

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

### Operating results

#### Second quarter 2019 vs. second quarter 2018

The company's net income for the second quarter of 2019 was \$1,212 million or \$1.57 per share on a diluted basis, up from net income of \$196 million or \$0.24 per share in the same period of 2018. Second quarter 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 \$985 million in the second quarter, reflecting the favourable impact associated with the decreased Alberta corporate income tax rate of \$689 million. Excluding this impact, second quarter 2019 net income was \$296 million, an increase of \$302 million compared to a net loss of \$6 million in the same period of 2018. Improved results reflect higher volumes of about \$310 million, primarily at Syncrude, Kearn and Norman Wells, as well as the impact of higher Canadian crude oil realizations of about \$80 million. Results were negatively impacted by higher operating expenses of about \$60 million and higher royalties of about \$50 million.

West Texas Intermediate (WTI) averaged US\$59.91 per barrel in the second quarter of 2019, down from US\$67.91 per barrel in the same quarter of 2018. Western Canada Select (WCS) averaged US\$49.31 per barrel and US\$48.81 per barrel for the same periods. The WTI / WCS differential narrowed during the second quarter of 2019 to average approximately US\$11 per barrel for the quarter, compared to around US\$19 per barrel in the same period of 2018.

The Canadian dollar averaged US\$0.75 in the second quarter of 2019, a decrease of US\$0.03 from the second quarter of 2018.

Imperial's average Canadian dollar realizations for bitumen increased in the quarter, supported primarily by lower diluent costs. Bitumen realizations averaged \$57.19 per barrel in the second quarter of 2019, up from \$48.90 per barrel in the second 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 \$79.96 per barrel in the second quarter of 2019, compared to \$86.31 per barrel in the same period of 2018.

Gross production of Cold Lake bitumen averaged 135,000 barrels per day in the second quarter, up from 133,000 barrels per day in the same period of 2018.

Gross production of Kearn bitumen averaged 207,000 barrels per day in the second quarter (147,000 barrels Imperial's share), up from 180,000 barrels per day (128,000 barrels Imperial's share) in the second quarter of 2018. Higher production was mainly due to improved reliability.

The company's share of gross production from Syncrude averaged 80,000 barrels per day, up from 50,000 barrels per day in the second quarter of 2018. Higher production was mainly due to the absence of turnaround activities and impacts from the 2018 power disruption.

Downstream net income was \$258 million in the second quarter, up from \$201 million in the second quarter of 2018. Earnings increased primarily due to lower net turnaround impacts of about \$150 million partially offset by reliability events of about \$70 million, including the Sarnia tower incident.

Refinery throughput averaged 344,000 barrels per day, compared to 363,000 barrels per day in the second quarter of 2018. Capacity utilization was 81 percent, compared to 86 percent in the second quarter of 2018. Reduced throughput was mainly due to the impact of a planned turnaround and the tower incident at Sarnia, partially offset by the absence of the 2018 planned turnaround at Strathcona.

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Petroleum product sales were 477,000 barrels per day, compared to 510,000 barrels per day in the second quarter of 2018. Lower petroleum product sales were mainly due to lower refinery throughput.

Chemical net income was \$38 million in the second quarter, compared to \$78 million from the same quarter of 2018, primarily reflecting lower margins.

Corporate and other expenses were \$69 million in the second quarter, compared to \$77 million in the same period of 2018.

## Six months 2019 vs. six months 2018

Net income in the first six months of 2019 was \$1,505 million, or \$1.94 per share on a diluted basis, up from net income of \$712 million or \$0.86 per share in the first six 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 \$1,043 million for the first six 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 \$354 million, an increase of \$404 million compared to a net loss of \$50 million in the same period of 2018. Improved results reflect higher volumes of about \$330 million, primarily at Syncrude, Kearl and Norman Wells, as well as the impact of higher Canadian crude oil realizations of about \$260 million and favourable foreign exchange impacts of about \$60 million. Results were negatively impacted by higher operating expenses of about \$180 million and higher royalties of about \$80 million.

West Texas Intermediate averaged US\$57.45 per barrel in the first six months of 2019, down from US\$65.44 per barrel in the same period of 2018. Western Canada Select averaged US\$45.88 per barrel and US\$43.74 per barrel for the same periods. The WTI / WCS differential narrowed to average approximately US\$12 per barrel in the first six 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 six 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 six months of 2019, supported primarily by lower diluent costs and an increase in WCS. Bitumen realizations averaged \$53.20 per barrel, up from \$41.84 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 \$74.77 per barrel, compared to \$81.24 per barrel from the same period in 2018.

