



Quarterly report 2

FOR THE THREE MONTHS ENDED JUNE 30, 2006

Imperial Oil announces second-quarter financial and operating results

Calgary, August 3, 2006 – Imperial Oil today announced net income for the second quarter of \$837 million or \$0.85 a share, compared with \$539 million or \$0.52 a share for the same quarter of 2005. Net income for the first six months of 2006 was \$1,428 million or \$1.44 a share, versus \$932 million or \$0.89 a share for the first half of 2005.

Earnings in the second quarter were higher than the same period of 2005 due mainly to higher natural resources realizations and stronger refining margins. Earnings were also positively impacted by lower tax expenses primarily from the impact of a one-time future income tax adjustment based on lower federal and Alberta tax rates and lower stock-related compensation expenses. These factors were partially offset by higher planned refinery maintenance and capital project activities impacting both refinery throughput and expenses and the stronger Canadian dollar.

Capital and exploration expenditures were \$283 million in the second quarter, down from \$353 million during the same quarter of 2005, and \$605 million in the first half of 2006, versus \$678 million in the same period a year ago. During the first half of 2006, the company repurchased about 24.1 million shares for \$937 million. At June 30, 2006, the company's balance of cash and marketable securities was \$997 million, compared with \$1,661 million at the end of 2005.

"Several important milestones were reached in the second quarter, including record bitumen production at Cold Lake and the start-up of ultra-low sulphur diesel facilities," said Tim Hearn, Imperial's chairman, president and chief executive officer. "The focus in coming months will be on optimizing recent investments and offsetting industry-wide cost pressures in current operations and in future projects needed to satisfy Canada's growing energy needs," Hearn added.

Imperial Oil is one of Canada's largest corporations and a leading member of the country's petroleum industry. It is one of Canada's largest producers of crude oil and natural gas and is also the country's largest refiner and marketer of petroleum products, sold primarily under the Esso and Mobil brand names through a coast-to-coast supply network that includes close to 2,000 retail outlets.

Highlights/Items of interest

Record production at Cold Lake

Bitumen production at Cold Lake, the company's wholly-owned in situ oil sands project, averaged a record 157 thousand barrels a day during the quarter. This production surpasses the previous quarterly record of 153 thousand barrels a day that was set in the third quarter of 1998. Cold Lake currently operates about 4,000 wells on the site and work continued in the second quarter on construction of two new pads in the northern extension area of the Cold Lake lease.

Syncrude Stage 3 expansion completed

The Stage 3 expansion at Syncrude, where bitumen is mined and upgraded into synthetic crude oil, was completed. Production commenced on May 6 but was shut down on May 18 due to odours associated with the start-up of the new flue gas desulphurization unit (FGD). On July 10, following remedial actions and regulatory approval, Syncrude resumed start-up operations on the FGD and other operating units associated with the expansion project. Bitumen feed is expected to be re-introduced into the new coker later this month. The Syncrude oil sands joint venture is 25-percent owned by Imperial.

Imperial now producing ultra-low sulphur diesel across the country -- project on time and on budget

About \$500 million, two years of construction, and the efforts of some 5,000 people have enabled a reduction in the sulphur content of diesel fuel to 15 parts per million at point of production, in accordance with government regulations. In July 2001, the Canadian government called for sulphur levels in diesel to be reduced to this level at point of production by June 1, 2006. Imperial is on track to achieve the next regulatory milestone of having ultra-low sulphur diesel available at all points of sale by September 1, 2006.

Imperial donates \$3 million through its "Building Futures" program

Building Futures works with students of all ages to foster an interest in further education with programs that help Canada compete in today's technological world. The company's most recent commitment was announced on May 30th. The \$3 million donation is being made to Canadian education programs that address the country's growing requirement for educated youth and science and technology skills. The company believes a high-quality education system is fundamental to the country's success and has invested more than \$15 million in educational-related initiatives over the last five years.

