e) Current and long-term portions of debt (page 27) and the company's share of equity company debt, divided by debt and shareholders' equity (page 27).



### **Strategies**

- Maximize profitability of existing oil and gas production
- Identify and selectively capture the highest-quality exploration opportunities
- Make disciplined investment in growth projects that deliver superior returns
- Maximize resource value through high-impact technologies

Jamie Alliban is a heavy equipment operator at Kearl.



## Upstream

# Imperial's fundamental Upstream strategies guide our exploration, development and production activities

### Results and highlights

Imperial's Upstream business focus is on developing one of Canada's leading oil and gas resource positions. The company's goal is to double Upstream production volumes by 2020.

The Upstream business continued its superior operating performance in 2012, generating earnings of \$1,888 million, cash flow from operating activities and asset sales of \$2,772 million and a return on capital employed of 13 percent.

Total produced volume before royalty was 282,000 oil-equivalent barrels per day of oil and gas.

Upstream capital and exploration spending in 2012 totalled \$5.5 billion, with planned increases to about \$6.8 billion for 2013, largely for continued investment in growth projects and sustaining capital for Syncrude. The planned expenditures also include the Celtic acquisition at about \$1.6 billion.

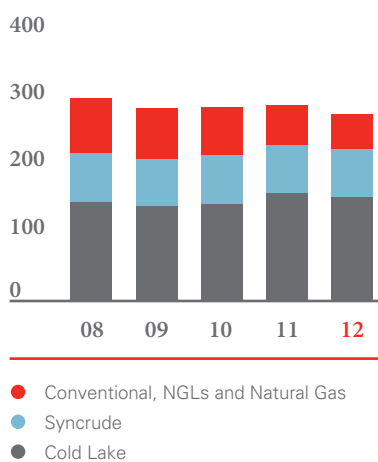
### Resource base

Imperial's total proved and non-proved resource base is more than 16 billion oil-equivalent barrels, or well over 100 years of production at current levels.

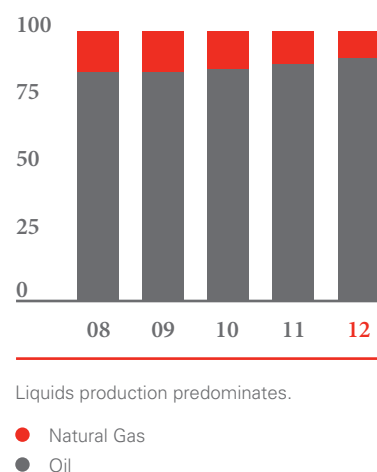
In 2012, proved reserves increases of 472 million barrels of oil equivalent more than offset

production of 89 million barrels of oil equivalent in the year. The increases are primarily associated with the Nabiye project and increased development scope at Cold Lake. Proved reserves represent more than 40 years of current production rates.

PRODUCTION BY SOURCE  
thousands of oil-equivalent barrels per day  
before royalties



LIQUIDS/GAS SPLIT  
percent



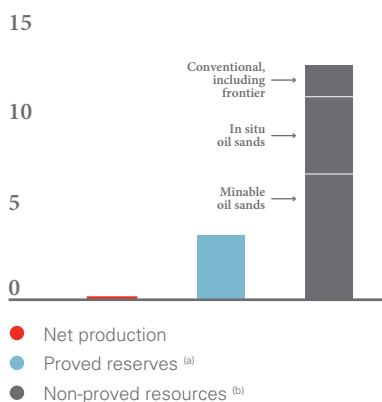
Liquids production predominates.

### At a glance

	2012	2011	2010	2009	2008
Net income (millions of dollars)	1 888	2 457	1 764	1 324	2 923
Cash flow from operating activities and asset sales (millions of dollars)	2 772	3 503	2 529	997	3 712
Gross crude oil and NGL production (thousands of barrels a day)	250	255	247	244	256
Gross natural gas production (millions of cubic feet a day)	192	254	280	295	310
Average capital employed (millions of dollars)	14 841	11 220	8 427	5 798	4 526
Return on average capital employed (percent)	12.7	21.9	20.9	22.8	64.6
Capital and exploration expenditures (millions of dollars)	5 518	3 880	3 844	2 167	1 110

## As production from the mature conventional resources of the Western Canadian Sedimentary Basin declines, developing and advancing an inventory of major new projects will be key to adding reserves and production growth.

SIGNIFICANT RESOURCE BASE  
billions of oil-equivalent barrels – 2012



- Significant resource base of more than 16 billion oil-equivalent barrels.
- Proved reserves life index of greater than 40 years.
- Non-proved resources of 13 billion oil-equivalent barrels, of which more than 11 billion barrels are oil sands.

(a) Reserves estimates based on SEC requirements. For reserves calculated under National Instrument 51-101 (NI 51-101) requirements, please refer to the company's filing of its NI 51-101 data on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

(b) Pursuant to National Instrument 51-101 disclosure guidelines, and using *Canadian Oil and Gas Evaluation Handbook* definitions, Imperial's non-proved resources contain both probable reserves and "contingent resource." Such resources are an estimate of the company's net interest after royalties at year-end 2012, as determined by Imperial's internal qualified reserves evaluator. Contingent resources are considered to be potentially recoverable from known accumulations using established technology or technology under development, but are currently not considered to be commercially recoverable due to one or more contingencies. Contingencies on resources may include, but are not limited to, factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. There is no certainty that it will be economically viable or technically feasible to produce any portion of the resource.

### Oil sands

Imperial pioneered oil sands development, and holds a major position with more than 11 billion barrels of non-proved oil sands resource.

Cold Lake is Canada's largest in situ oil sands operation, and in 2012, annual production was an average 154,000 barrels per day before royalty, down from the record 160,000 barrels per day in 2011, largely because of the cyclic nature of production. Cumulative production is well over one billion barrels.

In 2012, Imperial advanced construction of the 40,000-barrels-per-day Cold Lake Nabiye expansion.

The design includes a cogeneration plant to improve efficiency, reduce operating costs, and lower greenhouse gas emissions.

Nabiye was 37 percent complete by year-end and the project is expected to be online by late 2014.

Syncrude is one of the world's largest oil sands operations, with gross proved reserves of more than 2.5 billion barrels of synthetic crude oil. Imperial's 25 percent share of Syncrude production in 2012 was 72,000 barrels per day of synthetic crude oil before royalty, which is equal to last year. The focus at Syncrude continues to be improving

reliability and cost performance. Implementation of ExxonMobil's global reliability system and other best practices continues. There has been measurable progress in some areas; however, the pace is slower than anticipated due to the complexity of the operation.

Kearl is the largest capital project in Imperial's history and makes a substantial contribution to the Canadian economy, both provincially and federally. At an average of \$80 per barrel of West Texas Intermediate, full-field royalty and taxes are expected to be \$140 billion over the life of the development.

The Kearl project (71 percent Imperial, 29 percent ExxonMobil Canada) will add 345,000 barrels per day of bitumen supply when fully constructed and debottlenecked.

Imperial sanctioned the Kearl Initial Development in May 2009 when others suspended work, allowing the company to secure top tier contractors.

The concept of "design one, build many" enables the Kearl expansion project to reuse the design and engineering from the initial development. The expansion will also use the same contractors, capturing the experience from the initial development and thereby reducing costs. The expansion will add 78,000 barrels per day (Imperial's share) and is scheduled to start up in late 2015.

