8. Financial and derivative instruments

Financial instruments

The fair value of the company's financial instruments is determined by reference to various market data and other appropriate valuation techniques. There are no material differences between the fair value of the company's financial instruments and the recorded carrying value. At September 30, 2023 and December 31, 2022, the fair value of long-term debt ($3,447 million, excluding finance lease obligations) was primarily a level 2 measurement.

Derivative instruments

The company's size, strong capital structure and the complementary nature of its business segments reduce the company's enterprise-wide risk from changes in commodity prices and currency exchange rates. In addition, the company uses commodity-based contracts, including derivatives, to manage commodity price risk and to generate returns from trading. Commodity contracts held for trading purposes are presented in the Consolidated statement of income on a net basis in the line "Revenues" and in the Consolidated statement of cash flows in "Cash flow from (used in) operating activities". The company does not designate derivative instruments as a hedge for hedge accounting purposes.

Credit risk associated with the company's derivative position is mitigated by several factors, including the use of derivative clearing exchanges and the quality of and financial limits placed on derivative counterparties. The company maintains a system of controls that includes the authorization, reporting and monitoring of derivative activity.

The net notional long/(short) position of derivative instruments was:

thousands of barrels	As at Sep 30 **2023**	As at Dec 31 2022
Crude	**3,280**	1,800
Products	**(850)**	(350)

Realized and unrealized gain/(loss) on derivative instruments recognized in the Consolidated statement of income is included in the following lines on a before-tax basis:

	Third Quarter		Nine Months to September 30	
millions of Canadian dollars	**2023**	2022	**2023**	2022
Revenues	**6**	105	**(7)**	91

The estimated fair value of derivative instruments, and the related hierarchy level for the fair value measurement were as follows:

At September 30, 2023
millions of Canadian dollars

	Fair value				Effect of counterparty netting	Effect of collateral netting	Net carrying value
	Level 1	Level 2	Level 3	Total			
Assets							
Derivative assets (a)	**24**	**33**	**—**	**57**	**(23)**	**(1)**	**33**
Liabilities							
Derivative liabilities (b)	**24**	**39**	**—**	**63**	**(23)**	**—**	**40**

(a) Included in the Consolidated balance sheet line: “Materials, supplies and prepaid expenses”, “Accounts receivable - net” and “Other assets, including intangibles - net”.
(b) Included in the Consolidated balance sheet line: “Accounts payable and accrued liabilities” and “Other long-term obligations”.

At December 31, 2022
millions of Canadian dollars

	Fair value				Effect of counterparty netting	Effect of collateral netting	Net carrying value
	Level 1	Level 2	Level 3	Total			
Assets							
Derivative assets (a)	17	32	—	49	(27)	—	22
Liabilities							
Derivative liabilities (b)	21	20	—	41	(27)	(4)	10

(a) Included in the Consolidated balance sheet line: “Materials, supplies and prepaid expenses”, “Accounts receivable - net” and “Other assets, including intangibles - net”.
(b) Included in the Consolidated balance sheet line: “Accounts payable and accrued liabilities” and “Other long-term obligations”.

At September 30, 2023 and December 31, 2022, the company had $21 million and $14 million, respectively, of collateral under a master netting arrangement not offset against the derivatives on the Consolidated balance sheet in “Accounts receivable - net”, primarily related to initial margin requirements.

9. Common shares

thousands of shares	As at Sep 30 **2023**	As at Dec 31 2022
Authorized	**1,100,000**	1,100,000
Outstanding	**566,667**	584,153

The most recent 12-month normal course issuer bid program came into effect June 29, 2023 under which Imperial continued its existing share purchase program. The program enabled the company to purchase up to a maximum of 29,207,635 common shares (5 percent of the total shares on June 15, 2023) which included 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 advised the company that it intended to participate to maintain its ownership percentage at approximately 69.6 percent. Imperial accelerated its share purchases under the normal course issuer bid program during the third quarter and, subsequent to the end of the third quarter, the program completed on October 19, 2023 as a result of the company purchasing the maximum allowable number of shares under the program.

The excess of the purchase cost over the stated value of shares purchased has been recorded as a distribution of earnings reinvested.