Share repurchase program to continue

In June, Imperial received approval from the Toronto Stock Exchange for a new normal course issuer bid* to continue its share repurchase program. The company will be permitted to repurchase up to five percent of the current outstanding common shares, or about 48.8 million shares, during the next 12 months. As in the past, Exxon Mobil Corporation will participate in the program to maintain its ownership percentage of Imperial at 69.6 percent.

Imperial Oil Limited share split

The previously announced three-for-one share split was approved at the annual meeting of shareholders of Imperial Oil Limited held on May 2, 2006. Shares commenced trading on the Toronto Stock Exchange on a post-split basis on May 17, 2006. The company's last stock-split occurred in 1998 and was also structured on a three-for-one basis.

** Any party may obtain, without charge, a copy of the notice of intention to make a normal course issuer bid filed with the Toronto Stock Exchange on June 21, 2006 on www.sedar.com or by contacting Imperial Oil, attention Vice-President, General Counsel and Corporate Secretary, at 237 4th Avenue S.W., Calgary, Alberta, Canada T2P 3M9.*

IMPERIAL OIL LIMITED

FINANCIAL HIGHLIGHTS (unaudited)

	Second quarter		Six months to June 30	
	2006	2005	2006	2005
Net income (U.S. GAAP, millions of dollars)				
Natural resources	754	469	1,151	745
Petroleum products	62	94	261	260
Chemicals	31	33	70	77
Corporate and other	(10)	(57)	(54)	(150)
Net income (U.S. GAAP)	837	539	1,428	932
Cash flow from operating activities	926	827	888	770
Capital and exploration expenditures	283	353	605	678
Per-share information (dollars) (a)				
Net income - basic	0.85	0.52	1.45	0.90
Net income - diluted	0.85	0.52	1.44	0.89
Dividends	0.08	0.08	0.16	0.15
Share prices - close at June 30				
Toronto Stock Exchange (Canadian dollars)			40.78	34.01
American Stock Exchange (U.S. dollars)			36.50	27.75

(a) Reflects the three-for-one share split

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

OPERATING RESULTS

The company's net income for the second quarter was \$837 million or \$0.85 a share on a diluted basis, compared with \$539 million or \$0.52 a share for the same quarter of 2005. Net income for the first six months of 2006 was \$1,428 million or \$1.44 a share on a diluted basis, versus \$932 million or \$0.89 a share for the first half of 2005.

Earnings in the second quarter were higher than the same period of 2005 due mainly to higher natural resources realizations and stronger refining margins, which combined for a positive impact of about \$465 million. Earnings were also positively impacted by lower tax expenses of about \$110 million primarily from the impact of a one-time future income tax adjustment based on lower federal and Alberta tax rates and lower stock-related compensation expenses of about \$45 million. These factors were partially offset by lower net, after-royalties natural resources volumes of about \$100 million, higher planned refinery maintenance and capital project activities impacting both refinery throughput and expenses of about \$100 million and the negative impact of a stronger Canadian dollar of about \$100 million.

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

For the first six months, higher natural resources realizations and stronger refining and marketing margins contributed about \$750 million to earnings when compared to the same period in 2005. Also positive to earnings were lower tax expenses of about \$115 million and lower stock-related compensation expenses of about \$95 million. Partially offsetting these positive factors were the impact of a stronger Canadian dollar of about \$150 million, higher energy, Syncrude and other operating costs of about \$120 million, higher planned refinery maintenance and capital project impacts of about \$100 million and lower conventional crude oil and natural gas liquids (NGL) volumes of about \$90 million.

Total operating revenues were \$6,604 million in the second quarter and \$12,390 million in the first half of 2006, versus \$6,710 million and \$12,650 million in the same periods last year.