ExxonMobil's major project expertise provided significant support to the construction and start-up of Kearl. Configuring the Kearl development so that installations of infrastructure in



In northeastern British Columbia and central Alberta, Imperial is safely and responsibly extracting oil and gas from shale and other tight formations.

the initial development could be efficiently used for future expansions is one example.

### Unconventional oil and gas

During 2012, Imperial drilled 16 tight oil wells on its existing operated land holdings in central Alberta. Production data from these wells will be used to evaluate further development.

In February 2013, Imperial acquired a 50-percent participating interest in Celtic Exploration Ltd. for about \$1.6 billion from ExxonMobil Canada. Imperial's share of the acquisition includes

273,000 net acres in the Montney play, 52,000 net acres in the Duvernay shale and additional acreage in other areas of Alberta. This acquisition adds liquids-rich natural gas resources to Imperial's unconventional portfolio.

Over the past two years, Imperial and ExxonMobil Canada (50:50 share) acquired 87,000 net acres in the liquids-rich Simonette area in Alberta, adjacent to the Celtic acreage.

Imperial and ExxonMobil Canada (50:50 share) have about 340,000 net acres in the

Horn River shale gas play in northeastern British Columbia. The Horn River pilot started up at its design rate of 30 million cubic feet per day. Pilot data will be used to evaluate full field development economics.

### Northern opportunities

Imperial and its joint-venture partners are assessing the potential to conduct further exploration in the Beaufort Sea on licences that are held through 2019 and 2020.

In 2012, a Preliminary Information Package outlining potential future exploration activities on the licences was developed to share with communities and regulators in the Inuvialuit Settlement Region.

As operator of the Mackenzie Gas project, Imperial continues to maintain the right-of-way agreements and permits required to develop Taglu and its three trillion cubic feet (gross) of natural gas.

Imperial and ExxonMobil Canada (50:50 share) are assessing the 440,000 net acres in the central Mackenzie Valley near Norman Wells, which were acquired in 2011.

### Net proved developed and undeveloped reserves <sup>(a) (b) (c) (f)</sup>

year ended	Liquids <sup>(d)</sup> millions of barrels	Natural Gas billions of cubic feet	Synthetic oil (Syncrude) millions of barrels	Bitumen (Cold Lake and Kearl) millions of barrels	Total oil equivalent basis <sup>(e)</sup> millions of barrels
2008	64	593	734	1 437	2 334
2009	63	590	691	1 661	2 513
2010	57	576	681	1 715	2 549
2011	55	422	653	2 413	3 191
<b>2012</b>	<b>53</b>	<b>488</b>	<b>599</b>	<b>2 841</b>	<b>3 574</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.

(b) For reserves calculated under National Instrument 51-101 (NI 51-101) requirements, please refer to the company's filing of its NI 51-101 data on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

(c) Prior to 2009, synthetic oil and mined bitumen reserves were reported separately as mining reserves in the company's Form 10-K.

(d) Liquids include crude, condensate and natural gas liquids (NGLs).

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

(f) Reserves were calculated based upon SEC's pricing requirement.





**Strategies**

- *Consistently deliver best-in-class performance*
- *Provide valued and high-quality products and services to our customers*
- *Lead industry in efficiency and effectiveness*
- *Make disciplined and selective investments for advantaged returns*

The new Strathcona cat cracker regenerator cyclone assembly being lifted during the 2012 turnaround.

## Downstream

# Our consistent business strategies achieve a sustained competitive advantage

Imperial is the largest petroleum refiner in Canada with a significant share in all major petroleum product market sectors, including retail sales and finished lubricants.

Imperial's refinery system has competitive conversion capacity. This enables Imperial to take advantage of lower-valued crudes, increasing profitability.

### Results and highlights

Downstream earnings in 2012 were a record \$1,772 million, up from \$884 million in 2011, due to our ability to capture strong mid-continent margins.

Return on capital employed was 63 percent, and cash flow from operating activities and asset sales of \$2,040 million was generated.

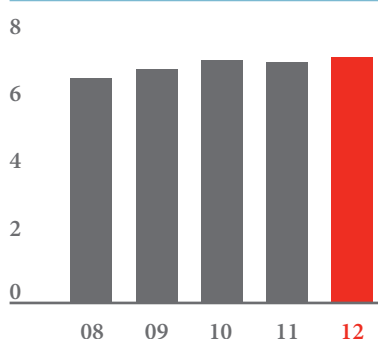
Total refinery throughput of 435,000 barrels per day was up from 2011, reflecting good product demand in Western and Central Canada, with continued weaker demand in Eastern Canada.

Average refinery utilization was 86 percent.

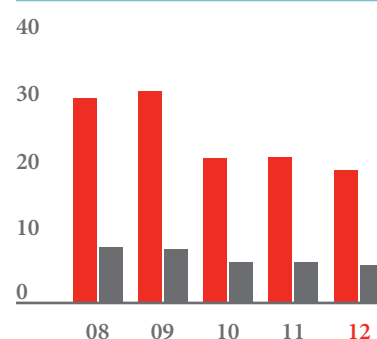
Record earnings in the Downstream highlight the value of Imperial's integrated business model. Crude oil realizations in Western Canada were lower than in international markets because of limitations in North American pipeline capacity. This enabled Imperial's refineries in Western and Central Canada to purchase lower-cost feedstock, which

combined with strong operational performance, resulted in strong margins for refined products. These high-value products were efficiently marketed to customers through Imperial's extensive terminals and marketing networks. During the year, the company also successfully completed its largest-ever maintenance program at the Strathcona refinery.

ANNUAL THROUGHPUT – COMPANY-OWNED OR LEASED RETAIL SERVICE STATIONS  
millions of litres per site



REFINERY SO<sub>2</sub> AND NO<sub>x</sub> EMISSIONS  
thousand tonnes



More than \$150 million has been spent in the last five years to reduce air emissions.

● SO<sub>2</sub>  
● NO<sub>x</sub>

### At a glance

	2012	2011	2010	2009	2008
Net income (millions of dollars)	1 772	884	442	278	796
Cash flow from operating activities and asset sales (millions of dollars)	2 040	1 378	896	700	539
Refinery throughput (thousands of barrels a day)	435	430	444	413	446
Refinery utilization (percent)	86	85	88	82	89
Net petroleum product sales (thousands of barrels a day)*	445	447	442	409	438
Average capital employed (millions of dollars)	2 809	3 041	3 361	3 598	3 460
Return on average capital employed (percent)	63.1	29.1	13.2	7.7	23.0
Capital expenditures (millions of dollars)	140	166	184	251	232

\* Net petroleum product sales do not include sales under purchases/sales contracts with the same counterparty.



In anticipation of Kearl start-up, Downstream scientists and engineers worked to prepare Imperial refineries for Kearl processing with lab, pilot plant and commercial scale test runs. Kearl will produce more bitumen than is required by Imperial's refineries, so these results will also support third-party marketing of Kearl volumes.

Markets for refined products in Canada are mature, and significant growth is not expected. Strong mid-continent margins are also not expected to persist long-term. In this environment, our strategy focuses on self-help initiatives that include targeting best-in-class performance; providing quality, valued products and services; ensuring safe, environmentally responsible operations; and exercising cost discipline.

Imperial marketed over 445,000 barrels per day of refined petroleum products in 2012, representing more than 600 different products. The majority are sold under the Esso brand, with the exception of

## Imperial is one of the largest branded retail marketers in Canada.

lubricant products that are sold under the Mobil brand. These products are marketed through the company's nationwide service station network as well as through wholesale channels in Canada and as exports.

