Imperial

2015 letter to shareholders

Letter to shareholders

2015 marked a year of delivery on commitments as Imperial successfully achieved major milestones associated with upstream growth and also added significant value by capturing cost reductions in a challenging business environment.

2015 was a very turbulent year in our industry, with global crude oil prices falling dramatically to levels last seen more than a decade ago.

That said, Imperial did what it does best – we focused on what we can control. Specifically, we focused on the safety of our workforce, the integrity and reliability of our operations, the execution of our projects and the overall cost structure of our business.

While 2015 financial results, particularly in the upstream, were impacted by low global oil prices, our results highlight the strength of our integrated business model, our high-quality asset base and ongoing commitment to operational excellence.

In terms of safety, we not only continued to lead industry but we also achieved our best-ever workforce safety performance in 2015. We have an unwavering commitment to achieve a workplace where *Nobody Gets Hurt.* Our commitment to high standards and operational integrity is illustrated by our environmental performance in 2015. Through focused improvement efforts, we achieved record-low spill counts and regulatory compliance incidents. Our environmental mission is to *Protect Tomorrow, Today.*

Delivering on commitments

In 2015, we completed major upstream projects associated with an unprecedented period of growth that will add value for decades to come.

The highlight was, without a doubt, the early start-up and strong performance of the $9-billion Kearl oil sands expansion project. Coupled with the initial development, Kearl represents the largest capital investment in the company's history. The expansion project benefited significantly from Imperial's "design one, build multiple" approach and lessons learned from the initial development. We achieved a significant reduction in capital cost, a shorter construction timeline and an efficient ramp-up to design capacity.

We also completed the $2-billion Nabiye expansion project at Cold Lake, one of Canada's largest in-situ oil sands operations. In recognition of our overall upstream achievements, Imperial was named Oilsands Producer of the Year in 2015 by the industry publication Oilsands Review based on innovation, project planning and execution, and overall business excellence. The Kearl expansion project was also recognized as the top large project in the oil and gas industry in 2015 by Alberta Construction Magazine.

To ensure continued market access, we added significant operational flexibility with the completion of the Edmonton rail terminal. Along with other initiatives, the terminal, a joint venture operated by Kinder Morgan, will provide access to the highest-value markets for Imperial's crude production.

Responding to the current environment

While 2015 financial results, particularly in the upstream, were impacted by low global oil prices, our results highlight the strength of our integrated business model, our high-quality asset base and ongoing commitment to operational excellence.

Net income was $1.1 billion, compared to $3.8 billion in 2014, primarily the result of significantly lower crude realizations. Return on capital employed was 3.8 percent and cash flow from operating activities was $2.2 billion. Capital and exploration expenditures were $3.6 billion.

We relentlessly pursued cost efficiencies, critically evaluating our investment decisions and increasing productivity in all areas of our business. This results-oriented approach strengthened our resiliency, ensuring the company remains well-positioned throughout the commodity price cycle.

Since the beginning of 2015, we reduced operating and capital costs by more than $1.5 billion relative to earlier plans. Most notably, since bringing on new production, upstream unit cash costs were 25 percent lower in the second half of 2015 than our 2014 annual average. Disciplined operating and capital cost management will continue to be a priority.

In addition to the challenging market conditions, significant political changes took place at both the federal level and in the Alberta provincial government in 2015. Potential impacts of policy changes on our operations and future projects are still largely uncertain. What is certain is that Imperial will continue to advocate for public policies that balance the social, economic and environmental aspirations of Canadians and our shareholders while helping to meet growing global energy demands.

Value of integration

With both large upstream assets and downstream businesses, Imperial is a leader across the full energy value chain. Our integration results in resiliency across a range of market conditions, including the current low crude price environment. In 2015, strong downstream and chemical financial and operating performance supported earnings, continuing to underscore the value of Imperial's integrated business model.

Higher upstream volumes partially offset significantly lower oil prices, with fourth quarter production reaching 400,000 gross oil-equivalent barrels a day, the highest level in more than two decades.

