



# **Imperial Q4 2020 Earnings Call**

Tuesday, February 2<sup>nd</sup>, 2020

## **Introduction**

Dave Hughes

*VP of Investor Relations, Imperial Oil Ltd*

Good morning everybody. Thanks for joining us on our Fourth Quarter Earnings Call. I will start off by introducing the senior management we have on the call this morning. We have got Brad Corson, Chairman, President, and CEO; Dan Lyons, Senior Vice President Finance and Administration; Simon Younger, Senior Vice President of the Upstream; Jon Wetmore, Vice President of the Downstream; and Sherri Evers, Vice President of Commercial and Corporate Development.

As usual, I am going to start with the cautionary statement. 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 can 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 fourth quarter earnings press release that we issued this morning, as well as our most recent form 10-K. All of those documents are available on SEDAR, EDGAR and on our website, so I would ask you to please refer to those.

We are going to follow our usual format this morning. We will start with opening remarks from Brad and then Dan will take us through the financial results. And then Brad will take us through an operational update. And once we are done that, we will move to the Q&A.

So with that, I will turn it over to Brad.

## **Opening Remarks**

Brad Corson

*Chairman, President and CEO, Imperial Oil Ltd*

All right. Thank you, Dave. Well, good morning, everybody. And a belated happy New Year. Welcome to our Fourth Quarter 2020 Earnings Call. I hope each of you and your families are continuing to stay healthy as we continue to manage through these very challenging times.

2020 was quite a year, I would say. I am sure it was not at all what anyone expected back at the start of the year. The challenges we were faced with as a society, as an industry and as a company were certainly unprecedented. So I am sure no one is sad to see 2020 behind us now. The year presented us with some extreme challenges. And as a result, we unfortunately experienced an earnings loss for the year, although a large part of the loss was driven by the write-down we took on a portion of our unconventional assets. However, I want to express just how proud I am with how Imperial responded and with the results we were able to deliver for those things that were within our control, particularly as it pertains to our operations. And our financial results were relatively good as well, considering the economic environment. We will talk more about that in a few minutes.

I commented last quarter on how we had seen improvement in the economic environment versus the second quarter. I think it is fair to say, though, that the pace of improvements slowed in the fourth quarter, as Canada started to deal with a second wave of COVID-19.

However, we continued to deliver strong results, both in our operations and in our commitment to deliver material expense and capital spending reductions.

I would also like to mention our workforce. Ensuring the health and safety of our workforce is always our top priority and our most important responsibility, but even more so during a global healthcare crisis. I am proud of how the organization continues to respond to these health challenges, watching out for each other and the communities in which we operate. We had a number of opportunities to partner with our communities throughout the year and help them address some of their challenges and as always our employees were there with strong support.

And just before we continue, I would like to take the opportunity to highlight the fact that Imperial was named one of Canada's top 100 employers for 2021. We also received recognition as a top employer for young people, and also top marks as an Alberta employer. I am especially proud of this recognition after the challenging year, and also that this award recognizes areas such as the company's training and skills development, as well as community involvement, to name just a few, which we will continue to maintain as we go forward.

So now let us talk about the fourth quarter results. Ongoing, lower-than-normal global demand continued to impact crude oil and product prices. And we did see the pace of demand recovery in the third quarter temper somewhat in the fourth. Earnings for the quarter were a loss of \$1.1 billion, but that included a non-cash impairment charge of \$1.2 billion. This impairment related to our decision to not develop a portion of our unconventional portfolio. This is consistent with our strategy of focusing our resources and capital spending on high-return projects in our existing oil sands assets and only the most attractive portions of our unconventional portfolio, and does not impact our current operations. Not included in this impairment are the high-value, liquids-rich portion of the company's unconventional asset portfolio, which we still plan to develop.