Imperial is one of the largest branded retail marketers in Canada. For several years, Imperial has been upgrading its retail network in major urban markets. This strategy provides customers with premium fuelling and car wash facilities, augmented by our On the Run brand convenience stores and supported by important brand partnerships, such as Tim Hortons and RBC Royal Bank. In 2012, Imperial enhanced the Aeroplan component of the retail loyalty program that rewards customers with a choice of Esso Extra points or Aeroplan miles. Imperial markets through 470 company-owned retail sites with

an average annual productivity of 7.3 million litres and an additional 1,300 sites owned and managed by branded wholesalers and their dealers.

In June, Imperial introduced a smartphone application that provides drivers with real-time maps, driving directions and information for all Esso-branded retail stations.

In 2012, Imperial continued a program to directly serve only its largest industrial and wholesale customers. It is replacing company-owned secondary distribution sites serving smaller customers with branded distributors. To date, about 85 percent of this business has been converted with the program expected to be completed in 2013.

In 2012, Imperial furthered its transition to larger lubricant distributors with greater capabilities. As of year-end, 70 percent of its Mobil-branded lubricants were being supplied through this network.

Capital investments in the Downstream totalled \$140 million in 2012 and were focused on meeting regulatory requirements, improving reliability, increasing energy efficiency, feedstock flexibility and upgrading the retail network. Planned capital expenditures in 2013 will be about \$200 million, focused on the same fundamental business drivers.



On the Run convenience store and Tim Hortons featured at an Esso service station in Toronto.

#### Trademarks:

- 1 On the Run is a trademark of Exxon Mobil Corporation. Imperial Oil licensee.
- 2 Aeroplan is a registered trademark of Aeroplan Canada Inc.
- 3 RBC and Royal Bank are registered trademarks of Royal Bank of Canada.
- 4 Tim Hortons is a registered trademark of the TDL Marks Corporation.

## Chemical

# Integration with the Downstream enables the Chemical business to be a cost and productivity leader

### Strategies

- Focus on businesses that capitalize on core competencies
- Capture benefits of integration with ExxonMobil operations
- Consistently deliver best-in-class performance

Disciplined execution of our long-term business strategies has translated into strong performance across the business cycle.

Imperial is one of Canada's leading producers of chemical products with the largest market share in North America for polyethylene used in rotational moulding and the second-largest market share in injection moulding.

## Record Chemical earnings of \$165 million were achieved in 2012.

Imperial's Chemical facilities are integrated with refining, which reduces costs, maximizes value, and enables the business to be a leader in cost and productivity.

### Results and highlights

Chemical earnings in 2012 were a record \$165 million, up from \$122 million in 2011, as a result of continuing margin strength and improved polyethylene volumes. Return on average capital employed was 63 percent, and cash flow from operating activities and asset sales totalled \$127 million.

The Chemical business is cyclical. Margins were up in 2012, reflecting improving North American economic conditions and lower feedstock costs.

Total sales of petrochemical products were 1,044 thousand tonnes, compared with 1,016 thousand tonnes in 2011.

Progress continued on the infrastructure required to secure a long-term supply of ethane from the nearby Marcellus shale gas development. First deliveries of this cost-advantaged feedstock to the Sarnia chemical plant are expected around mid-year 2013.

Imperial is assessing an investment in the ethylene cracking unit at Sarnia to improve furnace yield and efficiency and strengthen our position to serve the industry demand.

### Responsible Care®

Since its inception, Imperial has supported Responsible Care®, an ethic that requires companies to follow principles that govern the safe and environmentally responsible handling of chemicals throughout their life cycle.



**Responsible Care®**  
Our commitment to sustainability.

### At a glance

	2012	2011	2010	2009	2008
Net income (millions of dollars)	165	122	69	46	100
Cash flow from operating activities and asset sales (millions of dollars)	127	53	65	67	183
Chemical sales volumes (thousands of tonnes)	1 044	1 016	989	1 026	1 021
Average capital employed (millions of dollars)	262	207	165	169	199
Return on average capital employed (percent)	63.0	58.9	41.8	27.2	50.4
Capital expenditures (millions of dollars)	4	4	10	15	13



.....  
Kearl's paraffinic froth treatment process being prepared for operations.



## Kearl feature

### Kearl: Overcoming challenges with next generation thinking

Answering the call for better environmental performance while meeting immense challenges of developing a megaproject in a remote location, Kearl's start-up will make Imperial history.

Kearl is the largest project Imperial has undertaken in its 132-year life. Its size, capital and labour intensity, public scrutiny and remote location have proven to be worthy challenges.

The Kearl project team had an enormous task to complete in readying the operation. To name a few items on their to-do list: hiring, training and ensuring the safety of a construction workforce of 5,000; supporting the development and competitiveness of local Aboriginal businesses; putting into practice technologies and innovations to reduce tailings production and accelerate reclamation; reducing greenhouse gas emissions; and using less water and energy. (See the graphic on the inside fold-out page, which illustrates how Imperial will improve the environmental performance of its operation through next generation thinking).

**Kearl, 70 kilometres north of Fort McMurray and jointly owned by Imperial (71 percent) and ExxonMobil Canada (29 percent), is one of Canada's highest-quality oil sands deposits. It has an estimated 4.6 billion barrels of recoverable bitumen resource, which will help meet North America's energy needs for the next 40 years.**

"Every step along the way we needed to consider, how are we going to do things better at Kearl," says Chris Allard, Kearl oil sands project executive. "We are really proud of what we have accomplished."

In the following pages, four employees outline what sets this project apart from other oil sands operators and how some of the greatest challenges were overcome prior to start-up.



Kearl's heavy equipment uses Mobil synthetic lubricant.

*The start-up of Kearl heralds a major growth phase. In an Imperial context, it compares to some major historical events that made this company what it is today, like Leduc No. 1 or the development of our in situ operations at Cold Lake.*

**Chris Allard**  
Kearl oil sands project executive



### Q: What sets Kearl apart from other oil sands operations?

**A:** The start-up of Kearl heralds a major growth phase. In an Imperial context, it compares to some major historical events that made this company what it is today, like Leduc No. 1 or the development of our in situ operations at Cold Lake.

Two things set us apart from other oil sands operators. First, we have taken a phased approach to construction, which is a tried and proven model that has worked for ExxonMobil globally. It keeps the initial phase manageable in size and complexity, and the learnings can be applied while we continue the investment.

Second, Kearl was designed with next generation technologies, building on decades of environmental advances. In 2016, after the start-up of the expansion project, we will be using a tailings thickener technology to avoid the accumulation of the mature fine tailings. At that time, we will be able to reclaim land at the tailings site by alternating layers of sand and thickened tailings returning the site to productive use sooner. Of course, what significantly distinguishes our project from those of our peers is our proprietary technology, paraffinic froth treatment. It removes bottom-of-the-barrel bitumen, impurities and solids in order to produce a product that does not require an upgrader and is compatible with other crudes that travel by pipeline. As a result of this technology, our life-cycle greenhouse gas footprint is reduced to a level about equal to other crudes refined in North America.

### Q: What were the main construction challenges?

**A:** I would say there were three challenge areas that we overcame. The first was a result of unanticipated U.S. permit delays in moving construction components to site. We were able to safely and effectively implement construction re-sequencing in the order in which the plant components were designed. The second had to do with the scale and complexity of the task. We not only physically readied the site but also assembled and incorporated the people – our large operating organization – over the last couple of years. Finally, we faced challenges of location. We are remote from suppliers, which brings logistical challenges, and working through winter conditions proved to be extreme at times.

