



**Third Quarter 2018**

**Financial statements and management's  
discussion and analysis of financial condition  
and operating results**

**For the nine months ended September 30, 2018**

**Consolidated statement of income (U.S. GAAP, unaudited)**

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
<b>Revenues and other income</b>				
Revenues (a)	9,697	7,134	27,113	21,077
Investment and other income (note 5)	35	24	96	270
<b>Total revenues and other income</b>	<b>9,732</b>	<b>7,158</b>	<b>27,209</b>	<b>21,347</b>
<b>Expenses</b>				
Exploration	4	7	13	29
Purchases of crude oil and products (b)	6,099	4,251	17,416	13,226
Production and manufacturing (c)	1,480	1,314	4,557	4,154
Selling and general (c)	224	217	691	618
Federal excise tax	432	438	1,241	1,253
Depreciation and depletion	410	391	1,145	1,135
Non-service pension and postretirement benefit (d)	27	26	80	92
Financing (note 7)	30	18	79	49
<b>Total expenses</b>	<b>8,706</b>	<b>6,662</b>	<b>25,222</b>	<b>20,556</b>
<b>Income (loss) before income taxes</b>	<b>1,026</b>	<b>496</b>	<b>1,987</b>	<b>791</b>
<b>Income taxes</b>	<b>277</b>	<b>125</b>	<b>526</b>	<b>164</b>
<b>Net income (loss)</b>	<b>749</b>	<b>371</b>	<b>1,461</b>	<b>627</b>
<b>Per share information</b> (Canadian dollars)				
Net income (loss) per common share - basic (note 10)	0.94	0.44	1.79	0.74
Net income (loss) per common share - diluted (note 10)	0.94	0.44	1.79	0.74
(a) Amounts from related parties included in revenues.	1,809	756	4,951	2,801
(b) Amounts to related parties included in purchases of crude oil and products.	1,071	604	3,337	1,919
(c) Amounts to related parties included in production and manufacturing, and selling and general expenses.	136	127	433	415
(d) Prior year amounts have been reclassified. See note 2 for additional details.				

The information in the notes to consolidated financial statements is an integral part of these statements.

**IMPERIAL OIL LIMITED**

**Consolidated statement of comprehensive income (U.S. GAAP, unaudited)**

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	<b>2018</b>	2017	<b>2018</b>	2017
<b>Net income (loss)</b>	<b>749</b>	371	<b>1,461</b>	627
Other comprehensive income (loss), net of income taxes				
Postretirement benefits liability adjustment (excluding amortization)	-	-	<b>(19)</b>	41
Amortization of postretirement benefits liability adjustment included in net periodic benefit costs	<b>34</b>	34	<b>101</b>	106
<b>Total other comprehensive income (loss)</b>	<b>34</b>	34	<b>82</b>	147
<b>Comprehensive income (loss)</b>	<b>783</b>	405	<b>1,543</b>	774

The information in the notes to consolidated financial statements is an integral part of these statements.

## Consolidated balance sheet (U.S. GAAP, unaudited)

millions of Canadian dollars	As at Sept 30 <b>2018</b>	As at Dec 31 2017
<b>Assets</b>		
Current assets		
Cash	1,148	1,195
Accounts receivable, less estimated doubtful accounts (a)	2,729	2,712
Inventories of crude oil and products	1,392	1,075
Materials, supplies and prepaid expenses	464	425
Total current assets	5,733	5,407
Investments and long-term receivables (b)	837	865
Property, plant and equipment, less accumulated depreciation and depletion	53,592	52,778
Property, plant and equipment, net	(19,386)	(18,305)
Goodwill	34,206	34,473
Other assets, including intangibles, net (note 9)	186	186
Total assets	857	670
<b>Total assets</b>	<b>41,819</b>	<b>41,601</b>
<b>Liabilities</b>		
Current liabilities		
Notes and loans payable (c)	202	202
Accounts payable and accrued liabilities (a) (note 9)	4,565	3,877
Income taxes payable	11	57
Total current liabilities	4,778	4,136
Long-term debt (d) (note 8)	4,986	5,005
Other long-term obligations (e) (note 9)	3,334	3,780
Deferred income tax liabilities	4,742	4,245
Total liabilities	17,840	17,166
<b>Shareholders' equity</b>		
Common shares at stated value (f) (note 10)	1,465	1,536
Earnings reinvested (note 11)	24,247	24,714
Accumulated other comprehensive income (loss) (note 12)	(1,733)	(1,815)
Total shareholders' equity	23,979	24,435
<b>Total liabilities and shareholders' equity</b>	<b>41,819</b>	<b>41,601</b>

(a) Accounts receivable, less estimated doubtful accounts included net amounts receivable from related parties of \$385 million (2017 - \$509 million).

(b) Investments and long-term receivables included amounts from related parties of \$94 million (2017 - \$19 million).

(c) Notes and loans payable included amounts to related parties of \$75 million (2017 - \$75 million).

(d) Long-term debt included amounts to related parties of \$4,447 million (2017 - \$4,447 million).

(e) Other long-term obligations included amounts to related parties of \$27 million (2017 - \$60 million).

