

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

## Current economic conditions

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 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. During the second quarter, the effects of COVID-19 continued to affect the world's major economies, and market conditions reflected considerable uncertainty. In Canada, consumer and business activity exhibited some signs of recovery, but relative to prior periods continues to be negatively affected by the pandemic. Key oil-producing countries have taken steps to reduce oversupply of crude oil and petroleum products, and credit markets appear to have stabilized, providing sufficient liquidity to credit-worthy companies.

In late March, the company announced significant reductions in 2020 capital and operating expense spending plans. Capital and exploration expenditures in 2020 are 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 and progressed opportunities to reduce 2020 operating expenses by \$500 million compared to 2019 levels.

During the second quarter of 2020, the company entered into two additional committed short-term lines of credit totalling \$800 million to supplement its existing lines of credit of \$500 million. Both credit facilities will expire within one year and may be renewed or replaced according to the company's financing needs and business environment. At the end of June 30, 2020, the company's cash balance was \$233 million, and it has not drawn on any of its lines of credit. The company's total debt did not increase during the second quarter.

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 six months of 2020. Unless industry conditions seen thus far in 2020 improve significantly in the latter half of the year, the company expects lower realized prices for its products to result in substantially lower earnings and cash generated from operations than in 2019. In response to these conditions, the company operated certain assets at reduced rates in the second quarter of 2020, and extended plans to operate certain assets at reduced rates in the third quarter. The company advanced the start and extended the duration of a planned turnaround at one of Kearl's two plants in an effort to reduce on-site staffing levels and to better balance near-term production with demand. The turnaround began early May and was completed late June. While Kearl's total gross production was reduced to an average of 190,000 barrels per day (135,000 barrels Imperial's share) for the second quarter of 2020, total gross production was up from the previously announced estimate of approximately 150,000 barrels per day for the quarter, primarily driven by a partial recovery in market demand and strong plant performance. A planned turnaround at the second of Kearl's two plants was also advanced and began mid-July, with anticipated completion late August. With the extended duration of these turnarounds, Imperial now expects total gross production at Kearl to average approximately 220,000 barrels per day for the full-year 2020, compared to the previous annual estimate of 240,000 barrels per day for 2020. At Cold Lake, Imperial expects full-year gross production to average approximately 135,000 barrels per day, compared to the previous annual estimate of 140,000 barrels per day for 2020. Regarding Syncrude, coker turnaround activities, which had previously been deferred to the third quarter, began early May and are expected to extend until late September. Additionally, the company continues to evaluate and adjust the timing and scope of other maintenance 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 through the second quarter of 2020, driven by the significant decline in demand for petroleum products in Canada, but are expected to improve in the third quarter. 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 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, as part of its annual planning process. Depending on the outcome of that 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. Due to interdependencies among the many elements critical to that planning process that are still unresolved or uncertain, it is not practicable to reasonably estimate the existence or range of any potential future impairment charges.

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 seen thus far in 2020 persist for the remainder of the year, 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 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.

During 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 as part of its COVID-19 Economic Response Plan. 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 is reduced to eight percent beginning July 1, 2020, compared with a previously legislated reduction to eight percent beginning January 1, 2022. The cumulative effect of this proposed change on the company's financial statements is not expected to be significant.

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. These measures have been effective in managing the COVID-19 outbreak at Kearl and reducing the number of infections. In June, Alberta Health Services declared the outbreak at Kearl to be over.

## Operating results

### Second quarter 2020 vs. second quarter 2019

The company recorded a net loss of \$526 million or \$0.72 per share on a diluted basis in the second quarter of 2020, compared to net income of \$1,212 million or \$1.57 per share in the same period of 2019. Second quarter 2020 results include a reversal of the non-cash inventory revaluation charge of \$281 million recorded in the first quarter of 2020. Second quarter 2019 results included a favourable impact, largely non-cash, of \$662 million associated with the Alberta corporate income tax rate decrease.

Upstream recorded a net loss of \$444 million in the second quarter of 2020, compared to net income of \$985 million in the same period of 2019. Results were negatively impacted by lower realizations of about \$1,210 million, the absence of a favourable impact of \$689 million associated with the Alberta corporate income tax rate decrease in 2019, and lower volumes of about \$200 million. These items were partially offset by a reversal of the non-cash inventory revaluation charge of \$229 million recorded in the first quarter of 2020, lower royalties of about \$200 million, lower operating expenses of about \$170 million, and favourable foreign exchange effects of about \$60 million.