In the downstream, continued improvements in reliability and costs have resulted in our refineries ranking as the highest performers in Canada and in many parameters across North America, based on the Solomon refining survey, a widely accepted industry benchmark. Annual refinery capacity utilization reached 92 percent, including the impact of planned maintenance activities.

Chemicals achieved record annual earnings of $287 million on the strength of high polyethylene sales and processing cost-advantaged ethane feedstock from Marcellus shale gas.

Petroleum product sales were 478,000 barrels a day in 2015, consistent with our strategy to pursue growth in profitable Canadian markets. We continue to strengthen and grow the Esso brand, including the ongoing evaluation of the potential transition of our remaining company-owned Esso retail sites to a branded wholesaler operating model.

Looking ahead

With a significant oil and gas resource base and a large inventory of potential projects, Imperial is well positioned for its next stage of growth. We will continue to evaluate the pace and scope of future investments in light of overall market and business conditions. Above all, our objective remains to deliver superior, long-term shareholder value in whatever business environment we operate.

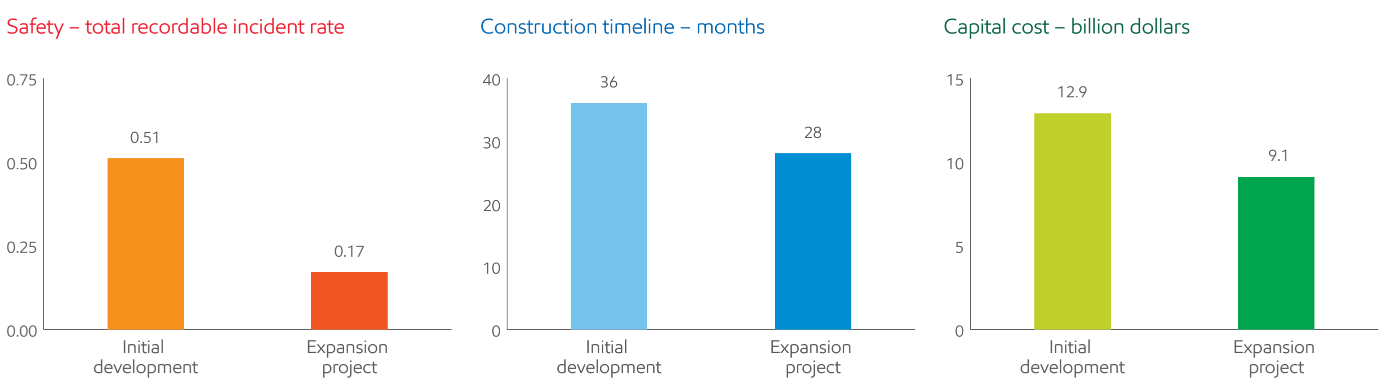
People

Our achievements are the result of the hard work and dedication of our employees, who remain one of our greatest competitive advantages. I recognize and compliment the tremendous efforts of our workforce who have remained focused on our priorities despite the challenging business environment in which we find ourselves.

On behalf of the Board and all Imperial employees, I want to thank you, our shareholders, for your trust in our ability to manage your investment. We do not take your trust lightly and we commit to continuing to manage your assets to maximize value.

Rich Kruger
Chairman, President and CEO

Kearl expansion project – "design one, build multiple" strategy



2015 highlights

Imperial's business model

- Long-life, competitively advantaged assets
- Disciplined investment, cost management
- Value chain integration and synergies
- High-impact technologies and innovation
- Operational excellence, responsible growth

Kearl

Achieved early start-up and strong performance of the Kearl oil sands expansion. In the fourth quarter, gross production averaged 203,000 barrels per day (144,000 Imperial's share) due to continued strong performance from the expansion project and optimization efforts at the combined Kearl operation. Gross production from the expansion is expected to ultimately reach 110,000 barrels per day, bringing total production from Kearl to 220,000 barrels per day (156,000 barrels Imperial's share).

