

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

Operating results

In early 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 through most areas of the world resulting in substantial reductions in consumer and business activity and significantly reduced 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.

Through 2021, demand for petroleum and petrochemical products has continued to recover, with each of the company's sequential quarterly financial results benefiting from stronger prices when compared to the prior quarter. The company continues to closely monitor industry and global economic conditions, including recovery from the COVID-19 pandemic.

Looking beyond the volatility marking recent economic conditions, the company's annual planning process provides an opportunity to re-affirm the fundamentals of supply and demand that underpin our businesses. Consideration is given to a diverse set of risks and other factors that may influence future energy supply and demand trends, including technological advancements, regulation and government policies, climate change, greenhouse gas restrictions, and other general economic conditions. The company views climate change risks as a global issue that requires collaboration among governments, private companies, consumers and other stakeholders to create meaningful solutions. These should meet the world's increasing demand for affordable and reliable energy while creating opportunities to transition to a lower carbon future. The variety of potential transition pathways for society to a lower-carbon future, influenced by assumptions regarding economic growth, technology and governmental policy, indicates a wide range of uncertainty for the types and demand levels of energy.

The board of directors evaluates climate change risk in the context of overall enterprise risk, including other operational, strategic, and financial risks. The company considers the interactions among these factors as it pursues a strategy that is resilient to a wide range of potential pathways for society's energy transition while continuing to grow shareholder value. It takes into account emerging industry and economic conditions and market and government policy uncertainties in developing its strategic plans and longer-term price views as part of its annual business planning process. The company continues to make progress on its greenhouse gas emission reduction plans and efforts to position the company for success in a lower-carbon energy future. It expects to play an important role in providing energy and products that are critical to economic growth while minimizing environmental impacts and supporting society's ambition to achieve a lower-carbon energy future. The company continues to analyze internal and external scenarios of future energy markets to create a deeper understanding of what resiliency requires and which opportunities could emerge, but the assumptions and outcome of any given scenario or set of scenarios come with a high degree of uncertainty.

To the extent the planning process results in any significant changes to the company's current development plans for its portfolio, certain assets could be at risk for impairment. The company will complete any required asset recoverability assessments in connection with the preparation and review of the company's year-end financial statements for inclusion in its 2021 Form 10-K. Until these activities are complete, it is not practicable to reasonably estimate the existence or range of potential future impairments.

Third quarter 2021 vs. third quarter 2020

The company recorded net income of \$908 million or \$1.29 per share on a diluted basis in the third quarter of 2021, up from net income of \$3 million or \$0.00 per share in the same period of 2020.

Upstream recorded net income of \$524 million in the third quarter of 2021, compared to a net loss of \$74 million in the same period of 2020. Improved results reflect higher realizations of about \$730 million and

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higher volumes of about \$350 million. These items were partially offset by higher operating expenses of about \$210 million, higher royalties of about \$190 million and unfavourable foreign exchange impacts of about \$60 million.

West Texas Intermediate (WTI) averaged US\$70.52 per barrel in the third quarter of 2021, up from US\$40.93 per barrel in the same quarter of 2020. Western Canada Select (WCS) averaged US\$57.08 per barrel and US\$31.81 per barrel for the same periods. The WTI / WCS differential averaged approximately US\$13 per barrel for the third quarter of 2021, up from around US\$9 in the same period of 2020.

The Canadian dollar averaged US\$0.79 in the third quarter of 2021, an increase of US\$0.04 from the third quarter of 2020.

Imperial's average Canadian dollar realizations for bitumen increased in the quarter, generally in line with WCS. Bitumen realizations averaged \$60.44 per barrel in the third quarter of 2021, up from \$35.95 per barrel in the third quarter of 2020. The company's average Canadian dollar realizations for synthetic crude increased generally in line with WTI, adjusted for changes in exchange rates and transportation costs. Synthetic crude realizations averaged \$85.94 per barrel in the third quarter of 2021, up from \$50.79 per barrel in the same period of 2020.

Total gross production of Kearl bitumen averaged 274,000 barrels per day in the third quarter (194,000 barrels Imperial's share), up from 189,000 barrels per day (134,000 barrels Imperial's share) in the third quarter of 2020. Higher production was primarily driven by the absence of a prior year third-party pipeline outage, market-demand production balancing, and impacts associated with planned turnaround activities.