On October 27, 2023, the company announced its intention to launch a substantial issuer bid pursuant to which the company will offer to purchase for cancellation up to $1.5 billion of its common shares. The substantial issuer bid will be made through a modified Dutch auction, with a tender price range to be determined by the company at the time of commencement of the offer. Shares may also be tendered by way of a proportionate tender, which will result in a shareholder maintaining their proportionate share ownership. ExxonMobil has advised Imperial that it intends to make a proportionate tender in connection with the offer in order to maintain its proportionate share ownership at approximately 69.6 percent following completion of the offer. Nothing in this report shall constitute an offer to purchase or a solicitation of an offer to sell any shares.

The company’s common share activities are summarized below:

	Thousands of shares	Millions of dollars
Balance as at December 31, 2021	678,080	1,252
Issued under employee share-based awards	—	—
Purchases at stated value	(93,927)	(173)
Balance as at December 31, 2022	584,153	1,079
Issued under employee share-based awards	**—**	**—**
Purchases at stated value	**(17,486)**	**(32)**
Balance as at September 30, 2023	**566,667**	**1,047**

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	
	2023	2022	**2023**	2022
Net income (loss) per common share – basic				
Net income (loss) (millions of Canadian dollars)	**1,601**	2,031	**3,524**	5,613
Weighted-average number of common shares outstanding (millions of shares)	**578.0**	625.3	**582.1**	652.9
Net income (loss) per common share (dollars)	**2.77**	3.25	**6.05**	8.60
Net income (loss) per common share – diluted				
Net income (loss) (millions of Canadian dollars)	**1,601**	2,031	**3,524**	5,613
Weighted-average number of common shares outstanding (millions of shares)	**578.0**	625.3	**582.1**	652.9
Effect of employee share-based awards (millions of shares)	**1.3**	1.6	**1.2**	1.5
Weighted-average number of common shares outstanding, assuming dilution (millions of shares)	**579.3**	626.9	**583.3**	654.4
Net income (loss) per common share (dollars)	**2.76**	3.24	**6.04**	8.58
Dividends per common share – declared (dollars)	**0.50**	0.34	**1.44**	1.02

10. Other comprehensive income (loss) information

Changes in accumulated other comprehensive income (loss):

millions of Canadian dollars	**2023**	2022
Balance at January 1	**(512)**	(1,177)
Postretirement benefits liability adjustment:		
Current period change excluding amounts reclassified from accumulated other comprehensive income	**21**	24
Amounts reclassified from accumulated other comprehensive income	**29**	63
Balance at September 30	**(462)**	(1,090)

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

	Third Quarter		Nine Months to September 30	
millions of Canadian dollars	**2023**	2022	**2023**	2022
Amortization of postretirement benefits liability adjustment included in net benefit cost (a)	**(13)**	(28)	**(39)**	(83)

(a) This accumulated other comprehensive income component is included in the computation of net benefit cost (note 4).

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

	Third Quarter		Nine Months to September 30	
millions of Canadian dollars	**2023**	2022	**2023**	2022
Postretirement benefits liability adjustments:				
Postretirement benefits liability adjustment (excluding amortization)	**—**	—	**7**	8
Amortization of postretirement benefits liability adjustment included in net benefit cost	**4**	7	**10**	20
Total	**4**	7	**17**	28

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

Non-GAAP financial measures and other specified financial measures

Certain measures included in this document are not prescribed by U.S. Generally Accepted Accounting Principles (GAAP). These measures constitute “non-GAAP financial measures” under Securities and Exchange Commission Regulation G and Item 10(e) of Regulation S-K, and “specified financial measures” under National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure of the Canadian Securities Administrators.

Reconciliation of these non-GAAP financial measures to the most comparable GAAP measure, and other information required by these regulations, have been provided. Non-GAAP financial measures and specified financial measures are not standardized financial measures under GAAP and do not have a standardized definition. As such, these measures may not be directly comparable to measures presented by other companies, and should not be considered a substitute for GAAP financial measures.

Net income (loss) excluding identified items
Net income (loss) excluding identified items is a non-GAAP financial measure that is total net income (loss) excluding individually significant non-operational events with an absolute corporate total earnings impact of at least $100 million in a given quarter. The net income (loss) impact of an identified item for an individual segment in a given quarter may be less than $100 million when the item impacts several segments or several periods. The most directly comparable financial measure that is disclosed in the financial statements is "Net income (loss)" within the company’s Consolidated statement of income. Management uses these figures to improve comparability of the underlying business across multiple periods by isolating and removing significant non-operational events from business results. The company believes this view provides investors increased transparency into business results and trends, and provides investors with a view of the business as seen through the eyes of management. Net income (loss) excluding identified items is not meant to be viewed in isolation or as a substitute for net income (loss) as prepared in accordance with U.S. GAAP. All identified items are presented on an after-tax basis.

