

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

Operating results

First quarter 2021 vs. first quarter 2020

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.

While demand has rebounded considerably, the lingering effects of the weak 2020 business environment has continued to have a negative impact on financial results in 2021 when compared to periods prior to the pandemic. Signs of improvement are emerging including higher crude and gas prices through the quarter and stronger Downstream and Chemical margins.

The company recorded net income of \$392 million or \$0.53 per share on a diluted basis in the first quarter of 2021, compared to a net loss of \$188 million or \$0.25 per share in the same period of 2020. First quarter 2020 results included non-cash charges of \$281 million relating to the revaluation of the company's inventory.

Upstream recorded net income of \$79 million in the first quarter of 2021, compared to a net loss of \$608 million in the same period of 2020. Improved results reflect higher realizations of about \$700 million and the absence of the prior year non-cash charge of \$229 million, related to the revaluation of the company's inventory. These items were partially offset by higher royalties of about \$100 million, unfavourable foreign exchange effects of about \$70 million, and higher operating expenses of about \$60 million.

West Texas Intermediate (WTI) averaged US\$58.14 per barrel in the first quarter of 2021, up from US\$45.78 per barrel in the same quarter of 2020. Western Canada Select (WCS) averaged US\$45.64 per barrel and US\$25.60 per barrel for the same periods. The WTI / WCS differential averaged approximately US\$13 per barrel for the first quarter of 2021, compared to around US\$20 in the same period of 2020.

The Canadian dollar averaged US\$0.79 in the first quarter of 2021, an increase of US\$0.05 from the first 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 \$47.19 per barrel in the first quarter of 2021, up from \$18.08 per barrel in the first 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 \$67.41 per barrel in the first quarter of 2021, up from \$58.94 per barrel in the same period of 2020.

Total gross production of Kearl bitumen averaged 251,000 barrels per day in the first quarter (178,000 barrels Imperial's share), up from 226,000 barrels per day (160,000 barrels Imperial's share) in the first quarter of 2020. Higher production was primarily driven by the supplemental crushing facilities.

Gross production of Cold Lake bitumen averaged 140,000 barrels per day in the first quarter, in line with 140,000 barrels per day in the same period of 2020.

The company's share of gross production from Syncrude averaged 79,000 barrels per day, up from 73,000 barrels per day in the first quarter of 2020.

Downstream recorded net income of \$292 million in the first quarter of 2021, compared to net income of \$402 million in the same period of 2020. Results were negatively impacted by lower margins of about \$150 million

and lower sales volumes of about \$60 million. These items were partially offset by the absence of the prior year non-cash charge of \$52 million, related to the revaluation of the company's inventory and lower operating expenses of about \$50 million.

Refinery throughput averaged 364,000 barrels per day, compared to 383,000 barrels per day in the first quarter of 2020. Capacity utilization was 85 percent, compared to 91 percent in the first quarter of 2020. Lower refinery throughput was primarily driven by lower market demand due to the COVID-19 pandemic.

Petroleum product sales were 414,000 barrels per day, compared to 462,000 barrels per day in the first quarter of 2020. Lower petroleum product sales were primarily driven by reduced demand due to the COVID-19 pandemic.

Chemical net income was \$67 million in the first quarter, up from net income of \$21 million in the same quarter of 2020.

Corporate and other expenses were \$46 million in the first quarter, up from \$3 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 \$1,045 million in the first quarter, up from \$423 million in the corresponding period in 2020, primarily reflecting higher Upstream realizations.

Investing activities used net cash of \$147 million in the first quarter, compared with \$308 million used in the same period of 2020, primarily reflecting lower additions to property, plant and equipment.

Cash used in financing activities was \$202 million in the first quarter, compared with \$445 million used in the first quarter of 2020. Dividends paid in the first quarter of 2021 were \$162 million. The per share dividend paid in the first quarter was \$0.22, consistent with the same period of 2020. The company did not purchase shares during the first quarter. In the first quarter of 2020, the company purchased about 9.8 million shares for \$274 million, including shares purchased from Exxon Mobil Corporation.

The company's cash balance was \$1,467 million at March 31, 2021, versus \$1,388 million at the end of first quarter 2020.

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 it may purchase. Under the amendment, the number of common shares that may be purchased will increase to a maximum of 29,363,070 common shares during the period June 29, 2020 to June 28, 2021, which includes shares purchased under the normal course issuer bid and from Exxon Mobil Corporation concurrent with, but outside of the normal course issuer bid. No other provisions of the normal course issuer bid have changed. The company currently anticipates maximizing its share purchases under the program. 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 derivative instruments and effectiveness of risk mitigation; signs of improvement emerging in the business environment through higher crude and gas prices and stronger downstream and chemical margins; 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; cash generation, financing sources and capital structure; 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; 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; 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 three months ended March 31, 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.