(f) Number of common shares authorized and outstanding were 1,100 million and 793 million, respectively (2017 - 1,100 million and 831 million, respectively).

The information in the notes to consolidated financial statements is an integral part of these statements.

Approved by the directors November 6, 2018

*/s/ Richard M. Kruger*

Chairman, president and  
chief executive officer

*/s/ Daniel E. Lyons*

Senior vice-president,  
finance and administration, and controller

**Consolidated statement of cash flows (U.S. GAAP, unaudited)**

Inflow (outflow) millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
<b>Operating activities</b>				
Net income (loss)	749	371	1,461	627
Adjustments for non-cash items:				
Depreciation and depletion	364	391	1,099	1,135
Impairment of intangible assets (note 9)	46	-	46	-
(Gain) loss on asset sales (note 5)	(10)	(6)	(29)	(219)
Deferred income taxes and other	276	131	485	294
Changes in operating assets and liabilities:				
Accounts receivable	(104)	(297)	(17)	127
Inventories, materials, supplies and prepaid expenses	(179)	104	(356)	(13)
Income taxes payable	(78)	19	(46)	(429)
Accounts payable and accrued liabilities	78	81	102	(159)
All other items - net (a) (b)	65	43	306	320
<b>Cash flows from (used in) operating activities</b>	<b>1,207</b>	<b>837</b>	<b>3,051</b>	<b>1,683</b>
<b>Investing activities</b>				
Additions to property, plant and equipment (b)	(327)	(241)	(1,055)	(683)
Proceeds from asset sales (note 5)	13	8	34	230
Additional investments	-	(1)	-	(1)
Loan to equity company	(38)	-	(75)	-
<b>Cash flows from (used in) investing activities</b>	<b>(352)</b>	<b>(234)</b>	<b>(1,096)</b>	<b>(454)</b>
<b>Financing activities</b>				
Reduction in capitalized lease obligations (note 8)	(7)	(7)	(20)	(20)
Dividends paid	(155)	(136)	(421)	(390)
Common shares purchased (note 10)	(418)	(250)	(1,561)	(377)
<b>Cash flows from (used in) financing activities</b>	<b>(580)</b>	<b>(393)</b>	<b>(2,002)</b>	<b>(787)</b>
<b>Increase (decrease) in cash</b>	<b>275</b>	<b>210</b>	<b>(47)</b>	<b>442</b>
<b>Cash at beginning of period</b>	<b>873</b>	<b>623</b>	<b>1,195</b>	<b>391</b>
<b>Cash at end of period (c)</b>	<b>1,148</b>	<b>833</b>	<b>1,148</b>	<b>833</b>
(a) Included contribution to registered pension plans.	(52)	(78)	(153)	(176)
(b) The impact of carbon emission programs are included in additions to property, plant and equipment, and all other items, net.				
(c) Cash is composed of cash in bank and cash equivalents at cost. Cash equivalents are all highly liquid securities with maturity of three months or less when purchased.				

**Non-cash transaction**

As a result of the Government of Ontario's revocation of its cap and trade legislation, the company reclassified approximately \$570 million of its Ontario carbon emission obligation from long-term liabilities to current liabilities. The impact of this reclassification was not reflected in "Accounts payable and accrued liabilities" and "All other items - net" lines on the Consolidated statement of cash flows as it was not a cash transaction.

The information in the notes to consolidated financial statements is an integral part of these statements.

## Notes to consolidated financial statements (unaudited)

### 1. Basis of financial statement preparation

These unaudited consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) and follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent annual consolidated financial statements filed with the U.S. Securities and Exchange Commission (SEC) in the company's 2017 annual report on Form 10-K. In the opinion of the company, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the periods reported herein. All such adjustments are of a normal recurring nature. Prior year's data has been reclassified in certain cases to conform to the current presentation basis.

The company's exploration and production activities are accounted for under the "successful efforts" method.

The results for the nine months ended September 30, 2018, are not necessarily indicative of the operations to be expected for the full year.

All amounts are in Canadian dollars unless otherwise indicated.

## 2. Accounting changes

Effective January 1, 2018, Imperial adopted the Financial Accounting Standards Board's standard, *Revenue from Contracts with Customers (Topic 606)*, as amended. The standard establishes a single revenue recognition model for all contracts with customers, eliminates industry and transaction specific requirements, and expands disclosure requirements. The standard was adopted using the modified retrospective method, under which prior year results are not restated, but supplemental information is provided for any material impacts of the standard on 2018 results. The adoption of the standard did not have a material impact on any of the lines reported in the company's consolidated financial statements. The cumulative effect of adoption of the new standard was de minimis. The company did not elect any practical expedients that require disclosure. See note 4 for additional details.

