

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

Current economic conditions

In 2020, the balance of supply and demand for petroleum and petrochemical products experienced two significant disruptive effects. On the demand side, the COVID-19 pandemic spread rapidly across Canada and the world resulting in substantial reductions in consumer and business activity and significantly reduced local and global demand for crude oil, natural gas, and petroleum products. This reduction in demand coincided with announcements of increased production in certain key oil-producing countries which led to increases in inventory levels and sharp declines in prices for crude oil, natural gas, and petroleum products. Throughout the second and third quarters, the effects of COVID-19 continued to have a negative impact on the world's major economies and demand for the company's products, and market conditions continue to reflect considerable uncertainty. In Canada, consumer and business activity has exhibited some degree of recovery, but remains lower when compared to prior periods as a result of the pandemic. Despite actions taken by key oil-producing countries to reduce oversupply in the near-term, and improved credit market conditions providing sufficient liquidity to credit-worthy companies, the unfavourable economic impacts appear increasingly likely to persist to some extent well into 2021.

In late March, the company announced significant reductions in 2020 capital and operating expense spending plans. Capital and exploration expenditures in 2020 are now expected to be about \$900 million, below the company's earlier guidance of \$1.1 billion to \$1.2 billion. In addition, year-to-date production and manufacturing expenses are \$813 million lower than the prior year, enabling the company to already surpass the full-year expense reduction target of \$500 million.

The effect of COVID-19 and the current business environment on supply and demand patterns has negatively impacted Imperial's financial and operating results in the first nine months of 2020. Industry conditions seen thus far in 2020 have led to lower realized prices for the company's products and have resulted in substantially lower earnings and operating cash flow throughout 2020 in comparison to 2019. In response to these conditions, the company operated certain assets at reduced rates in the second and third quarters of 2020. The company advanced and extended planned maintenance and turnaround activities throughout the second and third quarters in an effort to reduce on-site staffing levels and to better balance production with demand. The turnaround activities at Kearl and Syncrude were completed in the third quarter. Refinery utilization rates and petroleum product sales were reduced through the second quarter of 2020, but improved in the third quarter due to improved product demands. There have been signs of economic recovery, however, the length and severity of decreased demand due to COVID-19 and the current business environment are highly uncertain, with the future supply and demand patterns inherently difficult to predict.

The company has reviewed its near-term spending reductions, near-term production impacts and expected near-term price levels to determine whether they put its long-lived assets at risk for impairment. Despite the challenging near-term environment, the company's view of long-term supply and demand fundamentals has not changed significantly. However, the company continues to assess its strategic plans and longer-term price views, taking into account current and developing industry and economic conditions and continued market uncertainty, as part of its annual planning process, targeted for required Board of Directors review in the fourth quarter. Depending on the outcome of the planning process, including, in particular, any significant future changes in the company's strategic plans or longer-term price views, a portion of the company's long-lived assets could be at risk for impairment.

IMPERIAL OIL LIMITED

As disclosed in Imperial's 2019 Form 10-K, low crude oil and natural gas prices can impact the company's estimates of proved reserves as reported under U.S. Securities and Exchange Commission (SEC) rules. Imperial's average year-to-date realizations for crude oil have been significantly affected by low prices since the end of the first quarter. Similar to downward revisions of proved bitumen reserves at year-end 2016 that resulted from low prices, if average prices remain near current levels, under the SEC definition of proved reserves, certain quantities that qualified as proved reserves at year-end 2019, primarily proved bitumen reserves at Kearl (totalling approximately 60 percent of the company's 3.5 billion oil-equivalent barrels of net proved reserves), will not qualify as proved reserves at year-end 2020. Proved reserves estimates can be impacted by a number of factors including completion and optimization of development projects, reservoir performance, regulatory approvals, government policies, consumer preferences, changes in the amount and timing of capital investments, royalty framework, and significant changes in long-term oil and gas price levels. The company does not expect the operation of the underlying projects or its outlook for future production volumes to be affected by a possible downward revision of reported proved reserves under the SEC definition.

In the second quarter of 2020, Canadian federal and provincial governments introduced plans and programs to support business and economic activities in response to the disruptive impacts from the COVID-19 pandemic. The Government of Canada implemented the Canada Emergency Wage Subsidy (CEWS) as part of its COVID-19 Economic Response Plan, and has recently announced its intent to extend the CEWS until June 2021. The company received wage subsidies under this program and, if eligible, intends to continue to apply for these wage subsidies. Additionally, the Government of Alberta announced its Recovery Plan, including a proposed acceleration of the Alberta corporate income tax rate decrease originally legislated in 2019. If enacted, the Alberta corporate income tax rate would be reduced to eight percent beginning July 1, 2020, compared with a previously legislated reduction to eight percent beginning January 1, 2022. The proposed corporate income tax rate change is not expected to have a significant impact on the company's financial statements.