*At first, it was overwhelming for some of the engineering, procurement and construction contract companies to meet our expectations. Now that they have seen the value in supporting local Aboriginal suppliers, it has led to some great success stories.*

**Susan Scott**  
Aboriginal supplier development advisor with Kearl



### Q: How do you help ensure that Aboriginal businesses have an opportunity to participate in Kearl?

**A:** My job for Kearl is about raising awareness of what local Aboriginal businesses offer and building capacity within our contractors to maximize opportunities for Aboriginal businesses. People often misunderstand my role. They think I am dictating who gets work, when, in fact, I facilitate opportunities.

In the very early stages, we looked at what opportunities were there and mapped out how Aboriginal businesses could get involved competitively. We put in place a contract process to maximize local opportunities and worked with our contractors to implement those processes. I'm often asked by contractors new to Kearl what our required percentage of local content is. We don't have a set number. For capacity building to be a success, we have to leave room for creativity and growth. By the end of 2012, Kearl had spent more than \$1 billion with local businesses and \$220 million of that was spent with local Aboriginal businesses.

Our process and requirements are rigorous and regular training and support is key. Contract companies need to have a dedicated socio-economic coordinator. At first, it was overwhelming for some of the engineering, procurement and construction contract companies to meet our expectations. Now that they have seen the value in supporting local Aboriginal suppliers, it has led to some great success stories.

The basic contract procedure is to look locally, publicly post opportunities, and offer a competitive bid process. This expectation has created a more competitive environment for everyone involved.

It was also important to communicate to local businesses that they might not be working directly for Imperial but would still be working for Kearl. Now that we have established relationships, those relationships can grow in the next expansion phase. I think we have created something sustainable here. It's been really positive.



*We have been able to find the skilled people we need to run the operation from right here in Canada. We have hired the breadth – from oil sands, hard rock and coal miners to mine managers with extensive backgrounds. We have been able to attract the very best.*

**Gary Silgard**  
Kearl operations manager



**Q:** What challenges did you face in training the Kearl workforce and transitioning the project from construction to operations?

**A:** Bringing this all together has been a collective, collaborative effort. It would not be doable without my team. In a short time, we have assembled a workforce with a wide range of backgrounds and we worked to provide the structure so that they can work well together. It is a momentous accomplishment.

We have been really fortunate to have such an engaged staff. That has really helped to ingrain our workforce in Kearl's culture, a culture grounded in safety, where people are eager to get to work and get the plant operational. Our excellent safety record is a testament to that commitment.

Starting up an oil sands project isn't like flipping a switch. The start-up process carries over a long period of time. In July of 2011, the completion of the river water intake system marked the first component at Kearl to be handed over from the project's construction team to operations. Throughout last year, we conducted formal handovers as systems became ready. In fact, Kearl has been actively mining since last April.

Today, Kearl is a stable and sustainable business operation. We have relied on ExxonMobil systems for expertise and resources for start-up but we have also been able to find the skilled people we need to run the operation from right here in Canada. We have hired the breadth – from oil sands, hard rock and coal miners to mine managers with extensive backgrounds. We have been able to attract the very best.

We also place a lot of emphasis on training. One program I am particularly proud of is a partnership we have with Women Building Futures. Imperial contributed \$400,000 in support of training women to be heavy equipment operators. The first 12-week program began in February.

I think people are surprised to learn that about 97 percent of the suppliers, contractors and skilled personnel we have used in the initial development will go on to help with the expansion project. The value for the project is that they now have the experience, so that in the expansion phase, they won't face the same learning curve.

## Next Gen Oil Sands

The Kearl operation represents the next generation of oil sands mining. Innovations and technologies make Kearl's environmental footprint materially smaller in comparison to competitors' facilities.

### Water storage

By using an on-site water storage system, Kearl will be the first oil sands mine designed to completely stop drawing water from the Athabasca River during low winter flow periods and still maintain production.



### Ground-breaking technology\*

Bitumen at Kearl is processed using a proprietary paraffinic froth treatment to create a product suitable for pipeline transport to market. As a result, Kearl will be the first oil sands mining operation that will not require an upgrader to make a saleable crude oil, meaning a significant reduction in energy use and greenhouse gas emissions per barrel.



### Cogeneration\*

The operation plans to use energy-saving cogeneration to further reduce its greenhouse gas emissions. Cogeneration is an efficient method of capturing waste heat to produce steam and electricity at the same time.



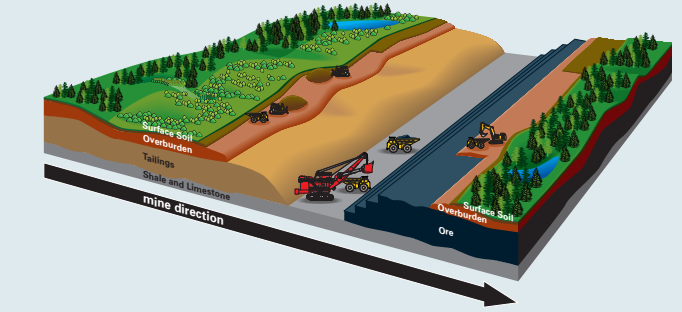
### Top soil preservation and seed collection

Kearl is collecting seeds as well as removing and storing materials for future reclamation. Reclamation work includes native plants, selected in consultation with a local First Nations advisory group.



### Progressive reclamation

Rather than waiting until the end of mining operations, Kearl will reclaim land as it goes.



### Tailings

By intercepting and treating tailings before they reach the tailings pond, the surface area of Kearl's tailings pond will be significantly smaller. Technology helps the operation return the thickened material to mined-out areas, allowing the tailings pond to be reclaimed much earlier.

\* Petroleum products derived from bitumen from a project designed like Kearl – using a combination of paraffinic froth treatment and on-site cogeneration – will have about the same life-cycle greenhouse gas emissions as many crude oils refined in the United States.



***There is both a greenhouse gas emission and capital benefit to paraffinic froth treatment – that’s the very best of technology, when we get both an environmental and economic win.***

**Cindy Christopher**

Manager of environmental policy and planning



**Q:** What are the top three environmental improvements we will see at Kearl?

**A:** Our primary innovation at Kearl is the enhancement of paraffinic froth treatment, an improvement to an existing technology that our researchers developed. It preferentially separates out asphaltenes – which are carbon-intensive and carry the very fine solids remaining from the bitumen extraction process. These asphaltenes are returned back into the mine without further processing. It also means that the bitumen can be diluted and marketed as produced, without needing an upgrader nearby. Upgrading requires a significant amount of energy as well as a lot of expensive equipment, so there is both a greenhouse gas emission and capital benefit of this innovation – that’s the very best of technology, when we get both an environmental and an economic win. There is also another benefit. We expect we will have lower solvent emissions because of the type of solvent we’re using and our ability to recover and recycle it. These are significant benefits and I believe other operators are also looking at this technology for their future developments.

Another innovation is our ability to store water on-site and, if needed, stop drawing water from the Athabasca River to protect the aquatic ecosystem. Let me explain why this is important. The Athabasca River, which flows north, does not have the same demand stresses for water as some other rivers in Alberta – there are no large agricultural or city demands. However, it also has no hydroelectric power dams or other controls to regulate its flow. In the summer months, with ice and snow melting, the flows can be around 10 times as high as in the winter. So, we can collect and store water in the high flow seasons, which allows us to draw less water during the winter low flow times. We designed Kearl so that we could rely on our stored water to keep our operations running at full rate, while protecting the ecosystem. We are the first oil sands operation designed to do that.