Effective January 1, 2018, Imperial adopted the Financial Accounting Standards Board's standard update, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The update requires separate presentation of the service cost component from other components of net benefit costs. The other components are reported in a new line on the company's consolidated statement of income, "Non-service pension and postretirement benefit". Imperial elected to use the practical expedient which uses the amounts disclosed in the pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements, as it is impracticable to determine the amounts capitalized in those periods. Beginning in 2018, the other components of net benefit costs are included in the Corporate and other expenses. The "Non-service pension and postretirement benefit" line reflects the non-service costs, which primarily includes interest costs, expected return on plan assets, and amortization of actuarial gains and losses, that were previously included in "Production and manufacturing" and "Selling and general" expenses. Additionally, only the service cost component of net benefit costs is eligible for capitalization in situations where it is otherwise appropriate to capitalize employee costs in connection with the construction or production of an asset.

The impact of the retrospective presentation change on Imperial's consolidated statement of income for the period ended September 30, 2018 is shown below.

millions of Canadian dollars	Third Quarter 2017			Nine Months to September 30, 2017		
	As reported	Change	As adjusted	As reported	Change	As adjusted
Production and manufacturing	1,338	(24)	1,314	4,238	(84)	4,154
Selling and general	219	(2)	217	626	(8)	618
Non-service pension and postretirement benefit	-	26	26	-	92	92

Effective January 1, 2018, Imperial adopted the Financial Accounting Standards Board's standard update, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard requires investments in equity securities other than consolidated subsidiaries and equity method investments to be measured at fair value, with changes in the fair value recognized through net income. The company elected a modified approach for equity securities that do not have a readily determinable fair value. This modified approach measures investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. There was no cumulative effect related to the adoption of this standard. The carrying value of equity securities without readily determinable fair values as at September 30, 2018 were not significant to Imperial.

The standard also expanded disclosures related to financial statements. The company's only notable financial instrument is long-term debt (\$4,447 million, excluding capitalized lease obligations), where the difference between fair value and carrying value was de minimis. The fair value of long-term debt was primarily a level 2 measurement.

### 3. Business segments

Third Quarter millions of Canadian dollars	Upstream		Downstream		Chemical	
	2018	2017	2018	2017	2018	2017
<b>Revenues and other income</b>						
Revenues (a)	2,489	1,668	6,880	5,204	328	262
Intersegment sales	771	587	425	241	79	62
Investment and other income (note 5)	2	7	25	15	1	-
	<b>3,262</b>	<b>2,262</b>	<b>7,330</b>	<b>5,460</b>	<b>408</b>	<b>324</b>
<b>Expenses</b>						
Exploration	4	7	-	-	-	-
Purchases of crude oil and products	1,566	947	5,567	4,014	239	179
Production and manufacturing (b)	1,073	893	356	394	51	51
Selling and general (b)	-	5	199	167	21	19
Federal excise tax	-	-	432	438	-	-
Depreciation and depletion (c)	309	330	91	53	4	3
Non-service pension and postretirement benefit (b)	-	-	-	-	-	-
Financing (note 7)	-	1	-	-	-	-
<b>Total expenses</b>	<b>2,952</b>	<b>2,183</b>	<b>6,645</b>	<b>5,066</b>	<b>315</b>	<b>252</b>
<b>Income (loss) before income taxes</b>	<b>310</b>	<b>79</b>	<b>685</b>	<b>394</b>	<b>93</b>	<b>72</b>
<b>Income taxes</b>	<b>88</b>	<b>17</b>	<b>183</b>	<b>102</b>	<b>24</b>	<b>20</b>
<b>Net income (loss)</b>	<b>222</b>	<b>62</b>	<b>502</b>	<b>292</b>	<b>69</b>	<b>52</b>
<b>Cash flows from (used in) operating activities</b>	<b>872</b>	<b>479</b>	<b>281</b>	<b>268</b>	<b>79</b>	<b>99</b>
<b>Capital and exploration expenditures (d)</b>	<b>257</b>	<b>92</b>	<b>105</b>	<b>55</b>	<b>8</b>	<b>5</b>

Third Quarter millions of Canadian dollars	Corporate and other		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017
<b>Revenues and other income</b>						
Revenues (a)	-	-	-	-	9,697	7,134
Intersegment sales	-	-	(1,275)	(890)	-	-
Investment and other income (note 5)	7	2	-	-	35	24
	<b>7</b>	<b>2</b>	<b>(1,275)</b>	<b>(890)</b>	<b>9,732</b>	<b>7,158</b>
<b>Expenses</b>						
Exploration	-	-	-	-	4	7
Purchases of crude oil and products	-	-	(1,273)	(889)	6,099	4,251
Production and manufacturing (b)	-	-	-	-	1,480	1,338
Selling and general (b)	6	29	(2)	(1)	224	219
Federal excise tax	-	-	-	-	432	438
Depreciation and depletion (c)	6	5	-	-	410	391
Non-service pension and postretirement benefit (b)	27	-	-	-	27	-
Financing (note 7)	30	17	-	-	30	18
<b>Total expenses</b>	<b>69</b>	<b>51</b>	<b>(1,275)</b>	<b>(890)</b>	<b>8,706</b>	<b>6,662</b>
<b>Income (loss) before income taxes</b>	<b>(62)</b>	<b>(49)</b>	<b>-</b>	<b>-</b>	<b>1,026</b>	<b>496</b>
<b>Income taxes</b>	<b>(18)</b>	<b>(14)</b>	<b>-</b>	<b>-</b>	<b>277</b>	<b>125</b>
<b>Net income (loss)</b>	<b>(44)</b>	<b>(35)</b>	<b>-</b>	<b>-</b>	<b>749</b>	<b>371</b>
<b>Cash flows from (used in) operating activities</b>	<b>(25)</b>	<b>(9)</b>	<b>-</b>	<b>-</b>	<b>1,207</b>	<b>837</b>
<b>Capital and exploration expenditures (d)</b>	<b>6</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>376</b>	<b>159</b>