The company has taken steps, in line with federal and provincial guidelines and restrictions, to limit the spread of COVID-19 among employees, contractors and the broader community, while also maintaining operations to ensure reliable supply of products to customers as a provider of essential services. The company maintains robust business continuity plans, which have been activated to minimize the impact of COVID-19 on workforce productivity.

Operating results

Third quarter 2020 vs. third quarter 2019

The company recorded net income of \$3 million or \$0.00 per share on a diluted basis in the third quarter of 2020, compared to net income of \$424 million or \$0.56 per share in the same period of 2019.

Upstream recorded a net loss of \$74 million in the third quarter of 2020, compared to net income of \$209 million in the same period of 2019. Results were negatively impacted by lower realizations of about \$490 million and lower volumes of about \$110 million. These items were partially offset by lower royalties of about \$150 million and lower operating expenses of about \$130 million.

West Texas Intermediate (WTI) averaged US\$40.93 per barrel in the third quarter of 2020, down from US\$56.44 per barrel in the same quarter of 2019. Western Canada Select (WCS) averaged US\$31.81 per barrel and US\$44.21 per barrel for the same periods. The WTI / WCS differential averaged approximately US\$9 per barrel for the third quarter of 2020, compared to around US\$12 in the same period of 2019.

The Canadian dollar averaged US\$0.75 in the third quarter of 2020, a decrease of US\$0.01 from the third quarter of 2019.

Imperial's average Canadian dollar realizations for bitumen decreased in the quarter, primarily due to a decrease in WCS. Bitumen realizations averaged \$35.95 per barrel in the third quarter of 2020, compared to \$51.12 per barrel in the third quarter of 2019. The company's average Canadian dollar realizations for synthetic crude decreased generally in line with WTI, adjusted for changes in exchange rates and transportation costs. Synthetic crude realizations averaged \$50.79 per barrel in the third quarter of 2020, compared to \$77.27 per barrel in the same period of 2019.

Total gross production of Kearl bitumen averaged 189,000 barrels per day in the third quarter (134,000 barrels Imperial's share), compared to 224,000 barrels per day (159,000 barrels Imperial's share) in the third quarter of 2019. Lower production was due to the advancement and extension of a planned turnaround at the site and a third-party pipeline outage.

Gross production of Cold Lake bitumen averaged 131,000 barrels per day in the third quarter, compared to 142,000 barrels per day in the same period of 2019. Lower production was mainly due to production timing associated with steam management.

The company's share of gross production from Syncrude averaged 67,000 barrels per day, compared to 69,000 barrels per day in the third quarter of 2019.

Downstream recorded net income of \$77 million in the third quarter of 2020, compared to net income of \$221 million in the same period of 2019. Results were negatively impacted by lower margins of about \$230 million and lower sales volumes of about \$70 million. These items were offset by lower operating expenses of about \$70 million, and improved reliability of about \$50 million, primarily related to the absence of the Sarnia fractionation tower incident which occurred in April 2019.

Refinery throughput averaged 341,000 barrels per day, compared to 363,000 barrels per day in the third quarter of 2019. Capacity utilization was 81 percent, compared to 86 percent in the third quarter of 2019. Reduced throughput was due to lower market demand, partially offset by reduced planned maintenance.

Petroleum product sales were 449,000 barrels per day, compared to 488,000 barrels per day in the third quarter of 2019. Lower petroleum product sales were mainly due to reduced demand from the COVID-19 pandemic.

Chemical net income was \$27 million in the third quarter, compared to \$38 million in the same quarter of 2019.

Corporate and other expenses were \$27 million in the third quarter, compared to \$44 million in the same period of 2019.

Nine months 2020 vs. nine months 2019

Net loss in the first nine months of 2020 was \$711 million, or \$0.97 per share on a diluted basis, compared to net income of \$1,929 million or \$2.51 per share in the first nine months of 2019. Current year results include a favourable impact of about \$90 million after-tax, associated with the Canada Emergency Wage Subsidy (CEWS), which includes Imperial's proportionate share of a joint venture. Year-to-date 2019 results included a favourable impact of \$662 million associated with the Alberta corporate income tax rate decrease.

