

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

Current economic conditions

During the first quarter of 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 sharp declines in prices for crude oil, natural gas, and petroleum products. Against this backdrop of economic uncertainty, global financial markets have experienced significant volatility and disruption, which at times have negatively impacted the efficiency of credit markets and available pools of liquidity.

In response to these conditions, the company announced significant reductions in 2020 capital and operating expense spending plans. Capital and exploration expenditures for 2020 are now expected to be \$1.1 billion to \$1.2 billion, compared to the previously announced \$1.6 billion to \$1.7 billion. In addition, Imperial has identified opportunities to reduce 2020 operating expenses by \$500 million compared to 2019 levels.

At the end of March 31, 2020, the company's cash balance was \$1.4 billion. Imperial's financial strength represents a competitive advantage of strategic importance. While internally generated funds cover the majority of its financial requirements, Imperial may extend its commercial paper program, access capital markets to issue long-term debt, or draw on unused lines of credit to strengthen its liquidity.

The effect of COVID-19 and the current business environment on supply and demand patterns is expected to result in negative impacts on Imperial's financial and operating results over the near-term. Should industry conditions near the end of the first quarter persist for an extended period into the future, the company expects lower realized prices for its products to result in reduced earnings and cash generated from operations compared to previous periods. In response to the current economic conditions, the company plans to operate certain assets at reduced rates in the second quarter of 2020. The company has advanced the start and extended the duration of Kearn's planned turnaround in an effort to reduce on-site staffing levels and to better balance near-term production with demand. The turnaround will now begin in early May and will continue until late June, and is expected to reduce Kearn's total gross production to average approximately 150,000 barrels per day for the second quarter of 2020. Regarding Syncrude, the coker turnaround activities, which had previously been deferred to the third quarter, will be advanced and begin in the second quarter. As a result, it is expected that Syncrude's production will be reduced to average approximately 45,000 to 50,000 barrels per day (Imperial's share) for the second quarter of 2020. Additionally, the company continues to evaluate the timing and scope of other planned turnaround activities across its operations. These activities will be managed to ensure the health and safety of site personnel. Refinery utilization rates and petroleum product sales were reduced at the end of the first quarter of 2020, driven by the significant decline in demand for petroleum products in Canada, and are expected to remain lower in the second quarter of 2020 compared to previous periods. 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.

While the company's view of long-term supply and demand fundamentals has not changed significantly, future reductions in the range of its long-term price outlooks could put a portion of its long-lived assets at risk for impairment. However, due to the inherent difficulty in predicting future commodity prices, and the relationship between industry prices and costs, it is not practicable to reasonably estimate the existence or range of any potential future impairment charges related to the company's long-lived assets.

IMPERIAL OIL LIMITED

As disclosed in Imperial's 2019 Form 10-K, low crude oil and natural gas prices can impact the company's proved reserves as reported under U.S. Securities and Exchange Commission (SEC) rules. If prices seen near the end of the first quarter persist for the remainder of the year, under the SEC definition of proved reserves, certain quantities of crude oil and natural gas may not qualify as proved reserves at year-end 2020. Since proved reserves estimates can be affected by a number of factors including completion 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, it is not practicable to reasonably estimate the range of any potential future revisions to the company's proved reserves for year-end 2020 reporting.

The Government of Canada implemented the Canada Emergency Wage Subsidy as part of Canada's COVID-19 response plan, and the company plans to submit an application.

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. Further measures have been implemented across the organization, including voluntary COVID-19 testing and modified work schedules at remote camp facilities. The company maintains robust business continuity plans, which have been activated to minimize the impact of COVID-19 on workforce productivity.

Operating results

First quarter 2020 vs. first quarter 2019

The company recorded a net loss of \$188 million or \$0.25 per share on a diluted basis in the first quarter of 2020, compared to net income of \$293 million or \$0.38 per share in the same period of 2019. Due to a significant decline in commodity prices at the end of March, first quarter 2020 results include non-cash charges of \$281 million associated with the revaluation of the company's inventory and \$20 million associated with a goodwill impairment.

Upstream recorded a net loss of \$608 million in the first quarter of 2020, compared to net income of \$58 million in the same period of 2019, reflecting non-cash charges of \$229 million associated with the revaluation of the company's inventory and \$20 million associated with a goodwill impairment. Results were also negatively impacted by lower crude oil realizations of about \$630 million, partially offset by lower royalties of about \$110 million and favourable foreign exchange effects of about \$50 million.

West Texas Intermediate (WTI) averaged US\$45.78 per barrel in the first quarter of 2020, down from US\$54.90 per barrel in the same quarter of 2019. Western Canada Select (WCS) averaged US\$25.60 per barrel and US\$42.44 per barrel for the same periods. The WTI / WCS differential widened during the first quarter of 2020 to average approximately US\$20 per barrel for the quarter, compared to around US\$12 per barrel in the same period of 2019.