Finally, in later development phases, we plan to use cogeneration, the generation of electricity and steam in the same process. Using the heat that would otherwise be wasted is incredibly efficient. It reduces the amount of electricity Kearl will need to draw from the provincial grid to run its operations, and by decreasing our need to use Alberta’s coal-fired electricity, Kearl’s overall greenhouse gas emissions are lowered.



Justin Loman conducts research to find methods that can be employed to settle tailings faster.

## Solvent technologies feature

# The road to commercial production

Imperial has been researching and testing the use of solvents in oil sands operations for decades and now some of those technologies have reached pilot testing in the field. The road to commercial production is long, but given the rigour behind the research, the promise these technologies hold to improve environmental and economic performance is certain.

After years of extensive research, two technologies that could significantly improve recovery as well as reduce the energy and water required to produce oil from oil sands deposits must first complete multi-million dollar dress rehearsals to prove their commercial viability. One is called cyclic solvent process, or CSP, and the other is solvent-assisted steam-assisted gravity drainage or SA-SAGD. The CSP field pilot facility is currently under construction, with solvent injection expected to start by year-end; the SA-SAGD field pilot began production in late 2010.

**The road to commercial production is long but given the rigour behind the research, the promise these technologies hold to improve environmental and economic performance is certain.**

“Before we spend \$100 million on CSP or even \$50 million on SA-SAGD to assess them in the field, we need to run a lot of tests in the lab,” says John Elliott, Imperial’s manager of oil sands recovery research. “Field piloting is a big step. It takes a lot of time, and a lot of money. With any project we undertake, we need to be sure it is worth the investment.”

Elliott works at Imperial’s Upstream research laboratory, which is widely recognized as one of the best facilities of its kind in the world for oil sands research. Every new technology

that is developed at this centre in Calgary moves through the company’s systematic five-step research process. These research stages are proof of concept, refine the concept/technology, field pilot, commercial decision and refinement.

Each step along the way can take years to complete. In order to progress, the technology has had to receive a high grade at each stage. In the case of CSP, it took 20 years to get to a field pilot, or Stage 3, and SA-SAGD required about half that time.

### **COSIA**

*In 2012, Imperial joined 13 other companies to form an industry consortium called Canada’s Oil Sands Innovation Alliance (COSIA), with the objective of accelerating the environmental performance of oil sands development.*



John Elliott, manager of oil sands recovery research at Imperial.



Giovanna Stea in the non-aqueous extraction lab testing a method to produce dry tailings.

### Stage 1 – Proof of concept

In Stage 1, Imperial's researchers first determine whether the project is a fit for the business. "We don't do research for the sake of research," says Elliott. "We need to know up front, is this what we will need in 20 years?"

Both technologies received the thumbs-up not only because they promise to improve bitumen uptake but because they also hold significant environmental benefits. SA-SAGD could improve bitumen recovery in existing SAGD wells as well as reduce greenhouse gas emissions. In the case of CSP, where solvents replace steam to produce bitumen, the potential benefits are considered game changing.

"CSP eliminates the need for large amounts of energy and water, and almost eliminates greenhouse gas emissions," says Elliott. "It also allows us to recover bitumen

in deposits that don't lend themselves to traditional steam methods."

At its Cold Lake leases alone, the company estimates that there are about one billion barrels of bitumen in deposits that are not thick enough or not saturated enough with bitumen to be produced economically using the existing steam stimulation method. Solvent technologies could bring these marginal resources within reach of commercial production. To put that

potential in perspective, one billion barrels of bitumen are roughly equal to the total amount of oil that has been produced at Cold Lake since commercial production began more than 25 years ago.

These technologies began with a good idea. The "proof of concept" stage starts at a small scale in order to determine whether the project might work. The project at this stage is refined until it is ready to be tested as a physical model. As part of this refinement, the research centre employs ExxonMobil's proprietary software, EMpower, to create mathematical reservoir simulations based on physics that test the design, to better understand what will happen in the reservoir.

"Imperial tends to spend more time in Stages 1 and 2 than our peers," says Elliott. "We also tend not to talk publicly about our technology development until we have thought about all the permutations. It is not a failure if you know why the process didn't work. A successful pilot is when you understand what happened and why, and you know how to retool."

### Non-aqueous extraction

*Non-aqueous extraction, considered a step-change technology, is a recovery process developed by Imperial and ExxonMobil that can be used in future oil sands mining operations. The patent-pending technology is in development at the early days of Stage 2. It promises to reduce overall water use in the extraction process by more than 90 percent. With NAE, dry stackable tailings will be produced, resulting in faster reclamation and the elimination of wet tailings ponds.*



## Stage 2 – Refining the concept

Stage 2, the “refine the concept” stage, is when the company can identify whether the technology is robust enough for a field pilot. Throughout this stage, researchers look to better understand fluid behaviour at various reservoir conditions, assess the strengths and weaknesses of the process (by completing a reservoir simulation), as well as refine and enhance the operation strategy. A model is then developed for testing in Imperial’s large pressure vessel, or Physical Model Experiment Unit, which simulates field conditions at 1/100<sup>th</sup> of the size of an actual reservoir.

Tiny glass beads that act as the sand found at the site are used to fill the vessel. Glass beads are used because they provide better control for permeability

and porosity and, as a result, are the best material to produce repeatable results. The beads are flooded with water and then meticulously treated with the exact amount of produced bitumen from the operation area to replicate field conditions. The box within the pressure vessel also simulates temperature and pressure of the reservoir.

“Other companies use models too,” explains Elliott, “but they typically tend to be small. Ours is huge by comparison and for good reason. It is scaled to match the field. Starting with a large-scale model gives more accurate results when you scale up. There are still some differences in terms of permeability in the model compared to the site, but mathematically, we have figured it out and directionally we know we are correct at this stage.”

## Stage 3 – Field pilot

At Stage 3, the field pilot stage, the company tests whether what happened in the lab will really happen in the field. In the instance of SA-SAGD, the results to date from the pilot plant have been impressive. They have shown a significant increase in bitumen recovery accompanied by a much lower use of energy and greenhouse gas emissions.

Both CSP and SA-SAGD are being tested in Cold Lake but their commercial applications are also intended for other areas of Alberta. In the case of CSP, its initial application is intended for an area of the Cold Lake lease with lower oil saturation that would not be commercial using existing thermal methods. Future applications of CSP could be in regions of the Athabasca oil sands near Fort McMurray. SA-SAGD, on the other



Ernesto Dela Rosa completes SA-SAGD modelling work in the physical model experiment unit at the Calgary Research Centre.



hand, is planned for a new SAGD operating area in the Athabasca or Cold Lake regions.

So the pilot results, even in this stage, require further fine tuning. The Cold Lake pilot data not only needs to match the simulation data from the lab but also has to be able to forecast how the technology will work under different field conditions.

“It really brings us back to why that Stage 2 is so important,” says Elliott. “Commercial opportunities are based on an understanding of how the process is expected to work in the field, from extensive simulation and physical model testing, so it’s really important that we get it right at the start.”

#### **Stages 4 and 5 – Commercial decision and refinement**

Stage 3 results determine whether a technology has commercial application. Stage 4 is commercial deployment. This is where the company uses the technology on a commercial scale to produce oil more economically. SA-SAGD is



The patented LASER technology is in commercial use at Imperial’s Cold Lake operation.

about one year away from passing into Stage 4; CSP is about four years away.

Finally, in Stage 5, the company builds on past success and looks to refine the technology further, whether that means making it work better, improving bitumen recovery or reducing environmental impacts. In fact, the company is still perfecting the cyclic steam process that it

pioneered and has been using at Cold Lake for more than 25 years.