Natural resources

Net income from natural resources in the second quarter was a record \$754 million, up \$285 million from the second quarter in 2005. Earnings increased primarily due to higher realizations for Cold Lake bitumen and crude oil of about \$330 million. Natural resources volumes, on a net after-royalties basis, were unfavourable to earnings by about \$100 million. Higher production volumes at Cold Lake in the quarter were more than offset by higher royalties and lower conventional crude oil and NGL volumes due to natural decline and divestments. Positive earnings were also offset partially by the negative impact of a stronger Canadian dollar of about \$70 million and higher energy and Syncrude maintenance costs of about \$35 million. Tax expenses in second quarter 2006 were lower by about \$160 million primarily from reductions in federal and Alberta tax rates.

Net income for the first six months was \$1,151 million versus \$745 million during the same period last year. Cold Lake bitumen, crude oil and natural gas realizations were stronger by about \$540 million compared to the first six months of 2005. Their positive impact on earnings was partially offset by the negative impact of a higher Canadian dollar of about \$105 million, higher operating costs of about \$100 million, primarily driven by higher energy and Syncrude costs, and lower net, after-royalties volumes of about \$90 million. Tax expenses in the first six months were lower by about \$165 million primarily from reductions in federal and Alberta tax rates.

While Brent crude oil prices in U.S. dollars averaged 35 percent higher in the second quarter and 32 percent higher for the first six months compared with the same periods last year, increased realizations for conventional crude oil averaged less at 23 and 16 percent respectively mainly because of a stronger Canadian dollar. Average realizations for Cold Lake bitumen were higher in 2006, by over 90 percent in the second quarter and almost 70 percent in the first six months, reflecting a price spread between light crude oil and Cold Lake bitumen more consistent with historical trend levels.

Realizations for natural gas averaged \$6.52 a thousand cubic feet in the second quarter, down from \$7.71 a thousand cubic feet in the same quarter last year, primarily a result of increased industry inventory levels of natural gas. For the first six-month period, realizations for natural gas averaged \$7.99 a thousand cubic feet in 2006, up from \$7.37 a thousand cubic feet in the same period of 2005.

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

Total gross production of crude oil and NGLs was 273 thousand barrels a day, up from 267 thousand barrels in the second quarter of 2005. For the first six months of the year, total gross production of crude oil and NGLs averaged 269 thousand barrels a day, compared with 264 thousand barrels in the same period of 2005.

Gross production of Cold Lake bitumen averaged a record 157 thousand barrels a day during the second quarter versus 137 thousand barrels in the same quarter last year. For the first six months, gross production was 154 thousand barrels a day this year, up from 144 thousand barrels in the same period of 2005. Higher production was due to the cyclic nature of production at Cold Lake and increased volumes from the ongoing development drilling program.

The company's share of Syncrude's gross production was 60 thousand barrels a day in the second quarter compared with 58 thousand barrels during the same period a year ago. During the first six-month period, the company's share of gross production from Syncrude averaged 56 thousand barrels a day in 2006, up from 49 thousand barrels in the same period of 2005. Higher production volumes were due to lower maintenance activities in the first half of 2006.

In the second quarter and first six months of this year, gross production of conventional crude oil averaged 31 and 32 thousand barrels a day respectively, compared with 40 thousand barrels during the corresponding periods in 2005. The impact of divested producing properties and the natural reservoir decline in the Western Canadian Basin were the main reasons for the reduced production.

Gross production of NGLs available for sale was 25 thousand barrels a day in the second quarter, down from 32 thousand barrels a day in the same quarter last year. During the first half of 2006, gross production of NGLs available for sale decreased to 27 thousand barrels a day, from 31 thousand barrels in the same period of 2005, mainly due to declining NGL content of Wizard Lake gas production.

Gross production of natural gas during the second quarter of 2006 decreased to 557 million cubic feet a day from 576 million cubic feet in the same period last year. In the first half of the year, gross production was 568 million cubic feet a day, down from 580 million in the first six months of 2005.

In April, the company sold its interests in the Calmette and Westlock natural gas fields, both located in Alberta, for net proceeds of about \$57 million, realizing a gain of \$38 million. Natural gas production for the company's share of these two properties averaged about 2.6 million cubic feet a day during 2005.