Kearl represents the next generation of oil sands mining. Using Imperial's proprietary paraffinic froth treatment technology, Kearl is the only oil sands mine to produce bitumen ready for pipeline transport without the need for an onsite upgrader. Application of this technology significantly reduces costs and greenhouse gas emissions. On a well-to-wheels basis, Kearl diluted bitumen has about the same greenhouse gas emissions footprint as the average crude refined in the United States today.

Cold Lake

Strong reliability and the start-up of the Nabiye expansion project increased production at Cold Lake to 158,000 barrels per day. In 2015, Cold Lake was recertified by the Wildlife Habitat Council for its habitat conservation and management programs. In 2010, it was the first oil and gas operation in Canada and first oil sands operation in the world recognized by the council.

Edmonton rail terminal

With the start-up in April 2015, we added significant operational flexibility with the Edmonton rail terminal to offset uncertainty associated with the timing of new pipeline capacity. The terminal, a joint venture operated by Kinder Morgan, will provide access to the highest-value markets for equity crude production and continue to supply price-advantaged feedstock to company refineries. The terminal has an initial capacity of 210,000 barrels per day with the potential to expand to 250,000 barrels.

Syncrude

Applied additional efforts to further improve reliability and realize cost-efficiencies at Syncrude, one of the world's largest oil sands mining operations. In 2015, the venture achieved more than $1 billion in total cost reductions compared to previous plans. Imperial's 25-percent share of Syncrude averaged 62,000 barrels per day of production in 2015.

Chemicals

Achieved record annual earnings of $287 million on the strength of high polyethylene sales and cost-advantaged feedstock from Marcellus shale gas. A project to replace three earlier generation gas cracker furnaces with a single modern furnace at our Sarnia operations hub will reduce operating costs while increasing energy efficiency and high value production.

Community

Contributed $20 million in 2015 to support Canadian communities, including $2.8 million raised by employees and annuitants for United Way partners. Donations of significant Canadian artwork from Imperial's historical collection to galleries across the country began to mark our celebration of Canada's upcoming 150th birthday. Under the Esso banner, we contributed $806,000 to amateur community hockey programs across the country and supported the 2015 Pan Am Games in Toronto as its official fuel and convenience sponsor.

Refining

Continued improvements resulted in our refineries ranking as the highest performers in Canada and in many parameters across North America, based on the 2014 Solomon refining survey, a widely accepted biennial industry benchmark. Imperial is the largest refiner in Canada, with annual throughput of 386,000 barrels a day in 2015. Annual refinery capacity utilization reached 92 percent, including the impact of planned maintenance activities.

Fuels and lubricants

Continued to hold a leading market share in all product segments nationwide, with petroleum product sales of 478,000 barrels a day in 2015. We continue to pursue efforts to strengthen and grow the Esso brand, including the ongoing evaluation of the potential transition of our remaining company-owned Esso retail sites to a branded wholesaler operating model.

Research and growth opportunities

Amended the Aspen project regulatory application to use Solvent-Assisted, Steam-Assisted Gravity Drainage (SA-SAGD) technology, the first proposed commercial use of this technology in industry. This technology significantly improves capital efficiency and lowers greenhouse gas intensity versus existing SAGD technologies and may be applied to a suite of potential in-situ projects.

With more than a century of achievements in pioneering energy research, Imperial started construction on a new Calgary research facility to continue work on the safest and most efficient next-generation technologies for responsibly developing Canada's vast oil sands resource.

Calgary head office

Neared completion on construction of our campus-style office complex in southeast Calgary. Relocations started in 2014, with full occupancy targeted in early 2016. The cost-effective, state of-the-art facility is designed to foster collaboration and innovation.

Safety and environment

Achieved best-ever workforce safety and environmental performance in 2015. Spill prevention efforts resulted in a record-low number of incidents, illustrating the priority we place on overall operational integrity.

