



**SECOND QUARTER 2012**

**FINANCIAL STATEMENTS  
AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND OPERATING RESULTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2012**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### OPERATING RESULTS

The company's net income for the second quarter of 2012 was \$635 million or \$0.75 a share on a diluted basis, compared with \$726 million or \$0.85 a share for the same period last year. Net income for the first six months of 2012 was \$1,650 million or \$1.94 a share on a diluted basis, versus \$1,507 million or \$1.76 a share for the first half of 2011.

Lower second quarter earnings were primarily attributable to the impacts of lower upstream realizations due to lower commodity prices of about \$345 million and higher planned maintenance events totalling about \$230 million, which included about \$120 million at the Downstream refineries and about \$110 million at Syncrude. Earnings in the second quarter of 2012 were also impacted by higher Kearn production readiness expenditures of about \$30 million. These factors were partially offset by the impacts of stronger industry refining margins of about \$270 million, lower royalty costs of about \$145 million and a weaker Canadian dollar of about \$50 million. Second quarter earnings in 2012 included a gain of about \$25 million from the sale of assets.

For the six months, earnings increased primarily due to stronger industry refining margins of about \$410 million and lower royalty costs of about \$95 million. These factors were partially offset by lower upstream realizations of about \$245 million due to lower commodity prices and lower Syncrude volumes of about \$105 million, due primarily to increased planned maintenance impacts.

### **Upstream**

Net income in the second quarter was \$360 million versus \$624 million in the same period of 2011. Earnings decreased primarily due to lower realizations of about \$345 million, lower Syncrude volumes due to planned maintenance activities of about \$75 million and higher Syncrude maintenance costs of about \$35 million. Earnings in the second quarter of 2012 were also impacted by higher Kearn production readiness expenditures of about \$30 million. These factors were partially offset by lower royalty costs due to lower realizations of about \$145 million and the impact of a weaker Canadian dollar of about \$50 million. Second quarter earnings in 2012 included a gain of about \$25 million from the sale of assets.

Net income for the six months of 2012 was \$902 million versus \$1,152 million from 2011. Earnings were lower primarily due to the impacts of lower realizations of about \$245 million, lower Syncrude volumes of about \$105 million and higher maintenance costs of about \$45 million. These factors were partially offset by lower royalty costs of about \$95 million and the impact of a weaker Canadian dollar of about \$60 million.

Prices for most of the company's liquids production are based on West Texas Intermediate (WTI) crude oil, a common benchmark for mid-continent North American oil markets. Compared to the corresponding periods last year, the average WTI crude price in U.S. dollars was lower by \$8.99 a barrel or nine percent in the second quarter of 2012 and by \$0.35 a barrel or less than one percent in the first six months of 2012. Also, discounts for bitumen and synthetic crude oils increased in the second quarter and first six months of 2012, reflecting high industry refining downtime in

## IMPERIAL OIL LIMITED

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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mid-continent North America. For the second quarter and in the first six months of 2012, bitumen realizations in Canadian dollars decreased 17 percent and one percent, respectively, and synthetic crude oil realizations in Canadian dollars decreased 19 percent and seven percent, respectively, compared to the corresponding periods last year.

Gross production of Cold Lake bitumen averaged 152 thousand barrels a day during the second quarter, versus 158 thousand barrels in the same period last year. For the six months, gross production was 155 thousand barrels a day this year, compared with 157 thousand barrels in the same period of 2011. Slightly lower volumes in both periods were primarily due to planned maintenance activities at the Mahkeses plant as well as the cyclic nature of production at Cold Lake.

The company's share of Syncrude's gross production in the second quarter was 60 thousand barrels a day, versus 70 thousand barrels in the second quarter of 2011. During the six months of the year, the company's share of gross production from Syncrude averaged 67 thousand barrels a day, down from 75 thousand barrels in 2011. Planned maintenance of one of the three cokers in the second quarter was the main contributor to lower production in both periods.