## IMPERIAL OIL LIMITED

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- (a) Included export sales to the United States of \$1,741 million (2017 - \$1,080 million). Export sales to the United States were recorded in all operating segments, with the largest effects in the Upstream segment.
- (b) As part of the implementation of Accounting Standard Update, Compensation – Retirement Benefits (Topic 715), beginning January 1, 2018, Corporate and other includes all non-service pension and postretirement benefit expense. Prior to 2018, the majority of these costs were allocated to the operating segments. See note 2 for additional details.
- (c) The Downstream segment in 2018 included a non-cash impairment charge of \$46 million, before tax, associated with the Government of Ontario's revocation of its carbon emission cap and trade regulation.
- (d) Capital and exploration expenditures (CAPEX) include exploration expenses, additions to property, plant and equipment, additions to capital leases, additional investments and acquisitions. CAPEX excludes the purchase of carbon emission credits.

## IMPERIAL OIL LIMITED

Nine Months to September 30 millions of Canadian dollars	Upstream		Downstream		Chemical	
	2018	2017	2018	2017	2018	2017
<b>Revenues and other income</b>						
Revenues (a)	6,796	5,166	19,357	15,087	960	824
Intersegment sales	2,078	1,494	1,119	792	226	191
Investment and other income (note 5)	6	17	66	248	1	(1)
	<b>8,880</b>	<b>6,677</b>	<b>20,542</b>	<b>16,127</b>	<b>1,187</b>	<b>1,014</b>
<b>Expenses</b>						
Exploration	13	29	-	-	-	-
Purchases of crude oil and products	4,513	3,089	15,664	12,037	657	573
Production and manufacturing (b)	3,191	2,917	1,212	1,169	154	152
Selling and general (b)	-	1	569	540	65	60
Federal excise tax	-	-	1,241	1,253	-	-
Depreciation and depletion (c)	927	964	191	148	11	9
Non-service pension and postretirement benefit (b)	-	-	-	-	-	-
Financing (note 7)	-	5	-	-	-	-
<b>Total expenses</b>	<b>8,644</b>	<b>7,005</b>	<b>18,877</b>	<b>15,147</b>	<b>887</b>	<b>794</b>
<b>Income (loss) before income taxes</b>	<b>236</b>	<b>(328)</b>	<b>1,665</b>	<b>980</b>	<b>300</b>	<b>220</b>
<b>Income taxes</b>	<b>64</b>	<b>(103)</b>	<b>441</b>	<b>230</b>	<b>80</b>	<b>59</b>
<b>Net income (loss)</b>	<b>172</b>	<b>(225)</b>	<b>1,224</b>	<b>750</b>	<b>220</b>	<b>161</b>
<b>Cash flows from (used in) operating activities</b>	<b>1,199</b>	<b>904</b>	<b>1,647</b>	<b>626</b>	<b>278</b>	<b>176</b>
<b>Capital and exploration expenditures (d)</b>	<b>646</b>	<b>286</b>	<b>250</b>	<b>128</b>	<b>19</b>	<b>12</b>
<b>Total assets as at September 30 (c)</b>	<b>34,570</b>	<b>35,387</b>	<b>5,426</b>	<b>4,671</b>	<b>427</b>	<b>365</b>

Nine Months to September 30 millions of Canadian dollars	Corporate and other		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017
<b>Revenues and other income</b>						
Revenues (a)	-	-	-	-	27,113	21,077
Intersegment sales	-	-	(3,423)	(2,477)	-	-
Investment and other income (note 5)	23	6	-	-	96	270
	<b>23</b>	<b>6</b>	<b>(3,423)</b>	<b>(2,477)</b>	<b>27,209</b>	<b>21,347</b>
<b>Expenses</b>						
Exploration	-	-	-	-	13	29
Purchases of crude oil and products	-	-	(3,418)	(2,473)	17,416	13,226
Production and manufacturing (b)	-	-	-	-	4,557	4,238
Selling and general (b)	62	29	(5)	(4)	691	626
Federal excise tax	-	-	-	-	1,241	1,253
Depreciation and depletion (c)	16	14	-	-	1,145	1,135
Non-service pension and postretirement benefit (b)	80	-	-	-	80	-
Financing (note 7)	79	44	-	-	79	49
<b>Total expenses</b>	<b>237</b>	<b>87</b>	<b>(3,423)</b>	<b>(2,477)</b>	<b>25,222</b>	<b>20,556</b>
<b>Income (loss) before income taxes</b>	<b>(214)</b>	<b>(81)</b>	<b>-</b>	<b>-</b>	<b>1,987</b>	<b>791</b>
<b>Income taxes</b>	<b>(59)</b>	<b>(22)</b>	<b>-</b>	<b>-</b>	<b>526</b>	<b>164</b>
<b>Net income (loss)</b>	<b>(155)</b>	<b>(59)</b>	<b>-</b>	<b>-</b>	<b>1,461</b>	<b>627</b>
<b>Cash flows from (used in) operating activities</b>	<b>(73)</b>	<b>(23)</b>	<b>-</b>	<b>-</b>	<b>3,051</b>	<b>1,683</b>
<b>Capital and exploration expenditures (d)</b>	<b>19</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>934</b>	<b>455</b>
<b>Total assets as at September 30 (c)</b>	<b>1,727</b>	<b>1,283</b>	<b>(331)</b>	<b>(336)</b>	<b>41,819</b>	<b>41,370</b>

