Q3 2018 Earnings Call

Friday, 2nd November 2018

Introduction

Dave Hughes

Manager, Investor Relations

Good morning everybody, and thanks for joining us on our third quarter call. In a few minutes, you will be hearing from Rich Kruger, Chairman, President and CEO, but I would like to tell you that in the room with Rich right now we have Dan Lyons the senior Vice President Finance and Administration, Theresa Redburn, Senior Vice President Commercial and Corporate Development and John Whelan , Senior Vice President of the Upstream.

I would also like to note that today's comments may contain forward-looking information. Any forward-looking information is not a guarantee of future performance and actual future financial and operating results could differ materially depending on a number of factors and assumptions. Forward-looking information and the risk factors and assumptions are described in further detail in our third quarter earnings release that was issued earlier this morning, as well as our most recent form 10-K and these documents are available on SEDAR, EDGAR and www.imperialoil.ca and I encourage you to refer to them.

So after Rich's remarks, we will be having a Q&A session and as we did back in July on our mid-year update call, provided analysts an opportunity to submit questions in advance. So we will probably start the Q&A with a couple of those pre-submitted questions and then move to the live Q&A and move maybe back and forth through this session. So with that, I will turn it over to Rich.

Q3 2018 Earnings

Rich Kruger

Chairman, President and CEO

Well good morning. You were so kind to us on our mid-year update that we have chosen to do this again with a third quarter earnings call. I trust you have seen the headlines and the highlights. Before I go in and detail some of the specific third quarter results, I will offer a few comments on the overall business environment.

If we look at third quarter market prices using WTI and WCS as references, the third quarter was largely similar to the second quarter and if you look at year to date prices, again, largely similar throughout the year. The big difference, of course, from year to year is WTI is up about $18 a barrel, but WCS Edmonton is only up about $7 and of course, bitumen prices which follow are up about $6 year on year. So we certainly have not benefited for the full extent of global crude prices.

Now, fourth quarter with differentials shaping up to be a bit different, I will have some more comments on that a bit later.

Downstream and chemical market conditions and margins remained strong in the third quarter much like we experienced throughout the first half. So with that said, net income of $749 million in the third quarter essentially doubled our year to date to a bit below

$1.5 billion, well up from this time last year to the tune of more than $800 million. On a per share basis, that was $0.94 a share in the third quarter, bringing our year to date to a $1.79. In the upstream, we had quarterly earnings of $222 million; the increase is really relative to the second quarter and that is driven by volumes growth, most notably Kearl and Cold Lake. I will offer more comments at an asset level here shortly.

Year to date upstream earnings flipped from a negative 50 through the first half to a positive 172 through nine months and the third quarter was the highest quarterly upstream earnings we have had in four years.

Downstream quarterly earnings, $502 million, essentially at the first quarter of 2018 level. Results have been driven by historic high inputs of price advantage of having crude feedstocks to our refineries. Historically, we have refined 15-17%, heavies are about 65,000 barrels a day as we continue to push. Given the price advantages, we have averaged about 95,000 barrels a day or about 25% of our feedstock as heavy crudes. Other components behind the downstream quarterly earnings, higher asphalt sales, strong North American market and continuing growth with branded fuel sales including aviation and other fuels.

Cash generated from operating activities was a bit above $1.2 billion for the quarter, the highest in four years, bringing us at a year to date to a bit over $3 billion. I thought I would comment on that very briefly. If you take the run rate for the year at 3 billion and you just say the fourth quarter – this is not a prediction but just a math exercise – would be comparable, we would end the year on over $4 billion, you have to look back to the 2012, 2013 and 2014 time period where over those three years we averaged essentially $4 billion a year cash from operating activities and when we did that WTI for the year averaged $95 over those three years, WCS averaged $73 over those three years. So here with a $67-barrel WTI, $45-barrel WCS, we are generating cash to the tune of what we did under a much higher price environment and a lot of that is driven by cost reduction, organisational efficiencies, volume increases, the things that we are in more direct control of.

If you break it down and look at each of our businesses, we have had strong cash generation, certainly in the third quarter but also throughout the year in each of the upstream, downstream and chemicals businesses. Upstream cash generation or cash from operating activities about $1.2 billion year to date, the downstream is more than $1.6 billon and the chemical business is approaching $300 million. Those are the component parts that get us at roughly the $3 billion for the first nine months.

Capital and exploration expenditures, $376 million in the quarter. As signalled during the mid-year update, we expected the second half of the year run rate to be higher than the first half, so year to date we are at about $934 million. Our original guidance for the year was between $1.5 and $1.7 billion. We revised that in the mid-year and said we thought we would be at near the low end of that range. Now what you can see, we anticipate being between $1.3 and $1.4 billion for the year. Of the year to date spend, about 70% of that is in the upstream, which is roughly our historic levels, the vast majority. $250 million or so, is in the downstream. Investments have been largely sustaining in nature this year, as well as select previously announced projects, most notably the Kearl supplemental crusher and our cogeneration capacity we are installing at Strathcona.

The primary reason, as we look at the year and are anticipating somewhere between $1.3 and $1.4 relative to those earlier estimates, there are really two component parts to it. In our earlier estimates, we had made some assumptions about Aspen and we will be spending about $100 million less than the original guidance, than it included on Aspen but we have also achieved cost savings throughout the year, largely in many of the areas that we would consider sustaining capital as we renewed contracts and have achieved improvements in market rates versus earlier expectations.