2015 financial and operating highlights

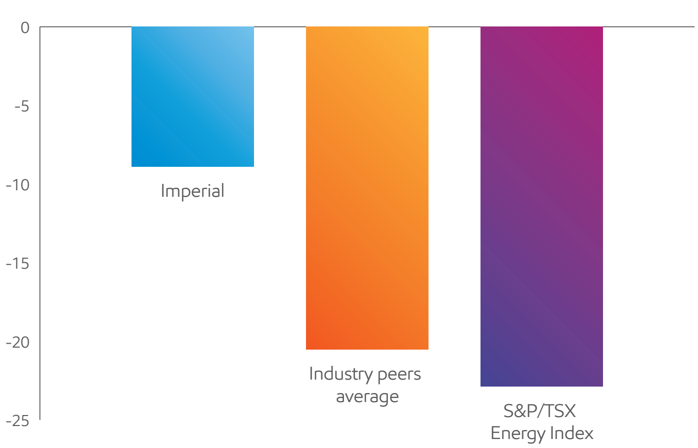
Financial highlights *(millions of Canadian dollars)*	**2015**	2014	2013	2012	2011
Operating revenues	**26 756**	36 231	32 722	31 053	30 474
Net income	**1 122**	3 785	2 828	3 766	3 371
Cash flow from operating activities and asset sales [a]	**2 309**	5 256	3 452	4 906	4 803
Cash and cash equivalents at year-end	**203**	215	272	482	1 202
Total debt at year-end	**8 516**	6 891	6 287	1 647	1 207
Average capital employed [a]	**30 700**	27 637	21 941	16 302	13 261
Capital and exploration expenditures	**3 595**	5 654	8 020	5 683	4 066

Key financial ratios	**2015**	2014	2013	2012	2011
Net income per share – diluted *(dollars)*	**1.32**	4.45	3.32	4.42	3.95
Return on average capital employed *(percent)* [a]	**3.8**	13.7	12.9	23.1	25.4
Return on average shareholders' equity *(percent)*	**4.9**	18.0	15.8	25.4	27.5
Annual shareholders' return *(percent)* [b]	**(8.9)**	7.5	11.3	(4.8)	12.9
Debt to capital *(percent)* [c]	**27**	23	24	9	9
Dividends declared per share *(dollars)*	**0.54**	0.52	0.49	0.48	0.44

Operating highlights	**2015**	2014	2013	2012	2011
Gross crude oil and NGL production *(thousands of barrels per day)*	**344**	282	261	250	255
Gross natural gas production *(millions of cubic feet per day)*	**130**	168	201	192	254
Gross total production *(thousands of oil-equivalent barrels per day)*	**366**	310	295	282	297
Net proved reserves *(millions of oil-equivalent barrels)*	**4 227**	3 959	3 622	3 574	3 191
Refinery throughput *(thousands of barrels per day)* [d]	**386**	394	426	435	430
Petroleum product sales *(thousands of barrels per day)*	**478**	485	454	445	447
Chemical sales volumes *(thousands of tonnes)*	**945**	953	940	1 044	1 016

(a) Definitions can be found under "frequently used terms" of the Financial section of the Management Proxy Circular.
(b) Includes share appreciation and dividends.
(c) Definition can be found under Management's Discussion and Analysis of Financial Condition and Results of Operations of the Management Proxy Circular.
(d) Refinery operations at the Dartmouth refinery were discontinued on September 16, 2013.

Annualized total shareholder return *(percent)*



Although Imperial's total shareholder return was negative, associated with the challenging business environment we faced in 2015, we performed significantly better than our peer group average and 14 percent ahead of the S&P/TSX Energy Index.

$1.1 billion

in net income, or $1.32 per share

$2.2 billion

in cash flow from operating activities

22%

increase in total liquids production, reaching the highest level in more than two decades

$1.5 billion

reduction in operating and capital costs relative to earlier plans

25%

reduction in upstream unit cash costs, since bringing on new production

$3.6 billion

in capital and exploration expenditures focused on major upstream growth projects

21

consecutive years of dividend increases, paid $0.53 per share in 2015

Left to right: Victor L. Young, David S. Sutherland, D. G. (Jerry) Wascom, Krystyna T. Hoeg, Sheelagh D. Whittaker, Richard M. Kruger, Jack M. Mintz

