

IMPERIAL OIL LTD  
Form 10-Q  
August 05, 2015  
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**FORM 10-Q**  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended June 30, 2015**

**OR**

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from --- to ---

Commission file number 0-12014

**IMPERIAL OIL LIMITED**

(Exact name of registrant as specified in its charter)

**CANADA**

(State or other jurisdiction

of incorporation or organization)

**237 Fourth Avenue S.W.**

**Calgary, Alberta, Canada**

(Address of principal executive offices)

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

**98-0017682**

(I.R.S. Employer

Identification No.)

**T2P 3M9**

(Postal Code)

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 91 days.

YES ☒ NO ☐

The registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

The registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

The registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

YES ☐ NO ☒

**The number of common shares outstanding, as of June 30, 2015, was 847,599,011.**

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**IMPERIAL OIL LIMITED**

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## Edgar Filing: IMPERIAL OIL LTD - Form 10-Q

In this report all dollar amounts are expressed in Canadian dollars unless otherwise stated. This report should be read in conjunction with the company's Annual Report on Form 10-K for the year ended December 31, 2014.

Statements in this report regarding future events or conditions are forward-looking statements. Actual results could differ materially due to the impact of market conditions, changes in law or governmental policy, changes in operating conditions and costs, changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors.

The term "project" as used in this release can refer to a variety of different activities and does not necessarily have the same meaning as under government payment transparency reports.

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****IMPERIAL OIL LIMITED****CONSOLIDATED STATEMENT OF INCOME**

(U.S. GAAP, unaudited)

| millions of Canadian dollars                    | Second Quarter |        | Six Months<br>to June 30 |        |
|-------------------------------------------------|----------------|--------|--------------------------|--------|
|                                                 | <b>2015</b>    | 2014   | <b>2015</b>              | 2014   |
| <b>REVENUES AND OTHER INCOME</b>                |                |        |                          |        |
| Operating revenues (a) (b)                      | <b>7,272</b>   | 9,399  | <b>13,442</b>            | 18,596 |
| Investment and other income (note 3)            | <b>29</b>      | 650    | <b>62</b>                | 679    |
| <b>TOTAL REVENUES AND OTHER INCOME</b>          | <b>7,301</b>   | 10,049 | <b>13,504</b>            | 19,275 |
| <b>EXPENSES</b>                                 |                |        |                          |        |
| Exploration                                     | <b>16</b>      | 17     | <b>33</b>                | 38     |
| Purchases of crude oil and products (c)         | <b>4,295</b>   | 6,035  | <b>7,600</b>             | 11,577 |
| Production and manufacturing (d)                | <b>1,395</b>   | 1,390  | <b>2,754</b>             | 2,866  |
| Selling and general                             | <b>272</b>     | 296    | <b>536</b>               | 571    |
| Federal excise tax (a)                          | <b>387</b>     | 383    | <b>764</b>               | 753    |
| Depreciation and depletion                      | <b>335</b>     | 280    | <b>652</b>               | 560    |
| Financing costs (note 5)                        | <b>5</b>       | 2      | <b>8</b>                 | 4      |
| <b>TOTAL EXPENSES</b>                           | <b>6,705</b>   | 8,403  | <b>12,347</b>            | 16,369 |
| <b>INCOME BEFORE INCOME TAXES</b>               | <b>596</b>     | 1,646  | <b>1,157</b>             | 2,906  |
| <b>INCOME TAXES</b>                             | <b>476</b>     | 414    | <b>616</b>               | 728    |
| <b>NET INCOME</b>                               | <b>120</b>     | 1,232  | <b>541</b>               | 2,178  |
| <b>PER SHARE INFORMATION (Canadian dollars)</b> |                |        |                          |        |
| Net income per common share - basic (note 8)    | <b>0.14</b>    | 1.45   | <b>0.64</b>              | 2.57   |
| Net income per common share - diluted (note 8)  | <b>0.14</b>    | 1.45   | <b>0.64</b>              | 2.56   |
| Dividends per common share                      | <b>0.13</b>    | 0.13   | <b>0.26</b>              | 0.26   |

|                                                                   |              |       |              |       |
|-------------------------------------------------------------------|--------------|-------|--------------|-------|
| (a) Federal excise tax included in operating revenues             | <b>387</b>   | 383   | <b>764</b>   | 753   |
| (b) Amounts from related parties included in operating revenues   | <b>1,017</b> | 742   | <b>1,655</b> | 1,558 |
| (c) Amounts to related parties included in purchases of crude oil |              |       |              |       |
| and products                                                      | <b>967</b>   | 1,058 | <b>1,653</b> | 1,828 |
| (d) Amounts to related parties included in production and         |              |       |              |       |
| manufacturing expenses                                            | <b>125</b>   | 89    | <b>227</b>   | 175   |

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

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## IMPERIAL OIL LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(U.S. GAAP, unaudited)

| millions of Canadian dollars                                                                        | Second Quarter |       | Six Months         |       |
|-----------------------------------------------------------------------------------------------------|----------------|-------|--------------------|-------|
|                                                                                                     | 2015           | 2014  | to June 30<br>2015 | 2014  |
| Net income                                                                                          | <b>120</b>     | 1,232 | <b>541</b>         | 2,178 |
| Other comprehensive income, net of income taxes                                                     |                |       |                    |       |
| Post-retirement benefit liability adjustment (excluding amortization)                               | -              | -     | <b>(176)</b>       | (38)  |
| Amortization of post-retirement benefit liability adjustment included in net periodic benefit costs | <b>42</b>      | 37    | <b>84</b>          | 75    |
| Total other comprehensive income/(loss)                                                             | <b>42</b>      | 37    | <b>(92)</b>        | 37    |
| Comprehensive income                                                                                | <b>162</b>     | 1,269 | <b>449</b>         | 2,215 |