West Texas Intermediate (WTI) averaged US\$27.83 per barrel in the second quarter of 2020, down from US\$59.91 per barrel in the same quarter of 2019. Western Canada Select (WCS) averaged US\$16.73 per barrel and US\$49.31 per barrel for the same periods. The WTI / WCS differential averaged approximately US\$11 per barrel for the second quarter of 2020, essentially unchanged from the same period of 2019.

The Canadian dollar averaged US\$0.72 in the second quarter of 2020, a decrease of US\$0.03 from the second 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 \$12.82 per barrel in the second quarter of 2020, compared to \$57.19 per barrel in the second 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 \$32.20 per barrel in the second quarter of 2020, compared to \$79.96 per barrel in the same period of 2019.

Total gross production of Kearl bitumen averaged 190,000 barrels per day in the second quarter (135,000 barrels Imperial's share), compared to 207,000 barrels per day (147,000 barrels Imperial's share) in the second quarter 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, at one of Kearl's two plants, partially offset by the addition of supplemental crushing facilities in 2020.

Gross production of Cold Lake bitumen averaged 123,000 barrels per day in the second quarter, compared to 135,000 barrels per day in the same period of 2019. Lower production was mainly due to production timing associated with steam management and maintenance.

The company's share of gross production from Syncrude averaged 50,000 barrels per day, compared to 80,000 barrels per day in the second quarter of 2019. Lower production was mainly due to the balancing of near-term production with demand and a revised turnaround schedule.

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Downstream recorded a net loss of \$32 million in the second quarter of 2020, compared to net income of \$258 million in the same period of 2019. Results were negatively impacted by lower margins of about \$400 million including the effects of reduced demand from the COVID-19 pandemic, and lower sales volumes of about \$120 million. These items were partially offset by improved reliability of about \$100 million, primarily due to the absence of the Sarnia fractionation tower incident which occurred in April 2019, lower operating expenses of about \$90 million, and a reversal of the non-cash inventory revaluation charge of \$52 million recorded in the first quarter of 2020.

Refinery throughput averaged 278,000 barrels per day, compared to 344,000 barrels per day in the second quarter of 2019. Capacity utilization was 66 percent, compared to 81 percent in the second quarter of 2019. Lower throughput was primarily due to reduced demand from the COVID-19 pandemic, partially offset by improved reliability mainly driven by the absence of the Sarnia fractionation tower incident.

Petroleum product sales were 357,000 barrels per day, compared to 477,000 barrels per day in the second quarter of 2019. Lower petroleum product sales were mainly due to reduced demand from the COVID-19 pandemic.

Chemical net income was \$7 million in the second quarter, compared to \$38 million from the same quarter of 2019.

Corporate and other expenses were \$57 million in the second quarter, compared to \$69 million in the same period of 2019.

## Six months 2020 vs. six months 2019

Net loss in the first six months of 2020 was \$714 million, or \$0.97 per share on a diluted basis, compared to net income of \$1,505 million or \$1.94 per share in the first six months of 2019. 2019 results included a favourable impact, largely non-cash, of \$662 million associated with the Alberta corporate income tax rate decrease.

Upstream recorded a net loss of \$1,052 million for the first six months of the year, compared to net income of \$1,043 million in the same period of 2019. Results were negatively impacted by lower realizations of about \$1,800 million, the absence of a favourable impact of \$689 million associated with the Alberta corporate income tax rate decrease in 2019, and lower volumes of about \$210 million. These items were partially offset by lower royalties of about \$310 million, lower operating expenses of about \$190 million, and favourable foreign exchange effects of about \$110 million.

West Texas Intermediate averaged US\$36.66 per barrel in the first six months of 2020, down from US\$57.45 per barrel in the same period of 2019. Western Canada Select averaged US\$21.20 per barrel and US\$45.88 per barrel for the same periods. The WTI / WCS differential widened to average approximately US\$15 per barrel in the first six months of 2020, from around US\$12 per barrel in the same period of 2019.

The Canadian dollar averaged US\$0.73 in the first six months of 2020, a decrease of US\$0.02 from the same period in 2019.

Imperial's average Canadian dollar realizations for bitumen decreased in the first six months of 2020, primarily due to a decrease in WCS. Bitumen realizations averaged \$15.54 per barrel, compared to \$53.20 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 six months of 2020, adjusted for changes in exchange rates and transportation costs. Synthetic crude realizations averaged \$48.10 per barrel, compared to \$74.77 per barrel from the same period in 2019.

