

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

Operating results

Second quarter 2017 vs. second quarter 2016

The company's net loss for the second quarter of 2017 was \$77 million or \$0.09 per-share on a diluted basis, compared to the net loss of \$181 million or \$0.21 per-share for the same period last year.

Upstream recorded a net loss in the second quarter of \$201 million, compared to a net loss of \$290 million in the same period of 2016. Results in the second quarter of 2017 reflected the impact of higher Canadian crude oil realizations of about \$140 million and favorable foreign exchange impacts, partially offset by higher energy costs of about \$50 million and higher operating costs of about \$50 million, primarily at Syncrude.

West Texas Intermediate (WTI) averaged US\$48.20 per barrel in the second quarter of 2017, up from US\$45.64 per barrel in the same quarter of 2016. Western Canada Select (WCS) averaged US\$37.18 per barrel and US\$32.36 per barrel respectively for the same periods. The WTI / WCS differential narrowed to 23 percent in the second quarter of 2017, from 29 percent in the same period of 2016.

The Canadian dollar averaged US\$0.74 in the second quarter of 2017, a decrease of US\$0.04 from the second quarter of 2016.

Imperial's average Canadian dollar realizations for bitumen and synthetic crudes increased generally in line with the North American benchmarks, adjusted for changes in exchange rates and transportation costs. Bitumen realizations averaged \$38.22 per barrel for the second quarter of 2017, an increase of \$8.77 per barrel versus the second quarter of 2016. Synthetic crude realizations averaged \$65.07 per barrel, an increase of \$6.49 per barrel for the same period of 2016.

Gross production of Cold Lake bitumen averaged 160,000 barrels per day in the second quarter, compared to 163,000 barrels per day in the same period last year.

Gross production of Kearl bitumen averaged 171,000 barrels per day in the second quarter (121,000 barrels Imperial's share) up from 155,000 barrels per day (110,000 barrels Imperial's share) during the second quarter of 2016. Higher production was mainly due to the absence of the Alberta wildfires. In the second quarter of 2017, Kearl production was impacted by planned turnaround activities of about 38,000 barrels per day (27,000 barrels Imperial's share).

The company's share of gross production from Syncrude averaged 27,000 barrels per day, up from 18,000 barrels per day in the second quarter of 2016. Syncrude second quarter 2017 production was impacted by the fire at the Syncrude Mildred Lake upgrader that occurred in mid-March and by planned maintenance. Higher production was the result of the absence of the Alberta wildfires and lower planned maintenance compared with the same period of 2016.

Downstream net income was \$78 million in the second quarter, up from \$71 million in the same period of 2016. Earnings increased mainly due to reduced planned turnaround activity of about \$130 million and lower marketing expenses, partly offset by lower marketing margins of about \$80 million, including the impact of the retail divestment and lower industry margins, as well as lower refining margins of about \$70 million, mainly due to crude supply disruption associated with the Syncrude fire at its Mildred Lake upgrader in March.

Refinery throughput averaged 358,000 barrels per day, up from 246,000 barrels per day in the second quarter of 2016. Increased throughput reflects reduced turnaround activity in the second quarter 2017, compared to the same period of 2016.

Petroleum product sales were 486,000 barrels per day, up from 470,000 barrels per day in the second quarter of 2016. Sales growth continues to be driven by strong collaboration across our downstream value chain and the expansion of Imperial's retail, wholesale, industrial and commercial networks.

Chemical net income was \$64 million in the second quarter, up from \$55 million in the same quarter of 2016.

Net income effects from Corporate and Other were negative \$18 million in the second quarter, compared to negative \$17 million in the same period of 2016.

Six months 2017 vs. six months 2016

Net income in the first six months of 2017 was \$256 million, or \$0.30 per-share on a diluted basis versus a net loss of \$282 million or \$0.33 per-share in the first six months of 2016.

Upstream recorded a net loss of \$287 million in the first six months of 2017, compared to a net loss of \$738 million from the same period of 2016. Results reflected the impact of higher Canadian crude oil realizations of about \$740 million, partially offset by higher royalties of about \$100 million and energy costs of about \$80 million, higher operating expenses at Syncrude of about \$70 million and lower volumes of about \$70 million, including the absence of production at Norman Wells.

West Texas Intermediate averaged US\$49.96 per barrel in the first six months of 2017, up from US\$39.78 per barrel in the same period of 2016. Western Canada Select averaged US\$37.22 per barrel and US\$25.88 per barrel respectively for the same periods. The WTI / WCS differential narrowed to 26 percent in the first six months of 2017, from 35 percent in the same period of 2016.

The Canadian dollar averaged US\$0.75 in the first six months of 2017, essentially unchanged from the same period of 2016.

Imperial's average Canadian dollar realizations for bitumen and synthetic crudes increased generally in line with the North American benchmarks, adjusted for changes in the exchange rate and transportation costs. Bitumen realizations averaged \$37.21 per barrel for the first six months of 2017, an increase of \$16.45 per barrel versus the same period of 2016. Synthetic crude realizations averaged \$67.00 per barrel, an increase of \$18.41 per barrel from the same period of 2016.

Gross production of Cold Lake bitumen averaged 159,000 barrels per day in the first six months of 2017, compared to 164,000 barrels per day from the same period of 2016. Lower volumes were primarily due to the timing of steam cycles.