Through its continuous improvement and research, Imperial’s “dress rehearsal” could show that its new solvent technologies can bring even fields once considered marginal resources to commercial production in a more environmentally friendly way.

#### **LASER**

*After more than a decade of research and field trials, the company has begun large-scale bitumen production using a new technology called LASER (liquid addition to steam to enhance recovery). LASER, patented in 2005 and currently in use at Cold Lake to improve recovery in late life wells, is in Stage 4 development.*

*LASER involves injecting a small amount of gas condensate (the same material that is added to bitumen so it can be shipped by pipeline) along with steam into wells that have already been through several cycles of steam injection. Adding solvent to the steam increases the amount of oil that can be produced per unit of injected steam, while reducing greenhouse gas emissions by more than 25 percent.*

## Financial summary

### *Report of independent registered public accounting firm*

#### **To the Shareholders of Imperial Oil Limited:**

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Imperial Oil Limited as of December 31, 2012 and December 31, 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012 (not presented herein) appearing in Appendix A to the Management Proxy Circular for the 2013 annual meeting of shareholders of the Company; and in our report dated February 26, 2013, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements (pages 25 to 28) is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

*PricewaterhouseCoopers LLP  
Chartered Accountants  
Calgary, Alberta, Canada  
February 26, 2013*

### *Summary of accounting policies and practices*

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 summary financial statements have been prepared in accordance with generally accepted accounting principles of 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. All amounts are in Canadian dollars unless otherwise indicated.

The summary financial statements include the accounts of Imperial Oil Limited and its subsidiaries. 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. The consolidated financial statements also include the company's share of the undivided interest in certain upstream assets and liabilities, including its 25 percent interest in the Syncrude joint venture and its 70.96 percent interest in the Kearl project.

Revenues associated with sales of crude oil, natural gas, petroleum and chemical products are recognized when the products are delivered and title passes to the customer.

Inventories of crude oil, products and merchandise are carried at the lower of current market value or cost (generally determined under the last-in, first-out method – LIFO).

The company does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. The company does not use derivative instruments to speculate on the future direction of currency or commodity prices.

The company's exploration and production activities are accounted for under the "successful efforts" method. Depreciation, depletion and amortization are primarily determined under either the unit-of-production method or the straight-line method. Unit-of-production rates are based on the amount of proved developed reserves of oil and gas that are estimated to be recoverable from existing facilities. The straight-line method is based on estimated asset service life.

The company incurs retirement obligations for certain assets at the time they are installed. The fair values of these obligations are recorded as liabilities on a discounted basis and are accreted over time for the change in their present value. The costs associated with these liabilities are capitalized as part of the related assets and depreciated. Liabilities for environmental costs are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated.

The company recognizes the underfunded or overfunded status of defined benefit pension and other post-retirement plans as a liability or asset in the balance sheet with the offset in shareholders' equity, net of deferred taxes.

A variety of claims have been made against Imperial Oil and certain of its consolidated subsidiaries in a number of pending lawsuits and tax disputes. For further information on tax contingencies and litigation, see Notes 3 and 9 to the Consolidated Financial Statements in Appendix A of Imperial Oil's 2013 Management Proxy Circular.

The company awards share-based compensation to 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 in the consolidated statement of income over the requisite service period of each award.

Further information on the company's accounting policies and practices can be found in Appendix A of Imperial Oil's 2013 Management Proxy Circular (Critical accounting estimates and note 1 to the consolidated financial statements).

## Summary statement of income (U.S. GAAP)

millions of Canadian dollars

For the years ended December 31

	2012	2011	2010
<b>Revenues and other income</b>			
Operating revenues <sup>(a)(b)</sup>	31 053	30 474	24 946
Investment and other income	135	240	146
<b>Total revenues and other income</b>	<b>31 188</b>	<b>30 714</b>	<b>25 092</b>
<b>Expenses</b>			
Exploration	83	92	191
Purchases of crude oil and products <sup>(c)</sup>	18 476	18 847	14 811
Production and manufacturing <sup>(d)</sup>	4 457	4 114	3 996
Selling and general	1 081	1 168	1 070
Federal excise tax <sup>(a)</sup>	1 338	1 320	1 316
Depreciation and depletion	761	764	747
Financing costs	(1)	3	7
<b>Total expenses</b>	<b>26 195</b>	<b>26 308</b>	<b>22 138</b>
<b>Income before income taxes</b>	<b>4 993</b>	<b>4 406</b>	<b>2 954</b>
<b>Income taxes</b>	<b>1 227</b>	<b>1 035</b>	<b>744</b>
<b>Net income</b>	<b>3 766</b>	<b>3 371</b>	<b>2 210</b>
<b>Per-share information</b> <sup>(Canadian dollars)</sup>			
Net income per common share – basic	4.44	3.98	2.61
Net income per common share – diluted	4.42	3.95	2.59
Dividends	0.48	0.44	0.43

(a) Operating revenues include federal excise tax of \$1 338 million (2011 – \$1 320 million, 2010 – \$1 316 million).

(b) Operating revenues include amounts from related parties of \$2 907 million (2011 – \$2 818 million, 2010 – \$2 250 million).

(c) Purchases of crude oil and products include amounts from related parties of \$3 033 million (2011 – \$3 636 million, 2010 – \$2 828 million).

(d) Production and manufacturing expenses include amounts to related parties of \$241 million (2011 – \$217 million, 2010 – \$233 million).

The information in the Summary Statement of Income (for 2010 to 2012), the Summary Balance Sheet (for 2011 and 2012), and the Summary Statement of Cash Flows (for 2010 to 2012), shown on pages 26 through 28, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flows in the consolidated financial statements of Imperial Oil's 2013 Management Proxy Circular. For complete consolidated financial statements, including notes, please refer to Appendix A of Imperial Oil's 2013 Management Proxy Circular. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in Appendix A of the 2013 Management Proxy Circular.



## Summary balance sheet (U.S. GAAP)

millions of Canadian dollars

At December 31

	2012	2011
<b>Assets</b>		
Current assets		
Cash	482	1 202
Accounts receivable, less estimated doubtful amounts	1 976	2 290
Inventories of crude oil and products	827	762
Materials, supplies and prepaid expenses	280	239
Deferred income tax assets	527	590
Total current assets	4 092	5 083
Long-term receivables, investments and other long-term assets	1 090	920
Property, plant and equipment, less accumulated depreciation and depletion	23 922	19 162
Goodwill	204	204
Other intangible assets, net	56	60
<b>Total assets</b>	<b>29 364</b>	<b>25 429</b>
<b>Liabilities</b>		
Current liabilities		
Notes and loans payable	472	364
Accounts payable and accrued liabilities <sup>(a)</sup>	4 249	4 317
Income taxes payable	1 184	1 268
Total current liabilities	5 905	5 949
Long-term debt <sup>(b)</sup>	1 175	843
Other long-term obligations	3 983	3 876
Deferred income tax liabilities	1 924	1 440
<b>Total liabilities</b>	<b>12 987</b>	<b>12 108</b>
Commitments and contingent liabilities		
<b>Shareholders' equity</b>		
Common shares at stated value <sup>(c)</sup>	1 566	1 528
Earnings reinvested	17 266	14 031
Accumulated other comprehensive income	(2 455)	(2 238)
<b>Total shareholders' equity</b>	<b>16 377</b>	<b>13 321</b>
<b>Total liabilities and shareholders' equity</b>	<b>29 364</b>	<b>25 429</b>

(a) Accounts payable and accrued liabilities include amounts receivable from related parties of \$9 million (2011 – amounts payable of \$215 million).