## IMPERIAL OIL LIMITED

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- (a) Included export sales to the United States of \$4,509 million (2017 - \$3,024 million). Export sales to the United States were recorded in all operating segments, with the largest effects in the Upstream segment.
- (b) As part of the implementation of Accounting Standard Update, Compensation – Retirement Benefits (Topic 715), beginning January 1, 2018, Corporate and other includes all non-service pension and postretirement benefit expense. Prior to 2018, the majority of these costs were allocated to the operating segments. See note 2 for additional details.
- (c) The Downstream segment in 2018 included a non-cash impairment charge of \$46 million, before tax, associated with the Government of Ontario's revocation of its carbon emission cap and trade regulation.
- (d) Capital and exploration expenditures (CAPEX) include exploration expenses, additions to property, plant and equipment, additions to capital leases, additional investments and acquisitions. CAPEX excludes the purchase of carbon emission credits.

## 4. Accounting policy for revenue recognition

Imperial generally sells crude oil, natural gas and petroleum and chemical products under short-term agreements at prevailing market prices. In some cases, products may be sold under long-term agreements, with periodic price adjustments to reflect market conditions.

Revenue is recognized at the amount the company expects to receive when the customer has taken control, which is typically when title transfers and the customer has assumed the risks and rewards of ownership. The prices of certain sales are based on price indexes that are sometimes not available until the next period. In such cases, estimated realizations are accrued when the sale is recognized, and are finalized when final information is available. Such adjustments to revenue from performance obligations satisfied in previous periods are not significant. Payment for revenue transactions is typically due within 30 days. Future volume delivery obligations that are unsatisfied at the end of the period are expected to be fulfilled through ordinary production or purchases. These performance obligations are based on market prices at the time of the transaction and are fully constrained due to market price volatility.

“Revenues” and “Accounts receivable, less estimated doubtful accounts” primarily arise from contracts with customers. Long-term receivables are primarily from non-customers. Contract assets are mainly from marketing assistance programs and are not significant. Contract liabilities are mainly customer prepayments, loyalty programs and accruals of expected volume discounts, and are not significant.

## 5. Investment and other income

Investment and other income included gains and losses on asset sales as follows:

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
Proceeds from asset sales	13	8	34	230
Book value of asset sales	3	2	5	12
Gain (loss) on asset sales, before tax (a)	10	6	29	219
Gain (loss) on asset sales, after tax (a)	6	5	21	191

(a) The nine months ended September 30, 2017 included a gain of \$174 million (\$151 million after tax) from the sale of surplus property in Ontario.

## 6. Employee retirement benefits

The components of net benefit cost were as follows:

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
Pension benefits:				
Current service cost	59	54	179	163
Interest cost	76	77	227	235
Expected return on plan assets	(100)	(104)	(301)	(306)
Amortization of prior service cost	1	2	3	7
Amortization of actuarial loss (gain)	43	43	130	132
Net periodic benefit cost	79	72	238	231
Other postretirement benefits:				
Current service cost	5	4	13	12
Interest cost	5	6	16	18
Amortization of actuarial loss (gain)	2	2	5	6
Net periodic benefit cost	12	12	34	36

## 7. Financing and additional notes and loans payable information

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
Debt-related interest	36	24	98	73
Capitalized interest	(6)	(7)	(19)	(29)
Net interest expense	30	17	79	44
Other interest	-	1	-	5
Total financing	30	18	79	49

## 8. Long-term debt

millions of Canadian dollars	As at	As at
	Sept 30	Dec 31
	2018	2017
Long-term debt	4,447	4,447
Capital leases	539	558
Total long-term debt	4,986	5,005

## 9. Other long-term obligations

millions of Canadian dollars	As at	As at
	Sept 30	Dec 31
	2018	2017
Employee retirement benefits (a)	1,466	1,529
Asset retirement obligations and other environmental liabilities (b)	1,473	1,460
Share-based incentive compensation liabilities	131	99
Other obligations (c)	264	692
Total other long-term obligations	3,334	3,780

(a) Total recorded employee retirement benefits obligations also included \$56 million in current liabilities (2017 - \$56 million).

(b) Total asset retirement obligations and other environmental liabilities also included \$101 million in current liabilities (2017 - \$101 million).

(c) Included carbon emission program obligations. Carbon emission program credits are recorded under other assets, including intangibles, net.