Gross production of Cold Lake bitumen averaged 135,000 barrels per day in the third quarter, up from 131,000 barrels per day in the same period of 2020.

The company's share of gross production from Syncrude averaged 78,000 barrels per day, up from 67,000 barrels per day in the third quarter of 2020. Higher production was primarily driven by the absence of the prior year turnaround.

Downstream recorded net income of \$293 million in the third quarter of 2021, compared to net income of \$77 million in the same period of 2020. Improved results primarily reflect higher margins of about \$280 million.

Refinery throughput averaged 404,000 barrels per day, up from 341,000 barrels per day in the third quarter of 2020. Capacity utilization was 94 percent, up from 81 percent in the third quarter of 2020. Higher throughput was driven by increased demand.

Petroleum product sales were 485,000 barrels per day, up from 449,000 barrels per day in the third quarter of 2020. Improved petroleum product sales were mainly due to increased demand.

Chemical net income was \$121 million in the third quarter, up from \$27 million in the same quarter of 2020, primarily due to higher polyethylene margins.

Corporate and other expenses were \$30 million in the third quarter, up from \$27 million in the same period of 2020.

Nine months 2021 vs. nine months 2020

Net income in the first nine months of 2021 was \$1,666 million, or \$2.31 per share on a diluted basis, compared to a net loss of \$711 million or \$0.97 per share in the first nine months of 2020.

Upstream recorded net income of \$850 million for the first nine months of the year, compared to a net loss of \$1,126 million in 2020. Improved results reflect higher realizations of about \$2,570 million and higher volumes of about \$620 million. These items were partially offset by higher royalties of about \$490 million, higher operating expenses of about \$490 million, and unfavourable foreign exchange impacts of about \$180 million.

West Texas Intermediate averaged US\$65.04 per barrel in the first nine months of 2021, up from US\$38.10 per barrel in 2020. Western Canada Select averaged US\$52.45 per barrel and US\$24.72 per barrel for the same periods. The WTI / WCS differential of approximately US\$13 per barrel in the first nine months of 2021, was generally in line with the same period of 2020.

The Canadian dollar averaged US\$0.80 in the first nine months of 2021, an increase of US\$0.06 from 2020.

Imperial's average Canadian dollar realizations for bitumen increased in the first nine months of 2021, generally in line with WCS. Bitumen realizations averaged \$55.30 per barrel, up from \$22.24 per barrel in the same period of 2020. The company's average Canadian dollar realizations for synthetic crude increased generally in line with WTI, adjusted for changes in exchange rates and transportation costs. Synthetic crude realizations averaged \$77.62 per barrel, up from \$49.06 per barrel in the same period of 2020.

Total gross production of Kearl bitumen averaged 260,000 barrels per day in the first nine months of 2021 (185,000 barrels Imperial's share), up from 202,000 barrels per day (143,000 barrels Imperial's share) in the same period of 2020. Higher production was primarily driven by the absence of prior year production balancing with market demands and the outage of a third-party pipeline.

Gross production of Cold Lake bitumen averaged 139,000 barrels per day in the first nine months of 2021, up from 131,000 barrels per day in the same period of 2020.

During the first nine months of 2021, the company's share of gross production from Syncrude averaged 68,000 barrels per day, up from 63,000 barrels per day in the same period of 2020.

Downstream net income was \$645 million for the first nine months of the year, up from \$447 million in the same period of 2020. Results have improved due to higher margins of about \$330 million, partially offset by unfavourable foreign exchange impacts of about \$120 million.

Refinery throughput averaged 367,000 barrels per day in the first nine months of 2021, up from 334,000 barrels per day in the same period of 2020. Capacity utilization was 86 percent, up from 79 percent in the same period of 2020. Higher throughput was driven by reduced impacts associated with the COVID-19 pandemic, partially offset by a planned turnaround at Strathcona.

Petroleum product sales were 442,000 barrels per day in the first nine months of 2021, up from 423,000 barrels per day in the same period of 2020. Improved petroleum product sales were mainly due to reduced impacts associated with the COVID-19 pandemic.

Chemical net income was \$297 million in the first nine months of 2021, up from \$55 million in the same period of 2020, primarily due to higher polyethylene margins.

Corporate and other expenses were \$126 million in the first nine months of 2021, up from \$87 million in the same period of 2020, mainly due to higher share-based compensation costs.