Therefore, this has no impact on the production estimates we have previously communicated. Excluding this impairment, our fourth quarter earnings improved from the third quarter, and we also saw positive cash flow of over \$300 million, inclusive of a working capital headwind of just over \$200 million. These positive results were underpinned by a record production quarter in our Upstream – in fact, the highest in 30 years – which in turn was driven by an all-time quarterly production record at Kearl. Kearl continues to be a great story and I will talk further about it shortly.

Our Downstream and Chemical businesses also continued to perform well and both delivered positive earnings in the quarter. Our commitment to delivering on our cost reduction targets did not waver through the year and we were able to deliver reductions of close to \$2 billion versus 2019 levels, well in excess of those initial commitments. Production and manufacturing expenses were down nearly \$1 billion or 15% versus 2019.

And you will recall that in March, we set a CAPEX reduction target of \$500 million versus our initial guidance of \$1.6-1.7 billion. As of the end of the third quarter, our progress supported us reducing capital spending even more and we communicated updated guidance of around \$900 million. We ended the year in line with this most recent guidance, which I would note is around half of what we initially planned to spend for the year, and \$940 million lower than 2019. Our focus for 2021 is on continuing to deliver lower costs and more efficient spending.

Our strong operational performance and cash generation supported our ability to once again declare a dividend for the quarter, which we announced this morning at 22 cents per share, which is unchanged versus the last quarter and reflects our commitment to returning cash to our shareholders. I know I have said this before, but I think it is important to, again, highlight that even as we continue to manage through a challenging market environment, our financial resilience, operational strength, our flexibility and integration, along with a laser focus on cost reduction opportunities, allowed us to once again, deliver strong results and meet our commitments to shareholders, such as maintaining our dividend without increasing our debt.

So at this point, I am going to pause and turn it over to Dan to go through our financial performance for the quarter in more detail.

## **Fourth Quarter Financial Performance**

Dan Lyons

*Senior Vice President Finance and Administration, Imperial Oil Ltd*

Thanks Brad. For the full year, we recorded a loss of \$1,857 million, reflecting the global oversupply of crude oil, coupled with COVID-related reductions in product demand. As Brad noted, our 2020 earnings also reflect a one-time non-cash impairment of \$1,171 million. While these results are disappointing, our actions to substantially reduce costs and significantly adjust operations serve to mitigate these losses. It is also worth noting that even in this challenging environment, our Downstream and Chemical businesses generated positive full year earnings of \$553 million and \$78 million, respectively.

Looking at our fourth quarter 2020 results, and including the non-cash impairment of \$1,171 million, we recorded a net loss of \$1,146 million compared to net income of \$271 million in the fourth quarter of 2019. Looking sequentially, the net loss in the fourth quarter of \$1,146 million is down from net earnings of \$3 million in the third quarter. However, excluding the one-time impairment charge I just mentioned, results improved versus the third quarter, driven primarily by higher production in the Upstream.

Looking at performance by business line, Upstream recorded a net loss of \$1,192 million in the fourth quarter of 2020, compared to a net loss of \$74 million in the third quarter. Again, excluding the non-cash impairment charge, we saw improved results driven by higher production, most notably at Kearn.

Turning to the Downstream, Downstream net income of \$106 million in the fourth quarter was up around \$29 million compared to net income of \$77 million in the third quarter, mainly driven by higher margins.

And finally, our Chemical business continued to generate profits, earning \$23 million in the fourth quarter of 2020 compared to \$27 million in the third quarter.

Looking at cash flow, full year 2020 cash generated from operating activities was \$798 million, including unfavorable working capital impacts of \$82 million. This cash generation, coupled with our strong starting cash position, allowed us to finance our CAPEX, maintain our dividend and return \$274 million to shareholders through share repurchases while maintaining our debt at \$5.2 billion.