On July 3, 2018, the Government of Ontario revoked its carbon emission cap and trade regulation, prohibiting all trading of emissions allowances. On July 25, 2018, the Government of Ontario introduced legislation proposing to repeal Ontario's cap and trade legislation and providing the framework for the wind down of the cap and trade program. In light of these announcements and the anticipated legislative process, the company recorded a non-cash impairment charge of \$46 million, before tax, associated with the company's net carbon emission program credits (obligation) as at September 30, 2018.

## 10. Common shares

thousands of shares	As of Sept 30 <b>2018</b>	As of Dec 31 2017
Authorized	<b>1,100,000</b>	1,100,000
Common shares outstanding	<b>792,703</b>	831,242

The current 12-month normal course issuer bid program came into effect June 27, 2018, under which Imperial will continue its existing share purchase program. The program enables the company to purchase up to a maximum of 40,391,196 common shares (5 percent of the total shares on June 13, 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 excess of the purchase cost over the stated value of shares purchased has been recorded as a distribution of earnings reinvested.

The company's common share activities are summarized below:

	Thousands of shares	Millions of dollars
Balance as at December 31, 2016	847,599	1,566
Issued under employee share-based awards	2	-
Purchases at stated value	(16,359)	(30)
Balance as at December 31, 2017	831,242	1,536
Issued under employee share-based awards	-	-
Purchases at stated value	<b>(38,539)</b>	<b>(71)</b>
<b>Balance as at September 30, 2018</b>	<b>792,703</b>	<b>1,465</b>

The following table provides the calculation of basic and diluted earnings per common share and the dividends declared by the company on its outstanding common shares:

	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
<b>Net income (loss) per common share - basic</b>				
Net income (loss) (millions of Canadian dollars)	<b>749</b>	371	<b>1,461</b>	627
Weighted average number of common shares outstanding (millions of shares)	<b>797.6</b>	841.8	<b>814.2</b>	845.5
Net income (loss) per common share (dollars)	<b>0.94</b>	0.44	<b>1.79</b>	0.74
<b>Net income (loss) per common share - diluted</b>				
Net income (loss) (millions of Canadian dollars)	<b>749</b>	371	<b>1,461</b>	627
Weighted average number of common shares outstanding (millions of shares)	<b>797.6</b>	841.8	<b>814.2</b>	845.5
Effect of employee share-based awards (millions of shares)	<b>2.9</b>	3.1	<b>2.7</b>	2.9
Weighted average number of common shares outstanding, assuming dilution (millions of shares)	<b>800.5</b>	844.9	<b>816.9</b>	848.4
Net income (loss) per common share (dollars)	<b>0.94</b>	0.44	<b>1.79</b>	0.74
<b>Dividends per common share - declared (dollars)</b>	<b>0.19</b>	0.16	<b>0.54</b>	0.47

## 11. Earnings reinvested

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
Earnings reinvested at beginning of period	24,049	25,224	24,714	25,352
Net income (loss) for the period	749	371	1,461	627
Share purchases in excess of stated value	(400)	(237)	(1,490)	(358)
Dividends declared	(151)	(134)	(438)	(397)
Earnings reinvested at end of period	24,247	25,224	24,247	25,224

## 12. Other comprehensive income (loss) information

### Changes in accumulated other comprehensive income (loss):

millions of Canadian dollars	2018	2017
Balance at January 1	(1,815)	(1,897)
Postretirement benefits liability adjustment:		
Current period change excluding amounts reclassified from accumulated other comprehensive income	(19)	41
Amounts reclassified from accumulated other comprehensive income	101	106
Balance at September 30	(1,733)	(1,750)

### Amounts reclassified out of accumulated other comprehensive income (loss) - before-tax income (expense):

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
Amortization of postretirement benefits liability adjustment included in net periodic benefit cost (a)	(46)	(47)	(138)	(145)

(a) This accumulated other comprehensive income component is included in the computation of net periodic benefit cost (note 6).

### Income tax expense (credit) for components of other comprehensive income (loss):

millions of Canadian dollars	Third Quarter		Nine Months to September 30	
	2018	2017	2018	2017
Postretirement benefits liability adjustments:				
Postretirement benefits liability adjustment (excluding amortization)	-	-	(7)	16
Amortization of postretirement benefits liability adjustment included in net periodic benefit cost	12	13	37	39
Total	12	13	30	55

## 13. Recently issued accounting standards

Effective January 1, 2019, Imperial will adopt the Financial Accounting Standards Board's standard, *Leases (Topic 842)*, as amended. The standard requires all leases with an initial term greater than one year to be recorded on the balance sheet as a right of use asset and a lease liability. Imperial expects to use the transition method that applies the new lease standard at January 1, 2019 and recognizes any cumulative effect adjustment to the opening balance of the 2019 retained earnings. The company acquired lease accounting software to facilitate implementation, and is currently configuring and testing the software. Based on leases outstanding at the end of 2017, the company estimates the operating lease right of use asset and lease liability would have been in the range of \$200 million to \$250 million at that time. The effect on Imperial's consolidated balance sheet as a result of implementing the standard on January 1, 2019 could differ considerably depending on operating leases commenced in 2018, as well as interest rates and other factors such as the expiry or renewal of leases during the year.