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

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## IMPERIAL OIL LIMITED

**CONSOLIDATED BALANCE SHEET**

(U.S. GAAP, unaudited)

|                                                                               | As at              | As at              |
|-------------------------------------------------------------------------------|--------------------|--------------------|
| millions of Canadian dollars                                                  | June 30<br>2015    | Dec 31<br>2014     |
| <b>ASSETS</b>                                                                 |                    |                    |
| Current assets                                                                |                    |                    |
| Cash                                                                          | 28                 | 215                |
| Accounts receivable, less estimated doubtful accounts (a)                     | 2,105              | 1,539              |
| Inventories of crude oil and products                                         | 1,099              | 1,121              |
| Materials, supplies and prepaid expenses                                      | 565                | 380                |
| Deferred income tax assets                                                    | 377                | 314                |
| Total current assets                                                          | 4,174              | 3,569              |
| Long-term receivables, investments and other long-term assets                 | 1,529              | 1,406              |
| Property, plant and equipment,<br>less accumulated depreciation and depletion | 52,551<br>(15,709) | 50,911<br>(15,337) |
| Property, plant and equipment, net                                            | 36,842             | 35,574             |
| Goodwill                                                                      | 224                | 224                |
| Other intangible assets, net                                                  | 65                 | 57                 |
| <b>TOTAL ASSETS</b>                                                           | <b>42,834</b>      | <b>40,830</b>      |
| <b>LIABILITIES</b>                                                            |                    |                    |
| Current liabilities                                                           |                    |                    |
| Notes and loans payable (b)                                                   | 1,976              | 1,978              |
| Accounts payable and accrued liabilities (a) (note 7)                         | 3,606              | 3,969              |
| Income taxes payable                                                          | 366                | 34                 |
| Total current liabilities                                                     | 5,948              | 5,981              |
| Long-term debt (c) (note 6)                                                   | 6,008              | 4,913              |

|                                                  |                |         |
|--------------------------------------------------|----------------|---------|
| Other long-term obligations (d) (note 7)         | <b>3,973</b>   | 3,565   |
| Deferred income tax liabilities                  | <b>4,146</b>   | 3,841   |
| <b>TOTAL LIABILITIES</b>                         | <b>20,075</b>  | 18,300  |
| <b>SHAREHOLDERS EQUITY</b>                       |                |         |
| Common shares at stated value (e)                | <b>1,566</b>   | 1,566   |
| Earnings reinvested                              | <b>23,344</b>  | 23,023  |
| Accumulated other comprehensive income (note 9)  | <b>(2,151)</b> | (2,059) |
| <b>TOTAL SHAREHOLDERS EQUITY</b>                 | <b>22,759</b>  | 22,530  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b> | <b>42,834</b>  | 40,830  |

- (a) Accounts receivable, less estimated doubtful accounts included amounts receivable from related parties of \$249 million (2014 - accounts payable and accrued liabilities included amounts payable to related parties of \$174 million)
- (b) Notes and loans payable included amounts to related parties of \$75 million (2014 - \$75 million)
- (c) Long-term debt included amounts to related parties of \$5,852 million (2014 - \$4,746 million)
- (d) Other long-term obligations include amounts to related parties of \$208 million (2014 - \$96 million)
- (e) Number of common shares authorized and outstanding were 1,100 million and 848 million, respectively (2014 - 1,100 million and 848 million, respectively)

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

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## IMPERIAL OIL LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(U.S. GAAP, unaudited)

Six Months

|                              |                |      |            |      |
|------------------------------|----------------|------|------------|------|
| inflow/(outflow)             | Second Quarter |      | to June 30 |      |
| millions of Canadian dollars | 2015           | 2014 | 2015       | 2014 |

**OPERATING ACTIVITIES**

|                                                       |       |       |       |       |
|-------------------------------------------------------|-------|-------|-------|-------|
| Net income                                            | 120   | 1,232 | 541   | 2,178 |
| Adjustments for non-cash items:                       |       |       |       |       |
| Depreciation and depletion                            | 335   | 280   | 652   | 560   |
| (Gain)/loss on asset sales (note 3)                   | (25)  | (640) | (51)  | (660) |
| Deferred income taxes and other                       | 254   | 221   | 272   | 226   |
| Changes in operating assets and liabilities:          |       |       |       |       |
| Accounts receivable                                   | (353) | 333   | (566) | (321) |
| Inventories, materials, supplies and prepaid expenses | (148) | (145) | (163) | (173) |
| Income taxes payable                                  | 148   | (109) | 332   | (17)  |
| Accounts payable and accrued liabilities              | 23    | (239) | (363) | 196   |
| All other items - net (a)                             | 23    | 66    | 4     | 95    |

**CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES**

|     |     |     |       |
|-----|-----|-----|-------|
| 377 | 999 | 658 | 2,084 |
|-----|-----|-----|-------|

**INVESTING ACTIVITIES**

|                                            |       |         |         |         |
|--------------------------------------------|-------|---------|---------|---------|
| Additions to property, plant and equipment | (773) | (1,295) | (1,784) | (2,501) |
| Proceeds associated with asset sales       | 65    | 732     | 90      | 807     |
| Additional investments                     | (16)  | (32)    | (32)    | (44)    |

**CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES**

|       |       |         |         |
|-------|-------|---------|---------|
| (724) | (595) | (1,726) | (1,738) |
|-------|-------|---------|---------|