(b) Long-term debt includes amounts to related parties of \$1 040 million (2011 – \$820 million).

(c) Number of common shares outstanding was 848 million (2011 – 848 million).

The information in the Summary Statement of Income (for 2010 to 2012), the Summary Balance Sheet (for 2011 and 2012), and the Summary Statement of Cash Flows (for 2010 to 2012), shown on pages 26 through 28, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flows in the consolidated financial statements of Imperial Oil's 2013 Management Proxy Circular. For complete consolidated financial statements, including notes, please refer to Appendix A of Imperial Oil's 2013 Management Proxy Circular. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in Appendix A of the 2013 Management Proxy Circular.

## Summary statement of cash flows (U.S. GAAP)

millions of Canadian dollars

inflow (outflow)

For the years ended December 31

	2012	2011	2010
<b>Operating activities</b>			
Net income	3 766	3 371	2 210
Adjustments for non-cash items:			
Depreciation and depletion	761	764	747
(Gain)/loss on asset sales	(94)	(197)	(95)
Deferred income taxes and other	619	71	152
Changes in operating assets and liabilities:			
Accounts receivable	300	(302)	(289)
Inventories, materials, supplies and prepaid expenses	(106)	(228)	38
Income taxes payable	(84)	390	30
Accounts payable and accrued liabilities	(67)	846	651
All other items – net <sup>(a)</sup>	(415)	(226)	(237)
<b>Cash flows from operating activities</b>	<b>4 680</b>	<b>4 489</b>	<b>3 207</b>
<b>Investing activities</b>			
Additions to property, plant and equipment	(5 478)	(3 919)	(3 856)
Proceeds from asset sales	226	314	144
Repayment of loan from equity company	14	12	3
<b>Cash flows from (used in) investing activities</b>	<b>(5 238)</b>	<b>(3 593)</b>	<b>(3 709)</b>
<b>Financing activities</b>			
Short-term debt – net	105	135	120
Long-term debt issued	220	320	500
Reduction in capitalized lease obligations	(4)	(3)	(3)
Issuance of common shares under stock option plan	43	19	3
Common shares purchased	(128)	(59)	(8)
Dividends paid	(398)	(373)	(356)
<b>Cash flows from (used in) financing activities</b>	<b>(162)</b>	<b>39</b>	<b>256</b>
<b>Increase (decrease) in cash</b>	<b>(720)</b>	<b>935</b>	<b>(246)</b>
<b>Cash at beginning of year</b>	<b>1 202</b>	<b>267</b>	<b>513</b>
<b>Cash at end of year <sup>(b)</sup></b>	<b>482</b>	<b>1 202</b>	<b>267</b>

(a) Includes contribution to registered pension plans of \$594 million (2011 – \$361 million, 2010 – \$421 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 Summary Statement of Income (for 2010 to 2012), the Summary Balance Sheet (for 2011 and 2012), and the Summary Statement of Cash Flows (for 2010 to 2012), shown on pages 26 through 28, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flows in the consolidated financial statements of Imperial Oil's 2013 Management Proxy Circular. For complete consolidated financial statements, including notes, please refer to Appendix A of Imperial Oil's 2013 Management Proxy Circular. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in Appendix A of the 2013 Management Proxy Circular.

## Share ownership, trading and performance

	2012	2011	2010	2009	2008
<b>Share ownership</b>					
Average number outstanding, weighted monthly (thousands)	<b>847 735</b>	847 659	847 609	849 760	882 604
Number of shares outstanding at December 31 (thousands)	<b>847 599</b>	847 599	847 599	847 599	859 402
Shares held in Canada at December 31 (percent)	<b>10.7</b>	10.8	10.8	10.8	11.1
Number of registered shareholders at December 31 (a)	<b>12 485</b>	12 736	12 909	13 157	13 206
Number of shareholders registered in Canada	<b>11 107</b>	11 304	11 430	11 621	11 620
Shares traded (thousands)	<b>227 717</b>	317 857	212 188	318 055	477 574
<b>Share prices (dollars) (b)</b>					
Toronto Stock Exchange					
High	<b>49.26</b>	54.00	43.50	49.11	62.54
Low	<b>39.77</b>	34.15	36.95	35.95	28.79
Close at December 31	<b>42.73</b>	45.39	40.58	40.66	40.99
NYSE MKT (U.S. dollars)					
High	<b>50.00</b>	55.63	43.54	43.13	63.08
Low	<b>38.16</b>	32.18	35.18	28.44	23.84
Close at December 31	<b>43.00</b>	44.48	40.52	38.66	33.72
<b>Net income per share (dollars)</b>					
– basic	<b>4.44</b>	3.98	2.61	1.86	4.39
– diluted	<b>4.42</b>	3.95	2.59	1.84	4.36
<b>Price ratios at December 31</b>					
Share price to net earnings (c)	<b>9.7</b>	11.5	15.7	22.1	9.4
<b>Dividends declared (d)</b>					
Total (millions of dollars)	<b>408</b>	373	364	340	334
Per share (dollars)	<b>0.48</b>	0.44	0.43	0.40	0.38

(a) Exxon Mobil Corporation owns 69.6 percent of Imperial's shares.

(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 MKT LLC. Imperial has unlisted privileges on the NYSE MKT 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) Closing share price at December 31 at the Toronto Stock Exchange, divided by net income per share – diluted.

(d) The fourth quarter dividend is paid on January 1 of the succeeding year.

## Workforce

	2012	2011	2010	2009	2008
	<b>5 263</b>	5 083	5 148	5 125	4 938

Career employees are defined as executive, management, professional, technical, wage and administrative employees who work full-time or part-time for the corporation and are covered by the corporation's benefit plans and programs.



## 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.

<i>millions of dollars</i>	2012	2011	2010	2009	2008
<b>Business uses: asset and liability perspective</b>					
Total assets	29 364	25 429	20 580	17 473	17 035
Less: total current liabilities excluding notes and loans payable	(5 433)	(5 585)	(4 348)	(3 659)	(4 084)
total long-term liabilities excluding long-term debt	(5 907)	(5 316)	(4 299)	(4 235)	(3 743)
Add: Imperial's share of equity company debt	24	28	33	36	40
<b>Total capital employed</b>	<b>18 048</b>	<b>14 556</b>	<b>11 966</b>	<b>9 615</b>	<b>9 248</b>
<b>Total company sources: debt and equity perspective</b>					
Notes and loans payable	472	364	229	109	109
Long-term debt	1 175	843	527	31	34
Shareholders' equity	16 377	13 321	11 177	9 439	9 065
Add: Imperial's share of equity company debt	24	28	33	36	40
<b>Total capital employed</b>	<b>18 048</b>	<b>14 556</b>	<b>11 966</b>	<b>9 615</b>	<b>9 248</b>

### 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.

<i>millions of dollars</i>	2012	2011	2010	2009	2008
Net income	3 766	3 371	2 210	1 579	3 878
Financing costs (after tax), including Imperial's share of equity companies	1	1	2	2	2
Net income excluding financing costs	3 767	3 372	2 212	1 581	3 880
Average capital employed	16 302	13 261	10 791	9 432	8 684
Return on average capital employed ( <i>percent</i> )	23.1	25.4	20.5	16.8	44.7

## 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.

<i>millions of dollars</i>	2012	2011	2010	2009	2008
Cash flows from operating activities	4 680	4 489	3 207	1 591	4 263
Proceeds from asset sales	226	314	144	67	272
Total cash flows from operating activities and asset sales	4 906	4 803	3 351	1 658	4 535

## Operating costs

Operating costs are the costs during the period to produce, manufacture, and otherwise prepare the company's products for sale – including energy costs, staffing, and maintenance costs. They exclude the cost of raw materials, taxes and interest expense and 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 and therefore, are useful in evaluating the company's performance.