Continuing on, dividends and share purchases totalled $573 million in the quarter, bringing us to a year to date combination of dividends and share purchases of just under $2 billion. To reiterate our capital allocation strategy: maintain a strong balance sheet, pay a reliable and growing dividend, invest in attractive growth projects and return surplus cash to shareholders through buybacks as and when available; and that is precisely what we have been doing. Our balance sheet remains strong, $5.2 billion debt, 18% debt to capital, a smidgen under $1.2 billion cash on hand at the end of the quarter. Our per-share dividend declared in Q3 was $0.19, was $0.16 a year ago. Year to date, we have declared $0.54 a share versus $0.47 a year ago for a 15% year on year increase, and then the year to date distributions a bit over $400 million in dividends, just shy of $1.6 billion in share purchases, adding up to that $2 billion distributions for the full year 2017 were $1.15 billion, so we are well above last year's total.

Production. 393,000 oil equivalent barrels per day in the quarter, up significantly 57,000 oil equivalent barrels or 17% quarter on quarter. Of course, the second quarter had many components of major maintenance. Kearl had a significant turnaround, Cold Lake had turnaround and then at Syncrude we had both a turnaround and a major event. So we rebounded from each of those to deliver the quarter that we have outlined here.

Third quarter was relatively low in terms of planned maintenance activities. We had a little bit of work at Kearl and I will comment on that shortly. In the fourth quarter, we would expect similar performance to the third quarter and I will hit on each major asset here in my subsequent comments.

Let me start with Cold Lake. We averaged 150,000 barrels a day in the fourth quarter, coming out of the turnaround at the Maskwa plant, the major turnaround we had. At mid-year update, I commented how we expected to continue to increase throughout the second half of the year. That is precisely what happened in the third quarter. We expect that to continue throughout the fourth quarter where we will end the year at production levels approaching about 160,000 barrels a day by year-end. This remains our outlook. Doing the math on that, it would put Cold Lake on a full year basis, slightly below the 150,000 barrels a day annual average, about 148,000 barrels a day or so. Somewhere in that territory.

Gross production at Kearl averaged a record 244,000 barrels a day in the quarter. It was well up our previous record quarter. Our best quarter was 203,000 barrels a day, so we were well above that. We did have some planned activity at one of the two plants, impacted production by about 14,000 per day gross in the quarter. That turnaround activity started late in September, wrapped up in mid-October, comment more on that briefly. With the mid-year, we were averaging for the first six months, 181,000 barrels a day with the third quarter performance, we brought the year to date average up through nine months to 202,000 barrels a day, consistent with the commitment we made that Kearl will average 200,000 barrels a day or more annual average through the year.

Why the big improvement? It is really a result of the enhancements that we have been completing over the past few years in ore preparation, processing equipment reliability. I will give kudos to our operating organisation, the continued growth in overall mining operational experience and how our folks on a day to day basis are able to optimise and improve performance is a material component of the improvements we saw this quarter and of the performance we would expect going forward.

I commented on the quarter that we had a bit of downtime. We shut down one of the two plants for about a three-week period or so. The first week to eight days were in the third quarter and then the next two weeks or so were in the month of October. It was roughly 24 days of full or partial shutdown but with typical annual activities, crusher wear plate replacement, vibration screen repairs, hydro-transport line inspections, rotations, valve inspections and things; the kind of the normal kinds of things we do on these maintenance turnaround completed as planned.

In the fourth quarter, we expect continued strong performance at Kearl. The quarter will have a bit more of the maintenance impact just because of the one-third, two-third split between the third quarter and the fourth quarter of the work that we have completed. We have completed it. We have rebounded and come out from it and I am proud to say that yesterday was our best day ever at Kearl at some 340,000 barrels per day for the month because the maintenance work, we averaged around 200,000 barrels a day for the month October. The year to date stays at essentially that 202 and with any really material planned maintenance behind us now, we expect to be at higher rates throughout the rest of the year.

Looking ahead, our supplemental crusher project and the flow interconnections were on schedule, on budget for a year-end 2019 start up and of course, as we have previously communicated, what this work will do is increase our inspected annual average from the 200,000 barrel a day range where we are today to the 240,000 barrel a day range starting in 2020.

The company shared gross production at Syncrude; we average 45,000 barrels a day in the quarter. Of course, this was impacted by 20th June, the site-wide power disruption that we have talked about previously. Production was progressively restored throughout the quarter. All cokers are now back on line. So year to date that brings us to 53,000 barrels a day. The fourth quarter, we would expect something on the 80,000 barrels a day or more own share and that is essentially what we have averaged for the first month of the quarter here, October as we are kind of looking at how the first 31 days wrapped up.

Getting back to the recovery from the power outage, we had commented about how each of the cokers were going to be coming online in mid-July, the 1st August and by mid-September and that is precisely what happened with each of the cokers. We were within a day or two of what we expected to happen in terms of the production restoration.

On another topic I was asked on last quarter, on the overall enhancement and synergies, I talked about how all owners are focused like a laser on adding value at Syncrude in achieving higher sustained reliability, reducing cost by focusing that organisation more on the operating orientation, synergies with other owners operations, most notably Suncor's base mines. Specifically, we are getting closer on these two by-directional pipelines between Syncrude and Suncor's base plant. We are looking to finalise commercial agreements that are required to make this happen.

Now shifting to the downstream, refinery throughput averaged 388 barrels per day in the quarter, up slightly from a year ago. Capacity utilisation at 92%. Similar to the upstream, refining volumes rebounded significantly with major maintenance completed at Strathcona in the second quarter, up 25,000 barrels a day, quarter on quarter and then the earnings, of course, followed along with it. Year to date, we are at 386, utilisation at 91%. Similar, although up slightly from where we were a year ago, much like the upstream, expect a strong fourth quarter operationally with no major maintenance work planned.