The new coker unit at the Syncrude Stage 3 expansion project was temporarily shut down on May 18, 2006 in response to an Environmental Protection Order (EPO) issued by Alberta Environment. The EPO was issued regarding odorous emissions associated with the start-up of the new coker unit in early May. On July 6, 2006, Syncrude obtained regulatory approval from Alberta Environment for its plan to resume operation of the shut-down facilities following completion of modifications to rectify the problem. Start-up activities commenced on July 10, 2006 and the start-up and run-in period is expected to last several weeks prior to reintroduction of bitumen feed into the new coker. The company's share of production capacity affected was approximately 25,000 barrels a day. Production capacity of Syncrude's base operations, excluding volumes from the new coker unit, were unaffected by these events.

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

In view of significant cost pressures on the Mackenzie Gas project, the project proponents are currently developing action plans aimed at reducing all aspects of cost. A revised cost and schedule estimate for the project is expected later this fall.

Petroleum products

Net income from petroleum products was \$62 million in the second quarter of 2006, compared with \$94 million in the same period a year ago. Stronger industry refining margins were largely offset by an increase in planned shutdowns of refinery operating units for maintenance activities as well as capital project work required to reduce sulphur content in diesel fuel. These extensive maintenance and project activities impacted both refinery throughput and expenses by a total of about \$100 million, as compared to the same period last year. Earnings were also negatively impacted by higher tax expenses of \$40 million due to unfavourable effects of tax rate changes and a stronger Canadian dollar of about \$25 million. Lower product sales volume had limited impact on earnings.

Six-month net income was \$261 million versus \$260 million in the same period of 2005. Stronger refining and marketing margins were partially offset by higher planned refinery maintenance and low-sulphur diesel project activities impacting both refinery throughput and expenses of about \$100 million versus the prior year. Earnings were also negatively impacted by a stronger Canadian dollar of about \$45 million, higher tax expenses of \$40 million and higher energy costs from higher prices of about \$20 million. Lower product sales volume had limited impact on earnings.

Chemicals

Net income from chemicals was \$31 million in the second quarter, slightly lower than \$33 million in the second quarter last year. Six-month net income was \$70 million, compared with \$77 million for the same period in 2005. Lower industry margins for aromatics and polyethylene were the primary contributors to the reduction in six-month earnings.

Corporate and other

Net income from corporate and other at negative \$10 million in the second quarter compared with negative \$57 million in the same period of 2005. Six-month net income was negative \$54 million versus negative \$150 million last year due mainly to lower stock-related compensation expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities was \$926 million during the second quarter of 2006, up from \$827 million in the same period last year. The increase in cash flow was driven primarily by higher net income and lower petroleum product inventory levels. These positive factors on cash flow were partially offset by the combined unfavourable impact of higher accounts receivable balances due mainly to higher crude oil prices and lower accounts and income taxes payable balances due to timing of expenditures and income tax payments, respectively.

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

Year-to-date cash flow from operating activities was \$888 million, versus \$770 million during the first half of 2005. Increased net income, lower accounts receivable balances and lower seasonal inventory builds contributed largely to the higher cash inflow. These positive factors were moderated by lower accounts payable balances through lower crude oil and petroleum product purchases and the timing of expenditures.

Capital and exploration expenditures were \$283 million in the second quarter, down from \$353 million during the same quarter of 2005, and \$605 million in the first half of 2006, versus \$678 million in the same period a year ago. For the resources segment, capital and exploration expenditures were used mainly at Syncrude and Cold Lake to maintain and expand production capacity. The petroleum products segment spent its capital expenditures mainly on projects to reduce the sulphur content of diesel fuel, improve operating efficiency and upgrade the network of Esso retail outlets. The company was producing ultra-low-sulphur diesel to meet the new government regulations by June 1, 2006.