Gross production of Cold Lake bitumen averaged 140,000 barrels per day in the first six months of 2019, compared to 143,000 barrels per day in the same period of 2018.

Gross production of Kearl bitumen averaged 193,000 barrels per day in the first six months of 2019 (137,000 barrels Imperial's share) up from 181,000 barrels per day (128,000 barrels Imperial's share) in the same period of 2018. Higher production was mainly due to improved reliability.

During the first six months of 2019, the company's share of gross production from Syncrude averaged 79,000 barrels per day, up from 57,000 barrels per day in the same period of 2018. Higher production was mainly due to the absence of turnaround activities and impacts from the 2018 power disruption.

Downstream net income was \$515 million for the first six months of 2019, compared to \$722 million for the same period of 2018. Earnings were negatively impacted by lower margins of about \$210 million, reliability events of about \$130 million, including the Sarnia tower incident, and lower sales volumes of about \$70 million. These factors were partially offset by lower net turnaround impacts of about \$150 million and favourable foreign exchange effects of about \$70 million.

Refinery throughput averaged 364,000 barrels per day in the first six 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 the impact of a planned turnaround and the tower incident at Sarnia, partially offset by the absence of the 2018 planned turnaround at Strathcona.

Petroleum product sales were 477,000 barrels per day in the first six months of 2019, compared to 494,000 barrels per day in the same period of 2018. Lower petroleum product sales were mainly due to lower refinery throughput.

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Chemical net income was \$72 million in the first six months of 2019, compared to \$151 million in the same period of 2018, primarily reflecting lower margins.

Corporate and other expenses were \$125 million in the first six months of 2019, compared to \$111 million in the same period of 2018.

## Liquidity and capital resources

Cash flow generated from operating activities was \$1,026 million in the second quarter, up from \$859 million in the corresponding period in 2018, reflecting higher earnings partially offset by working capital effects.

Investing activities used net cash of \$429 million in the second quarter, compared with \$379 million used in the same period of 2018.

Cash used in financing activities was \$521 million in the second quarter, compared with \$1,032 million used in the second quarter of 2018. Dividends paid in the second quarter of 2019 were \$147 million. The per share dividend paid in the second quarter was \$0.19, up from \$0.16 in the same period of 2018. During the second quarter, the company, under its share purchase program, purchased about 9.8 million shares for \$368 million, including shares purchased from Exxon Mobil Corporation. In the second quarter of 2018, the company purchased about 21.4 million shares for \$893 million following the increase of its share purchase program.

The company's cash balance was \$1,087 million at June 30, 2019, versus \$873 million at the end of second quarter 2018.

Cash flow generated from operating activities was \$2,029 million in the first six months of 2019, up from \$1,844 million in the same period of 2018, primarily reflecting higher earnings.

Investing activities used net cash of \$892 million in the first six months of 2019, compared with \$744 million used in 2018, primarily reflecting higher additions to property, plant and equipment.

Cash used in financing activities was \$1,038 million in the first six months of 2019, compared with \$1,422 million used in the same period of 2018. Dividends paid in the first six months of 2019 were \$296 million. The per share dividend paid in the first six months of 2019 was \$0.38, up from \$0.32 in the same period of 2018. During the first six months of 2019, the company, under its share purchase program, purchased about 19.8 million shares for \$729 million, including shares purchased from Exxon Mobil Corporation. In the first six months of 2018, the company purchased about 28.6 million shares for \$1,143 million following the increase of its share purchase program.

On June 21, 2019, 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 existing share purchase program. The program enables the company to purchase up to a maximum of 38,211,086 common shares during the period June 27, 2019 to June 26, 2020. This maximum includes shares purchased under the normal course issuer bid and from Exxon Mobil Corporation concurrent with, but outside of the normal course issuer bid. As in the past, Exxon Mobil Corporation has advised the company that it intends to participate to maintain its ownership percentage at approximately 69.6 percent. The program will end should the company purchase the maximum allowable number of shares, or on June 26, 2020.

## 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. Imperial is evaluating the standard and its effect on the company's financial statements.

## 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 capital activities 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 six months ended June 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.