Looking at the fourth quarter, cash generated from operating activities was \$316 million compared to cash generated from operating activities of \$875 million in the third quarter of 2020. However, versus the third quarter, cash generated from operating activities in the fourth quarter was impacted by unfavorable working capital effects of around \$700 million. Excluding working capital impacts, cash flow improved sequentially. Versus the fourth quarter of 2019, cash generated from operations was down just over \$700 million, reflecting unfavorable working capital effects of \$464 million. Despite negative working capital impacts, we ended the quarter with \$771 million of cash on hand.

Moving on to CAPEX. Capital expenditures in the fourth quarter totaled \$195 million, up \$54 million from the third quarter. Full year capital expenditure totaled \$874 million, down \$940 million from 2019, in line with our revised guidance of about \$900 million. Reduced spending compared to last year is associated with completion of the Kearl crushers, lower unconventional CAPEX, the suspension of the Aspen project, lower pipeline spending and smaller amounts across a number of other areas. As we discussed at Investor Day in November, 2021 capital expenditures are expected to be approximately \$1.2 billion.

Turning to dividends, we paid dividends of 88 cents per share during 2020, marking the 26th consecutive year of annual dividend payment increases by the company. In the fourth quarter, we paid \$161 million in dividends at 22 cents a share, compared to \$166 million at 22 cents per share in the fourth quarter of 2019. Going forward, we remain committed to returning cash to shareholders via dividends. As Brad noted, earlier today, we announced the first quarter 2021 dividend of 22 cents per share payable on April 1<sup>st</sup>.

Now I will turn it back to Brad to discuss our operational performance.

## **Operational Performance**

Brad Corson

*Chairman, President and CEO, Imperial Oil Ltd*

Thanks Dan. So, now let us move on and talk about operational performance for the quarter. And I will start with production. Upstream production averaged 460,000 oil-equivalent barrels a day in the fourth quarter, which was up 62,000 barrels per day versus the fourth quarter of 2019, and most importantly, represents the highest quarterly production in 30 years. This excellent performance was driven by record production at Kearl, but we also saw strong performance in the fourth quarter at both Cold Lake and Syncrude. These results also reflect a production increase of 95,000 oil equivalent barrels per day versus the third quarter of 2020. This material increase was driven not only by the very strong performance at Kearl, but also by the lack of planned turnaround activities, as those were executed in the third quarter at both Kearl and Syncrude.

As a reminder, we took the opportunity to optimize our turnaround plans in the current environment by advancing at Kearl and extending the work, enabling us to run unconstrained in the fourth quarter.

So, now let us move on and talk about each asset specifically, starting with Kearl. 2020 was just a great year for Kearl. It seems like each quarter we have been able to talk about new production records that Kearl has delivered, and the fourth quarter is no different. In the

quarter, we produced 284,000 barrels a day on a gross basis at Kearl, which is an all-time quarterly record for the asset. This is 95,000 barrels per day higher than the third quarter, and 76,000 barrels per day better than the fourth quarter of 2019. We also saw the highest month on record in October at 301,000 barrels per day.

We started the year with the new supplemental crushers at Kearl, which have exceeded our expectations. And as you know, we also opted to advance and extend regular planned turnarounds on both trains this year in response to the market environment, which left us well positioned to deliver superior performance in the latter part of the year. And as you can see from the fourth quarter performance, we delivered. Our full year production of 222,000 barrels per day was slightly ahead of our revised guidance of 220,000 barrels per day. But admittedly, short of our original guidance of 240,000 barrels per day from Investor Day a year ago. The difference can be attributed to the decision we made to modify our maintenance plans and extend our turnarounds with reduced staffing to manage COVID risks. In addition, the unplanned outage on the third-party Polaris line resulted in a 10,000-barrel-per-day impact. In the absence of these two factors, we would have expected to meet or exceed our original guidance.

Production performance at Kearl has remained strong into the early part of 2021. And in fact, the asset has just now set another production record, with the highest January production in its history. We expect January production to come in above 250,000 barrels per day. And with supportive commodity prices and the absence of mandated production curtailment, we are very encouraged by the path we are on and the momentum we have built.