Reconciliation of net income (loss) excluding identified items

	Third Quarter		Nine Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of income				
Net income (loss) (U.S. GAAP)	**1,601**	2,031	**3,524**	5,613
Less identified items included in Net income (loss)				
Gain/(loss) on sale of assets	**—**	208	**—**	208
Subtotal of identified items	**—**	208	**—**	208
Net income (loss) excluding identified items	**1,601**	1,823	**3,524**	5,405

Recent business environment

During the first quarter of 2023, the price of crude oil declined, impacted by higher inventory levels, and the price of crude oil remained relatively flat during the second quarter. In the third quarter, crude oil prices increased as demand exceeded supply after OPEC+ oil producers further reduced oil output. In addition, the Canadian WTI/WCS spread continued to recover in the third quarter, but remains weaker than 2022 on an annual basis. Similarly, 2023 refining margins remain strong but fall short of 2022 levels on an annual basis.

Operating results

Third quarter 2023 vs. third quarter 2022

	Third Quarter	
millions of Canadian dollars, unless noted	**2023**	2022
Net income (loss) (U.S. GAAP)	**1,601**	2,031
Net income (loss) per common share, assuming dilution (dollars)	**2.76**	3.24
Net income (loss) excluding identified items[1]	**1,601**	1,823

Prior year third quarter results included favourable identified items[1] of $208 million related to the company's gain on the sale of interests in XTO Energy Canada.

Upstream

Net income (loss) factor analysis

millions of Canadian dollars

Price – Synthetic crude oil realizations decreased by $11.82 per barrel, generally in line with WTI. Average bitumen realizations increased by $4.47 per barrel. Higher bitumen realizations were primarily driven by the narrowing of the WTI/WCS spread, partially offset by lower marker prices.

Volumes – Higher volumes were primarily driven by increased plant capacity utilization and mine equipment productivity at Kearl, and annual turnaround timing and duration at Syncrude, partially offset by steam cycle timing and planned turnaround activity at Cold Lake.

Identified Items[1] – Prior year third quarter results included favourable identified items[1] related to the company's gain on the sale of interests in XTO Energy Canada.

Other – Includes lower operating expenses of about $160 million, and favourable foreign exchange impacts of about $80 million.

[1] non-GAAP financial measure - see non-GAAP financial measures and other specified financial measures for definition and reconciliation

Marker prices and average realizations

Canadian dollars, unless noted	Third Quarter 2023	2022
West Texas Intermediate (US$ per barrel)	**82.32**	91.43
Western Canada Select (US$ per barrel)	**69.39**	71.53
WTI/WCS Spread (US$ per barrel)	**12.93**	19.90
Bitumen (per barrel)	**86.05**	81.58
Synthetic crude oil (per barrel)	**112.98**	124.80
Average foreign exchange rate (US$)	**0.75**	0.77

Production

thousands of barrels per day	Third Quarter 2023	2022
Kearl (Imperial's share)	**209**	193
Cold Lake	**128**	150
Syncrude (a)	**75**	62
Kearl total gross production (thousands of barrels per day)	**295**	271

(a) In the third quarter of 2023, Syncrude gross production included about 0 thousand barrels per day of bitumen and other products (2022 - 7 thousand barrels per day) that were exported to the operator's facilities using an existing interconnect pipeline.

Higher production at Kearl was primarily driven by increased plant capacity utilization and mine equipment productivity.