I commented earlier how we have taken advantage of heavy crude differentials by increasing our throughput over the course of 2018. Now with light crude differentials also widening, we are well positioned to capture additional value in the months ahead. In round numbers, we processed essentially 300,000 barrels a day of light crude and on the upstream side, the Syncrude operation produces roughly over time 75,000 barrels a day. So we have a 225,000 barrel a day lever on light to capture price advantaged light crudes with current differentials.

Petroleum product sales: 516,000 barrels a day, the highest quarter in nearly 30 years exceeded the previous highest quarter which was last quarter at 510,000 barrels a day. Our strategy remains to continue to grow this business profitably, branded sales in strong markets, product channels, long term supply agreements with strategic partners and then superior product offerings that meet our customers' needs. Areas of particular focus and success in 2018 include expanding the Esso Mobil nationwide branded retail network, increasing sales into high value asphalt market and then increasing aviation fuels into Canada's major commercial transportation hubs, most notably Vancouver.

Chemicals earnings were $69 million in the quarter up from last year. Year to date, we are at $220 million. This would put us at a nine-month high best ever. Previously was in 2015. We expect full year earnings to approach our best ever for the full year; however, in the fourth quarter, we do have some units that are scheduled for planned maintenance throughout the quarter. So it will be a challenge, but we are striving to achieve a best ever result for the full year.

Polyethylene continues to lead the way in chemical, around 40% or so of total sales volumes and nearly 75% of total earnings. Pleased to report that our Norman Wells operation resumed shipping in September, production in October, and this was after essentially a two-year shutdown to the export pipeline that was taken as a precaution to ensure integrity at a river crossing. The regulatory process to replace 2km of an 800km-plus line was quite lengthy but it was completed, the work was completed and now we are back on operation at this field. With some 300 injection and production wells and all the associated flowlines, it will take a while to ramp back up. The organisation is doing a very good job. We are currently at about 5,000 barrels a day and we expect to reach +/-10,000 barrels a day or roughly where we were before this shutdown sometime in the first quarter.

You may be interested that regulatory approvals for the Aspen in-situ project and Coal Lake expansion projects were recently received from the Alberta energy regulator. Aspen, of course, our initial application was in December 2013 and on 31st October in the afternoon, we received notification of the government approval on Aspen and then supplemental permit approval notifications were received yesterday. We are reviewing these approvals as I speak here. We are looking at it and as I previously said, we will have more to say on what our investment plans are once the approvals have been reviewed and we ensure that we understand and judge any conditions associated with this. I think you can imagine today's world approvals do not come with a big rubber stamp that say 'approved'. There are numerous things to understand on it and we are just going to that work as we always do to be sure that we understand and that we find the conditions acceptable. We will have more to say on this once that review is completed.

I think in terms of some of the other highlights, we have commented on a recent announcement we have made on reducing the carbon intensity of our existing and future operations and I think I will just kind of wrap up my comments that for any of you that need help for getting your PC optimum card that you can use at ESSO and Mobile sites across the country; both Dave and I are available to help you on that and with now nearly 2,200 sites nationwide, that site count has and continues to grow and we are pleased to offer that to our customers.

So before we open it up to questions, I will just wrap it up by saying third quarter was characterized by strong operational performance really across all major business lines and all major assets. This is what we expected when we talked to you at mid-year. We expect similarly strong operational performance throughout the fourth quarter. Crude price and differential volatility will undoubtedly make things interesting over the next few months but given our portfolio, our level of integration and our balance, we believe we are very well positioned to compete in this environment.

I will just end it with next week on 7th November, we will hold a comprehensive investor day in Toronto to continue the discussion and hope to see many of you there. I started with a little bit of a joke on the mid-year update but I would also like to note that you can expect an quarterly call from imperial each and every quarter going forward.

So with that, I will turn it back to Dave to describe the Q&A process.

Q&A

David Hughes: Okay. Thank you. As I mentioned, we provided an opportunity for analysts to pre-submit some questions, so we have some questions there as well as some folks live. I am going to start with a couple of questions that were pre-submitted.

So first one comes Menno Hulshof from TD. 'Many of your peers are shutting in heavy productions for a variety of mechanisms. Should we expect the same from Imperial or is that already underway?'

Rich Kruger: Okay. No volumes were shut-in in the third quarter due to the current economic environment. Going forward, we do not comment on what we may or may not do other than to say that what we do is always based on value. Our view is, what we are seeing in the market is precisely the market working. I have read and seen what others are saying. Certainly in market conditions like this, anything on the higher cost or marginal end would be at risk. Our view is that those situations are the results of choices and strategies and investments that individual companies have made over time and our view is you live with the consequences of your decisions and your investments and we are quite happy that we are an integrated and a balanced company and we live with and are prepared to deal with whatever market conditions exist at any point in time.

David Hughes: Okay. Second question comes from Greg Pardy at RBC Dominion Securities Inc. 'In light of your limited capital spending this year, have you revised your estimated sustaining capital? Second part, what has been the silver bullet operating wise that has liberated Kearl bitumen production rates? And then what is the egress plan for Aspen and Cold Lake expansions?'

Rich Kruger: Yes Greg, on sustaining capital, we have talked over the last couple of years that in round numbers upstream, downstream, our full corporate would be on the order of $1-1.1 billion per year, recognising that that will vary. The last year or two it has been below that. It has largely been below that. I think we have made a number of enhancements at Kearl that were seen, so we have not spent the same level of sustaining capital there. We have talked at Coal Lake how we had suspended a drilling program and now reinstated it this year.