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

### Operating results

#### Third quarter 2018 vs. third quarter 2017

The company's net income for the third quarter of 2018 was \$749 million or \$0.94 per share on a diluted basis, an increase of \$378 million compared to the net income of \$371 million or \$0.44 per share, for the same period 2017. Third quarter results for 2018 include a non-cash impairment charge of \$33 million (\$0.04 per share) associated with the Government of Ontario's revocation of its carbon emission cap and trade regulation.

Upstream net income was \$222 million in the third quarter, up \$160 million from the same period of 2017. Improved results reflect the impact of higher Canadian crude oil realizations of about \$320 million and higher Kearl volumes of \$120 million, partially offset by lower Syncrude volumes of about \$150 million and higher operating expenses of about \$70 million.

West Texas Intermediate (WTI) averaged US\$69.43 per barrel in the third quarter of 2018, up from US\$48.23 per barrel in the same quarter of 2017. Western Canada Select (WCS) averaged US\$47.49 per barrel and US\$38.29 per barrel respectively for the same periods. The WTI / WCS differential widened to approximately US\$22 per barrel in the third quarter of 2018, from around US\$10 per barrel in the same period of 2017.

The Canadian dollar averaged US\$0.76 in the third quarter of 2018, a decrease of US\$0.04 from the third quarter of 2017.

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 \$50.42 per barrel for the third quarter of 2018, an increase of \$11.40 per barrel versus the third quarter of 2017. Synthetic crude realizations averaged \$89.70 per barrel, an increase of \$28.56 per barrel for the same period of 2017.

Gross production of Cold Lake bitumen averaged 150,000 barrels per day in the third quarter, compared to 163,000 barrels per day in the same period last year. Lower volumes were primarily due to production timing associated with steam management.

Gross production of Kearl bitumen averaged 244,000 barrels per day in the third quarter (173,000 barrels Imperial's share), up from 182,000 barrels per day (129,000 barrels Imperial's share) during the third quarter of 2017. Higher production was mainly the result of improved operational reliability associated with ore preparation, enhanced piping durability and feed management, partially offset by planned turnaround activity.

The company's share of gross production from Syncrude averaged 45,000 barrels per day, compared to 74,000 barrels per day in the third quarter of 2017. Lower production was due to a site-wide power disruption that occurred on June 20, 2018, resulting in a complete shutdown of all processing units. Production was progressively restored throughout the quarter and all cokers were back on-line by mid-September.

Downstream net income was \$502 million in the third quarter, up \$210 million from the third quarter of 2017. Earnings increased mainly due to stronger margins of about \$220 million, partially offset by a non-cash impairment charge of \$33 million associated with the Government of Ontario's revocation of its carbon emission cap and trade regulation.

Refinery throughput averaged 388,000 barrels per day, up from 385,000 barrels per day in the third quarter of 2017. Capacity utilization increased to 92 percent from 91 percent in the third quarter of 2017.



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Petroleum product sales were 516,000 barrels per day, up from 500,000 barrels per day in the third quarter of 2017. Sales growth continues to be driven by optimization across the full downstream value chain, and the expansion of Imperial's logistic capabilities.

Chemical net income was \$69 million in the third quarter, up \$17 million from the same quarter of 2017, reflecting strong polyethylene pricing and advantaged feedstocks.

Corporate and other expenses were \$44 million in the third quarter, compared to \$35 million in the same period of 2017. As part of the implementation of the Financial Accounting Standards Board's update, Compensation – Retirement Benefits (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, beginning January 1, 2018, Corporate and other includes all non-service pension and postretirement benefit expenses. Prior to 2018, the majority of these costs were allocated to the operating segments.

### Nine months 2018 vs. nine months 2017

Net income in the first nine months of 2018 was \$1,461 million, or \$1.79 per share on a diluted basis, an increase of \$834 million compared to a net income of \$627 million or \$0.74 per share in the first nine months of 2017.

Upstream net income was \$172 million in the first nine months of 2018, an increase of \$397 million compared to a net loss of \$225 million from the same period of 2017. Improved results reflect the impact of higher Canadian crude oil realizations of about \$670 million and higher Kearn volumes of about \$120 million, partially offset by the impact of lower Cold Lake and Syncrude volumes of about \$170 million, higher operating costs of about \$120 million and higher royalties of about \$60 million.

West Texas Intermediate averaged US\$66.77 per barrel in the first nine months of 2018, up from US\$49.40 per barrel in the same period of 2017. Western Canada Select averaged US\$44.98 per barrel and US\$37.57 per barrel respectively for the same periods. The WTI / WCS differential widened to approximately US\$22 per barrel in the first nine months of 2018, from around US\$12 per barrel in the same period of 2017.

The Canadian dollar averaged US\$0.78 in the first nine months of 2018, an increase of about US\$0.01 from the same period of 2017.

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 \$45.04 per barrel for the first nine months of 2018, an increase of \$7.22 per barrel versus 2017. Synthetic crude realizations averaged \$83.66 per barrel, an increase of \$19.29 per barrel from the same period of 2017.