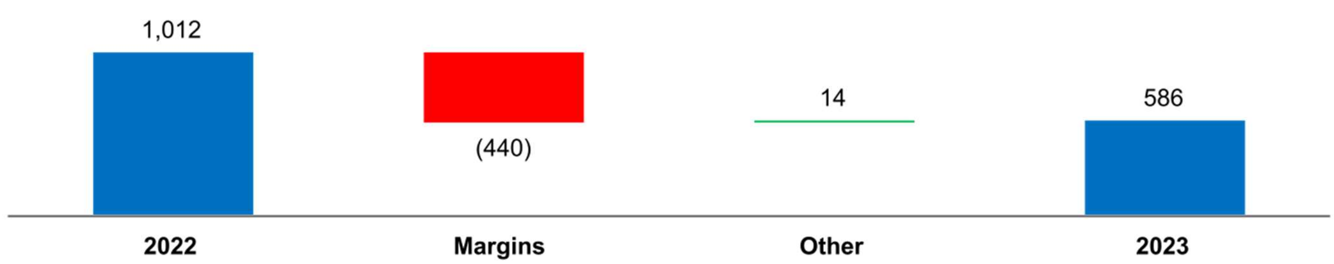
Lower production at Cold Lake was primarily driven by steam cycle timing and planned turnaround activity.

Higher production at Syncrude was primarily driven by annual turnaround timing and duration.

Downstream

Net income (loss) factor analysis

millions of Canadian dollars



Margins – Lower margins primarily reflect weaker market conditions.

Other – Includes favourable foreign exchange impacts of about $50 million, partially offset by higher turnaround impacts of about $50 million reflecting the planned turnaround activities at Sarnia refinery.

Refinery utilization and petroleum product sales

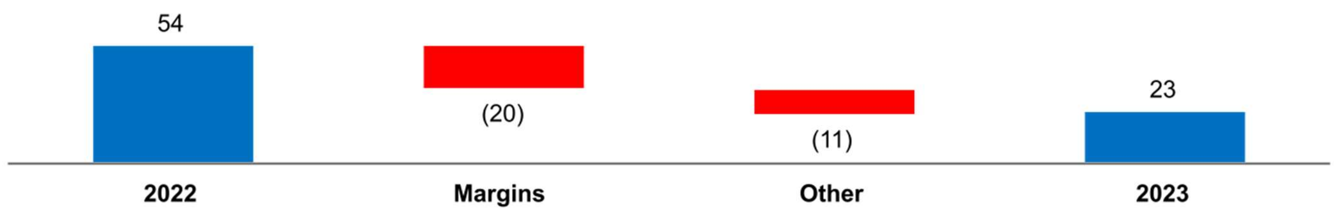
thousands of barrels per day, unless noted	Third Quarter 2023	2022
Refinery throughput	**416**	426
Refinery capacity utilization (percent)	**96**	100
Petroleum product sales	**478**	484

Lower refinery throughput in the third quarter of 2023 reflects the impact of planned turnaround activities at Sarnia refinery.

Chemicals

Net income (loss) factor analysis

millions of Canadian dollars



Corporate and other

millions of Canadian dollars	Third Quarter 2023	2022
Net income (loss) (U.S. GAAP)	**(36)**	(21)

Liquidity and capital resources

millions of Canadian dollars	Third Quarter 2023	2022
Cash flows from (used in):		
Operating activities	**2,359**	3,089
Investing activities	**(380)**	364
Financing activities	**(1,639)**	(2,744)
Increase (decrease) in cash and cash equivalents	**340**	709
Cash and cash equivalents at period end	**2,716**	3,576

Cash flows from operating activities primarily reflect lower Downstream margins.

Cash flows used in investing activities primarily reflect the absence of proceeds from the sale of interests in XTO Energy Canada.

Cash flows used in financing activities primarily reflect:

millions of Canadian dollars, unless noted	Third Quarter 2023	2022
Dividends paid	**292**	227
Per share dividend paid (dollars)	**0.50**	0.34
Share repurchases (a)	**1,342**	1,512
Number of shares purchased (millions) (a)	**17.5**	25.2

(a) Share repurchases were made under the company's normal course issuer bid program, and include shares purchased from Exxon Mobil Corporation concurrent with, but outside of, the normal course issuer bid.