**FINANCING ACTIVITIES**

|                                            |       |       |       |       |
|--------------------------------------------|-------|-------|-------|-------|
| Short-term debt - net                      | 40    | (223) | 1     | (223) |
| Long-term debt issued                      | 389   | -     | 1,106 | -     |
| Reduction in capitalized lease obligations | (4)   | (2)   | (6)   | (4)   |
| Dividends paid                             | (110) | (110) | (220) | (220) |

**CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES**

|     |       |     |       |
|-----|-------|-----|-------|
| 315 | (335) | 881 | (447) |
|-----|-------|-----|-------|

|                                    |             |     |              |       |
|------------------------------------|-------------|-----|--------------|-------|
| <b>INCREASE (DECREASE) IN CASH</b> | <b>(32)</b> | 69  | <b>(187)</b> | (101) |
| <b>CASH AT BEGINNING OF PERIOD</b> | <b>60</b>   | 102 | <b>215</b>   | 272   |

|                                  |           |     |           |     |
|----------------------------------|-----------|-----|-----------|-----|
| <b>CASH AT END OF PERIOD (b)</b> | <b>28</b> | 171 | <b>28</b> | 171 |
|----------------------------------|-----------|-----|-----------|-----|

(a) Included contribution to registered pension plans **(69)** (96) **(132)** (172)

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

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

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IMPERIAL OIL LIMITED

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

**1. Basis of financial statement preparation**

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles of the United States of America and follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent annual consolidated financial statements filed with the U.S. Securities and Exchange Commission in the company's 2014 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, 2015, 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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## IMPERIAL OIL LIMITED

**2. Business segments**

| Second Quarter<br>millions of dollars                 | Upstream            |              | Downstream   |              | Chemical     |            |
|-------------------------------------------------------|---------------------|--------------|--------------|--------------|--------------|------------|
|                                                       | 2015                | 2014         | 2015         | 2014         | 2015         | 2014       |
| <b>REVENUES AND OTHER INCOME</b>                      |                     |              |              |              |              |            |
| Operating revenues (a)                                | 1,783               | 2,109        | 5,178        | 6,901        | 311          | 389        |
| Intersegment sales                                    | 718                 | 1,043        | 268          | 370          | 63           | 115        |
| Investment and other income                           | 16                  | 643          | 13           | 7            | (1)          | (1)        |
|                                                       | 2,517               | 3,795        | 5,459        | 7,278        | 373          | 503        |
| <b>EXPENSES</b>                                       |                     |              |              |              |              |            |
| Exploration                                           | 16                  | 17           | -            | -            | -            | -          |
| Purchases of crude oil and products                   | 1,070               | 1,430        | 4,071        | 5,781        | 205          | 351        |
| Production and manufacturing                          | 953                 | 987          | 392          | 350          | 50           | 53         |
| Selling and general                                   | (1)                 | 1            | 243          | 214          | 20           | 19         |
| Federal excise tax                                    | -                   | -            | 387          | 383          | -            | -          |
| Depreciation and depletion                            | 273                 | 216          | 56           | 58           | 2            | 3          |
| Financing costs                                       | -                   | 2            | -            | -            | -            | -          |
| <b>TOTAL EXPENSES</b>                                 | <b>2,311</b>        | <b>2,653</b> | <b>5,149</b> | <b>6,786</b> | <b>277</b>   | <b>426</b> |
| <b>INCOME BEFORE INCOME TAXES</b>                     | <b>206</b>          | <b>1,142</b> | <b>310</b>   | <b>492</b>   | <b>96</b>    | <b>77</b>  |
| <b>INCOME TAXES</b>                                   | <b>380</b>          | <b>285</b>   | <b>95</b>    | <b>126</b>   | <b>27</b>    | <b>20</b>  |
| <b>NET INCOME</b>                                     | <b>(174)</b>        | <b>857</b>   | <b>215</b>   | <b>366</b>   | <b>69</b>    | <b>57</b>  |
| <b>Cash flows from (used in) operating activities</b> |                     |              |              |              |              |            |
|                                                       | (264)               | 633          | 541          | 248          | 105          | 74         |
| <b>CAPEX (b)</b>                                      | <b>704</b>          | <b>1,237</b> | <b>96</b>    | <b>135</b>   | <b>4</b>     | <b>6</b>   |
| Second Quarter<br>millions of dollars                 | Corporate and Other |              | Eliminations |              | Consolidated |            |
|                                                       | 2015                | 2014         | 2015         | 2014         | 2015         | 2014       |
| <b>REVENUES AND OTHER INCOME</b>                      |                     |              |              |              |              |            |
| Operating revenues (a)                                | -                   | -            | -            | -            | 7,272        | 9,399      |
| Intersegment sales                                    | -                   | -            | (1,049)      | (1,528)      | -            | -          |
| Investment and other income                           | 1                   | 1            | -            | -            | 29           | 650        |
|                                                       | 1                   | 1            | (1,049)      | (1,528)      | 7,301        | 10,049     |

