

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

Operating results

First quarter 2019 vs. first quarter 2018

The company's net income for the first quarter of 2019 was \$293 million or \$0.38 per share on a diluted basis, compared to net income of \$516 million or \$0.62 per share for the same period 2018.

Upstream net income was \$58 million in the first quarter, up \$102 million from the same period of 2018. Improved results reflect the impact of higher Canadian crude oil realizations of about \$160 million and higher Syncrude and Norman Wells volumes of about \$80 million. Results were negatively impacted by higher operating expenses of about \$120 million and lower Cold Lake volumes of about \$50 million.

West Texas Intermediate (WTI) averaged US\$54.90 per barrel in the first quarter of 2019, down from US\$62.89 per barrel in the same quarter of 2018. Western Canada Select (WCS) averaged US\$42.44 per barrel and US\$38.67 per barrel for the same periods. The WTI / WCS differential narrowed during the first quarter of 2019 to average approximately US\$12 per barrel for the quarter, compared to around US\$24 per barrel in the same period of 2018.

The Canadian dollar averaged US\$0.75 in the first quarter of 2019, a decrease of US\$0.04 from the first quarter of 2018.

Imperial's average Canadian dollar realizations for bitumen increased in the quarter, supported by an increase in WCS and lower diluent costs. Bitumen realizations averaged \$48.85 per barrel for the first quarter of 2019, up from \$35.61 per barrel in the first quarter of 2018. The company's average Canadian dollar realizations for synthetic crude declined generally in line with WTI, adjusted for changes in exchange rates and transportation costs. Synthetic crude realizations averaged \$69.34 per barrel, compared to \$77.26 per barrel in the same period of 2018.

Gross production of Cold Lake bitumen averaged 145,000 barrels per day in the first quarter, compared to 153,000 barrels per day in the same period last year. Lower production was mainly due to production timing associated with steam management.

Gross production of Kearl bitumen averaged 180,000 barrels per day in the first quarter (127,000 barrels Imperial's share), compared to 182,000 barrels per day (129,000 barrels Imperial's share) during the first quarter of 2018.

The company's share of gross production from Syncrude averaged 78,000 barrels per day, up from 65,000 barrels per day in the first quarter of 2018. Higher production was mainly due to reduced downtime, partially offset by impacts from the Government of Alberta's production curtailment order.

Downstream net income was \$257 million in the first quarter, compared to net income of \$521 million in the first quarter of 2018. Earnings decreased mainly due to lower margins of about \$180 million and the impact of refinery reliability events of about \$60 million.

Refinery throughput averaged 383,000 barrels per day, compared to 408,000 barrels per day in the first quarter of 2018. Capacity utilization was 91 percent, compared to 96 percent in the first quarter of 2018. Reduced throughput was mainly due to reliability events at company facilities.

Petroleum product sales were 477,000 barrels per day, compared to 478,000 barrels per day in the first quarter of 2018.

IMPERIAL OIL LIMITED

Chemical net income was \$34 million in the first quarter, compared to \$73 million from the same quarter of 2018, primarily reflecting lower margins.

Corporate and other expenses were \$56 million in the first quarter, compared to \$34 million in the same period of 2018.

Liquidity and capital resources

Cash flow generated from operating activities was \$1,003 million in the first quarter, up from \$985 million in the corresponding period in 2018, reflecting higher working capital effects, partially offset by lower earnings.

Investing activities used net cash of \$463 million in the first quarter, compared with \$365 million used in the same period of 2018.

Cash used in financing activities was \$517 million in the first quarter, compared with \$390 million used in the first quarter of 2018. Dividends paid in the first quarter of 2019 were \$149 million. The per share dividend paid in the first quarter was \$0.19, up from \$0.16 in the same period of 2018. During the first quarter, the company, under its share purchase program, purchased about 10 million shares for \$361 million, including shares purchased from Exxon Mobil Corporation.

The company's cash balance was \$1,011 million at March 31, 2019, versus \$1,425 million at the end of first quarter 2018.

Recently issued accounting standards

Effective January 1, 2020, Imperial will adopt the Financial Accounting Standards Board's update, *Financial Instruments - Credit Losses (Topic 326)*, as amended. The standard requires a valuation allowance for credit losses be recognized for certain financial assets that reflects the current expected credit loss over the asset's contractual life. The valuation allowance considers the risk of loss, even if remote and considers past events, current conditions and expectations of the future. Imperial is evaluating the standard and its effect on the company's financial statements.

Forward-looking statements

Statements of future events or conditions in this report, including projections, targets, expectations, estimates, and business plans are forward-looking statements. Disclosure related to the share purchase program and capital activities constitutes forward-looking statements. 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 and foreign exchange rates; production rates, growth and mix; applicable laws and government policies; financing sources; and capital and environmental expenditures could differ materially depending on a number of factors. These factors include changes in the supply of and demand for crude oil, natural gas, and petroleum and petrochemical products and resulting price and margin impacts; transportation for accessing markets; political or regulatory events, including changes in law or government policy; environmental risks inherent in oil and gas exploration and production activities; environmental regulation; currency exchange rates; availability and allocation of capital; unanticipated operational disruptions; project management and schedules; operational hazards and risks; cybersecurity incidents; disaster response preparedness; 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, 2019, does not differ materially from that discussed on page 25 of the company's annual report on Form 10-K for the year ended December 31, 2018.