

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

Operating results

Third quarter 2017 vs. third quarter 2016

The company's net income for the third quarter of 2017 was \$371 million or \$0.44 per-share on a diluted basis, compared to the net income of \$1,003 million or \$1.18 per-share for the same period last year. Third quarter 2016 results included a \$716 million gain from the sale of retail sites.

Upstream recorded net income in the third quarter of \$62 million, compared to a net loss of \$26 million in the same period of 2016. Results in the third quarter of 2017 reflected the impact of higher Canadian crude oil realizations of about \$190 million and higher Kearl volumes of about \$50 million. These impacts were partially offset by lower Syncrude and conventional volumes of about \$80 million, including the absence of production at Norman Wells, and higher royalties of about \$50 million.

West Texas Intermediate (WTI) averaged US\$48.23 per barrel in the third quarter of 2017, up from US\$44.94 per barrel in the same quarter of 2016. Western Canada Select (WCS) averaged US\$38.29 per barrel and US\$31.43 per barrel respectively for the same periods. The WTI / WCS differential narrowed to 21 percent in the third quarter of 2017, from 30 percent in the same period of 2016.

The Canadian dollar averaged US\$0.80 in the third quarter of 2017, an increase of US\$0.03 from the third quarter of 2016.

Imperial's average Canadian dollar realizations for bitumen and synthetic crudes increased generally in line with the North American benchmarks, adjusted for changes in exchange rates and transportation costs. Bitumen realizations averaged \$39.02 per barrel for the third quarter of 2017, an increase of \$8.86 per barrel versus the third quarter of 2016. Synthetic crude realizations averaged \$61.14 per barrel, an increase of \$2.17 per barrel for the same period of 2016.

Gross production of Cold Lake bitumen averaged 163,000 barrels per day in the third quarter, up from 157,000 barrels per day in the same period last year. The higher production was mainly due to the timing of the steam cycles.

Gross production of Kearl bitumen averaged 182,000 barrels per day in the third quarter (129,000 barrels Imperial's share) up from 159,000 barrels per day (113,000 barrels Imperial's share) during the third quarter of 2016. Higher production was mainly the result of improved reliability.

The company's share of gross production from Syncrude averaged 74,000 barrels per day, compared to 85,000 barrels per day in the third quarter of 2016. Repairs associated with the Syncrude Mildred Lake upgrader fire were completed in late July. Lower third quarter volumes reflect the impact of the fire on operations, when compared to the same quarter in 2016.

Downstream net income was \$292 million in the third quarter, compared to \$1,002 million in the same period of 2016. Earnings decreased mainly due to the absence of a \$716 million gain from the sale of company-owned retail sites and higher refining turnaround activity of about \$100 million. These factors were partly offset by higher refining margins of about \$140 million.

Refinery throughput averaged 385,000 barrels per day, compared to 407,000 barrels per day in the third quarter of 2016. Reduced throughput reflects increased turnaround activity associated with the Nanticoke refinery in the third quarter 2017.

Petroleum product sales were 500,000 barrels per day, compared to 505,000 barrels per day in the third quarter of 2016.

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Chemical net income was \$52 million in the third quarter, compared to \$56 million in the same quarter of 2016.

Net income effects from Corporate and Other were negative \$35 million in the third quarter, compared to negative \$29 million in the same period of 2016.

Nine months 2017 vs. nine months 2016

Net income in the first nine months of 2017 was \$627 million, or \$0.74 per-share on a diluted basis versus net income of \$721 million or \$0.85 per-share in the first nine months of 2016.

Upstream recorded a net loss of \$225 million in the first nine months of 2017, compared to a net loss of \$764 million from the same period of 2016. Results reflected the impact of higher Canadian crude oil realizations of about \$940 million and higher Kearn volumes of about \$50 million. These impacts were partially offset by higher royalties of about \$150 million, lower Syncrude and conventional volumes of about \$130 million, including the absence of production at Norman Wells, higher energy costs of about \$90 million, and higher operating expenses at Syncrude of about \$90 million.

West Texas Intermediate averaged US\$49.40 per barrel in the first nine months of 2017, up from US\$41.54 per barrel in the same period of 2016. Western Canada Select averaged US\$37.57 per barrel and US\$27.74 per barrel respectively for the same periods. The WTI / WCS differential narrowed to 24 percent in the first nine months of 2017, from 33 percent in the same period of 2016.

During the first nine months of 2017, the Canadian dollar strengthened relative to the US dollar versus the same period of 2016. The Canadian dollar averaged US\$0.77 in the first nine months of 2017, an increase of about US\$0.01 from the same period of 2016.

Imperial's average Canadian dollar realizations for bitumen and synthetic crudes increased generally in line with the North American benchmarks, adjusted for changes in the exchange rate and transportation costs. Bitumen realizations averaged \$37.82 per barrel for the first nine months of 2017, an increase of \$14.05 per barrel versus the same period of 2016. Synthetic crude realizations averaged \$64.37 per barrel, an increase of \$10.92 per barrel from the same period of 2016.

Gross production of Cold Lake bitumen averaged 161,000 barrels per day in the first nine months of 2017, compared to 162,000 barrels per day from the same period of 2016.