Board of directors

Richard M. Kruger
Chairman, president
and chief executive officer
Imperial Oil Limited
Calgary, Alberta

Krystyna T. Hoeg
Corporate director
Toronto, Ontario
Chair – Executive resources committee
Vice-chair – Contributions committee

David S. Sutherland
Corporate director
Waterloo, Ontario
Chair – Contributions committee
Vice-chair – Environment, health and safety committee

Jack M. Mintz
President's fellow
University of Calgary
Calgary, Alberta
Chair – Environment, health and safety committee
Vice-chair – Nominations and corporate governance committee

D. G. (Jerry) Wascom
Vice-president of Exxon Mobil Corporation and president of ExxonMobil Refining and Supply Company
Spring, Texas

Sheelagh D. Whittaker
Corporate director
London, England
Chair – Nominations and corporate governance committee
Vice-chair – Audit committee

Victor L. Young
Corporate director
St. John's, Newfoundland and Labrador
Chair – Audit committee
Vice-chair – Executive resources committee

Other executive officers

Barton P. Cahir
Senior vice-president, upstream division

Beverley A. Babcock
Senior vice-president, finance and administration, and controller

William J. Hartnett, Q.C.
Vice-president and general counsel

Bradley G. Merkel
Vice-president, fuels, lubricants and specialties marketing

Tim J. Adams
Manager, supply and manufacturing

David G. Bailey
Treasurer

Rick J. Gallant
Vice-president, upstream engineering

Randy D. Gillis
Assistant controller

Denise H. Hughes
Vice-president, human resources

Marvin E. Lamb
Director, corporate tax

Lara H. Pella
Assistant general counsel and corporate secretary

Head office

Imperial Oil Limited
505 Quarry Park Boulevard SE
Calgary, Alberta T2C 5N1

Investor information

Online: imperialoil.ca
Email: investor.relations@esso.ca
Telephone: 587-476-4743

Forward-looking statements

Statements of future events or conditions in this report, including projections, targets, expectations, estimates, and business plans are forward-looking statements. Actual future financial and operating results, including demand growth and energy source mix; production growth and mix; project plans, dates, costs and capacities; production rates; production life and resource recoveries; cost savings; product sales; financing sources; and capital and environmental expenditures could differ materially depending on a number of factors, such as changes in the supply of and demand for crude oil, natural gas, and petroleum and petrochemical products and resulting price impacts; availability and allocation of capital; currency exchange rates; political or regulatory events; project schedules; commercial negotiations; the receipt, in a timely manner, of regulatory and third-party approvals; unanticipated operational disruptions; unexpected technological developments; and other factors discussed in this report and in Item 1A of Imperial's annual report on Form 10-K and in the management's discussion and analysis of financial condition and results of operations contained in Item 7. 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.

In these materials, certain natural gas volumes have been converted to barrels of oil equivalent (BOE) on the basis of six thousand cubic feet (Mcf) to one barrel (bbl). BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf to one bbl is based on an energy-equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different than the energy equivalency ratio of 6 Mcf to 1 bbl, using a 6:1 conversion ratio may be misleading as an indication of value.

All reserves estimates provided in these materials are effective as of December 31, 2015, as disclosed in Imperial's Form 10-K for the fiscal year ending December 31, 2015.

Reserves are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data, the use of established technology, and specified economic conditions, which are generally accepted as being reasonable. Proved reserves are those reserves which can be estimated with a high degree of certainty to be recoverable.

Imperial online

Visit our website at imperialoil.ca to learn more information about Imperial's operations, including videos about our projects and a report on our corporate citizenship efforts.

For complete consolidated financial statements, including notes, please refer to the Management Proxy Circular for Imperial's 2016 annual meeting of shareholders. The Management Proxy Circular also includes Management's Discussion and Analysis of Financial Condition and Results of Operations. The circular is located on the investors section of our website.

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Cover photo: Imperial employee Josh Gillis at the Kearl oil sands development.

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Paper from responsible sources
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