**EXPENSES**

|                                                       |             |      |                |         |              |       |
|-------------------------------------------------------|-------------|------|----------------|---------|--------------|-------|
| Exploration                                           | -           | -    | -              | -       | <b>16</b>    | 17    |
| Purchases of crude oil and products                   | -           | -    | <b>(1,051)</b> | (1,527) | <b>4,295</b> | 6,035 |
| Production and manufacturing                          | -           | -    | -              | -       | <b>1,395</b> | 1,390 |
| Selling and general                                   | <b>8</b>    | 63   | <b>2</b>       | (1)     | <b>272</b>   | 296   |
| Federal excise tax                                    | -           | -    | -              | -       | <b>387</b>   | 383   |
| Depreciation and depletion                            | <b>4</b>    | 3    | -              | -       | <b>335</b>   | 280   |
| Financing costs                                       | <b>5</b>    | -    | -              | -       | <b>5</b>     | 2     |
| <b>TOTAL EXPENSES</b>                                 | <b>17</b>   | 66   | <b>(1,049)</b> | (1,528) | <b>6,705</b> | 8,403 |
| <b>INCOME BEFORE INCOME TAXES</b>                     | <b>(16)</b> | (65) | -              | -       | <b>596</b>   | 1,646 |
| <b>INCOME TAXES</b>                                   | <b>(26)</b> | (17) | -              | -       | <b>476</b>   | 414   |
| <b>NET INCOME</b>                                     | <b>10</b>   | (48) | -              | -       | <b>120</b>   | 1,232 |
| <b>Cash flows from (used in) operating activities</b> | <b>(5)</b>  | 44   | -              | -       | <b>377</b>   | 999   |
| <b>CAPEX (b)</b>                                      | <b>15</b>   | 20   | -              | -       | <b>819</b>   | 1,398 |

- (a) Included export sales to the United States of \$1,362 million (2014 - \$1,370 million). Export sales to the United States were recorded in all operating segments, with the largest effects in the Upstream segment
- (b) Capital and exploration expenditures (CAPEX) include exploration expenses, additions to property, plant and equipment, additions to capital leases, additional investments and acquisition

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## IMPERIAL OIL LIMITED

| Six Months to June 30<br>millions of dollars          | Upstream            |        | Downstream   |         | Chemical     |        |
|-------------------------------------------------------|---------------------|--------|--------------|---------|--------------|--------|
|                                                       | 2015                | 2014   | 2015         | 2014    | 2015         | 2014   |
| <b>REVENUES AND OTHER INCOME</b>                      |                     |        |              |         |              |        |
| Operating revenues (a)                                | 2,995               | 4,306  | 9,847        | 13,546  | 600          | 744    |
| Intersegment sales                                    | 1,316               | 2,111  | 524          | 800     | 122          | 217    |
| Investment and other income                           | 18                  | 656    | 43           | 20      | -            | -      |
|                                                       | 4,329               | 7,073  | 10,414       | 14,366  | 722          | 961    |
| <b>EXPENSES</b>                                       |                     |        |              |         |              |        |
| Exploration                                           | 33                  | 38     | -            | -       | -            | -      |
| Purchases of crude oil and products                   | 1,908               | 2,835  | 7,266        | 11,197  | 387          | 670    |
| Production and manufacturing                          | 1,903               | 2,016  | 748          | 736     | 103          | 114    |
| Selling and general                                   | (1)                 | 3      | 464          | 424     | 42           | 36     |
| Federal excise tax                                    | -                   | -      | 764          | 753     | -            | -      |
| Depreciation and depletion                            | 532                 | 438    | 108          | 110     | 5            | 6      |
| Financing costs                                       | 3                   | 4      | -            | -       | -            | -      |
| <b>TOTAL EXPENSES</b>                                 | 4,378               | 5,334  | 9,350        | 13,220  | 537          | 826    |
| <b>INCOME BEFORE INCOME TAXES</b>                     | (49)                | 1,739  | 1,064        | 1,146   | 185          | 135    |
| <b>INCOME TAXES</b>                                   | 314                 | 430    | 284          | 292     | 50           | 35     |
| <b>NET INCOME</b>                                     | (363)               | 1,309  | 780          | 854     | 135          | 100    |
| <b>Cash flows from (used in) operating activities</b> | (515)               | 990    | 1,055        | 960     | 160          | 77     |
| <b>CAPEX (b)</b>                                      | 1,594               | 2,400  | 221          | 183     | 16           | 8      |
| <b>Total assets as at June 30</b>                     | 36,612              | 32,940 | 5,839        | 6,121   | 381          | 377    |
| Six Months to June 30<br>millions of dollars          | Corporate and Other |        | Eliminations |         | Consolidated |        |
|                                                       | 2015                | 2014   | 2015         | 2014    | 2015         | 2014   |
| <b>REVENUES AND OTHER INCOME</b>                      |                     |        |              |         |              |        |
| Operating revenues (a)                                | -                   | -      | -            | -       | 13,442       | 18,596 |
| Intersegment sales                                    | -                   | -      | (1,962)      | (3,128) | -            | -      |
| Investment and other income                           | 1                   | 3      | -            | -       | 62           | 679    |
|                                                       | 1                   | 3      | (1,962)      | (3,128) | 13,504       | 19,275 |