Upstream recorded a net loss of \$1,126 million for the first nine months of the year, compared to net income of \$1,252 million in the same period of 2019. Results were negatively impacted by lower realizations of about \$2,330 million, absence of a favourable impact of \$689 million associated with the Alberta corporate income tax rate decrease in 2019, and lower volumes of about \$300 million. These items were partially offset by lower royalties of about \$460 million, lower operating expenses of about \$320 million, favourable foreign exchange impacts of about \$120 million and about \$60 million associated with the CEWS received by the company which includes Imperial's proportionate share of a joint venture.

West Texas Intermediate averaged US\$38.10 per barrel in the first nine months of 2020, down from US\$57.10 per barrel in the same period of 2019. Western Canada Select averaged US\$24.72 per barrel and US\$45.32 per barrel for the same periods. The WTI / WCS differential widened to average approximately US\$13 per barrel in the first nine months of 2020, from around US\$12 per barrel in the same period of 2019.

The Canadian dollar averaged US\$0.74 in the first nine months of 2020, a decrease of US\$0.01 from the same period in 2019.

Imperial's average Canadian dollar realizations for bitumen decreased in the first nine months of 2020 primarily due to a decrease in WCS. Bitumen realizations averaged \$22.24 per barrel, compared to \$52.44 per barrel from the same period in 2019. The company's average Canadian dollar realizations for synthetic crude decreased generally in line with WTI in the first nine months of 2020, adjusted for changes in exchange rates and transportation costs. Synthetic crude realizations averaged \$49.06 per barrel, compared to \$74.59 per barrel from the same period in 2019.

Total gross production of Kearl bitumen averaged 202,000 barrels per day in the first nine months of 2020 (143,000 barrels Imperial's share), down from 204,000 barrels per day (145,000 barrels Imperial's share) in the same period of 2019. Lower production was mainly due to the balancing of near-term production with demand through the advancement and extension of planned turnaround activities and a third-party pipeline outage, partially offset by the addition of supplemental crushing facilities in 2020.

Gross production of Cold Lake bitumen averaged 131,000 barrels per day in the first nine months of 2020, compared to 141,000 barrels per day in the same period of 2019. Lower production was mainly due to production timing associated with steam management.

During the first nine months of 2020, the company's share of gross production from Syncrude averaged 63,000 barrels per day, compared to 76,000 barrels per day in the same period of 2019. Lower production was mainly due to the balancing of near term production with demand.

Downstream net income was \$447 million, compared to \$736 million in the same period of 2019. Results were negatively impacted by lower margins of about \$460 million, and lower sales volumes of about \$220 million. These items were offset by improved reliability of \$200 million, primarily due to the absence of the Sarnia fractionation tower incident which occurred in April 2019, lower operating expenses of \$140 million and lower turnaround costs of \$70 million primarily related to reduced turnaround activity in the current year.

Refinery throughput averaged 334,000 barrels per day in the first nine months of 2020, compared to 363,000 barrels per day in the same period of 2019. Capacity utilization was 79 percent, compared to 86 percent in the same period of 2019. Lower throughput was primarily due to reduced demand from the COVID-19 pandemic, partially offset by the absence of impacts from the Sarnia fractionation tower incident which occurred in April 2019.

IMPERIAL OIL LIMITED

Petroleum product sales were 423,000 barrels per day in the first nine months of 2020, compared to 481,000 barrels per day in the same period of 2019. Lower petroleum product sales were mainly due to reduced demand resulting from the COVID-19 pandemic.

Chemical net income was \$55 million in the first nine months of 2020, compared to \$110 million in the same period of 2019. Results were negatively impacted by lower margins of about \$60 million.

Corporate and other expenses were \$87 million in the first nine months of 2020, compared to \$169 million in the same period of 2019, mainly due to lower share-based compensation costs.

Liquidity and capital resources

Cash flow generated from operating activities was \$875 million in the third quarter, compared with cash flow generated from operating activities of \$1,376 million in the corresponding period in 2019, primarily reflecting lower realizations in the Upstream and lower margins in the Downstream.

Investing activities used net cash of \$125 million in the third quarter, compared with \$413 million used in the same period of 2019, primarily reflecting lower additions to property, plant and equipment.

Cash used in financing activities was \$166 million in the third quarter, compared with \$519 million used in the third quarter of 2019. Dividends paid in the third quarter of 2020 were \$162 million. The per share dividend paid in the third quarter was \$0.22, consistent with \$0.22 in the same period of 2019. The company did not purchase shares during the third quarter. In the third quarter of 2019, the company purchased about 9.8 million shares for \$343 million, including shares purchased from Exxon Mobil Corporation.

The company's cash balance was \$817 million at September 30, 2020, versus \$1,531 million at the end of third quarter 2019.