So this year's sustaining capital, if I think in the upstream terms, will be on the order of probably about $3 per barrel on the upstream. If I look at it over time and I kind of use our outlook for the next five years or so, I think the numbers on average would be closer to $5 a barrel. We will talk more about this next week at the investor day, but I think you are accurate to note that this year's sustaining is a bit lower but that does not really change how we look at, on average, about $1-1.1 billion a year going forward.

On Kearl. I think the outcome at Kearl has been a work in progress. We have detailed before how the changes we have made in ore prep, modifications to the crusher and dump hoppers to lessen loads, how we have strengthened drive chains, we have modified crusher teeth and bearings, we have enhanced piping durability, the flotation sales, hydro transport lines. These have all been things that we have been working on and have largely installed over the last few years. This quarter had very little downtime in it. Our year to date average is right at 202. It is about where we said we would be. So we think we will have quarters where we are below that 200, above that 200 and this year and next we expect we will average in that or a bit above the 200,000 barrel a day range; but the real step will be when this supplemental crusher and the flow interconnect and we will jump up into the 240 range or beyond. Was there a third part to that one?

David Hughes: Yes, the egress plan for Aspen and Cold Lake expansion?

Rich Kruger: Yes. [Inaudible] expansion as well. There are a lot of assumptions there and the first assumptions would be on timing of Aspen or Cold Lake. There is no question that the whole market access is the hottest topic right now. I would say just broadly, I commented a bit on this at the mid-year; we consider ourselves to be fairly well positioned. I talked about roughly the 100,000 barrel a day of heavies that we run at our own refineries. Maybe I should just step back.

We produce roughly 300,000 barrels a day of bitumen, so that would be about 400,000 barrels a day of dilbit. About 100,000 barrels a day, it may not be the exact molecules but are run through our own refineries, 25% of that dilbit, we have contracted pipe capacity that gets about another 100,00 barrels a day to the Gulf Coast markets and then our rail terminal has been continuing to ramp up. That was a decision we made several years ago. You have heard me describe it as kind of an insurance policy. It is one I am very glad we have taken out and that is allowing us to also get to Gulf Coast markets at a higher cost than pipe but obviously at a much better realisation than head of pipe Edmonton.

So as we look to the future and anticipate continued growth, whether that be Aspen or other areas, we will continue to look at getting crudes or bitumen to the highest value markets, whether that is running at our own refineries, supplemental pipe commitments and/or continued expansion of the rail terminals. With execution times on projects of three to four years, there is time to work these issues, whether they are the resolutions that we can do most directly in our control or whether that is things like new pipeline capacity coming online. But it is over time, we expect to continue to take the steps to ensure we get our production to the markets that offer the highest realisations for all equity crude.

Dennis Fong (Canaccord Genuity): Hi, good morning and thank you for taking my questions. Just quickly on Kearl here, just given the recent performance of the asset and frankly, I guess, the assets availability to showcase the run time you have seen in Q3 and your expectations to Q4, and this is kind of prior to you completing essentially the ore prep and the bottlenecking issue or fixes. Is there any further upside to the 240,000 barrel a day expectations that you have initially sent back last November after you have seen this ability runthus far?

Rich Kruger: Yes. Obviously we are very pleased with the performance on Kearl. It has not been until the last few months that we can talk about the upsides potential because we have been working hard to get it to its current level. When we calculated and determined the difference between the 200 and the 240, we tangibly looked at where we had been experiencing downtime, whether that was on crusher reliability and downtime, the feed conveyor lines. And we looked at the amount of downtime we had and said, if we had a supplemental crusher and if we had additional feed conveyor belts and if we had interconnected pipelines, we would have had to the tune of 40,000 barrels a day gross less downtime. That is really how we got at it. So it is quite tangible, and I would say it is an incremental step up we are very, very confident in.

Now, what we do not know is when you are not busy fighting fires and dealing with unscheduled downtime, what further optimisations can you achieve that can go above and beyond, whether it is the 200,000 where we are currently at or the 240,000. I do not have numbers on that but I have a lot of confidence in our organisation that is they spent less time fixing things, they will find more time to improve things. So again, I do not really have numbers; we will talk more about this kind of what do we see beyond the 240 next week during our investor day and make no mistake about it, we see numbers beyond the 240 and what we also know in the mining, if you want to maximise the cash generation, you do it by increasing your throughput, because the incremental barrel is far cheaper than the average barrel and at this higher reliability, we certainly saw that in the third quarter where it drove down quarterly unit costs to an area we have not seen before and that is committed.

What we saw in the quarter gives us added confidence looking ahead that both the reliability, the absolute throughputs and the driving down the unit cost performance that will lead to a much better cash generation capacity. The third quarter gave us a good glimpse of what we can expect in the future and we liked what we saw.

Dennis Fong: Okay. Perfect. Thanks. Then just secondarily here on rail capacity, you are indicating that this is essentially an insurance policy for you that you are exercising right now and that you are at about +/-100,000 barrels a day of transportations of crude by rail. Your facility at Edmonton has +/-210,000 barrels a day capacity. Where do you see your current crude by rail capacity volumes actually trending, especially given, we will call it, the aggregate apportionment and so forth that we are seeing on some of the major pipelines out of Western Canada.

Rich Kruger: Yes. Good question. Right now for us to maximise realisation in the upstream or on a general interest basis, it is stuffing each and every barrel of heavy into our own refineries and it is a bit of a left pocket, right pocket there but then after that, it is getting every barrel to the highest valued market and right now that is the US Gulf Coast. So pipe and rail. Pipe is largely in place. We have the contract commitments we have. Rail is the one where we have the ability to continue to ramp it up. For the last six months roughly, we have averaged over that period and you commented about where we are now, about 100,000 barrels a day. It is a little bit more than that now in the month October. We have averaged about 80 for the last six months or so. We are kind of around in the 110 or so. We expect as we end this quarter that we will have averaged about 125 to 130 in this quarter.