Gross production of conventional crude oil averaged 20 thousand barrels a day in both the second quarter and the first six months of the year, up from the 16 thousand barrels and 19 thousand barrels, respectively, in the corresponding periods in 2011 when third-party pipeline downtime significantly reduced production at the Norman Wells field.

Gross production of natural gas during the second quarter of 2012 was 195 million cubic feet a day, down from 257 million cubic feet in the same period last year. In the six months of the year, gross production was 197 million cubic feet a day, down from 263 million cubic feet in the six months of 2011. The lower production volume in both periods was primarily a result of the impact of divested producing properties.

#### **Downstream**

Net income was \$232 million in the second quarter, \$168 million higher than the second quarter of 2011. Earnings increased primarily due to the favourable impact of stronger industry refining margins of about \$270 million. This factor was partially offset by the unfavourable impact of significant maintenance activities of about \$120 million.

Industry refining margins continued to be strong in the second quarter, as the overall cost of crude oil processed at three of the company's four refineries followed the trend of WTI prices and Western Canadian crude oils. Canadian wholesale prices of refined products are largely determined by wholesale prices in adjacent U.S. regions, where wholesale prices are predominately tied to international product markets. Stronger industry refining margins are the result of the widened differential between product prices and cost of crude oil processed. Substantial planned maintenance activities at Strathcona and Nanticoke refineries along with unplanned downtime at the Sarnia refinery reduced our ability to fully capitalize on the strong refining margins.

## IMPERIAL OIL LIMITED

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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Six months net income was \$687 million, an increase of \$347 million over 2011. Higher earnings were primarily due to stronger industry refining margins of about \$410 million. This factor was partially offset by the unfavourable impact of a higher level of refinery planned maintenance activities compared with 2011 totalling about \$80 million.

#### **Chemical**

Net income was \$49 million in the second quarter, the best quarter on record and \$13 million higher than the same quarter last year. Strong operating performance along with higher polyethylene sales volumes and margins were the main contributors to the increase.

Six months net income was \$84 million, up \$10 million from 2011. Earnings were positively impacted by improved margins across all product channels and higher polyethylene sales volumes.

#### **Corporate and other**

Net income effects from Corporate and other were negative \$6 million in the second quarter, in line with \$2 million in the same period of 2011. For the six months of 2012, net income effects from Corporate and other were negative \$23 million, versus negative \$59 million last year due to lower share-based compensation charges.

### **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow generated from operating activities was \$1,317 million in the second quarter, an increase of \$661 million from the corresponding period in 2011. Higher cash flow was primarily due to working capital effects. Year-to-date cash flow generated from operating activities was \$2,364 million, compared with \$1,615 million in the same period last year. Higher cash flow was primarily due to working capital effects and the timing of scheduled income tax payments.

Investing activities used net cash of \$1,224 million in the second quarter, compared with \$893 million in the same period of 2011. Additions to property, plant and equipment were \$1,290 million in the second quarter, compared with \$903 million during the same quarter 2011. Expenditures during the quarter were primarily directed towards the advancement of Kearl initial development and expansion. At the end of the second quarter of 2012, the Kearl Initial Development was 94 percent complete, with construction 88 percent complete. The project is progressing on schedule towards expected start-up in late 2012. Other investments included advancing the Nabiye expansion project at Cold Lake, environmental and efficiency projects at Syncrude, as well as tight oil acreage acquisitions.

Cash used in financing activities was \$142 million in the second quarter, compared with \$355 million of cash from financing activities in the second quarter of 2011. In the second quarter of 2011, the company issued additional long-term debt and commercial paper totalling \$455 million. Dividends paid in the second quarter of 2012 were \$102 million, \$8 million higher than the corresponding period in 2011. Per-share dividends declared in the first six months of 2012 totalled \$0.24, up from \$0.22 in the same period of 2011.