Gross production of Cold Lake bitumen averaged 145,000 barrels per day in the first nine months of 2018, compared to 161,000 barrels per day from the same period of 2017. Lower volumes were primarily due to planned maintenance and production timing associated with steam management.

Gross production of Kearn bitumen averaged 202,000 barrels per day in the first nine months of 2018 (144,000 barrels Imperial's share) up from 179,000 barrels per day (127,000 barrels Imperial's share) from the same period of 2017. Increased 2018 production reflects improved operational reliability associated with ore preparation, enhanced piping durability and feed management.

During the first nine months of 2018, the company's share of gross production from Syncrude averaged 53,000 barrels per day, compared to 56,000 barrels per day from the same period of 2017. Syncrude year-to-date production was impacted by a site-wide power disruption that occurred on June 20 resulting in a complete shutdown of all processing units. Production was progressively restored throughout the third quarter 2018 and all cokers were back on-line by mid-September. Production in 2017 was impacted by repairs associated with the Syncrude Mildred Lake upgrader fire.

Downstream net income was \$1,224 million, an increase of \$474 million versus the prior year. Higher earnings primarily reflect stronger margins of about \$910 million, partially offset by the impact of increased planned turnaround activity and reliability events of about \$190 million, the absence of the \$151 million gain on the sale of a surplus property in 2017, and a non-cash impairment charge of \$33 million associated with the Government of Ontario's revocation of its carbon emission cap and trade regulation.

Refinery throughput averaged 386,000 barrels per day in the first nine months of 2018, up from 381,000 barrels per day from the same period of 2017. Capacity utilization increased to 91 percent from 90 percent in the same period of 2017.

Petroleum product sales were 503,000 barrels per day in the first nine months of 2018, up from 492,000 barrels per day from the same period of 2017. Sales growth continues to be driven by optimization across the full downstream value chain, and the expansion of Imperial's logistics capabilities.

Chemical net income was \$220 million, an increase of \$59 million versus the prior year, reflecting higher margins and volumes.

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Corporate and other expenses were \$155 million for the first nine months of 2018, compared to \$59 million in the same period of 2017. Beginning January 1, 2018, Corporate and other includes all non-service pension and postretirement benefit expenses. Prior to 2018, the majority of these costs were allocated to the operating segments.

## Liquidity and capital resources

Cash flow generated from operating activities was \$1,207 million in the third quarter, up from \$837 million from the corresponding period in 2017, reflecting higher earnings.

Investing activities used net cash of \$352 million in the third quarter, compared with \$234 million used in the same period of 2017, reflecting higher additions to property, plant and equipment.

Cash used in financing activities was \$580 million in the third quarter, compared with \$393 million used in the third quarter of 2017. Dividends paid in the third quarter of 2018 were \$155 million. The per share dividend paid in the third quarter was \$0.19, up from \$0.16 in the same period of 2017. During the third quarter, the company, under its share purchase program, purchased about 10 million shares for approximately \$418 million, including shares purchased from Exxon Mobil Corporation.

The company's cash balance was \$1,148 million at September 30, 2018, versus \$833 million at the end of third quarter 2017.

Cash flow generated from operating activities was \$3,051 million in the first nine months of 2018, up from \$1,683 million from the same period of 2017, primarily reflecting higher earnings.

Investing activities used net cash of \$1,096 million in the first nine months of 2018, compared with \$454 million used in the same period of 2017, reflecting higher additions to property, plant and equipment, and lower proceeds from asset sales.

Cash used in financing activities was \$2,002 million in the first nine months of 2018, compared with \$787 million used in the same period of 2017. Dividends paid in the first nine months of 2018 were \$421 million. The per share dividend paid in the first nine months of 2018 was \$0.51, up from \$0.46 from the same period of 2017. During the first nine months of 2018, the company, under its share purchase program, purchased about 38.5 million shares for approximately \$1,561 million, including shares purchased from Exxon Mobil Corporation.

## Recently issued accounting standards

Effective January 1, 2019, Imperial will adopt the Financial Accounting Standards Board's standard, *Leases (Topic 842)*, as amended. The standard requires all leases with an initial term greater than one year to be recorded on the balance sheet as a right of use asset and a lease liability. Imperial expects to use the transition method that applies the new lease standard at January 1, 2019 and recognizes any cumulative effect adjustment to the opening balance of the 2019 retained earnings. The company acquired lease accounting software to facilitate implementation, and is currently configuring and testing the software. Based on leases outstanding at the end of 2017, the company estimates the operating lease right of use asset and lease liability would have been in the range of \$200 million to \$250 million at that time. The effect on Imperial's consolidated balance sheet as a result of implementing the standard on January 1, 2019 could differ considerably depending on operating leases commenced in 2018, as well as interest rates and other factors such as the expiry or renewal of leases during the year.

## **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 nine months ended September 30, 2018, does not differ materially from that discussed on page 24 of the company's annual report on Form 10-K for the year ended December 31, 2017 and Form 10-Q for the quarter ended June 30, 2018.