Cash flow generated from operating activities was \$482 million in the first nine months of 2020, compared with cash flow generated from operating activities of \$3,405 million in the same period of 2019, primarily reflecting lower realizations in the Upstream and unfavourable working capital impacts.

Investing activities used net cash of \$605 million in the first nine months of 2020, compared with \$1,305 million used in the same period of 2019, primarily reflecting lower additions to property, plant and equipment.

Cash used in financing activities was \$778 million in the first nine months of 2020, compared with \$1,557 million used in the same period of 2019. Dividends paid in the first nine months of 2020 were \$488 million. The per share dividend paid in the first nine months of 2020 was \$0.66, up from \$0.60 in the same period of 2019. During the first nine months of 2020, the company, under its share purchase program, purchased about 9.8 million shares for \$274 million. In the first nine months of 2019, the company purchased about 29.6 million shares for \$1,072 million.

During the second quarter of 2020, in addition to existing credit facilities of \$500 million, the company entered into a \$500 million committed short-term line of credit to May 2021, and a \$300 million committed short-term line of credit to June 2021. The company has not drawn on any of its credit facilities.

On June 23, 2020, the company announced by news release that it had received final approval from the Toronto Stock Exchange for a limited normal course issuer bid. The program is used primarily to eliminate dilution from shares issued in conjunction with Imperial's restricted stock unit plan, and enables the company to purchase up to a maximum of 50,000 common shares during the period June 29, 2020 to June 28, 2021. 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 28, 2021.

Forward-looking statements

Statements of future events or conditions in this report, including projections, targets, expectations, estimates, and business plans are forward-looking statements. Forward-looking statements can be identified by words such as believe, anticipate, intend, propose, plan, goal, seek, project, predict, target, estimate, expect, strategy, outlook, schedule, future, continue, likely, may, should, will and similar references to future periods. Forward-looking statements in this release include, but are not limited to, references to the use of derivative instruments and effectiveness of risk mitigation; market uncertainty and the extent and length of ongoing effects of the COVID-19 pandemic on economic activity; previously announced expense reduction target and the adjusted expected full year capital expenditures of about \$900 million for 2020; the company's view of long-term supply and demand fundamentals; the impacts of future reductions in long-term price outlooks, including impairment of long-lived assets; the impact of current low oil and natural gas prices on proved reserves under SEC rules, including the possible downward revision of proved bitumen reserves; the intention to continue applying for the Canada Emergency Wage Subsidy; the impact of the Government of Alberta acceleration of corporate income tax rate decrease; and the impact of measures implemented in response to COVID-19.

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, foreign exchange rates and general market conditions; production rates, growth and mix; project plans, timing, costs, technical evaluations and capacities and the company's ability to effectively execute on these plans and operate its assets; progression of COVID-19 and its impacts on Imperial's ability to operate its assets, including the possible shutdown of facilities due to COVID-19 outbreaks; the company's ability to effectively execute on its business continuity plans and pandemic response activities; the ability of the company to achieve cost savings and adjust maintenance work; the performance of third-party service providers, including diluent supply by pipeline to Kearn; the adoption and impact of new facilities or technologies, including on reductions to greenhouse gas emissions intensity; refinery utilization and product sales; applicable laws and government policies, including production curtailment and restrictions in response to COVID-19; financing sources and capital structure, including the ability to issue long-term debt; and capital and environmental expenditures could differ materially depending on a number of factors. These factors include global, regional or local changes in supply and demand for oil, natural gas, and petroleum and petrochemical products and resulting price, differential and margin impacts, including foreign government action with respect to supply levels and prices and the impact of COVID-19 on demand; general economic conditions; availability and allocation of capital; currency exchange rates; transportation for accessing markets; political or regulatory events, including changes in law or government policy such as tax laws, production curtailment and actions in response to COVID-19; availability and performance of third-party service providers, including in light of restrictions related to COVID-19; management effectiveness and disaster response preparedness, including business continuity plans in response to COVID-19; environmental risks inherent in oil and gas exploration and production activities; environmental regulation, including climate change and greenhouse gas regulation and changes to such regulation; unanticipated technical or operational difficulties; project management and schedules and timely completion of projects; the receipt, in a timely manner, of regulatory and third-party approvals; the results of research programs and new technologies, and ability to bring new technologies to commercial scale on a cost-competitive basis; operational hazards and risks; cybersecurity incidents, including increased reliance on remote working arrangements and activation of business continuity plans due to COVID-19; 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 and subsequent interim reports on Form 10-Q.

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, 2020, does not differ materially from that discussed on page 27 of the company's annual report on Form 10-K for the year ended December 31, 2019 and on page 26 of the Form 10-Q for the quarter ended June 30, 2020.