**EXPENSES**

|                                                       |             |       |                |         |               |        |
|-------------------------------------------------------|-------------|-------|----------------|---------|---------------|--------|
| Exploration                                           | -           | -     | -              | -       | <b>33</b>     | 38     |
| Purchases of crude oil and products                   | -           | -     | <b>(1,961)</b> | (3,125) | <b>7,600</b>  | 11,577 |
| Production and manufacturing                          | -           | -     | -              | -       | <b>2,754</b>  | 2,866  |
| Selling and general                                   | <b>32</b>   | 111   | <b>(1)</b>     | (3)     | <b>536</b>    | 571    |
| Federal excise tax                                    | -           | -     | -              | -       | <b>764</b>    | 753    |
| Depreciation and depletion                            | <b>7</b>    | 6     | -              | -       | <b>652</b>    | 560    |
| Financing costs                                       | <b>5</b>    | -     | -              | -       | <b>8</b>      | 4      |
| <b>TOTAL EXPENSES</b>                                 | <b>44</b>   | 117   | <b>(1,962)</b> | (3,128) | <b>12,347</b> | 16,369 |
| <b>INCOME BEFORE INCOME TAXES</b>                     | <b>(43)</b> | (114) | -              | -       | <b>1,157</b>  | 2,906  |
| <b>INCOME TAXES</b>                                   | <b>(32)</b> | (29)  | -              | -       | <b>616</b>    | 728    |
| <b>NET INCOME</b>                                     | <b>(11)</b> | (85)  | -              | -       | <b>541</b>    | 2,178  |
| <b>Cash flows from (used in) operating activities</b> | <b>(42)</b> | 57    | -              | -       | <b>658</b>    | 2,084  |
| <b>CAPEX (b)</b>                                      | <b>38</b>   | 41    | -              | -       | <b>1,869</b>  | 2,632  |
| <b>Total assets as at June 30</b>                     | <b>413</b>  | 535   | <b>(411)</b>   | (575)   | <b>42,834</b> | 39,398 |

- (a) Included export sales to the United States of \$2,163 million (2014 - \$2,796 million). Export sales to the United States were recorded in all operating segments, with the largest effects in the Upstream segment
- (b) Capital and exploration expenditures (CAPEX) include exploration expenses, additions to property, plant and equipment, additions to capital leases, additional investments and acquisition

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## IMPERIAL OIL LIMITED

**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<br>to June 30 |      |
|----------------------------------------|----------------|------|--------------------------|------|
|                                        | 2015           | 2014 | 2015                     | 2014 |
| Proceeds from asset sales              | <b>65</b>      | 782  | <b>90</b>                | 807  |
| Book value of assets sold              | <b>40</b>      | 142  | <b>39</b>                | 147  |
| Gain/(loss) on asset sales, before tax | <b>25</b>      | 640  | <b>51</b>                | 660  |
| Gain/(loss) on asset sales, after tax  | <b>17</b>      | 480  | <b>40</b>                | 496  |

**4. Employee retirement benefits**

The components of net benefit cost were as follows:

| millions of dollars                | Second Quarter |      | Six Months<br>to June 30 |       |
|------------------------------------|----------------|------|--------------------------|-------|
|                                    | 2015           | 2014 | 2015                     | 2014  |
| Pension benefits:                  |                |      |                          |       |
| Current service cost               | <b>51</b>      | 39   | <b>102</b>               | 77    |
| Interest cost                      | <b>77</b>      | 80   | <b>154</b>               | 159   |
| Expected return on plan assets     | <b>(96)</b>    | (91) | <b>(193)</b>             | (182) |
| Amortization of prior service cost | <b>4</b>       | 5    | <b>8</b>                 | 11    |
| Amortization of actuarial loss     | <b>49</b>      | 43   | <b>99</b>                | 86    |
| Net benefit cost                   | <b>85</b>      | 76   | <b>170</b>               | 151   |
| Other post-retirement benefits:    |                |      |                          |       |
| Current service cost               | <b>4</b>       | 2    | <b>8</b>                 | 5     |
| Interest cost                      | <b>6</b>       | 6    | <b>12</b>                | 12    |
| Amortization of actuarial loss     | <b>3</b>       | 2    | <b>6</b>                 | 4     |

|                  |           |    |           |    |
|------------------|-----------|----|-----------|----|
| Net benefit cost | <b>13</b> | 10 | <b>26</b> | 21 |
|------------------|-----------|----|-----------|----|

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## IMPERIAL OIL LIMITED

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

| millions of dollars   | Second Quarter |      | Six Months<br>to June 30 |      |
|-----------------------|----------------|------|--------------------------|------|
|                       | 2015           | 2014 | 2015                     | 2014 |
| Debt-related interest | <b>20</b>      | 20   | <b>43</b>                | 41   |
| Capitalized interest  | <b>(15)</b>    | (20) | <b>(38)</b>              | (41) |
| Net interest expense  | <b>5</b>       | -    | <b>5</b>                 | -    |
| Other interest        | -              | 2    | <b>3</b>                 | 4    |
| Total financing costs | <b>5</b>       | 2    | <b>8</b>                 | 4    |

In the first quarter of 2015, the company extended the maturity date of its existing \$500 million 364-day short-term unsecured committed bank credit facility to March 2016. The company has not drawn on the facility.

**6. Long-term debt**

| millions of dollars  | As at<br>June 30 | As at<br>Dec 31 |
|----------------------|------------------|-----------------|
|                      | 2015             | 2014            |
| Long-term debt       | <b>5,852</b>     | 4,746           |
| Capital leases       | <b>156</b>       | 167             |
| Total long-term debt | <b>6,008</b>     | 4,913           |

In the first half of 2015, the company increased its long-term debt by \$1,106 million by drawing on an existing facility with an affiliated company of Exxon Mobil Corporation. The increased debt was used to finance normal operations and capital projects.

In July 2015, the company increased the capacity of its existing floating rate loan facility with an affiliated company of ExxonMobil from \$6.25 billion to \$7.75 billion. All other terms and conditions of the agreement remained unchanged.

Subsequent to the second quarter, the company entered into a long-term capital lease related to the Woodland pipeline for approximately \$500 million. A commitment related to this obligation was previously reported as a firm capital

commitment in the company's 2014 Form 10-K.