Now with respect to operating costs, Simon mentioned at our Investor Day, we were sitting around the US\$20 per barrel mark in November. Unit production and manufacturing expenses have continued to track at this lower level, as we continue to focus on structural improvements by leveraging technology, ongoing implementation of autonomous haul trucks, just to mention a few key items. For the full year, production and manufacturing expenses at Kearl were almost 20% lower than 2019. Combining this cost reduction with Kearl's increased production, we see that Kearl's unit production and manufacturing expenses were down over 25% from 2019. Based on this performance, we are very confident in our ability to deliver on our US\$20 per barrel guidance for this year, 2021.

So now let us talk about Cold Lake. Production at Cold Lake was 136,000 barrels per day for the quarter, up 5,000 barrels per day versus the third quarter, and down 4,000 barrels per day versus the fourth quarter of 2019. Near term, we remained focused on base performance at Cold Lake and continue to expect volumes will average 130,000 barrels per day in the near term, which is our guidance for 2021. Our focus on optimizing the base operation and driving reliability enhancements resulted in the best monthly unscheduled downtime performance in December, since 2016. In addition, efforts around well-work optimization provided 3,000 barrels per day uplift in 2020. The operation continues to work on other opportunities to drive value, including steam schedule optimization and the rollout of digital initiatives.

Now, let us move to Syncrude. Syncrude's average production of 87,000 barrels per day, our share, in the fourth quarter, was the highest quarter of 2020, up 20,000 barrels per day versus the third quarter due to the absence of the turnaround activity executed in the third quarter of this year. This production level is also up 20,000 barrels per day versus the fourth quarter of 2019, also due to the absence of turnaround activity we saw in the fourth quarter of 2019. You

will recall that the site performed the majority of its major turnaround work in the second and third quarters of 2020.

I am also pleased to say that construction work on the bi-directional pipelines was completed in the fourth quarter and the venture started to transfer product in December. So, the asset is already seeing benefits. As you know, this project will provide improved operational flexibility for Syncrude, supporting increased reliability and utilization. As you are aware, the Syncrude owners reached an agreement, in principle, for Suncor to take over operations at Syncrude. The owners are currently working through their internal approval processes and Imperial is fully aligned with the change in operatorship that is expected to happen later this year. And we are confident it will further enhance the venture's ability to deliver material efficiencies. And synergies. Suncor has communicated synergies of around \$300 million per year, and we are very aligned with that estimate.

Now let us move to the Downstream. We refined an average of 359,000 barrels a day in the quarter, which was up 18,000 barrels a day versus the third quarter and up 38,000 barrels a day versus the fourth quarter of 2019. Utilization in the quarter was 85%, versus 81% in the third quarter and 76% in fourth quarter of 2019.

The improvement over 2019 was due largely to the absence of some 2019 Nanticoke turnaround activity, although this was also slightly offset by continued weaker demands due to the pandemic. The sequential improvement was due to increased diluent manufacturing at Strathcona and replacing purchased product with our own refined product. As we discussed last quarter, the adjustments we made to our 2020 planned turnaround schedules and scopes of work were very successful in reducing costs and margin impacts of the turnarounds amidst the market conditions created by the pandemic. In addition, our refineries and midstream assets were able to find further cost reductions and efficiencies enabled by these same market conditions. And as a result, full year production and manufacturing expenses for the year are down around \$360 million, or 20%, versus 2019.

While the third quarter of 2020 showed significant demand improvement, that recovery was somewhat tempered in the fourth quarter. Demands continue to be challenged by the ongoing pandemic and we are now seeing the impact of new community lockdowns in certain parts of Canada, particularly Ontario and Quebec. This continued uncertainty makes it difficult to forecast refinery utilization in the near-term.