## IMPERIAL OIL LIMITED

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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In June, 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, 2012. The new share-purchase program enables the company to repurchase up to about 42 million shares during the period from June 25, 2012, to June 24, 2013, including shares purchased for the company's employee savings plan, the company's employee retirement plan and from ExxonMobil. During the second quarter of 2012, the company limited its share repurchases to those to offset the dilutive effects from the exercise of stock options. The company will continue to evaluate its share-purchase program in the context of its overall capital project activities.

The above factors led to a decrease in the company's balance of cash to \$996 million at June 30, 2012, from \$1,202 million at the end of 2011.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

Information about market risks for the six months ended June 30, 2012 does not differ materially from that discussed on page 23 in the company's Annual Report on Form 10-K for the year ended December 31, 2011 except for the following:

Earnings sensitivity (a) millions of dollars after tax		
Eight dollars (U.S.) a barrel change in crude oil prices	+ (-)	300

(a) The amount quoted to illustrate the impact of the sensitivity represents a change of about 10 percent in the value of the rate at the end of the second quarter 2012. The sensitivity calculation shows the impact on annual net income that results from a change in one factor, after tax and royalties and holding all other factors constant. While the sensitivity is applicable under current conditions, it may not apply proportionately to larger fluctuations.

The sensitivity of net income to changes in crude oil prices increased from year-end 2011 by about \$4 million (after tax) a year for each one U.S. dollar change. The increase was primarily a result of the impact of lower royalty costs for bitumen production due to lower crude oil commodity prices.

IMPERIAL OIL LIMITED

**CONSOLIDATED STATEMENT OF INCOME**

(U.S. GAAP, unaudited)

millions of Canadian dollars	Second Quarter		Six Months to June 30	
	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>				
Operating revenues (a) (b)	7,452	7,761	14,946	14,613
Investment and other income (note 3)	63	13	102	32
<b>TOTAL REVENUES AND OTHER INCOME</b>	<b>7,515</b>	<b>7,774</b>	<b>15,048</b>	<b>14,645</b>
<b>EXPENSES</b>				
Exploration	18	22	46	59
Purchases of crude oil and products (c)	4,645	4,966	9,031	8,946
Production and manufacturing (d)	1,247	1,058	2,224	2,037
Selling and general	247	253	531	574
Federal excise tax (a)	340	325	656	640
Depreciation and depletion	178	190	368	378
Financing costs (note 5)	-	1	-	1
<b>TOTAL EXPENSES</b>	<b>6,675</b>	<b>6,815</b>	<b>12,856</b>	<b>12,635</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>840</b>	<b>959</b>	<b>2,192</b>	<b>2,010</b>
<b>INCOME TAXES</b>	<b>205</b>	<b>233</b>	<b>542</b>	<b>503</b>
<b>NET INCOME</b>	<b>635</b>	<b>726</b>	<b>1,650</b>	<b>1,507</b>
<b>PER SHARE INFORMATION (Canadian dollars)</b>				
Net income per common share - basic (dollars) (note 8)	0.75	0.86	1.95	1.78
Net income per common share - diluted (dollars) (note 8)	0.75	0.85	1.94	1.76
Dividends per common share (dollars)	0.12	0.11	0.24	0.22
(a) Federal excise tax included in operating revenues	340	325	656	640
(b) Amounts from related parties included in operating revenues	938	638	1,645	1,120
(c) Amounts to related parties included in purchases of crude oil and products	1,022	766	1,555	1,881
(d) Amounts to related parties included in production and manufacturing expenses	71	48	105	101

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

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(U.S. GAAP, unaudited)

millions of Canadian dollars	Second Quarter		Six Months to June 30	
	2012	2011	2012	2011
Net income	635	726	1,650	1,507
Other comprehensive income, net of income taxes				
Post-retirement benefit liability adjustment (excluding amortization)	-	(64)	(117)	(172)
Amortization of post-retirement benefit liability adjustment included in net periodic benefit costs	51	36	99	69
Total other comprehensive income/(loss)	51	(28)	(18)	(103)
Comprehensive income	686	698	1,632	1,404

