

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 improve leading to stronger prices and margins across all segments. Some lingering effects of the weak 2020 business environment continued to have a negative impact on financial results in the first half of 2021 when compared to periods prior to the pandemic. The company continues to closely monitor industry and global economic conditions, including recovery from the COVID-19 pandemic.

Second quarter 2021 vs. second quarter 2020

The company recorded net income of \$366 million or \$0.50 per share on a diluted basis in the second quarter of 2021, compared to a net loss of \$526 million or \$0.72 per share in the same period of 2020. Second quarter 2020 results included a reversal of the non-cash inventory revaluation charge of \$281 million recorded in the first quarter of 2020.

Upstream recorded net income of \$247 million in the second quarter of 2021, compared to a net loss of \$444 million in the same period of 2020. Improved results reflect higher realizations of about \$1,100 million and higher volumes of about \$280 million. These items were partially offset by the absence of the prior year reversal of the non-cash charge of \$229 million related to the revaluation of the company's inventory, higher operating expenses of about \$230 million, higher royalties of about \$200 million and unfavourable foreign exchange impacts of about \$50 million.

West Texas Intermediate (WTI) averaged US\$66.17 per barrel in the second quarter of 2021, up from US\$27.83 per barrel in the same quarter of 2020. Western Canada Select (WCS) averaged US\$54.64 per barrel and US\$16.73 per barrel for the same periods. The WTI / WCS differential averaged approximately US\$12 per barrel for the second quarter of 2021, up from around US\$11 in the same period of 2020.

The Canadian dollar averaged US\$0.81 in the second quarter of 2021, an increase of US\$0.09 from the second quarter of 2020.

Imperial's average Canadian dollar realizations for bitumen increased in the quarter, primarily due to an increase in WCS. Bitumen realizations averaged \$57.26 per barrel in the second quarter of 2021, up from \$12.82 per barrel in the second 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 \$80.80 per barrel in the second quarter of 2021, up from \$32.20 per barrel in the same period of 2020.

Total gross production of Kearl bitumen averaged 255,000 barrels per day in the second quarter (181,000 barrels Imperial's share), up from 190,000 barrels per day (135,000 barrels Imperial's share) in the second quarter of 2020. Higher production was mainly due to the absence of prior year production balancing with market demands, partially offset by impacts associated with planned turnaround activities.

Gross production of Cold Lake bitumen averaged 142,000 barrels per day in the second quarter, up from 123,000 barrels per day in the same period of 2020. Higher production was primarily due to improved reliability and lower scheduled downtime.

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The company's share of gross production from Syncrude averaged 47,000 barrels per day, compared to 50,000 barrels per day in the second quarter of 2020. Lower production was primarily associated with planned turnaround activities, partially offset by the absence of prior year production balancing with market demands.

Downstream recorded net income of \$60 million in the second quarter of 2021, compared to a net loss of \$32 million in the same period of 2020. Improved results reflect higher margins of about \$200 million, partially offset by unfavourable foreign exchange impacts of about \$70 million and the absence of the prior year reversal of the non-cash charge of \$52 million related to the revaluation of the company's inventory.

Refinery throughput averaged 332,000 barrels per day, up from 278,000 barrels per day in the second quarter of 2020. Capacity utilization was 78 percent, up from 66 percent in the second quarter 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 429,000 barrels per day, up from 357,000 barrels per day in the second quarter of 2020. Improved petroleum product sales were mainly due to reduced impacts associated with the COVID-19 pandemic.

Chemical net income was \$109 million in the second quarter, up from net income of \$7 million in the same quarter of 2020, primarily due to higher polyethylene margins.

Corporate and other expenses were \$50 million in the second quarter, compared to \$57 million in the same period of 2020.

Six months 2021 vs. six months 2020

Net income in the first six months of 2021 was \$758 million, or \$1.04 per share on a diluted basis, compared to a net loss of \$714 million or \$0.97 per share in the first six months of 2020.

Upstream recorded net income of \$326 million for the first six months of the year, compared to a net loss of \$1,052 million in 2020. Improved results reflect higher realizations of about \$1,810 million and higher volumes of about \$280 million. These items were partially offset by higher royalties of about \$300 million, higher operating expenses of about \$290 million, and unfavourable foreign exchange impacts of about \$120 million.

West Texas Intermediate averaged US\$62.22 per barrel in the first six months of 2021, up from US\$36.66 per barrel in 2020. Western Canada Select averaged US\$50.14 per barrel and US\$21.20 per barrel for the same periods. The WTI / WCS differential narrowed to approximately US\$12 per barrel in the first six months of 2021, from around US\$15 per barrel in the same period of 2020.

The Canadian dollar averaged US\$0.80 in the first six months of 2021, an increase of US\$0.07 from 2020.

