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

## Operating results

### Third quarter 2019 vs. third quarter 2018

The company's net income for the third quarter of 2019 was $424 million or $0.56 per share on a diluted basis, compared to net income of $749 million or $0.94 per share in the same period of 2018.

Upstream net income was $209 million in the third quarter, compared to net income of $222 million in the same period of 2018. Earnings decreased mainly due to higher operating expenses of about $70 million and higher royalties of about $50 million, partially offset by higher volumes of about $110 million primarily at Syncrude.

West Texas Intermediate (WTI) averaged US$56.44 per barrel in the third quarter of 2019, down from US$69.43 per barrel in the same quarter of 2018. Western Canada Select (WCS) averaged US$44.21 per barrel and US$47.49 per barrel for the same periods. The WTI / WCS differential narrowed during the third quarter of 2019 to average approximately US$12 per barrel for the quarter, compared to around US$22 per barrel in the same period of 2018.

The Canadian dollar averaged US$0.76 in the third quarter of 2019, essentially unchanged from the third quarter of 2018.

Imperial's average Canadian dollar realizations for bitumen increased in the quarter supported primarily by lower diluent costs partially offset by a decrease in WCS. Bitumen realizations averaged $51.12 per barrel in the third quarter of 2019, up from $50.42 per barrel in the third quarter of 2018. The company's average Canadian dollar realizations for synthetic crude declined generally in line with WTI in the quarter, adjusted for changes in exchange rates and transportation costs. Synthetic crude realizations averaged $77.27 per barrel in the third quarter of 2019, compared to $89.70 per barrel in the same period of 2018.

Gross production of Cold Lake bitumen averaged 142,000 barrels per day in the third quarter, compared to 150,000 barrels per day in the same period of 2018.

Gross production of Kearl bitumen averaged 224,000 barrels per day in the third quarter (159,000 barrels Imperial's share), compared to 244,000 barrels per day (173,000 barrels Imperial's share) in the third quarter of 2018. Lower production was mainly due to timing of planned turnaround activity.

The company's share of gross production from Syncrude averaged 69,000 barrels per day, up from 45,000 barrels per day in the third quarter of 2018. Higher production was mainly due to the absence of production impacts from the 2018 power disruption, partially offset by planned turnaround activity.

Downstream net income was $221 million in the third quarter, compared to $502 million in the third quarter of 2018. Earnings were negatively impacted by lower margins of about $230 million and planned turnaround activity of about $70 million.

Refinery throughput averaged 363,000 barrels per day, compared to 388,000 barrels per day in the third quarter of 2018. Capacity utilization was 86 percent, compared to 92 percent in the third quarter of 2018. Reduced throughput was mainly due to planned turnaround activity at Nanticoke and ongoing impacts from the fractionation tower incident at Sarnia which occurred earlier in 2019.

Petroleum product sales were 488,000 barrels per day, compared to 516,000 barrels per day in the third quarter of 2018. Lower petroleum product sales were mainly due to lower refinery throughput.

Chemical net income was $38 million in the third quarter, compared to $69 million from the same quarter of 2018, primarily reflecting lower margins.

Corporate and other expenses were $44 million in the third quarter, unchanged from the same period of 2018.

**Nine months 2019 vs. nine months 2018**

Net income in the first nine months of 2019 was $1,929 million, or $2.51 per share on a diluted basis, up from net income of $1,461 million or $1.79 per share in the first nine months of 2018. 2019 results include a favourable impact, largely non-cash, of $662 million associated with the Alberta corporate income tax rate decrease. On June 28, 2019, the Alberta government enacted a 4 percent decrease in the provincial tax rate, from 12 percent to 8 percent by 2022.

Upstream net income was $1,252 million for the first nine months of the year, reflecting the favourable impact associated with the decreased Alberta corporate income tax rate of $689 million. Excluding this impact, 2019 net income was $563 million, up from net income of $172 million in the same period of 2018. Improved results reflect higher volumes of about $530 million at Syncrude, Kearl and Norman Wells, as well as the impact of higher crude oil realizations of about $220 million and favourable foreign exchange impacts of about $90 million. Results were negatively impacted by higher operating expenses of about $270 million, higher royalties of about $130 million, and lower Cold Lake volumes of about $70 million.

West Texas Intermediate averaged US$57.10 per barrel in the first nine months of 2019, down from US$66.77 per barrel in the same period of 2018. Western Canada Select averaged US$45.32 per barrel and US$44.98 per barrel for the same periods. The WTI / WCS differential narrowed to average approximately US$12 per barrel in the first nine months of 2019, from around US$22 per barrel in the same period of 2018.

The Canadian dollar averaged US$0.75 in the first nine months of 2019, a decrease of $0.03 from the same period in 2018.

Imperial's average Canadian dollar realizations for bitumen increased in the first nine months of 2019, supported primarily by lower diluent costs. Bitumen realizations averaged $52.44 per barrel, up from $45.04 per barrel from the same period in 2018. The company's average Canadian dollar realizations for synthetic crude declined generally in line with WTI, adjusted for changes in exchange rates and transportation costs. Synthetic crude realizations averaged $74.59 per barrel, compared to $83.66 per barrel from the same period in 2018.

Gross production of Cold Lake bitumen averaged 141,000 barrels per day in the first nine months of 2019, compared to 145,000 barrels per day in the same period of 2018.

Gross production of Kearl bitumen averaged 204,000 barrels per day in the first nine months of 2019 (145,000 barrels Imperial's share), up from 202,000 barrels per day (144,000 barrels Imperial's share) in the same period of 2018.