Nine months 2023 vs. nine months 2022

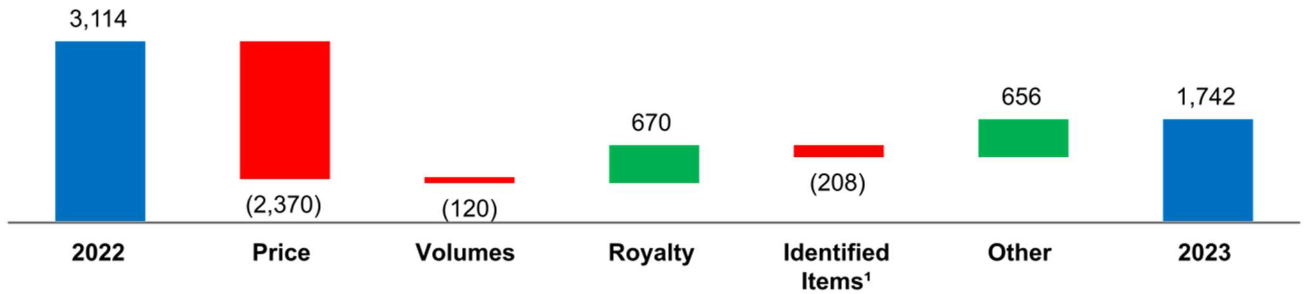
	Nine Months	
millions of Canadian dollars, unless noted	**2023**	2022
Net income (loss) (U.S. GAAP)	**3,524**	5,613
Net income (loss) per common share, assuming dilution (dollars)	**6.04**	8.58
Net income (loss) excluding identified items[1]	**3,524**	5,405

Prior year results included favourable identified items[1] of $208 million related to the company's gain on the sale of interests in XTO Energy Canada.

Upstream

Net income (loss) factor analysis

millions of Canadian dollars



Price – Lower bitumen realizations were primarily driven by lower marker prices and the widening WTI/WCS spread. Average bitumen realizations decreased by $25.31 per barrel, generally in line with WCS, and synthetic crude oil realizations decreased by $23.87 per barrel, generally in line with WTI.

Volumes – Lower volumes were primarily driven by steam cycle timing at Cold Lake, and the absence of XTO Energy Canada production, partially offset by improved reliability and absence of extreme cold weather at Kearl.

Royalty – Lower royalties were primarily driven by weakened commodity prices.

Identified Items[1] – Prior year results included favourable identified items[1] related to the company's gain on the sale of interests in XTO Energy Canada.

Other – Includes favourable foreign exchange impacts of about $400 million, and lower operating expenses of about $220 million, primarily due to lower energy prices.

Marker prices and average realizations

	Nine Months	
Canadian dollars, unless noted	**2023**	2022
West Texas Intermediate (US$ per barrel)	**77.29**	98.25
Western Canada Select (US$ per barrel)	**59.67**	82.60
WTI/WCS Spread (US$ per barrel)	**17.62**	15.65
Bitumen (per barrel)	**68.70**	94.01
Synthetic crude oil (per barrel)	**105.65**	129.52
Average foreign exchange rate (US$)	**0.74**	0.78

[1] non-GAAP financial measure - see non-GAAP financial measures and other specified financial measures for definition and reconciliation

Production

thousands of barrels per day	Nine Months 2023	2022
Kearl (Imperial's share)	**182**	162
Cold Lake	**134**	145
Syncrude (a)	**72**	74
Kearl total gross production (thousands of barrels per day)	**257**	228

(a) In 2023, Syncrude gross production included about 1 thousand barrels per day of bitumen and other products (2022 - 4 thousand barrels per day) that were exported to the operator's facilities using an existing interconnect pipeline.

Higher production at Kearl was primarily driven by improved reliability as a result of the successful rollout of the winterization strategy, the absence of extreme cold weather, increased plant capacity utilization, and mine equipment productivity.

Lower production at Cold Lake was primarily driven by steam cycle timing.

Downstream

Net income (loss) factor analysis
millions of Canadian dollars

Margins – Lower margins primarily reflect weaker market conditions.

Other – Favourable foreign exchange impacts of about $240 million and improved volumes of about $140 million, partially offset by higher turnaround impacts of about $300 million, associated with the planned turnaround activities at the Strathcona and Sarnia refineries.

Refinery utilization and petroleum product sales

thousands of barrels per day, unless noted	Nine Months 2023	2022
Refinery throughput	**407**	413
Refinery capacity utilization (percent)	**94**	96
Petroleum product sales	**469**	471

Chemicals

Net income (loss) factor analysis
millions of Canadian dollars

Corporate and other

millions of Canadian dollars	Nine Months 2023	Nine Months 2022
Net income (loss) (U.S. GAAP)	**(71)**	(98)

Liquidity and capital resources

millions of Canadian dollars	Nine Months 2023	Nine Months 2022
Cash flows from (used in):		
Operating activities	**2,423**	7,685
Investing activities	**(1,283)**	(145)
Financing activities	**(2,173)**	(6,117)
Increase (decrease) in cash and cash equivalents	**(1,033)**	1,423

Cash flows from operating activities primarily reflect unfavourable working capital impacts, including an income tax catch-up payment of $2.1 billion, as well as lower Upstream realizations and Downstream margins.