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

IMPERIAL OIL LIMITED

**CONSOLIDATED BALANCE SHEET**

(U.S. GAAP, unaudited)

As at  
June 30  
**2012**

As at  
Dec 31  
**2011**

millions of Canadian dollars

**ASSETS**

Current assets

Cash	996	1,202
Accounts receivable, less estimated doubtful accounts	2,143	2,290
Inventories of crude oil and products	931	762
Materials, supplies and prepaid expenses	264	239
Deferred income tax assets	550	590

Total current assets	4,884	5,083
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Long-term receivables, investments and other long-term assets	928	920
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Property, plant and equipment,	35,674	33,416
less accumulated depreciation and depletion	(14,507)	(14,254)

Property, plant and equipment, net	21,167	19,162
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Goodwill	204	204
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Other intangible assets, net	58	60
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<b>TOTAL ASSETS</b>	<b>27,241</b>	<b>25,429</b>
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**LIABILITIES**

Current liabilities

Notes and loans payable	364	364
Accounts payable and accrued liabilities (a) (note 7)	4,542	4,317
Income taxes payable	1,357	1,268

Total current liabilities	6,263	5,949
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Long-term debt (b) (note 6)	841	843
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Other long-term obligations (note 7)	3,856	3,876
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Deferred income tax liabilities	1,617	1,440
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<b>TOTAL LIABILITIES</b>	<b>12,577</b>	<b>12,108</b>
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**SHAREHOLDERS' EQUITY**

Common shares at stated value (c)	1,566	1,528
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Earnings reinvested	15,354	14,031
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Accumulated other comprehensive income (note 9)	(2,256)	(2,238)
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<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>14,664</b>	<b>13,321</b>
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<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>27,241</b>	<b>25,429</b>
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(a) Accounts payable and accrued liabilities included amounts payable to related parties of \$147 million (2011 - amounts payable of \$215 million).

(b) Long-term debt included amounts to related parties of \$820 million (2011 - \$820 million).

(c) Number of common shares authorized and outstanding were 1,100 million and 848 million, respectively (2011 - 1,100 million and 848 million, respectively).

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

Approved by the directors August 1, 2012

*/s/ Bruce H. March*

Chairman, president and  
chief executive officer

*/s/ Paul J. Masschelin*

Senior vice-president,  
finance and administration, and controller



IMPERIAL OIL LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(U.S. GAAP, unaudited)

inflow/(outflow)	Second Quarter		Six Months to June 30	
millions of Canadian dollars	2012	2011	2012	2011
<b>OPERATING ACTIVITIES</b>				
Net income	635	726	1,650	1,507
Adjustment for non-cash items:				
Depreciation and depletion	178	190	368	378
(Gain)/loss on asset sales (note 3)	(55)	-	(84)	(6)
Deferred income taxes and other	169	4	217	(86)
Changes in operating assets and liabilities:				
Accounts receivable	(1)	(62)	139	(307)
Inventories, materials, supplies and prepaid expenses	237	(49)	(194)	(511)
Income taxes payable	29	33	88	50
Accounts payable and accrued liabilities	155	(21)	226	710
All other items - net (a)	(30)	(165)	(46)	(120)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>1,317</b>	<b>656</b>	<b>2,364</b>	<b>1,615</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	(1,290)	(903)	(2,435)	(1,725)
Proceeds from asset sales	61	6	139	20
Repayment of loan from equity company	5	4	8	6
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>	<b>(1,224)</b>	<b>(893)</b>	<b>(2,288)</b>	<b>(1,699)</b>
<b>FINANCING ACTIVITIES</b>				
Short-term debt - net	-	135	-	135
Long-term debt issued	-	320	-	320
Reduction in capitalized lease obligations	(1)	(1)	(2)	(2)
Issuance of common shares under stock option plan	21	3	43	14
Common shares purchased	(60)	(8)	(128)	(44)
Dividends paid	(102)	(94)	(195)	(187)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>(142)</b>	<b>355</b>	<b>(282)</b>	<b>236</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(49)</b>	<b>118</b>	<b>(206)</b>	<b>152</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>1,045</b>	<b>301</b>	<b>1,202</b>	<b>267</b>
<b>CASH AT END OF PERIOD</b>	<b>996</b>	<b>419</b>	<b>996</b>	<b>419</b>
(a) Included contribution to registered pension plans	(147)	(232)	(244)	(298)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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**1. Basis of financial statement preparation**