We have two rail service providers, we have the agreements for the power and the people to ramp up in place. We have access at an unmatched level to a rail car fleet. We have customer offloading facilities. So you will see that ramp up in the fourth quarter and then as we get into 2019, we are going to continue to work to further ramp it up. You commented on the 210,000 barrel a day capacity. I would like to use every bit of that capacity because that allows us to get to the highest value markets. So I think you can expect over time to see continued ramp up and that is exactly what is going on as we speak.

Dennis Fong: Perfect. Thank you very much.

Prashant Rao (Citigroup): Hi. Good morning. Thanks for taking the question. I wanted to maybe follow up on a rail question. The 200,000 barrel a day capacity that you have, I just wanted to confirm, that is already contracted for the locomotive power or do you need to contract in order to move incremental barrels? If so, why I am asking the question is to put it in context of how we are hearing about a dynamic environment over the past year, with the rail providers seeking term and price on contracts and maybe there is a differentiating point for imperials. I just wanted to get some thoughts on that.

Rich Kruger: yes. Well we talk about 210,000 barrels a day capacity. It is the terminal specifically. It is the tracks and the loading arms and the abilities to move in rail cars, load them and move them out and to get at that 210,000, that would be about three and a half to four trains a day to do that. So we are talking about the terminal itself. Now what you have pointed out is above and beyond that. You need to have the service providers to provide the power and the people to pull the cars and – I think this is one that is not always talked about – it is important that you have offloading facilities at a destination. We have all that work. We do not have today service provider agreements to give to that whole 210. I commented that we anticipate 125-130,000 barrels a day. Two-unit trains in operation roughly in the fourth quarter. That is what we have in place and we are continuing to work with rail service providers to expand that service level to more fully utilise the terminal overall.

Prashant Rao: Okay, thank you. That is really helpful. I wanted to ask another question, a follow up on downstream; clearly robust results and a great environment in terms of the full net back. As you look at increased upstream production and finally we are getting an inflecting Canadian oil price macro as well, I wanted to have your thoughts on where incremental downstream CAPEX spend could be. I do not want to front run the investor day next week. You know, do some high-level thoughts. We have had some questions south of the border here in the US on further consolidation in the downstream and the Canadian integrated players who have a strong balance sheet are obviously looked at as contenders, so just wanted to see where that would fit in in terms of uses of capital and capital allocation.

Rich Kruger: Well broadly stepping back and I think you have noted it, it is not only a good quarter to what we have been on a good run in the downstream. It is not only the market conditions, but it has been actions we have taken to improve reliability over time. If you look back over the last four or five years and you compare that to the four or five years before that you will see a marked improvement in reliability. That ties also with our product sales strategy of we have attractive markets, sell in the markets allow us to run our facilities at full capacity. Areas where we have invested.

I mentioned the Strathcona Cogen. We also see attractive asphalt markets and we will detail a bit more of this in the investor day. We have an increase in asphalt sales. We found ways to manufacture asphalt year around and essentially store what I think the best visualization is giant hockey pucks over the course of the winter so you can melt it in the spring and sell it and pave it. Those are relatively small investments, certainly in the scheme of upstream but they continue to enhance both the capacity and the performance in our downstream. I think you can expect – Dan Lyons is going to talk about this more next week – those are the kind of things we are going to be looking to do. Enhancing our facility kit, also looking at investments in logistics to allow us to access more high-quality markets. I commented on aviation; how we are now selling aviation fuels into Vancouver.

So we will be looking at not only the facilities themselves and what we manufacture but how can we continue to enlarge the radius of customers we reach, particularly customers and products that offer us the highest value. So it is an area that I would say today, we are more keen to looking at investments than perhaps we would have been five years ago due to our own performance and the attractiveness of the markets we are competing in and the value we offer our customers due to the superior brands and overall product offering that Imperial can provide.

Prashant Rao: Thank you very much. I just have one very last quick one. We have seen news about Ontario cap and trade being taken back but then perhaps a federal framework that might be in place next April. I know it is a smaller piece of the cash flow or cash out of the Imperial business but as long as I have you on the call, just wanted to see if you had any commentary, could provide your thoughts around that and how we should maybe be thinking about that.

Rich Kruger: I think you saw when we announced income that we had a non-cash impairment charge of basically remaining credit $33 million and these were associated with the government of Ontario's change to the cap and trade regulation, so that has exhausted our purchased credits that we had on the books on it. So wherever we are, we operate both on our planning basis and in any reporting we do, we estimate cost and we look at it from a capital project standpoint, we use the regulated carbon pricing or policies and whatever jurisdictions we operate in and where the province may have an existing policy, of course, that is what we will use and that is what we will charge to operations.

If the jurisdiction does not have it but there is like you come at another federal backstop, we will look at it in that way. So I think this is a very active topic not only in our country but globally. Here again, our goal is to ensure we have the highest performing assets and whether that is energy efficiency and minimising fuel use, energy use, whether that is advantage investments like continuing to evolve at Coal Lake in our existing operations or looking at new investments like SA-SAGD that have lower carbon intensity. It is the way of the world we are operating in now and what we are looking to do is do everything we can to reduce both the environmental impact of our operations while improving and enhancing the economic impact. I know it is kind of off your initial question but I thought I would give you a little bit of broader context of how we look at the carbon world.