On June 21, 2006, the company announced that it had received acceptance from the Toronto Stock Exchange for a new normal course issuer bid to continue its existing share-purchase program that expired on June 22, 2006. The new share-purchase program enables the company to repurchase up to 48.8 million shares during the period from June 23, 2006, to June 22, 2007. During the first half of 2006, the company repurchased about 24.1 million shares for \$937 million.

Cash dividends of \$159 million were paid in the first six months of 2006. This compared with dividends of \$154 million in the comparable period of 2005. Per-share dividends paid in the first two quarters of 2006 totaled \$0.16, up from \$0.15 in the same period last year.

The above factors led to a decrease in the company's balance of cash and marketable securities to \$997 million at June 30, 2006, from \$1,661 million at the end of 2005.

On May 2, 2006, shareholders approved a proposal to split the company's shares on a three-for-one basis. Shares commenced trading on a post-split basis on May 17, 2006.

RECENTLY ISSUED ACCOUNTING STANDARD

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes". FIN 48 is an interpretation of FASB Statement No. 109 "Accounting for Income Taxes" and must be adopted by the company no later than January 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that the company has taken or expects to take in its tax returns. The company is evaluating the impact of adopting FIN 48.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risks for the six months ended June 30, 2006 does not differ materially from that discussed on page 32 in the company's annual report to shareholders for the year ended December 31, 2005 and interim report to shareholders for the quarter ended March 31, 2006, except for the following sensitivities:

Earnings sensitivity (a)		
millions of dollars after tax		
Nine cents decrease (increase) in the value of the Canadian dollar versus the U.S. dollar	+ (-)	430
Seven dollars (U.S.) a barrel change in crude oil prices	+ (-)	330

The sensitivity of net income to changes in the Canadian dollar versus the U.S. dollar increased from the first quarter 2006 by about \$3 million (after tax) for each one-cent difference. This is primarily due to the increase in crude oil prices.

The sensitivity to changes in crude oil prices decreased from 2005 year-end by about \$3 million (after tax) for each one U.S.-dollar difference. An increase in the value of the Canadian dollar has lessened the impact of U.S. dollar denominated crude oil prices on the company's revenues and earnings.

(a) The amount quoted to illustrate the impact of the sensitivity represents a change of about 10 percent in the value of the commodity at the end of the first quarter 2006. 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.

This report may contain forward-looking information. Actual results could differ materially due to market conditions, changes in law or government policy, changes in operating conditions and costs, changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors.

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF INCOME

(U.S. GAAP, unaudited)

millions of Canadian dollars	Second quarter		Six months to June 30	
	2006	2005	2006	2005
REVENUES AND OTHER INCOME				
Operating revenues (a)(b)	6,604	6,710	12,390	12,650
Investment and other income (5)	84	92	116	110
TOTAL REVENUES AND OTHER INCOME	6,688	6,802	12,506	12,760
EXPENSES				
Exploration	3	6	13	27
Purchases of crude oil and products (b)	3,868	4,250	7,002	7,889
Production and manufacturing (6)	925	815	1,847	1,565
Selling and general (6)	277	370	615	783
Federal excise tax (a)	315	323	618	630
Depreciation and depletion	214	217	430	455
Financing costs (7)	2	8	7	10
TOTAL EXPENSES	5,604	5,989	10,532	11,359
INCOME BEFORE INCOME TAXES	1,084	813	1,974	1,401
INCOME TAXES	247	274	546	469
NET INCOME (4)	837	539	1,428	932
NET INCOME PER COMMON SHARE - BASIC (dollars) (10)	0.85	0.52	1.45	0.90
NET INCOME PER COMMON SHARE - DILUTED (dollars) (10)	0.85	0.52	1.44	0.89
DIVIDENDS PER COMMON SHARE (dollars) (10)	0.08	0.08	0.16	0.15

(a) Federal excise tax included in operating revenues **315** 323 **618** 630

(b) Amounts included in operating revenues for purchase / sale contracts with the same counterparty. Associated costs are included in "purchases of crude oil and products" resulting in no impact to net income. (3) - 1,176 - 2,093

Certain figures for the prior year have been reclassified in the financial statements to conform with the current year's presentation.