Total gross production of Kearl bitumen averaged 208,000 barrels per day in the first six months of 2020 (147,000 barrels Imperial's share), up from 193,000 barrels per day (137,000 barrels Imperial's share) in the same period of 2019. Higher production was mainly due to the addition of supplemental crushing facilities in 2020, partially offset by the balancing of near-term production with demand through the advancement and extension of planned turnaround activities.

Gross production of Cold Lake bitumen averaged 131,000 barrels per day in the first six months of 2020, compared to 140,000 barrels per day in the same period of 2019.

During the first six months of 2020, the company's share of gross production from Syncrude averaged 61,000 barrels per day, compared to 79,000 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 \$370 million, compared to \$515 million in the same period of 2019. Results were negatively impacted by lower margins of about \$250 million including the effects of reduced demand from the COVID-19 pandemic, and lower sales volumes of about \$150 million. These items were partially offset by improved reliability of about \$160 million, including the absence of the Sarnia fractionation tower incident which occurred in April 2019, and lower operating expenses of about \$80 million.

Refinery throughput averaged 330,000 barrels per day in the first six months of 2020, compared to 364,000 barrels per day in the same period of 2019. Capacity utilization was 78 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 improved reliability including the absence of the Sarnia fractionation tower incident.

Petroleum product sales were 409,000 barrels per day in the first six months of 2020, compared to 477,000 barrels per day in the same period of 2019. Lower petroleum product sales were mainly due to reduced demand from the COVID-19 pandemic.

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Chemical net income was \$28 million in the first six months of 2020, compared to \$72 million in the same period of 2019.

Corporate and other expenses were \$60 million in the first six months of 2020, compared to \$125 million in the same period of 2019, mainly due to lower share-based compensation charges.

## Liquidity and capital resources

Cash flow used in operating activities was \$816 million in the second quarter, compared with cash flow generated from operating activities of \$1,026 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 \$172 million in the second quarter, compared with \$429 million used in the same period of 2019, primarily reflecting lower additions to property, plant and equipment.

Cash used in financing activities was \$167 million in the second quarter, compared with \$521 million used in the second quarter of 2019. Dividends paid in the second quarter of 2020 were \$162 million. The per share dividend paid in the second quarter was \$0.22, up from \$0.19 in the same period of 2019. During the second quarter, the company did not purchase shares consistent with the suspension of its share purchase program effective April 1, 2020. In the second quarter of 2019, the company purchased about 9.8 million shares for \$368 million, including shares purchased from Exxon Mobil Corporation.

The company's cash balance was \$233 million at June 30, 2020, versus \$1,087 million at the end of second quarter 2019.

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.

Cash flow used in operating activities was \$393 million in the first six months of 2020, compared with cash flow generated from operating activities of \$2,029 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 \$480 million in the first six months of 2020, compared with \$892 million used in the same period of 2019, primarily reflecting lower additions to property, plant and equipment.

Cash used in financing activities was \$612 million in the first six months of 2020, compared with \$1,038 million used in the same period of 2019. Dividends paid in the first six months of 2020 were \$326 million. The per share dividend paid in the first six months of 2020 was \$0.44, up from \$0.38 in the same period of 2019. During the first six months of 2020, the company, under its share purchase program, purchased about 9.8 million shares for \$274 million, including shares purchased from Exxon Mobil Corporation. As previously announced, purchases under this program were suspended on April 1, 2020. In the first six months of 2019, the company purchased about 19.8 million shares for \$729 million.

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; credit market stability and liquidity; the capital outlook of \$1.1 billion to \$1.2 billion for 2020, and reduction of operating expenses by \$500 million compared to 2019 levels; impacts from COVID-19 and 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; anticipated Kearl and Cold Lake production for the full-year 2020; timing and scope of other planned turnaround activities across operations; expected improvement in refinery utilization rates and petroleum products sales in the third 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, including the possible downward revision of proved bitumen reserves; the intention to continue applying for the Canada Emergency Wage Subsidy; the cumulative effect of the Government of Alberta acceleration of corporate income tax rate decrease; the impact of measures implemented in response to COVID-19; and 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 or recurrence 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 ongoing 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 the progression or recurrence of 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

Information about market risks for the six months ended June 30, 2020, does not differ materially from that discussed on page 55 of the company's annual report on Form 10-K for the year ended December 31, 2019. 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	+ (-)	120
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(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.