Prashant Rao: Thank you. No, that is very helpful. I appreciate it and thanks for the time this morning. I appreciate it.

Rich Kruger: Absolutely.

Jason Frew (Credit Suisse): Hi Rich. Just wondered if you would comment on the chemicals business, why you are not seeing any degradation in market there given changes in feedstock cost around North America. Thanks.

Rich Kruger: Yes. Thanks Jason. As you point out, it has been quite strong on the chemicals and it has been now for some time and we have had over the last five years or so, I think either four or five of our best years ever in our chemicals business, and that is with relatively the same volume. It has not been a volume growth. Some of the things we have done over that time period is we have continued to improve the cost advantage nature of our feedstocks, refinery off gas; couple of years ago we brought in Marcellus ethane and that helped improve our structure there. You have seen, and I think you have suggested it, some of the ethane cost in the North East increase a bit but the margins in this business have been strong.

I commented on polyethylene. That is our money maker. It is rotation and injection moulding, so we have kind of a specialty product there, a high use, high specification tanks in different things. It is a strong market. The majority of our customers are within a day's drive of that market and that gives us a built-in geographic advantage versus facilities that may have scale over us, facilities that are either in the Gulf Coast or will soon be producing in the Gulf Coast. We watch that closely because it does represent a threat to our business as facilities that have perhaps a cost advantage, maybe not necessarily through feedstock but through scale, enter in and they can encroach upon our markets and to date, we have not seen as much of that as we might have earlier anticipated.

So what we continue to do is that is a very integrated site with our Sarnia refinery, do everything to ensure its highest reliability, its operating cost structure, continue to contract the most cost advantage feedstocks and keep our customers as happy as we can with product quality and product after the sale service, which is key in this business and I think that is the elevator speech on why you have seen strong chemical performance over the last few years and it is absolutely our intent to do everything we can to continue that performance.

Jason: Thank you.

David Hughes: Okay. Let us go back to some more of the pre-submitted questions. We had two questions from Jon Morrison from CIBC that are both related to Kearl, so I will combine them. 'How should we think about calibrating forward expectations for Kearl? Output in the quarter was strong and on the back of extensive operating improvement initiatives, how comfortable are you with the Street dialling up runtime expectations into the +90% level and are there any major reliabilities that still need to be undertaken at Kearl that could leave utilization as choppy on a quarter to quarter basis outside of normal maintenance and turnarounds?'

Rich Kruger: Jon, I appreciate your questions and just as I am sitting here listening to it I am reminded by how quickly things change because it was not long ago that the questions were, 'You have not achieved 200, are you ever going to achieve 200?' We had confidence and faith because of the actions we were doing. It certainly was not a fingers-crossed confidence, we knew we were taking the steps to achieve that and we did have a big quarter. I think the thing looking forward at Kearl is we will generally have a material turnaround at each of the two plants once each year. They will typically be in either the second quarter for one and late in the third, early in the fourth quarter for another.

So in the quarters that those occur, we will see the impact of those turnarounds and then so what it means to achieve whatever your annual average is in the non-turnaround quarters, you have to make hay when the sun shines and I think you saw that in the third quarter and I expect you will continue to see that in the fourth quarter.

Now, on the calibration of are we going to do better than the 200, it is really too early for me to say that. I have to tell you, I am also quite encouraged. John Whelan, the head of our upstream is here in the room with me, I am looking at him as I speak. My own expectations on Kearl have increased, but it is really too early for us to make more quantitative commitments on what we think Kearl can achieve over time. But we will not perhaps be as choppy as we have been because of the reliability enhancements that I articulated earlier over the last few years, but we still will be choppy because of the turnaround schedules and then the higher rates that occur when you are not in those turnaround cycles. It is the nature of the beast.

David Hughes: Okay. A question from Menno Hulshof at TD. 'With Aspen regulatory approval in hand, what do you need to see to get comfortable with FID? Is it improved visibility on base and egress in pricing or is there something else? Then assuming an FID, what are the updated thoughts on a development timeline?'

Rich Kruger: Yes Menno, as I mentioned, the timeline on getting the regulatory approvals, literally Halloween night. Yesterday, we had an Imperial board meeting and I have folks scouring it with a magnifying glass right now to be sure we understand each and everything we would be committing to in that. So we are going through that; and we do that all the time. There is nothing unique to Aspen but as I say, approvals do not come with just approved good luck, have fun. They come with, ‘Here is what we expect you to abide by.’ We are going through that. We have been waiting a long time for this so we are not wasting any time in digging and looking at it. I do not want to presume what the outcome of that is because I have not seen it or heard it yet but it is something in the days ahead that I will get a good, good look at.

But on Aspen more broadly if we step back on it, we have talked about the advantage technology that brings both environmental and economic effects, certainly the low carbon intensity, if not the lowest carbon intensity of in situ in Western Canada. We have talked about how an Aspen development is right in our wheelhouse with 40 years of experience in Cold Lake and in situ drilling and operation.

Right now, the industry demand for contractors is at a recent low, so to be counter-cyclical in investments makes sense for us from an efficiency and execution and we think Aspen, if we piece it together has the low price resiliency as commented before that we look for globally competitive opportunities and interpret that as a double digit return in a low price of $40-$45 a barrel of WTI world and we have worked hard on the technology and the development planning to construct Aspen to meet all of those criteria.

Now we will look at the regulatory approval and if it ends up like we anticipate, I think we will have something to say about Aspen in the near-term, but I really do not want to jump the gun on that because I have not seen the guts and feathers of the regulatory approval, which as I said, I can assure you we are looking at long and hard right now and will continue to do that until we complete that work in the days ahead.