Imperial's average Canadian dollar realizations for bitumen increased in the first six months of 2021 primarily due to an increase in WCS. Bitumen realizations averaged \$52.45 per barrel, up from \$15.54 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 \$72.42 per barrel, up from \$48.10 per barrel in the same period of 2020.

Total gross production of Kearl bitumen averaged 253,000 barrels per day in the first six months of 2021 (180,000 barrels Imperial's share), up from 208,000 barrels per day (147,000 barrels Imperial's share) in the same period of 2020. Higher production was mainly due to the absence of prior year production balancing with market demands, partially offset by impacts associated with planned turnaround activities.

Gross production of Cold Lake bitumen averaged 141,000 barrels per day in the first six months of 2021, up from 131,000 barrels per day in the same period of 2020. Higher production was primarily due to improved reliability.

During the first six months of 2021, the company's share of gross production from Syncrude averaged 63,000 barrels per day, up from 61,000 barrels per day in the same period of 2020. Higher production was primarily associated with the absence of prior year production balancing with market demands and unplanned downtime, partially offset by planned turnaround activities.

Downstream net income was \$352 million for the first six months of the year, compared to \$370 million in the same period of 2020. Results were negatively impacted by unfavourable foreign exchange impacts of about \$120 million, partially offset by higher margins of about \$50 million and lower operating expenses of about \$50 million.

Refinery throughput averaged 348,000 barrels per day in the first six months of 2021, up from 330,000 barrels per day in the same period of 2020. Capacity utilization was 81 percent, up from 78 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 421,000 barrels per day in the first six months of 2021, up from 409,000 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 \$176 million in the first six months of 2021, up from \$28 million in the same period of 2020, primarily due to higher polyethylene margins.

Corporate and other expenses were \$96 million in the first six months of 2021, up from \$60 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 \$852 million in the second quarter, compared with cash flow used in operating activities of \$816 million in the corresponding period in 2020, primarily reflecting higher Upstream realizations and favourable working capital impacts.

Investing activities used net cash of \$207 million in the second quarter, compared with \$172 million used in the same period of 2020.

Cash used in financing activities was \$1,336 million in the second quarter, compared with \$167 million used in the second quarter of 2020. Dividends paid in the second quarter of 2021 were \$161 million. The per share dividend paid in the second quarter was \$0.22, consistent with the same period of 2020. During the second quarter, the company, under its share purchase program, purchased about 29.5 million shares for \$1,171 million, including shares purchased from ExxonMobil Corporation. In the second quarter of 2020, the company did not purchase any shares under its share purchase program.

The company's cash balance was \$776 million at June 30, 2021, versus \$233 million at the end of second quarter 2020.

In May 2021, the company extended the maturity date of two of its existing committed short-term lines of credit to May 2023, totalling \$750 million. In June 2021, the company extended the maturity date of one of its existing \$300 million committed short-term lines 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 \$1,897 million in the first six months of 2021, compared to cash flow used in operating activities of \$393 million in the same period of 2020, primarily reflecting higher Upstream realizations and favourable working capital impacts.

Investing activities used net cash of \$354 million in the first six months of 2021, compared to \$480 million used in the same period of 2020, primarily reflecting lower additions to property, plant and equipment.

Cash used in financing activities was \$1,538 million in the first six months of 2021, up from \$612 million used in the same period of 2020. Dividends paid in the first six months of 2021 were \$323 million. The per share dividend paid in the first six months of 2021 was \$0.44, consistent with in the same period of 2020. During the first six months of 2021, the company, under its share purchase program, purchased about 29.5 million shares for \$1,171 million. In the first six months of 2020, the company purchased about 9.8 million shares for \$274 million.

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.

On April 30, 2021, the company announced an amendment to its normal course issuer bid to increase the number of common shares that were available to be purchased. Under the amendment, the number of common shares available for purchase increased to a maximum of 29,363,070 common shares during the period June 29, 2020 to June 28, 2021.

On June 23, 2021, 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 35,583,671 common shares during the period June 29, 2021 to June 28, 2022. 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, 2022.

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; earnings sensitivities; and plans for purchases under the amended share purchase program.

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; 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; political or regulatory events, including changes in law or government policy such as tax laws, production curtailment and actions in response to COVID-19; 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; operational hazards and risks; availability and allocation of capital; 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.

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, 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. The following table details those earnings sensitivities that have been updated from the fiscal year-end to reflect current market conditions.

Earnings Sensitivities (a)

millions of Canadian dollars after tax

One dollar (U.S.) per barrel increase (decrease) in crude oil prices	+ (-)	100
One cent decrease (increase) in the value of the Canadian dollar versus the U.S. dollar	+ (-)	100

(a) Each sensitivity calculation shows the impact on net income resulting from a change in one factor, after tax and royalties and holding all other factors constant. These sensitivities have been updated to reflect current conditions. They may not apply proportionately to larger fluctuations.