During the first nine months of 2019, the company's share of gross production from Syncrude averaged 76,000 barrels per day, up from 53,000 barrels per day in the same period of 2018. Higher production was mainly due to the absence of production impacts from the 2018 power disruption.

Downstream net income was $736 million for the first nine months of 2019, compared to $1,224 million for the same period of 2018. Earnings were negatively impacted by lower margins of about $430 million, reliability events of about $140 million, including the fractionation tower incident at Sarnia, and lower sales volumes of about $100 million. These factors were partially offset by lower net turnaround impacts of about $80 million, and favourable foreign exchange effects of about $60 million.

Refinery throughput averaged 363,000 barrels per day in the first nine months of 2019, compared to 386,000 barrels per day in the same period of 2018. Capacity utilization was 86 percent, compared to 91 percent in the same period of 2018. Reduced throughput was mainly due to higher planned turnaround activities and impacts from the Sarnia fractionation tower incident.

Petroleum product sales were 481,000 barrels per day in the first nine months of 2019, compared to 503,000 barrels per day in the same period of 2018. Lower petroleum product sales were mainly due to lower refinery throughput.

Chemical net income was $110 million in the first nine months of 2019, compared to $220 million in the same period of 2018, primarily reflecting lower margins.

Corporate and other expenses were $169 million in the first nine months of 2019, compared to $155 million in the same period of 2018.

## Liquidity and capital resources

Cash flow generated from operating activities was $1,376 million in the third quarter, up from $1,207 million in the corresponding period in 2018, primarily reflecting favourable working capital effects, partially offset by lower earnings.

Investing activities used net cash of $413 million in the third quarter, compared with $352 million used in the same period of 2018.

Cash used in financing activities was $519 million in the third quarter, compared with $580 million used in the third quarter of 2018. Dividends paid in the third quarter of 2019 were $169 million. The per share dividend paid in the third quarter was $0.22, up from $0.19 in the same period of 2018. During the third quarter, the company, under its share purchase program, purchased about 9.8 million shares for $343 million, including shares purchased from Exxon Mobil Corporation. In the third quarter of 2018, the company purchased about 10 million shares for $418 million.

The company's cash balance was $1,531 million at September 30, 2019, versus $1,148 million at the end of third quarter 2018.

Cash flow generated from operating activities was $3,405 million in the first nine months of 2019, up from $3,051 million in the same period of 2018, primarily reflecting favourable working capital effects.

Investing activities used net cash of $1,305 million in the first nine months of 2019, compared with $1,096 million used in 2018, primarily reflecting higher additions to property, plant and equipment.

Cash used in financing activities was $1,557 million in the first nine months of 2019, compared with $2,002 million used in the same period of 2018. Dividends paid in the first nine months of 2019 were $465 million. The per share dividend paid in the first nine months of 2019 was $0.60, up from $0.51 in the same period of 2018. During the first nine months of 2019, the company, under its share purchase program, purchased about 29.6 million shares for $1,072 million, including shares purchased from Exxon Mobil Corporation. In the first nine months of 2018, the company purchased about 38.5 million shares for $1,561 million.

In September 2019, the company extended the maturity date of its existing long-term, variable-rate, Canadian dollar loan from ExxonMobil to June 30, 2025. All other terms and conditions remain unchanged.

## Recently issued accounting standards

Effective January 1, 2020, Imperial will adopt the Financial Accounting Standards Board's update, *Financial Instruments - Credit Losses (Topic 326)*, as amended. The standard requires a valuation allowance for credit losses be recognized for certain financial assets that reflects the current expected credit loss over the asset's contractual life. The valuation allowance considers the risk of loss, even if remote and considers past events, current conditions and expectations of the future. The company does not expect a material change in the credit allowance for trade receivables and continues to evaluate the impact on other financial assets in scope of the standard.

## Forward-looking statements

Statements of future events or conditions in this report, including projections, targets, expectations, estimates, and business plans are forward-looking statements. Disclosure related to the share purchase program and the expected impact from accounting standard changes constitute forward-looking statements. Forward-looking statements are based on the company's current expectations, estimates, projections and assumptions at the time the statements are made. Actual future financial and operating results, including expectations and assumptions concerning demand growth and energy source, supply and mix; commodity prices and foreign exchange rates; production rates, growth and mix; applicable laws and government policies; financing sources; and capital and environmental expenditures could differ materially depending on a number of factors. These factors include changes in the supply of and demand for crude oil, natural gas, and petroleum and petrochemical products and resulting price and margin impacts; transportation for accessing markets; political or regulatory events, including changes in law or government policy; environmental risks inherent in oil and gas exploration and production activities; environmental regulation; currency exchange rates; availability and allocation of capital; unanticipated operational disruptions; project management and schedules; operational hazards and risks; cybersecurity incidents; disaster response preparedness; and other factors discussed in Item 1A risk factors and Item 7 management's discussion and analysis of financial condition and results of operations of Imperial Oil Limited's most recent annual report on Form 10-K.

Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, some that are similar to other oil and gas companies and some that are unique to Imperial. Imperial's actual results may differ materially from those expressed or implied by its forward-looking statements and readers are cautioned not to place undue reliance on them. Imperial undertakes no obligation to update any forward-looking statements contained herein, except as required by applicable law.

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

## Quantitative and qualitative disclosures about market risk

Information about market risks for the nine months ended September 30, 2019, does not differ materially from that discussed on page 25 of the company's annual report on Form 10-K for the year ended December 31, 2018.