Gross production of Kearl bitumen averaged 177,000 barrels per day in the first six months of 2017 (125,000 barrels Imperial's share) up from 175,000 barrels per day (124,000 barrels Imperial's share) from the same period of 2016.

During the first six months of 2017, the company's share of gross production from Syncrude averaged 46,000 barrels per day, compared to 49,000 barrels per day from the same period of 2016. Syncrude year to date production was impacted by the March 2017 fire at the Syncrude Mildred Lake upgrader and planned maintenance. In 2016, production was impacted by the Alberta wildfires and planned maintenance.

Downstream net income was \$458 million, up from \$391 million from the same period of 2016. Earnings increased mainly due to a gain of \$151 million from the sale of a surplus property and reduced planned turnaround activity of about \$130 million. This was partially offset by lower marketing margins of approximately \$140 million, including the impact of the retail divestment and lower industry margins, as well as lower refining margins of about \$50 million, partly due to crude supply disruption associated with the fire at Syncrude's Mildred Lake upgrader in March.

Refinery throughput averaged 378,000 barrels per day in the first six months of 2017, up from 323,000 barrels per day from the same period of 2016. Capacity utilization increased to 90 percent from 77 percent in the same period of 2016, reflecting reduced turnaround activity.

Petroleum product sales were 486,000 barrels per day in the first six months of 2017, up from 469,000 barrels per day from the same period of 2016. Sales growth continues to be driven by strong collaboration across our downstream value chain and the expansion of Imperial's retail, wholesale, industrial and commercial networks.

Chemical net income was \$109 million, up from \$104 million from the same period of 2016.

For the first six months of 2017, net income effects from Corporate and Other were negative \$24 million, versus negative \$39 million from the same period of 2016.

Liquidity and capital resources

Cash flow generated from operating activities was \$492 million in the second quarter, compared with \$443 million in the corresponding period in 2016.

Investing activities used net cash of \$281 million in the second quarter, compared with \$297 million used in the same period of 2016.

Cash used in financing activities was \$260 million in the second quarter, compared with \$106 million in the second quarter of 2016. Dividends paid in the second quarter of 2017 were \$127 million. The per-share dividend paid in the second quarter was \$0.15, up from \$0.14 in the same period of 2016. In the second quarter of 2017, Imperial resumed share purchases under its share buyback program. The company purchased about 3.3 million shares for approximately \$127 million.

The company's cash balance was \$623 million at June 30, 2017, versus \$195 million at the end of the second quarter of 2016.

Cash flow generated from operating activities was \$846 million in the first six months of 2017, compared with \$492 million in 2016, reflecting higher earnings partially offset by unfavourable working capital effects.

Investing activities used net cash of \$220 million in the first six months of 2017, compared with \$655 million from the same period of 2016, reflecting lower additions to property, plant and equipment, and higher proceeds from asset sales.

Cash used in financing activities was \$394 million in the first six months of 2017, compared with cash provided by financing activities of \$155 million from the same period of 2016, reflecting the absence of debt issuance in the current year. Dividends paid in the first six months of 2017 were \$254 million. The per-share dividend paid in the first six months of 2017 was \$0.30, up from \$0.28 for the same period of 2016. In 2017, the company resumed share purchases under its share buyback program. The company purchased about 3.3 million shares for approximately \$127 million.

On June 22, 2017, the company announced by news release that it had received final approval from the Toronto Stock Exchange for a new normal course issuer bid and will continue its existing share buyback program. The program enables the company to purchase up to a maximum of 25,395,927 common shares during the period June 27, 2017 to June 26, 2018, 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. 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 26, 2018.

Recently issued accounting standards

In May 2014, the Financial Accounting Standards Board (FASB) 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, 2018. The company expects to adopt the standard using the modified retrospective method, under which prior years' results are not restated, but supplemental information on the impact of the new standard is provided for in the 2018 results. Imperial continues to evaluate other areas of the standard. The impact from the standard is not expected to have a material effect on the company's financial statements.

In February 2016, the FASB issued a new standard, *Leases*. The standard requires all leases with an initial term greater than one year be recorded on the balance sheet as a lease asset and lease liability. The standard is required to be adopted beginning January 1, 2019. Imperial is evaluating the standard and its effect on the company's financial statements and plans to adopt it in 2019.

In March 2017, the FASB issued an Accounting Standards Update, 2017-07, Compensation – Retirement Benefits (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic*

Postretirement Benefit Cost. The update requires the service cost component of net benefit costs to be reported in the same line in the income statement as other compensation costs and the other components of net benefit costs to be presented separately from the service cost component. Additionally, only the service cost component of net benefit costs will be eligible for capitalization. The update is required to be adopted beginning January 1, 2018. Imperial is evaluating the standard and its effect on the company's financial statements.

Forward-looking statements

Statements in this report regarding future events or conditions are forward-looking statements. Actual future financial and operating results could differ materially due to the impact of market conditions, changes in law or governmental policy, changes in operating conditions and costs, changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors.

Quantitative and qualitative disclosures about market risk

Information about market risks for the six months ended June 30, 2017, does not differ materially from that discussed on page 22 of the company's annual report on Form 10-K for the year ended December 31, 2016.