Petroleum product sales in the fourth quarter were 416,000 barrels per day, 31,000 barrels per day lower than the fourth quarter of 2019 and 33,000 barrels per day lower than the third quarter, largely due to pandemic impacts on fuel demands. As a reminder, on the first quarter call at the end of April, I mentioned we were seeing demand reductions in the range of 50-60% for motor gasoline, 20-30% for diesel and 80-90% for jet. In the third quarter, we saw that across the country, total industry demand for both motor gasoline and diesel were approaching to much closer to normal historic levels. I also mentioned at the time that we were continuing to see volatility, however, and in January, we are now seeing industry demands more in the 70-75% of normal range for gasoline and 35-40% for jet, with diesel more closely approaching historic levels.

Looking forward, there continues to be a high degree of uncertainty due to the various provincial and federal lockdowns, as well as travel restrictions. Despite these volatile and challenging

conditions, our Downstream business set new annual records for asphalt sales, as well as the amount of equity Kearn crude we can process at our Sarnia refinery. We successfully expanded our Marine fuels offer in Vancouver and established Imperial as the market leader in the port of Vancouver. Our integrated business showed unique strength when we built an alternate diluent supply chain for Kearn in just a few days, following the shutdown of the Polaris pipeline, and the strength of our integration continues today, as we set new records in December for the amount of diluent we produced at Strathcona, which is then shipped to our Cold Lake site.

So we continue to see improvements and new performance records despite these challenging market conditions. Our Downstream business remained profitable in the fourth quarter, while many of US downstream competitors were unprofitable. This speaks to the structural advantages in the Canadian industry and for our assets that we discussed at our recent Investor Day. Those include resilient margins built from low cost crude and import parity rack pricing, proprietary terminals and logistics and unique routes to market, our branded resellers and wholesalers, all of which are significantly more profitable than similar business lines in the US. We believe our Canadian business is well positioned to continue to compete favorably in 2021.

Moving to Chemical, our Chemical business saw a slight drop in earnings in the fourth quarter at \$23 million, down \$4 million versus the third quarter. This decrease was driven by lower volumes and higher expenses associated with planned maintenance activity at our Sarnia chemical facility in the quarter. However, earnings were \$21 million higher than the fourth quarter of 2019 as we saw improved sales volumes and favorable impacts of ongoing cost reduction efforts. Given the structural advantages the business enjoys through the integration and location of our facility, our Chemical business continues to be profitable in the current market, delivering positive earnings each quarter this year.

I would like to wrap up by highlighting what I see as some pretty noteworthy accomplishments for Imperial in 2020.

First and foremost, we managed our capital and cost structure to preserve financial strength in a very challenging demand and business environment. We took that decisive action at the onset of the pandemic back in March and with full year results out now, we have significantly exceeded the commitment we made to reduce spending by \$1 billion. In fact, our production and manufacturing costs alone are down almost \$1 billion on a year-over-year basis. And in addition, our capital [expenditure] is down over \$750 million versus the midpoint of our original guidance. So versus 2019, this represents a reduction of close to \$2 billion for both production and manufacturing costs and capital expenditures combined.

Kearn's performance in 2020 was nothing short of outstanding. New supplemental crushing capacity was a highlight and supported operations throughout the year as did many other enhancement initiatives, including autonomous haul trucks, for example. Although our original production guidance for Kearn was 240,000 barrels per day, we revised this down during the year, as we chose to take prudent actions to address the challenges the year presented. Our total volume met this revised annual guidance of 220,000 barrels per day, even after having to shut down for a third-party diluent pipeline outage in the third quarter. We ended the year strong, producing over 280,000 barrels per day in the fourth quarter, and are well positioned to deliver on our 255,000 barrel a day guidance for 2021 for Kearn.



Equally, cost performance has been excellent with production and operating expenses down materially by around 19% versus 2019. And so far in 2021, we are sustaining these lower cost levels, helping us significantly reduce our breakeven costs and further enhancing our resilience to the downside, while at the same time positioning us well to benefit when oil prices increase.