## 7. Other long-term obligations

|                                                                      | As at<br>June 30<br><b>2015</b> | As at<br>Dec 31<br>2014 |
|----------------------------------------------------------------------|---------------------------------|-------------------------|
| millions of dollars                                                  |                                 |                         |
| Employee retirement benefits (a)                                     | <b>1,870</b>                    | 1,739                   |
| Asset retirement obligations and other environmental liabilities (b) | <b>1,518</b>                    | 1,325                   |
| Share-based incentive compensation liabilities                       | <b>178</b>                      | 154                     |
| Other obligations                                                    | <b>407</b>                      | 347                     |
| <b>Total other long-term obligations</b>                             | <b>3,973</b>                    | 3,565                   |

- (a) Total recorded employee retirement benefits obligations also included \$58 million in current liabilities (2014 - \$58 million)
- (b) Total asset retirement obligations and other environmental liabilities also included \$143 million in current liabilities (2014 - \$143 million)

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## IMPERIAL OIL LIMITED

**8. Net income per share**

|                                                                                              | Second Quarter |       | Six Months<br>to June 30 |       |
|----------------------------------------------------------------------------------------------|----------------|-------|--------------------------|-------|
|                                                                                              | 2015           | 2014  | 2015                     | 2014  |
| <b>Net income per common share - basic</b>                                                   |                |       |                          |       |
| Net income (millions of dollars)                                                             | <b>120</b>     | 1,232 | <b>541</b>               | 2,178 |
| Weighted average number of common shares outstanding (millions of shares)                    | <b>847.6</b>   | 847.6 | <b>847.6</b>             | 847.6 |
| Net income per common share (dollars)                                                        | <b>0.14</b>    | 1.45  | <b>0.64</b>              | 2.57  |
| <b>Net income per common share - diluted</b>                                                 |                |       |                          |       |
| Net income (millions of dollars)                                                             | <b>120</b>     | 1,232 | <b>541</b>               | 2,178 |
| Weighted average number of common shares outstanding (millions of shares)                    | <b>847.6</b>   | 847.6 | <b>847.6</b>             | 847.6 |
| Effect of share-based awards (millions of shares)                                            | <b>3.1</b>     | 3.1   | <b>3.0</b>               | 3.0   |
| Weighted average number of common shares outstanding, assuming dilution (millions of shares) | <b>850.7</b>   | 850.7 | <b>850.6</b>             | 850.6 |
| Net income per common share (dollars)                                                        | <b>0.14</b>    | 1.45  | <b>0.64</b>              | 2.56  |

**9. Other comprehensive income information****Changes in accumulated other comprehensive income:**

|                                                                                                  |                |         |
|--------------------------------------------------------------------------------------------------|----------------|---------|
| millions of dollars                                                                              | <b>2015</b>    | 2014    |
| Balance at January 1                                                                             | <b>(2,059)</b> | (1,721) |
| Post-retirement benefits liability adjustment:                                                   |                |         |
| Current period change excluding amounts reclassified from accumulated other comprehensive income | <b>(176)</b>   | (38)    |
| Amounts reclassified from accumulated other comprehensive income                                 | <b>84</b>      | 75      |
| Balance at June 30                                                                               | <b>(2,151)</b> | (1,684) |

**Amounts reclassified out of accumulated other comprehensive income - before-tax income/(expense):**

| millions of dollars                                                                                     | Second Quarter |      | Six Months to June 30 |       |
|---------------------------------------------------------------------------------------------------------|----------------|------|-----------------------|-------|
|                                                                                                         | 2015           | 2014 | 2015                  | 2014  |
| Amortization of post-retirement benefits liability adjustment included in net periodic benefit cost (a) | (56)           | (50) | (113)                 | (101) |

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

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

| millions of dollars                                                                                 | Second Quarter |      | Six Months to June 30 |      |
|-----------------------------------------------------------------------------------------------------|----------------|------|-----------------------|------|
|                                                                                                     | 2015           | 2014 | 2015                  | 2014 |
| Post-retirement benefits liability adjustments:                                                     |                |      |                       |      |
| Post-retirement benefits liability adjustment (excluding amortization)                              | -              | -    | (61)                  | (13) |
| Amortization of post-retirement benefits liability adjustment included in net periodic benefit cost | 15             | 13   | 30                    | 26   |
|                                                                                                     | 15             | 13   | (31)                  | 13   |

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**10. Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board issued a new standard, *Revenue from Contracts with Customers*. The standard establishes a single revenue recognition model for all contracts with customers, eliminates industry specific requirements and expands disclosure requirements. The standard is expected to be adopted beginning January 1, 2018. Imperial is evaluating the standard and its effect on the company's financial statements.

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

**Second quarter 2015 vs. second quarter 2014**

The company's net income for the second quarter of 2015 was \$120 million or \$0.14 per share on a diluted basis and reflected a net charge, largely non-cash, of \$320 million (\$0.38 per share) associated with the recently enacted Alberta corporate income tax rate increase, compared with \$1,232 million or \$1.45 per share for the same period last year.

Upstream recorded a net loss in the second quarter of \$174 million, \$1,031 million lower than the same period of 2014. Earnings in the second quarter of 2015 reflected lower crude oil and gas realizations of about \$650 million along with the impact associated with increased Alberta corporate income taxes of about \$327 million. Earnings in the second quarter of 2014 included a gain of \$478 million from the divestment of conventional upstream producing assets. These factors were partially offset by higher Kearl and Cold Lake volumes of about \$190 million, the impact of a weaker Canadian dollar of about \$160 million and lower royalties of about \$120 million.