Cash flows used in investing activities primarily reflect the absence of proceeds from the sale of interests in XTO Energy Canada, and higher additions to property, plant and equipment.

Cash flows used in financing activities primarily reflect:

millions of Canadian dollars, unless noted	Nine Months 2023	Nine Months 2022
Dividends paid	**815**	640
Per share dividend paid (dollars)	**1.38**	0.95
Share repurchases (a)	**1,342**	4,461
Number of shares purchased (millions) (a)	**17.5**	66.6

(a) Share repurchases were made under the company's normal course issuer bid program. In the second quarter of 2022, share repurchases were made under the company's substantial issuer bid that commenced on May 6, 2022 and expired on June 10, 2022. Includes shares purchased from Exxon Mobil Corporation concurrent with, but outside of, the normal course issuer bid, and by way of a proportionate tender under the company's substantial issuer bid.

On June 27, 2023, the company announced by news release that it had received final approval from the Toronto Stock Exchange for a new normal course issuer bid to continue its then existing share purchase program. The program enabled the company to purchase up to a maximum of 29,207,635 common shares during the period June 29, 2023 to June 28, 2024. This maximum included 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 advised the company that it intended to participate to maintain its ownership percentage at approximately 69.6 percent. Imperial accelerated share purchases under the normal course issuer bid program during the third quarter and, subsequent to the end of the third quarter, the program completed on October 19, 2023 as a result of the company purchasing the maximum allowable number of shares under the program.

On October 27, 2023, the company announced its intention to launch a substantial issuer bid pursuant to which the company will offer to purchase for cancellation up to $1.5 billion of its common shares. The substantial issuer bid will be made through a modified Dutch auction, with a tender price range to be determined by the company at the time of commencement of the offer. Shares may also be tendered by way of a proportionate tender, which will result in a shareholder maintaining their proportionate share ownership. ExxonMobil has advised Imperial that it intends to make a proportionate tender in connection with the offer in order to maintain its proportionate share ownership at approximately 69.6 percent following completion of the offer. Nothing in this report shall constitute an offer to purchase or a solicitation of an offer to sell any shares.

Contractual obligations

As previously communicated, in the second quarter of 2023, the company entered into a long-term purchase agreement with a third party for about $3 billion. It has no impact on the 2023 and 2024 obligations disclosed in Imperial's 2022 annual report on Form 10-K. The company does not believe that the increased obligation will have a material effect on Imperial's operations, financial condition or 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. 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, the company's intention to initiate a substantial issuer bid, including the size, structure, timing for determining the terms, pricing and commencement, and ExxonMobil's intent to make a proportionate tender; the continued evaluation of the share purchase program in context of overall capital activities; references to the use of derivative instruments and effectiveness of risk mitigation; and the company's belief that the commitment related to the long-term purchase agreement will not have a material effect on the company's operations, financial condition or financial 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; production rates, growth and mix; for shareholder returns, assumptions such as cash flow forecasts, financing sources and capital structure, that the necessary exemptive relief to proceed with the substantial issuer bid under applicable securities laws will be received on the timeline anticipated, and ExxonMobil making a proportionate tender in connection with the substantial issuer bid; project plans, timing, costs, technical evaluations and capacities and the company's ability to effectively execute on these plans and operate its assets; capital and environmental expenditures; and commodity prices, foreign exchange rates and general market conditions, 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 occurrence of wars; the receipt, in a timely manner, of regulatory and third-party approvals, including for the company's substantial issuer bid;availability and allocation of capital; project management and schedules and timely completion of projects; unanticipated technical or operational difficulties; availability and performance of third-party service providers; environmental risks inherent in oil and gas exploration and production activities; political or regulatory events, including changes in law or government policy; management effectiveness and disaster response preparedness; operational hazards and risks; cybersecurity incidents, including increased reliance on remote working arrangements; currency exchange rates; general economic conditions; 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.

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 nine months ended September 30, 2023, does not differ materially from that discussed on page 32 of the company's annual report on Form 10-K for the year ended December 31, 2022.