## Reconciliation of operating costs

<i>millions of dollars</i>	2012	2011	2010	2009	2008
<b>From Imperial's Consolidated Statement of Income</b>					
Total expenses	26 195	26 308	22 138	19 198	26 303
Less:					
Purchases of crude oil and products	18 476	18 847	14 811	11 934	18 865
Federal excise tax	1 338	1 320	1 316	1 268	1 312
Financing costs	(1)	3	7	5	–
Subtotal	19 813	20 170	16 134	13 207	20 177
Imperial's share of equity company expenses	34	39	39	39	55
Total operating costs	6 416	6 177	6 043	6 030	6 181

## Components of operating costs

<i>millions of dollars</i>	2012	2011	2010	2009	2008
<b>From Imperial's Consolidated Statement of Income</b>					
Production and manufacturing	4 457	4 114	3 996	3 951	4 228
Selling and general	1 081	1 168	1 070	1 106	1 038
Depreciation and depletion	761	764	747	781	728
Exploration	83	92	191	153	132
Subtotal	6 382	6 138	6 004	5 991	6 126
Imperial's share of equity company expenses	34	39	39	39	55
Total operating costs	6 416	6 177	6 043	6 030	6 181

## Information for investors

### Head office

Imperial Oil Limited  
P.O. Box 2480, Station 'M'  
Calgary, Alberta  
Canada T2P 3M9

Telephone: 1-800-567-3776  
Fax: 1-800-367-0585

### Annual meeting

The annual meeting of shareholders will be held on Thursday, April 25, 2013, at 9:30 a.m. local time at the Sheraton Suites Eau Claire, Wildrose Ballroom, 255 Barclay Parade S.W., Calgary, Alberta, Canada.

### Shareholder account matters

To change your address, transfer shares, eliminate multiple mailings, elect to receive dividends in U.S. funds, have dividends deposited directly into accounts at financial institutions in Canada that provide electronic fund transfer services, enrol in the dividend reinvestment and share purchase plan, or enrol for electronic delivery of shareholder reports, please contact Imperial's transfer agent, CIBC Mellon Trust Company.

CIBC Mellon Trust Company\*  
P.O. Box 700  
Postal Station B  
Montreal, Quebec H3B 3K3

Telephone: 1-800-387-0825 (from Canada & U.S.A.)  
or 416-682-3860  
Fax: 1-888-249-6189 or 514-985-8843  
Email: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)  
Website: [www.canstockta.com](http://www.canstockta.com)

United States resident shareholders may transfer their shares through American Stock Transfer & Trust Company LLC.

American Stock Transfer  
6201 - 15<sup>th</sup> Avenue  
Brooklyn, New York  
U.S.A. 11219

Telephone: 1-800-387-0825  
Email: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)  
Website: [www.amstock.com](http://www.amstock.com)

### Dividend reinvestment and share purchase plan

This plan provides shareholders with two ways to add to their shareholdings at a reduced cost. The plan enables shareholders to reinvest their cash dividends in additional shares at an average market price. Shareholders can also invest between \$50 and \$5,000 each calendar quarter in additional shares at an average market price.

Funds directed to the dividend reinvestment and share purchase plan are used to buy existing shares on a stock exchange rather than newly issued shares.

### Imperial online

Imperial publishes a wide range of information on its website, including annual and interim reports, SEC filings, proxy circulars and forms, key dates for investors and shareholders, as well as other information that should be helpful to our shareholders in the day-to-day management of their shares. Should you not be able to find the information you are looking for, please contact customer service at 1-800-567-3776.

Website: [www.imperialoil.ca](http://www.imperialoil.ca)

### Investor information

Information is also available by writing to the investor relations manager at Imperial's head office or by

E-mail: [investor.relations@esso.ca](mailto:investor.relations@esso.ca)  
Telephone: 403-237-4538  
Fax: 403-237-2075

### For all other shareholder services-related inquiries, please contact:

Brian W. Livingston  
Vice-president, general counsel  
and corporate secretary  
Telephone: 403-237-2915  
Fax: 403-237-2490

### Version française du rapport

Pour obtenir la version française du rapport de la Compagnie Pétrolière Impériale Ltée, veuillez écrire à la division des Relations avec les investisseurs, Compagnie Pétrolière Impériale Ltée, P.O. Box 2480, Station 'M', Calgary, Alberta, Canada T2P 3M9.

Included in this Summary Annual Report are financial and operating highlights and summary financial statements. For complete consolidated financial statements, including notes, please refer to the Management Proxy Circular for Imperial Oil's 2013 annual meeting. The Management Proxy Circular also includes Management's Discussion and Analysis of Financial Condition and Results of Operations. The Investors section of Imperial Oil's website ([www.imperialoil.ca](http://www.imperialoil.ca)) contains the Management Proxy Circular.

\* Canadian Stock Transfer Company Inc. acts as the administrative agent for CIBC Mellon Trust Company.



## Directors and officers

### Board of directors

**Krystyna T. Hoeg**

Corporate director  
Toronto, Ontario

**Bruce H. March**

Chairman, president and  
chief executive officer  
Imperial Oil Limited  
Calgary, Alberta

**Jack M. Mintz**

Palmer Chair in Public Policy  
University of Calgary  
Calgary, Alberta

**Robert C. Olsen**

Executive vice-president  
ExxonMobil Production Company  
Houston, Texas

**David S. Sutherland**

Corporate director  
Waterloo, Ontario

**Sheelagh D. Whittaker**

Corporate director  
London, England

**Victor L. Young**

Corporate director  
St. John's, Newfoundland  
and Labrador

### Other officers

**Paul J. Masschelin**

Senior vice-president, finance  
and administration, and controller

**T. Glenn Scott**

Senior vice-president,  
resources division

**Brian W. Livingston**

Vice-president, general counsel  
and corporate secretary

### Audit committee

V.L. Young, chair  
S.D. Whittaker, vice-chair  
K.T. Hoeg  
J.M. Mintz  
D.S. Sutherland

### Executive resources committee

K.T. Hoeg, chair  
V.L. Young, vice-chair  
J.M. Mintz  
R.C. Olsen  
D.S. Sutherland  
S.D. Whittaker

### Nominations and corporate governance committee

S.D. Whittaker, chair  
J.M. Mintz, vice-chair  
K.T. Hoeg  
R.C. Olsen  
D.S. Sutherland  
V.L. Young

### Environment, health and safety committee

J.M. Mintz, chair  
D.S. Sutherland, vice-chair  
K.T. Hoeg  
R.C. Olsen  
S.D. Whittaker  
V.L. Young

### Contributions committee

D.S. Sutherland, chair  
K.T. Hoeg, vice-chair  
B.H. March  
J.M. Mintz  
R.C. Olsen  
S.D. Whittaker  
V.L. Young



Imperial Oil Limited Board of Directors from left to right: Robert C. Olsen, Sheelagh D. Whittaker, Jack M. Mintz, Bruce H. March, David S. Sutherland, Krystyna T. Hoeg and Victor L. Young.



**Imperial Oil**

Imperial Oil Limited  
P.O. Box 2480, Station 'M'  
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[www.imperialoil.ca](http://www.imperialoil.ca)



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