Gross production of Kearn bitumen averaged 179,000 barrels per day in the first nine months of 2017 (127,000 barrels Imperial's share) up from 169,000 barrels per day (120,000 barrels Imperial's share) from the same period of 2016. Increased 2017 production reflects improved reliability associated with the mining and ore preparation operations.

During the first nine months of 2017, the company's share of gross production from Syncrude averaged 56,000 barrels per day, compared to 61,000 barrels per day from the same period of 2016. Syncrude year to date production was impacted by the March 2017 fire at the Syncrude Mildred Lake upgrader and planned maintenance. In 2016, production was impacted by the Alberta wildfires and planned maintenance.

Downstream net income was \$750 million, compared to \$1,393 million from the same period of 2016. Earnings decreased mainly due to the absence of a \$719 million gain from the sale of company-owned retail sites and lower marketing margins of approximately \$170 million associated with the impact of the retail divestment. These factors were partially offset by a gain of \$151 million from the sale of a surplus property and higher industry refining margins of about \$90 million.

Refinery throughput averaged 381,000 barrels per day in the first nine months of 2017, up from 351,000 barrels per day from the same period of 2016. Capacity utilization increased to 90 percent from 83 percent in the same period of 2016, reflecting reduced turnaround maintenance activity.

Petroleum product sales were 492,000 barrels per day in the first nine months of 2017, up from 481,000 barrels per day from the same period of 2016. Sales growth continues to be driven by strong collaboration across our downstream value chain and the expansion of Imperial's wholesale, industrial and commercial networks.

Chemical net income was \$161 million, up from \$160 million from the same period of 2016.

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For the first nine months of 2017, net income effects from Corporate and Other were negative \$59 million, versus negative \$68 million from the same period of 2016.

Liquidity and capital resources

Cash flow generated from operating activities was \$837 million in the third quarter, compared with \$772 million in the corresponding period in 2016.

Investing activities used net cash of \$234 million in the third quarter, compared with \$1,005 million cash generated from investing activities in the same period of 2016, reflecting lower proceeds from asset sales.

Cash used in financing activities was \$393 million in the third quarter, compared with \$1,724 million in the third quarter of 2016, reflecting the absence of debt repayments. Dividends paid in the third quarter of 2017 were \$136 million. The per-share dividend paid in the third quarter was \$0.16, up from \$0.15 in the same period of 2016. In the second quarter of 2017, Imperial resumed share purchases under its share buyback program. During the third quarter, the company purchased about 6.7 million shares for approximately \$250 million.

The company's cash balance was \$833 million at September 30, 2017, versus \$248 million at the end of the third quarter of 2016.

Cash flow generated from operating activities was \$1,683 million in the first nine months of 2017, compared with \$1,264 million in 2016, reflecting higher earnings, excluding the impact of asset sales, partially offset by unfavourable working capital effects.

Investing activities used net cash of \$454 million in the first nine months of 2017, compared with cash generated from investing activities of \$350 million from the same period of 2016, reflecting lower proceeds from asset sales partially offset by lower additions to property, plant and equipment.

Cash used in financing activities was \$787 million in the first nine months of 2017, compared with \$1,569 million from the same period of 2016, reflecting the absence of debt repayments. Dividends paid in the first nine months of 2017 were \$390 million. The per-share dividend paid in the first nine months of 2017 was \$0.46, up from \$0.43 for the same period of 2016.

During the first nine months of 2017 the company purchased about 10 million shares for \$377 million, including shares purchased from Exxon Mobil Corporation.

Recently issued accounting standards

In May 2014, the Financial Accounting Standards Board (FASB) 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 required to be adopted beginning January 1, 2018. The company expects to adopt the standard using the modified retrospective method, under which prior years' results are not restated, but supplemental information on the impact of the new standard will be included in the 2018 results. The impact from the standard is not expected to have a material effect on the company's financial statements.

In February 2016, the FASB issued a new standard, *Leases*. The standard requires all leases with an initial term greater than one year be recorded on the balance sheet as a lease asset and lease liability. The standard is required to be adopted beginning January 1, 2019. Imperial is evaluating the standard and its effect on the company's financial statements and plans to adopt it in 2019.

In March 2017, the FASB issued an Accounting Standards Update 2017-07, Compensation – Retirement Benefits (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The update requires that the service cost component of net benefit costs be reported in the same line in the income statement as other compensation costs and that the other components of net benefit costs be presented separately from the service cost component. Additionally, only the service cost component of net benefit costs will be eligible for capitalization. Imperial will adopt the update beginning January 1, 2018. As a result of Imperial's adoption of the update, the company expects to add a new line Non-service pension and other postretirement benefit expense to its consolidated statement of income. This line would reflect the other components of net benefit costs as described in the Accounting

Standards Update and would include amounts that were previously included in Production and manufacturing expenses, and Selling and general expenses. As of January 1, 2018, these costs will no longer be considered for capitalization. The impact from this change on the company's net income is not expected to be material. Furthermore, as part of the adoption of the update, the company expects it will include all of these costs in its Corporate and Other expenses.

Forward-looking statements

Statements in this report regarding future events or conditions are forward-looking statements. Actual future financial and operating 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.

Quantitative and qualitative disclosures about market risk

Information about market risks for the nine months ended September 30, 2017, does not differ materially from that discussed on page 22 of the company's annual report on Form 10-K for the year ended December 31, 2016.