



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATING RESULTS

First quarter 2015 vs. first quarter 2014

The company's net income for the first quarter of 2015 was \$421 million or \$0.50 per share on a diluted basis, compared with \$946 million or \$1.11 per share for the same period last year.

Upstream recorded a net loss in the first quarter of \$189 million, compared to income of \$452 million in the same period of 2014. Earnings in the first quarter 2015 reflected the impact of lower crude oil and gas realizations of about \$1,100 million. This was partially offset by lower royalties of about \$200 million, the impact of a weaker Canadian dollar of about \$160 million, higher Kearl and Cold Lake volumes of about \$60 million and lower energy costs of about \$60 million.

West Texas Intermediate (WTI), the main U.S. dollar benchmark crude for North America, decreased by 51 percent compared to the same quarter in 2014. The company's average first quarter 2015 Canadian dollar realizations for synthetic crude oil and bitumen were \$55.81 and \$27.40 per barrel, lower by 48 and 58 percent respectively, as a result of the weaker Canadian dollar and increased heavy – light differentials versus the same period in 2014. The company's average realizations on natural gas sales of \$3.15 per thousand cubic feet, in the first quarter of 2015, were lower by \$3.41 per thousand cubic feet, versus the same period in 2014.

Gross production of Cold Lake bitumen averaged 152,000 barrels per day, up from 147,000 barrels from the same period last year. Incremental volume growth of 4,000 barrels per day was achieved with initial first quarter 2015 production from the Nabiye project.

The company's share of Syncrude's gross production in the first quarter was 73,000 barrels per day, unchanged from the first quarter of 2014.

Gross production from the Kearl initial development was 95,000 barrels per day (67,000 barrels Imperial's share) compared to 70,000 barrels per day (50,000 barrels Imperial's share) in the first quarter of 2014 as a result of improved reliability.

Gross production of conventional crude oil averaged 15,000 barrels per day in the first quarter, versus 22,000 barrels in the corresponding period in 2014. The lower production volume was primarily due to the impact of properties divested during the first half of 2014.

Gross production of natural gas during the first quarter of 2015 was 146 million cubic feet per day, down from 205 million cubic feet in the same period last year, reflecting the impact of properties divested during the first half of 2014.

Downstream net income was \$565 million in the first quarter, compared to \$488 million in the first quarter of 2014. Increased earnings were primarily due to higher marketing margins and a first quarter 2015 gain of \$17 million from the sale of assets, partially offset by lower refining margins.

Chemical net income was \$66 million in the first quarter, up \$23 million over the same period in 2014, mainly as a result of strong polyethylene margins.

IMPERIAL OIL LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Net income effects from Corporate and Other were negative \$21 million in the first quarter, versus negative \$37 million in the same period of 2014, primarily due to lower share-based compensation charges.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operating activities was \$281 million in the first quarter, versus \$1,085 million in the corresponding period in 2014. Lower cash flow was primarily due to lower earnings and working capital effects.

Investing activities used net cash of \$1,002 million in the first quarter, compared with \$1,143 million in the same period of 2014. Additions to property, plant and equipment were \$1,011 million in the first quarter, compared with \$1,206 million during the same quarter in 2014. Expenditures during the quarter were primarily directed towards the completion of the Cold Lake Nabiye and Kearl expansion projects.

Cash from financing activities was \$566 million in the first quarter, compared with cash used in financing activities of \$112 million in the first quarter of 2014. In the first quarter, the company increased long-term debt by \$717 million through its existing loan facility to finance normal operations and capital projects. Dividends paid in the first quarter of 2015 were \$110 million, unchanged from the corresponding period in 2014. Per-share dividend paid in the first quarter was \$0.13, consistent with the same period of 2014.

The above factors led to a decrease in the company's balance of cash to \$60 million at March 31, 2015, from \$215 million at the end of 2014.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board issued a new standard, *Revenue from Contracts with Customers*. The standard establishes a single revenue recognition model for all contracts with customers, eliminates industry specific requirements and expands disclosure requirements. The standard is required to be adopted beginning January 1, 2017. Imperial is evaluating the standard and its effect on the Corporation's financial statements.

IMPERIAL OIL LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Information about market risks for the three months ended March 31, 2015 does not differ materially from that discussed on page 22 in the company's Annual Report on Form 10-K for the year ended December 31, 2014 except for the following:

Earnings sensitivity millions of dollars after tax		
Four dollars (U.S.) per barrel change in crude oil prices	+ (-)	300
One dollar (U.S.) per barrel change in sales margins for total petroleum products	+ (-)	165
Seven cents decrease (increase) in the value of the Canadian dollar versus the U.S. dollar	+ (-)	560

The sensitivity of net income to changes in crude oil prices increased from year-end 2014 by about \$5 million (after tax) a year for each one U.S. dollar change. A decrease in the value of the Canadian dollar at March 31, 2015 has increased the impact of U.S. dollar denominated crude oil prices on the company's revenue and earnings.

The sensitivity of net income to changes in sales margins for total petroleum products increased from year-end 2014 by about \$15 million (after tax) a year for each one U.S. dollar per barrel change. A decrease in the value of the Canadian dollar has also increased the impact of U.S. dollar denominated crude oil and petroleum product prices on the company's revenues and earnings.

The sensitivity of net income to changes in the Canadian dollar versus the U.S. dollar increased from year-end 2014 by about \$15 million (after tax) a year for each one-cent change, primarily due to wider Downstream and Chemicals margins.