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles of the United States of America and follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent annual consolidated financial statements filed with the U.S. Securities and Exchange Commission in the company's 2011 Annual Report on Form 10-K. In the opinion of the company, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the periods reported herein. All such adjustments are of a normal recurring nature. The company's exploration and production activities are accounted for under the "successful efforts" method.

The results for the six months ended June 30, 2012, are not necessarily indicative of the operations to be expected for the full year.

All amounts are in Canadian dollars unless otherwise indicated.

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**2. Business Segments**

Second Quarter millions of dollars	Upstream		Downstream		Chemical	
	2012	2011	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	1,073	1,400	6,032	6,021	347	340
Intersegment sales	948	1,140	594	728	69	105
Investment and other income	38	3	22	9	-	-
	<u>2,059</u>	<u>2,543</u>	<u>6,648</u>	<u>6,758</u>	<u>416</u>	<u>445</u>
<b>EXPENSES</b>						
Exploration	18	22	-	-	-	-
Purchases of crude oil and products	740	963	5,234	5,647	282	329
Production and manufacturing	701	596	499	415	47	47
Selling and general	-	2	222	237	16	16
Federal excise tax	-	-	340	325	-	-
Depreciation and depletion	119	132	52	52	4	4
Financing costs	-	-	-	1	-	-
<b>TOTAL EXPENSES</b>	<u>1,578</u>	<u>1,715</u>	<u>6,347</u>	<u>6,677</u>	<u>349</u>	<u>396</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>481</u>	<u>828</u>	<u>301</u>	<u>81</u>	<u>67</u>	<u>49</u>
<b>INCOME TAXES</b>	<u>121</u>	<u>204</u>	<u>69</u>	<u>17</u>	<u>18</u>	<u>13</u>
<b>NET INCOME</b>	<u>360</u>	<u>624</u>	<u>232</u>	<u>64</u>	<u>49</u>	<u>36</u>
Export sales to the United States	386	559	517	307	230	228
Cash flows from (used in) operating activities	599	823	591	(252)	99	77
CAPEX (a)	1,272	884	30	36	1	1

Second Quarter millions of dollars	Corporate and Other		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	-	-	-	-	7,452	7,761
Intersegment sales	-	-	(1,611)	(1,973)	-	-
Investment and other income	3	1	-	-	63	13
	<u>3</u>	<u>1</u>	<u>(1,611)</u>	<u>(1,973)</u>	<u>7,515</u>	<u>7,774</u>
<b>EXPENSES</b>						
Exploration	-	-	-	-	18	22
Purchases of crude oil and products	-	-	(1,611)	(1,973)	4,645	4,966
Production and manufacturing	-	-	-	-	1,247	1,058
Selling and general	9	(2)	-	-	247	253
Federal excise tax	-	-	-	-	340	325
Depreciation and depletion	3	2	-	-	178	190
Financing costs	-	-	-	-	-	1
<b>TOTAL EXPENSES</b>	<u>12</u>	<u>-</u>	<u>(1,611)</u>	<u>(1,973)</u>	<u>6,675</u>	<u>6,815</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>(9)</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>840</u>	<u>959</u>
<b>INCOME TAXES</b>	<u>(3)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>205</u>	<u>233</u>
<b>NET INCOME</b>	<u>(6)</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>635</u>	<u>726</u>
Export sales to the United States	-	-	-	-	1,133	1,094
Cash flows from (used in) operating activities	28	8	-	-	1,317	656
CAPEX (a)	5	4	-	-	1,308	925