Neil Mehta (Goldman Sachs): Hey. Good morning Rich, Dave and team and congrats on a good quarter here. I am sorry I hopped on a little late here, Rich. Your thoughts on the light differentials, it is just such an important differentiating factor for your business model in 2019 if the curve stays out here for Syncrude in Edmonton mixed sweet. So the sustainability of those light differentials and I you could remind us again how much you can process and how we can think about the cash flow uplift from that dynamic.

Rich Kruger: Sure. I guess I would say on the differentials, the same way we have experienced wider heavy differentials in recent years, now we are seeing that on light. In our view, it is simply the market working. It is supply and demand. We have limited pipeline access. This is the way markets work and what we are seeing is not out of round for what you may expect.

Now, actions we are taking and obviously there is a lot in the press, we are working to increase our own heavy oil processing. I know your question is light. I will get back to that. We are looking at increase in rail to help because an overall integrated transportation system, heavies and lights kind of come together a bit. Specifically, we have light oil processing throughput today of about 300,000 barrels a day and when Syncrude is up and running it produces about 75,000 barrels a day roughly.

So we have a light lever of 225,000 barrels a day. So whereas the heavies, we are primarily at heavy oil producer, a light oil refiner, we take a hit on heavier differentials. Well, when light oil differentials, it works the other way for us. So it gets back to ensuring our refineries are running at the maximum extent of our capabilities and doing everything to capture what the market has to offer with light oil differentials.

Now, how long does it last? Well I tell you what, I read the same things you do, I study the same things you study, it is difficult to predict. I know folks have talked about maintenances that are going on in the US. But the fundamental issue is we have a shortage of export capacity and until that is addressed in any material way, we are likely to see bigger discounts on both heavies and lights. While that occurs, we will do everything we can with our integrated and balanced business model to capture value whether that is in the upstream via maximising realisations to get to markets that offer the most or running whatever feedstocks at the most value in our own facilities. This is the value of our business model. What I would just say is we did not create it overnight, it was part of a very long term strategy that looks at our business and the inevitable swings in markets, in prices for production and product markets and these are choices and strategies that we have made over decades and when times are good, we enjoy it, when times are bad we suck it up and improve on it but the market works. That is what we are seeing, and we are prepared to compete in that environment and to compete with the decisions we have made and the assets we have.

Neil Mehta: That is great. The follow up question I have, and we talked about this Rich a couple of weeks ago when I was up in Calgary, but your thoughts on the M&A market; there is obviously an ongoing transaction potentially up in Canada, but what role do you see Imperial playing in terms of future consolidation in the space? I just put that in the context of Aspen, which does seem to have a pretty good project break even, so the argument could be said that you are better off looking at the organic opportunities versus pursuing external ones but just try to frame that piece out for us.

Rich Kruger: Well I think you largely answered the question, but I will offer a few comments on it. For us, and you and I have talked before, it is about value. I think we are fortunate to have a significant inventory of internal high-quality investment opportunities and next week in Toronto, Theresa Redburn is going to detail those, we will talk more about it. But we will look at what is available in the market in terms of the existing assets and we will look at our financial strength, which I commented on, gives us a lot of flexibility optionality. We can do largely what we think will add most value to our shareholder but then we will look at that internal suite of opportunities, their cost effectiveness, their capital efficiency, their environmental performance aspect.

We do not necessarily have a bias. The bias is all about value. But we do like from an internal standpoint our opportunities that give us the timing, the flexibility on scope, pace, optionality that goes with that. So we look at everything in the market, as we always have, and I think if you have not seen us do anything in the market, you can infer that we think that what is happening in the market either does not offer us value or we have opportunities inside the house that would offer us more value. I have said the same thing I think I have said all the time on that topic, and we will comment more on it next week in Toronto but I do not think I have offered anything new in what I have just said.

Neil Mehta: That is helpful. If I can sneak one last one in here, which is just if you do go ahead and sanction Aspen, and sounds like that is on track to come in the future, then how do we think about the share repurchase program? Can Imperial continue to buy back stock at the same pace that it did in 2018 and execute at?

Rich Kruger: I will go back to our capital allocation strategy, what fundamentally is important to us, and it is obviously maintaining the strong balance sheet, no question about that. It is paying a reliable and growing dividend. At current rate, our dividend is about $600 million a year. It has been growing year on year. It has grown for some 24 years in a row now. We paid it for 100 plus years. Those two things are top of the list. Investing in high quality growth projects. I think the abnormal period in our history was the period a few years back with the significant major, major investments with Kearl and Nabiye that were going on simultaneously. The more normal periods in our history have been like I see us today where we can maintain that strong balance sheet, continue to grow a reliable dividend, we can selectively invest in high quality projects, put Aspen in that category, and if and when available, we can return surplus cash to shareholders via buybacks.

It is a bit of crystal ball because we are talking about prices and things like that but as I look at that over the next several years, I think we are going to be able to achieve a continued balance in those areas where it is not going to be one versus the other. The magnitudes may vary a little bit but we will detail next week we will kind of get into this in the more traditional way, perhaps in more detail than we ever have as we look at our uses of funds, dividend, we will detail sustaining CAPEX what we see as growth CAPEX over the next five years, we will compare that to what we cash flow operations at various price points.

So if I can hold you off for a few days, we will give you a more comprehensive discussion and snapshot of that. I have said before, we would not have restarted or reinstituted the material share buyback program last year had we not thought there would be some level of sustainability with it, including what we saw as our business plans for investment over the coming years. So I do not think those are mutually exclusive.

Neil Mehta: That is great. Congrats again on a good quarter.

Rich Kruger: Thank you.