The Canadian dollar averaged US\$0.74 in the first quarter of 2020, a decrease of US\$0.01 from the first 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 \$18.08 per barrel in the first quarter of 2020, compared to \$48.85 per barrel in the first 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 \$58.94 per barrel in the first quarter of 2020, compared to \$69.34 per barrel in the same period of 2019.

Total gross production of Kearl bitumen averaged 226,000 barrels per day in the first quarter (160,000 barrels Imperial's share), up from 180,000 barrels per day (127,000 barrels Imperial's share) in the first quarter of 2019. Higher production was mainly due to the ramp-up of the supplemental crushing facilities through the first quarter of 2020.

Gross production of Cold Lake bitumen averaged 140,000 barrels per day in the first quarter, compared to 145,000 barrels per day in the same period of 2019.

The company's share of gross production from Syncrude averaged 73,000 barrels per day, compared to 78,000 barrels per day in the first quarter of 2019. Syncrude production was impacted by unplanned maintenance which was partially completed in the quarter, with the remainder to be completed in the second quarter.

Downstream net income was \$402 million in the first quarter of 2020, up from \$257 million in the same period of 2019. Improved results reflect higher margins of about \$190 million and lower net impacts from reliability events of about \$50 million, partially offset by lower sales volumes of about \$50 million and a non-cash charge of \$52 million associated with the revaluation of the company's inventory.

Refinery throughput averaged 383,000 barrels per day, unchanged from the first quarter of 2019. Capacity utilization was 91 percent in the first quarter of 2020 and 2019.

Petroleum product sales were 462,000 barrels per day, compared to 477,000 barrels per day in the first quarter of 2019. Lower petroleum product sales were mainly due to reduced demand in March from the COVID-19 pandemic.

Chemical net income was \$21 million in the first quarter, compared to net income of \$34 million from the same quarter of 2019.

Corporate and other expenses were \$3 million in the first quarter, compared to \$56 million in the same period of 2019, mainly due to lower share-based compensation charges.

Liquidity and capital resources

Cash flow generated from operating activities was \$423 million in the first quarter, compared with \$1,003 million in the corresponding period in 2019, primarily reflecting lower realizations in the Upstream and unfavourable working capital impacts.

Investing activities used net cash of \$308 million in the first quarter, compared with \$463 million used in the same period of 2019, primarily reflecting lower additions to property, plant and equipment.

Cash used in financing activities was \$445 million in the first quarter, compared with \$517 million used in the first quarter of 2019. Dividends paid in the first quarter of 2020 were \$164 million. The per share dividend paid in the first quarter was \$0.22, up from \$0.19 in the same period of 2019. During the first quarter, the company, under its share purchase program, purchased about 9.8 million shares for \$274 million, including shares purchased from Exxon Mobil Corporation. In the first quarter of 2019, the company purchased about 10 million shares for \$361 million.

The company's cash balance was \$1,388 million at March 31, 2020, versus \$1,011 million at the end of first quarter 2019.

On March 31, 2020, the company announced by news release the suspension of its share purchase program effective April 1, 2020. The company purchased 28,697,514 common shares out of the 38,211,086 common shares allowable under the existing normal course issuer bid set to expire on June 26, 2020, including shares purchased from Exxon Mobil Corporation. Purchase plans may be modified at any time without prior notice.

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 derivatives instruments and effectiveness of risk mitigation; anticipated purchases under the share purchase program; the adjusted capital outlook of \$1.1 billion to \$1.2 billion for 2020; completion of unplanned maintenance at Syncrude in the second quarter; reductions in capital and operating expenses in light of the current business environment; the company's financial strength as a competitive advantage, including the ability to cover financial requirements with internally generated funds and potential actions to strengthen liquidity; near term impacts from COVID-19 and the business environment, including negative impacts on Upstream production, Downstream refinery utilization and product sales; impacts from an extended period of current industry conditions, including lower earnings, cash from operations and operating assets at reduced rates; changes to the timing and duration of Kearl and Syncrude turnaround activities, and reduced production for the second quarter; timing and scope of planned turnaround activities across operations; expected lower refinery utilization rates and petroleum products sales in the second quarter; 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 extended low oil and natural gas prices on proved reserves under SEC rules; applying for the Canada Emergency Wage Subsidy; the impact of measures implemented in response to COVID-19; and the impact of market uncertainty on earnings sensitivities.

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 to achieve cost savings and adjust maintenance work; 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 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; operational hazards and risks; cybersecurity incidents; 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

Overall information about market risks for the three months ended March 31, 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. Current market conditions of production oversupply as well as demand reduction due to the COVID-19 pandemic have led to a significant decrease in commodity prices. The company's earnings sensitivities have changed in response to the recent decline in prices and continue to fluctuate given ongoing market uncertainty.