Liquidity and capital resources

Cash flow generated from operating activities was \$1,947 million in the third quarter, up from \$875 million in the corresponding period in 2020, primarily reflecting higher Upstream realizations and Downstream margins.

Investing activities used net cash of \$259 million in the third quarter, compared with \$125 million used in the same period of 2020. Full-year 2021 capital and exploration expenditures are now expected to be around \$1.1 billion, down from previous guidance of \$1.2 billion.

Cash used in financing activities was \$589 million in the third quarter, compared with \$166 million used in the third quarter of 2020. Dividends paid in the third quarter of 2021 were \$195 million. The per share dividend paid in the third quarter was \$0.27, an increase of \$0.05 from the same period of 2020. During the third quarter, the company, under its share purchase program, purchased about 9.0 million shares for \$313 million, including shares purchased from Exxon Mobil Corporation. In the third quarter of 2020, the company did not purchase any shares under its share purchase program.

The company's cash balance was \$1,875 million at September 30, 2021, versus \$817 million at the end of third quarter 2020.

During the second quarter of 2021, the company extended the maturity dates of two of its short-term lines of credit, totalling \$750 million, to May 2023 and extended its \$300 million committed short-term line of credit to June 2022. The company has not drawn on any of its \$1,300 million of available credit facilities.

Cash flow generated from operating activities was \$3,844 million in the first nine months of 2021, up from \$482 million in the same period of 2020, primarily reflecting higher Upstream realizations and Downstream margins.

Investing activities used net cash of \$613 million in the first nine months of 2021, up from \$605 million used in the same period of 2020. Full-year 2021 capital and exploration expenditures are now expected to be around \$1.1 billion, down from previous guidance of \$1.2 billion.

Cash used in financing activities was \$2,127 million in the first nine months of 2021, up from \$778 million used in the same period of 2020. Dividends paid in the first nine months of 2021 were \$518 million. The per share dividend paid in the first nine months of 2021 was \$0.71, up from \$0.66 in the same period of 2020. During the first nine months of 2021, the company, under its share purchase program, purchased about 38.5 million shares for \$1,484 million, including shares purchased from Exxon Mobil Corporation. In the first nine months of 2020, the company purchased about 9.8 million shares for \$274 million, including shares purchased from Exxon Mobil Corporation.

At March 31, 2021, due to the termination of transportation services agreements related to a third-party pipeline project, the company recognized a liability of \$62 million, previously reported as a contingent liability in Note 10 of Imperial's Form 10-K. In connection with the same project, commitments under "Other long-term purchase agreements" as reported in Imperial's Form 10-K decreased by approximately \$2.9 billion. The majority of these commitments related to years 2026 and beyond.

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; the variety of potential transition pathways for society to a lower-carbon future indicating a wide range of uncertainty for types and demand levels of energy; the company's efforts with respect to climate risk, including the evaluation of climate risk in the context of overall enterprise risk and the ability to pursue a strategy resilient to a wide range of pathways for society's energy transition while growing shareholder value; progress on greenhouse gas emission reduction plans and efforts to position the company for success in a lower-carbon energy future; and the company's role in providing products critical to economic growth, minimizing environmental impacts and supporting society's ambition to achieve a lower-carbon energy future; plans for purchases under the amended share purchase program; and full-year capital and exploration expenditures of \$1.1 billion for 2021.

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; the adoption and impact of new facilities, technologies or products, including on reductions to greenhouse gases; plans to mitigate climate risk and the resilience of company strategy to a range of pathways for society's energy transition; applicable laws and government policies, including restrictions in response to COVID-19 and environmental regulation; 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; 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; availability and allocation of capital; political or regulatory events, including changes in law or government policy such as tax laws, production curtailment and actions in response to COVID-19; environmental regulation, including climate change and greenhouse gas regulation and changes to such regulation; environmental risks inherent in oil and gas exploration and production activities; management effectiveness and disaster response preparedness, including business continuity plans in response to COVID-19; unanticipated technical or operational difficulties; project management and schedules and timely completion of projects; 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; the receipt, in a timely manner, of regulatory and third-party approvals; currency exchange rates; general economic conditions; 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, 2021, does not differ materially from that discussed on page 32 of the company's annual report on Form 10-K for the year ended December 31, 2020 and on page 24 of the Form 10-Q for the quarter ended June 30, 2021.