Jon Morrison (CIBC Capital Markets): Morning all. Is there anything you can share around current initiatives that are being contemplated to get more of Imperial's upstream production physically tied into your own refineries over the next few years. We recognize that you are well hedged from the current price dislocations in Canada given the integrated nature of the platform and market access that you have talked about. But how do you think about physical versus operational integration and is running more of your own barrels as feedstock high on the priority list?

Rich Kruger: Jon, if I could just ask when you say that, are you specifically focused on heavy or any and all barrels?

Jon Morrison: Yes, it was more thinking about heavy and would there be anything you would do to structurally clear your own barrels in your own refineries just to remove some of the longer-term noise on volatility and pricing but any comment you would give would kind of be appreciated.

Rich Kruger: Yes and I will step back, I commented on how roughly a year to date we processed smidgen under 100,000 barrels a day of heavy. That is not necessarily explicitly the molecules, what we produce heavy and get into our facility. Now Cold Lake, for example, is a very asphalt conducive crude, so you will look to get Cold Lake in our asphalt machines in

Strathcona and Nanticoke, things like that. But we generally look to buy the most cost advantages, read that as cheapest feedstocks, for our refineries and then on the upstream, sell to the highest bidder. If they happen to be one and the same, that is great, but we tend to look at heavy molecules whether we produce it or refine it or light – they do not necessarily need to be our own molecules so long as the market provides the opportunity to get a heavy feedstock or get a light feedstock.

So what we have been doing on the downstream has really been more at testing the facilities that we have to ensure that we can capture the heavy discounts of late, lights are kind of a different topic, but I commented how we have been ramping up asphalt units. We have been choosing to produce asphalt now – not choosing that we have experimented successfully of producing asphalt year around and those are heavy feedstocks that we have been looking at and testing our blending capabilities with more heavies. We have been testing new crudes to see how can our facilities handle them.

So because of the incentive that has been there in the market, we have been testing the existing operational paradigms to ensure we can capture every dollar of value in the market and that led to this historic 65,000 barrel a day heavy processing that has been reported and talked about to something that is far close to 100,000 today. So it is a bit less of getting pipe or connections to facilities but really utilize the facilities that we have to the fullest extent with access they have on heavies. We will continue to do that.

We have made a lot of progress going from 65 to nearly 100. I do not know that I can say that we have that same level of growth opportunity ahead, but now with light differentials expanding, it is all about our refineries making the most money they can with whatever feedstock it can. So we may be in a period here that trying to push more heavies in may or may not be the optimum from a downstream standpoint and we have a lot of smart men and women that each and every day are looking at optimising feedstocks to each of our facilities with what they can get in the market, with initial market sales, with aftermarket sales to get the highest value for us. The storyline up until now is that more heavy adds more value. Well now we are in a period of let us optimise between the heavy and the light. Here again, having done this for 138 years – not personally, although sometimes it feels like it – this is something our organisation is pretty good at.

Jon Morrison: Is it fair to say that the price realization that you are getting for heavy because of your market access does not put you anywhere near a threshold where you have to think about shutting in production like some producers would be having to think about right now, just thinking about they might now have the access and realise pricing is going to be much lower.

Rich Kruger: Well I think when you look at the publicly reported, what we report for bitumen prices, then you look at spot prices or head up pipe prices and things, what you see is ours is not that head of price what is in the market at a point in time. It is a weighted average of contract pipe, the net back we get from crudes that we sell in the US, less our adjusted for quality and the pipeline tariffs. It is the getting gulf coast prices for heavy on rail barrels that get to the Gulf Coast, less quality adjustment and rail cost.

So yes, we do have market disposition means and mechanisms that again have been part of our strategies and our plan is to over time make commitments to build facilities recognizing markets change but I think we are in a strong – I do not know if it is uniquely strong, I do not understand necessarily what everybody else has but we are in a strong position there. Then those incremental barrels are the ones that are sold at the head of pipe Edmonton basis and our whole objective is to continue to improve our operations, lower their cost and their efficiencies, so that we spent good money to develop and produce these assets and that is what I want to continue doing.

We will always look at, at any point in time, what is the most value. I commented in the third quarter that we did not have any shut-in volumes due to the current economic environment. I do not comment whether we plan to, whether we may or may not in the fourth quarter but any time going forward, those are the decision we make. Our whole intent is, maximise realisations by the markets we sell in and then improve the operations through reliability and cost performance so that we can make money in whatever business environment we are faced with. This one is interesting but we have had a lot of interesting business environments over the course of our company's life.

Jon Morrison: Appreciate the colour. I will turn it back.

Rich Kruger: Yes, thanks Jon.

David Hughes: Okay. So that brings us to the end of our time. So Rich, I turn it over to you for any summary comments.

Rich Kruger: Well, I just wrap up with thank you for your interest and we value your analysis, your interest. I will just wrap up kind of where I started it. We said at mid-year, we had a lot of major maintenance behind us. We were positioned for a strong second half. I feel operationally and financially that is what you saw on the third quarter. I think you can expect more of the same in the fourth quarter.

I commented on some of the areas more specifically. No question, the differentials and crude price are going to make things interesting over the months ahead. I believe what the quality of our assets and the level of integration and the balance across that portfolio, that positions us quite well to compete in this environment. Our ability to compete is not something that just happened, it is a series of conscious decisions and investments that occurred over time.

We look forward to next week on 7th November going through and looking longer out in time in many of the areas talked about today as well as some others and look forward to spending that time with you. So I will wrap it up there but thank you for your time today.

David Hughes: Thank you everybody. As always, if you have any further questions, do not hesitate to reach out to us directly.

[END OF TRANSCRIPT]