West Texas Intermediate (WTI), the main U.S. dollar benchmark crude for North America, decreased by 44 percent compared to the same quarter in 2014. The company's average Canadian dollar realizations for synthetic crude oil and bitumen decreased about 33 and 35 percent in the second quarter of 2015 to \$75.20 and \$49.16 per barrel respectively, as the decline in the benchmark crude was partly offset by the weaker Canadian dollar, along with decreased light-heavy differentials. The company's average realizations on sales of natural gas of \$1.83 per thousand cubic feet in the second quarter of 2015, were lower by \$2.25 per thousand cubic feet, versus the same period in 2014.

Gross production of Cold Lake bitumen averaged 161,000 barrels per day in the second quarter, up from 138,000 barrels in the same period last year, primarily due to the continued ramp-up of Nabiye production. Nabiye production is expected to reach approximately 40,000 barrels per day, before royalties, by the end of 2015.

Gross production of Kearl bitumen averaged 130,000 barrels per day in the second quarter (92,000 barrels Imperial's share) up from 73,000 barrels per day (52,000 barrels Imperial's share) during the second quarter of 2014, reflecting early start-up of the Kearl expansion project and continued improvement in reliability of the initial development.

During the second quarter of 2015, the company's share of gross production from Syncrude averaged 52,000 barrels per day, up from 51,000 barrels in the second quarter of 2014.

Gross production of conventional crude oil averaged 15,000 barrels per day in the second quarter, versus 18,000 barrels in the corresponding period in 2014. The lower production volume was primarily due to the impact of properties divested during the first half of 2014.

Gross production of natural gas during the second quarter of 2015 was 134 million cubic feet per day, down from 158 million cubic feet in the same period last year, reflecting the impact of properties divested during the first half of 2014.

Downstream net income was \$215 million in the second quarter, \$151 million lower than the second quarter of 2014. Earnings decreased mainly due to lower margins of about \$170 million, higher refinery planned maintenance expense of about \$90 million, partly offset by the impact of a weaker Canadian dollar of about \$130 million.



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Chemical net income was \$69 million in the second quarter, the highest quarterly earnings on record, up from \$57 million in the same quarter in 2014.

Net income effects from Corporate and Other were \$10 million in the second quarter, versus negative \$48 million in the same period of 2014, primarily due to changes in share-based compensation charges and the impact of the Alberta corporate income tax rate increase.

## **Six months 2015 vs. six months 2014**

Net income in the first six months of 2015 was \$541 million, or \$0.64 per share on a diluted basis and reflected a net charge, largely non-cash, of \$320 million (\$0.38 per share) associated with the recently enacted Alberta corporate income tax rate increase, versus \$2,178 million or \$2.56 per share for the first half of 2014, which included a \$478 million gain on the sale of conventional upstream producing assets.

Upstream recorded a net loss of \$363 million for the first six months of 2015, \$1,672 million lower than the same period of 2014. Earnings in 2015 reflected the impact of lower crude oil and gas realizations of about \$1,740 million and the impact associated with increased Alberta corporate income taxes of about \$327 million. Earnings in the second quarter of 2014 included a gain of \$478 million from the divestment of conventional upstream producing assets. These factors were partially offset by lower royalties of about \$330 million, the impact of a weaker Canadian dollar of about \$320 million, and higher Kearl and Cold Lake volumes of about \$260 million.

WTI, the main U.S. dollar benchmark crude for North America, decreased by 47 percent compared to the same period in 2014. The company's average Canadian dollar realizations for synthetic crude oil and bitumen decreased about 41 and 45 percent in the first half of 2015 to \$63.89 and \$39.15 per barrel respectively, as the decline in benchmark crude and increased light-heavy differentials were partly offset by the weaker Canadian dollar. The company's average realizations on sales of natural gas of \$2.71 per thousand cubic feet in 2015, were lower by \$2.78 per thousand cubic feet, versus the same period in 2014.

Gross production of Cold Lake bitumen averaged 156,000 barrels per day in the first six months, up from 142,000 barrels from the same period last year, primarily due to Nabiye production.

Gross production of Kearl bitumen averaged 113,000 barrels per day in the first six months of 2015 (80,000 barrels Imperial's share) up from 72,000 barrels per day (51,000 barrels Imperial's share), reflecting early start-up of the Kearl expansion project and improved reliability of the initial development.

During the first six months of 2015, the company's share of gross production from Syncrude averaged 63,000 barrels per day, up from 62,000 barrels from the same period of 2014.

Gross production of conventional crude oil averaged 15,000 barrels per day in the first half of 2015, compared to 20,000 barrels during the same period of 2014. The lower production volume was primarily due to the impact of properties divested during the first half of 2014.



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Gross production of natural gas during the first six months of 2015 was 140 million cubic feet per day, down from 181 million cubic feet in the same period last year, reflecting the impact of properties divested during the first half of 2014.

Downstream net income was \$780 million, down \$74 million from the same period of 2014. Earnings decreased due to the impacts of lower refining margins of about \$200 million and higher refinery planned maintenance expense of about \$130 million, partially offset by the impact of a weaker Canadian dollar of about \$170 million, lower energy costs of \$80 million and a 2015 gain of \$17 million from the sale of assets.

Chemical net income was \$135 million, up from \$100 million in the same period in 2014, mainly as a result of strong polyethylene operations and margins.

For the first six months of 2015, net income effects from Corporate & Other were negative \$11 million, versus negative \$85 million in 2014, primarily due to changes in share-based compensation charges and the impact of the Alberta corporate income tax rate increase.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow generated from operating activities was \$377 million in the second quarter, versus \$999 million in the corresponding period in 2014. Lower cash flow was mainly due to lower earnings and working capital effects.