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

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Six Months to June 30 millions of dollars	Upstream		Downstream		Chemical	
	2012	2011	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	2,468	2,574	11,787	11,368	691	671
Intersegment sales	2,042	2,297	1,388	1,439	151	194
Investment and other income	41	11	55	18	-	-
	<u>4,551</u>	<u>4,882</u>	<u>13,230</u>	<u>12,825</u>	<u>842</u>	<u>865</u>
<b>EXPENSES</b>						
Exploration	46	59	-	-	-	-
Purchases of crude oil and products	1,761	1,824	10,255	10,416	596	636
Production and manufacturing	1,292	1,195	840	752	92	90
Selling and general	2	3	463	460	33	32
Federal excise tax	-	-	656	640	-	-
Depreciation and depletion	248	265	108	102	7	7
Financing costs	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<u>3,349</u>	<u>3,346</u>	<u>12,322</u>	<u>12,370</u>	<u>728</u>	<u>765</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>1,202</u>	<u>1,536</u>	<u>908</u>	<u>455</u>	<u>114</u>	<u>100</u>
<b>INCOME TAXES</b>	<u>300</u>	<u>384</u>	<u>221</u>	<u>115</u>	<u>30</u>	<u>26</u>
<b>NET INCOME</b>	<u>902</u>	<u>1,152</u>	<u>687</u>	<u>340</u>	<u>84</u>	<u>74</u>
Export sales to the United States	849	1,108	748	558	441	428
Cash flows from (used in) operating activities	1,486	1,540	778	19	46	82
CAPEX (a)	2,417	1,702	53	72	2	3
Total assets as at June 30	19,146	15,184	6,633	7,044	368	416

Six Months to June 30 millions of dollars	Corporate and Other		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME</b>						
Operating revenues	-	-	-	-	14,946	14,613
Intersegment sales	-	-	(3,581)	(3,930)	-	-
Investment and other income	6	3	-	-	102	32
	<u>6</u>	<u>3</u>	<u>(3,581)</u>	<u>(3,930)</u>	<u>15,048</u>	<u>14,645</u>
<b>EXPENSES</b>						
Exploration	-	-	-	-	46	59
Purchases of crude oil and products	-	-	(3,581)	(3,930)	9,031	8,946
Production and manufacturing	-	-	-	-	2,224	2,037
Selling and general	33	79	-	-	531	574
Federal excise tax	-	-	-	-	656	640
Depreciation and depletion	5	4	-	-	368	378
Financing costs	-	1	-	-	-	1
<b>TOTAL EXPENSES</b>	<u>38</u>	<u>84</u>	<u>(3,581)</u>	<u>(3,930)</u>	<u>12,856</u>	<u>12,635</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>(32)</u>	<u>(81)</u>	<u>-</u>	<u>-</u>	<u>2,192</u>	<u>2,010</u>
<b>INCOME TAXES</b>	<u>(9)</u>	<u>(22)</u>	<u>-</u>	<u>-</u>	<u>542</u>	<u>503</u>
<b>NET INCOME</b>	<u>(23)</u>	<u>(59)</u>	<u>-</u>	<u>-</u>	<u>1,650</u>	<u>1,507</u>
Export sales to the United States	-	-	-	-	2,038	2,094
Cash flows from (used in) operating activities	54	(26)	-	-	2,364	1,615
CAPEX (a)	9	7	-	-	2,481	1,784
Total assets as at June 30	1,221	640	(127)	(318)	27,241	22,966