IMPERIAL OIL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

(U.S. GAAP, unaudited)

inflow/(outflow)

millions of Canadian dollars

Second quarter

2006 2005

Six months

to June 30

2006 2005

OPERATING ACTIVITIES

Net income	837	539	1,428	932
Adjustment for non-cash items:				
Depreciation and depletion	214	217	430	455
(Gain)/loss on asset sales, after income tax (5)	(46)	(55)	(54)	(57)
Deferred income taxes and other	(138)	(88)	(43)	(151)
Changes in operating assets and liabilities:				
Accounts receivable	(191)	29	20	(180)
Inventories and prepaids	243	(35)	(209)	(359)
Income taxes payable	68	124	(295)	(188)
Accounts payable	(91)	41	(127)	543
All other items - net (a)	30	55	(262)	(225)
CASH FROM (USED IN) OPERATING ACTIVITIES	926	827	888	770

INVESTING ACTIVITIES

Additions to property, plant and equipment and intangibles	(280)	(347)	(592)	(651)
Proceeds from asset sales	107	98	134	105
Loans to equity company	(1)	-	(2)	-
CASH FROM (USED IN) INVESTING ACTIVITIES	(174)	(249)	(460)	(546)

FINANCING ACTIVITIES

Short term debt - net	72	18	72	18
Repayment of long-term debt	(71)	(19)	(72)	(20)
Issuance of common shares under stock option plan	3	6	4	19
Common shares purchased (10)	(395)	(479)	(937)	(802)
Dividends paid	(79)	(77)	(159)	(154)
CASH FROM (USED IN) FINANCING ACTIVITIES	(470)	(551)	(1,092)	(939)

INCREASE (DECREASE) IN CASH

CASH AT BEGINNING OF PERIOD

CASH AT END OF PERIOD

(a) Includes contribution to registered pension plans

(3) **(3)** **(356)** **(342)**

Certain figures for the prior year have been reclassified in the financial statements to conform with the current year's presentation.

Dividend and share-purchase information	2006	2006	2007	2007
	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
Declaration date	August 29	November 20	February 14	May 23
Dividend record date	September 8	December 5	March 2	June 6
Dividend payment date	October 1	January 1, 2007	April 1	July 1
Share purchase cutoff date (cheques for share purchase must be dated and received no later than)	September 15	December 13	March 16	June 15
Investment date (dividend-reinvestment and share-purchase funds are invested by the company on)	October 2	January 2, 2007	April 2	July 3

The declaration of dividends and the dates shown are subject to change by the board of directors.
The company reserves the right to amend, suspend or terminate the dividend-reinvestment and share-purchase plan at any time.
Share-purchase cheques should be made payable to CIBC Mellon Trust Company.
Dividend cheques are normally mailed three to five days prior to payment dates.
Quarterly statements for dividend-reinvestment and share-purchase plan participants are normally mailed two weeks after the investment dates.

For more information

If you have a question about dividend payments, dividend reinvestment, lost dividend cheques, settling an estate, or transferring or replacing share certificates, you can call our transfer agent at 1-800-387-0825. Employees with shares in the Imperial Oil savings plan should call 1-800-668-2648.

Information on the Web

Imperial's Web site (www.imperialoil.ca) contains a wide variety of information about the company, including a complete range of investor information:

Publications

Current and recent annual and interim reports, news releases, the latest management proxy circular, forms *10K* and *10Q*, and the *Information for Investors* fact book

Key dates

Dividend declaration and payment, earnings news releases, annual meeting

Other useful information

Share transfer and replacement information, historical share prices and dividends, earnings sensitivities, crude oil posted prices, dividend reinvestment and share purchase plan