Investing activities used net cash of \$724 million in the second quarter, compared with \$595 million in the same period of 2014. Additions to property, plant and equipment were \$773 million in the second quarter, compared with \$1,295 million during the same quarter in 2014. Expenditures during the quarter were primarily directed towards the completion of the upstream growth projects.

Cash from financing activities was \$315 million in the second quarter, compared with cash used in financing activities of \$335 million in the second quarter of 2014. Dividends paid in the second quarter of 2015 were \$110 million, unchanged from the corresponding period in 2014. Per-share dividends paid in the second quarter were \$0.13, unchanged from the same period of 2014.

The company's cash balance was \$28 million as at June 30, 2015 versus \$171 million at the end of the second quarter of 2014.

Subsequent to the second quarter, the company increased the capacity of its existing floating rate loan facility with an affiliated company of ExxonMobil from \$6.25 billion to \$7.75 billion. Also, the company entered into a long-term capital lease related to the Woodland pipeline for approximately \$500 million. A commitment related to this obligation was previously reported as a firm capital commitment in the company's 2014 Form 10-K.

## **RECENTLY ISSUED ACCOUNTING STANDARDS**

In May 2014, the Financial Accounting Standards Board issued a new standard, *Revenue from Contracts with Customers*. The standard establishes a single revenue recognition model for all contracts with customers, eliminates industry specific requirements and expands disclosure requirements. The standard is expected to be adopted beginning January 1, 2018. Imperial is evaluating the standard and its effect on the Corporation's financial statements.



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

Information about market risks for the six months ended June 30, 2015 does not differ materially from that discussed on page 22 in the company's Annual Report on Form 10-K for the year ended December 31, 2014 and Form 10-Q for the quarter ended March 31, 2015 except for the following:

#### Earnings sensitivity

millions of dollars after tax

|                                                           |       |     |
|-----------------------------------------------------------|-------|-----|
| Five dollars (U.S.) per barrel change in crude oil prices | + (-) | 350 |
|-----------------------------------------------------------|-------|-----|

|                                                                                               |       |     |
|-----------------------------------------------------------------------------------------------|-------|-----|
| Eight cents decrease (increase) in the value of the Canadian dollar<br>versus the U.S. dollar | + (-) | 720 |
|-----------------------------------------------------------------------------------------------|-------|-----|

The sensitivity of net income to changes in crude oil prices decreased from the first quarter of 2015 by about \$5 million (after tax) a year for each one U.S. dollar change. The decrease was primarily the result of higher royalty costs due to higher crude oil prices and higher taxes due to the increase in the Alberta corporate tax rate.

The sensitivity of net income to changes in the Canadian dollar versus the U.S. dollar increased from the first quarter of 2015 by about \$10M (after tax) a year from each one-cent change, primarily due to the impact of higher U.S. dollar crude prices.

### **Item 4. Controls and Procedures.**

As indicated in the certifications in Exhibit 31 of this report, the company's principal executive officer and principal financial officer have evaluated the company's disclosure controls and procedures as of June 30, 2015. Based on that evaluation, these officers have concluded that the company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to them in a manner that allows for timely decisions regarding required disclosures and are effective in ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

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

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

## Issuer Purchases of Equity Securities (a)(b)

| <b>Period</b>                         | <b>Total<br/>number<br/>of shares<br/>(or units)<br/>purchased</b> | <b>Average<br/>price paid<br/>per share (or<br/>unit)</b> | <b>Total<br/>number of<br/>shares (or<br/>units)<br/>purchased<br/>as part of<br/>publicly<br/>announced<br/>plans or<br/>programs</b> | <b>Maximum<br/>number (or<br/>approximate<br/>dollar value) of<br/>shares (or units)<br/>that may yet be<br/>purchased<br/>under the plans<br/>or programs</b> |
|---------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>April 2015</b><br>(Apr 1 – Apr 30) | 0                                                                  | 0                                                         | 0                                                                                                                                      | 1,000,000                                                                                                                                                      |
| <b>May 2015</b><br>(May 1 – May 31)   | 0                                                                  | 0                                                         | 0                                                                                                                                      | 1,000,000                                                                                                                                                      |
| <b>June 2015</b><br>(Jun 1 – Jun 30)  | 0                                                                  | 0                                                         | 0                                                                                                                                      | 1,000,000                                                                                                                                                      |

- (a) On June 23, 2014, the company announced by news release that it had received final approval from the Toronto Stock Exchange for a new normal course issuer bid and will continue its share repurchase program. The program enabled the company to repurchase up to a maximum of 1,000,000 common shares during the period June 25, 2014 to June 24, 2015. The program ended on June 24, 2015.
- (b) On June 22, 2015, the company announced by news release that it had received final approval from the Toronto Stock Exchange for a new normal course issuer bid and will continue its share repurchase program. The new program enables the company to repurchase up to a maximum of 1,000,000 common shares during the period June 25, 2015 to June 24, 2016. The program will end when the company has purchased the maximum allowable number of shares, or on June 24, 2016.

The company will continue to evaluate its share purchase program in the context of its overall capital activities.

**Item 6. Exhibits.**

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

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

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

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

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**SIGNATURES**

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

IMPERIAL OIL LIMITED  
(Registrant)

*/s/ Paul J. Masschelin*

Date: August 4, 2015

(Signature)  
Paul J. Masschelin  
Senior Vice-President, Finance and

Administration and Controller  
(Principal Accounting Officer)

*/s/ Cathryn Walker*

Date: August 4, 2015

(Signature)  
Cathryn Walker  
Assistant Corporate Secretary