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

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**3. Investment and other income**

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

millions of dollars	Second Quarter		Six Months to June 30	
	2012	2011	2012	2011
Proceeds from asset sales	61	6	139	20
Book value of assets sold	6	6	55	14
Gain/(loss) on asset sales, before tax	55	-	84	6
Gain/(loss) on asset sales, after tax	46	-	70	4

**4. Employee retirement benefits**

The components of net benefit cost were as follows:

millions of dollars	Second Quarter		Six Months to June 30	
	2012	2011	2012	2011
Pension benefits:				
Current service cost	41	32	80	61
Interest cost	72	79	144	157
Expected return on plan assets	(72)	(78)	(144)	(154)
Amortization of prior service cost	6	6	11	10
Recognized actuarial loss	61	41	118	81
Net benefit cost	108	80	209	155
Other post-retirement benefits:				
Current service cost	2	2	4	3
Interest cost	6	6	11	12
Recognized actuarial loss	2	-	4	1
Net benefit cost	10	8	19	16

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**5. Financing costs**

millions of dollars	Second Quarter		Six Months to June 30	
	2012	2011	2012	2011
Debt related interest	5	4	9	7
Capitalized interest	(5)	(4)	(9)	(7)
Net interest expense	-	-	-	-
Other interest	-	1	-	1
Total financing costs	-	1	-	1

**6. Long-term debt**

millions of dollars	As at June 30	As at Dec 31
	2012	2011
Long-term debt	820	820
Capital leases	21	23
Total long-term debt	841	843

In the second quarter, the company extended the maturity date of its existing unused \$200 million long-term bank credit facility to July 2014.

**7. Other long-term obligations**

millions of dollars	As at June 30	As at Dec 31
	2012	2011
Employee retirement benefits (a)	2,602	2,645
Asset retirement obligations and other environmental liabilities (b)	908	914
Share-based incentive compensation liabilities	146	125
Other obligations	200	192
Total other long-term obligations	3,856	3,876

- (a) Total recorded employee retirement benefits obligations also included \$48 million in current liabilities (December 31, 2011 - \$48 million).
- (b) Total asset retirement obligations and other environmental liabilities also included \$145 million in current liabilities (December 31, 2011 - \$145 million).

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**8. Net income per share**

	Second Quarter		Six Months to June 30	
	2012	2011	2012	2011
<b>Net income per common share - basic</b>				
Net income (millions of dollars)	635	726	1,650	1,507
Weighted average number of common shares outstanding (millions of shares)	848.0	847.7	847.9	847.7
Net income per common share (dollars)	0.75	0.86	1.95	1.78
<b>Net income per common share - diluted</b>				
Net income (millions of dollars)	635	726	1,650	1,507
Weighted average number of common shares outstanding (millions of shares)	848.0	847.7	847.9	847.7
Effect of employee share-based awards (millions of shares)	3.6	6.2	3.5	6.3
Weighted average number of common shares outstanding, assuming dilution (millions of shares)	851.6	853.9	851.4	854.0
Net income per common share (dollars)	0.75	0.85	1.94	1.76

**9. Other comprehensive income information**

**Changes in accumulated other comprehensive income:**

millions of dollars	2012	2011
January 1 balance	(2,238)	(1,424)
Post-retirement benefits liability adjustment:		
Current period change excluding amounts reclassified from accumulated other comprehensive income	(117)	(172)
Amounts reclassified from accumulated other comprehensive income	99	69
June 30 balance	(2,256)	(1,527)

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

	Second Quarter		Six Months to June 30	
	2012	2011	2012	2011
<b>millions of dollars</b>				
Post-retirement benefits liability adjustments:				
Post-retirement benefits liability adjustment (excluding amortization)	-	(22)	(40)	(59)
Amortization of post-retirement benefit liability adjustment included in net periodic benefit cost	18	13	34	24
	18	(9)	(6)	(35)