I believe the strength of our Canadian-based Downstream, including Chemicals, became very apparent in 2020. Our Downstream was profitable three out of four quarters last year, and our Chemical segment was profitable in all four. As Dan noted, despite the challenging business environment, we earned \$553 million in the Downstream and \$78 million in Chemicals in 2020. This result reflects the structural advantages that we have in relation to crude supply logistics and the product markets we compete in.

Integration within our Downstream and Chemical assets also supports relatively strong margins. We spoke at length about these advantages at Investor Day, but I think our financial results provide the tangible evidence and underscore the profitable nature of our Downstream segment. Our integrated business model provided resilience during 2020, supporting our ability to generate cash from operating activities of about \$800 million.

We place a high priority on the dividend and chose to maintain it throughout 2020, despite a highly uncertain environment. I think that decision speaks to the high degree of confidence management and the board has in our existing portfolio of assets, our financial position and the plans we have for further improvement. And with our strategy and a lower corporate breakeven, such as we outlined at Investor Day, we are well-positioned to continue to return cash to shareholders through dividend growth and share buybacks over time.

The pandemic has presented a number of challenges to the organization, not the least of which is managing the health and safety of our workforce. We adjusted major planned turnaround activities in 2020, which was no easy task, in order to accommodate fewer workers onsite in COVID-19 protocols. And at the same time, we were able to complete those turnarounds with more of our own personnel, which reduced costs. Finally, we adjusted the timing of turnarounds to better align with the demand environment, so that meant pulling forward activities so we would be operating at higher rates when demand started to recover, as it did in the second half. I am proud of the organization for both the decisions we took with respect to turnarounds and the way in which we executed on those adjusted plans.

So when you add all that up, really some pretty impressive achievements on a year that presented unprecedented challenges. And it also adds up to Imperial being very well positioned to continue to deliver value through 2021. And as many of you are aware, 2020 marked the 140<sup>th</sup> anniversary of Imperial Oil. Over the past 140 years, Imperial has built a proud reputation for hard work, innovation and meeting some of Canada's toughest energy challenges. And 2020 was no different.

So with that, I will turn it over to Dave for the Q&A session. Thank you.

## Q&A

**Dave Hughes:** Thanks Brad. We had a few questions submitted ahead of time. So, we will start out by addressing a couple of those and then we will move over to the Q&A line. So, Brad, the first question comes from William Lacey from ATB Capital Markets. Capital for the quarter

was unusually low, below low-end of expectations. Specifically Upstream capital was just \$107 million. Based on the current state of operations, what do you estimate your sustaining capital requirements look like going forward?

**Brad Corson:** Thanks for your question, William. In the first quarter of 2020, as I mentioned, we committed to an aggressive plan to control capital and expense costs for the year, which was in direct response to the market conditions we were experiencing. So, what you saw in the fourth quarter was really a continuation of that program, which brought our total capital expenditure for the year to \$874 million, which was less than 50% of 2019 and in line with our updated guidance we gave late in 2020.

Looking ahead, as we have guided previously at our Investor Day, we do expect to see a moderate increase in our sustaining capital in the coming years, as we invest to progress those key projects that are key to the future of the company. For next year, we have indicated a total capital guidance of \$1.2 billion. And so we are going to continue to benefit from our low sustaining capital needs, which equate to about \$5 per barrel, which is about \$1.1 billion average over the next few years. So, a bit of an increase over 2020, as we showed you at Investor Day, but also noteworthy, as we look at our five-year plan for capital expenditures, we expect to be down about 30% versus what we had laid out a year ago at Investor Day over that same five-year period.

So, again, I think we have taken very prudent steps to manage CAPEX consistent with the external market conditions, but balanced with what we think are critical sustaining capital requirements for the future. Included in our plans are also some selective growth opportunities that yield high return. And so, together, we are going to continue to manage all of our expenses, both capital, and production and manufacturing expenses with a high degree of scrutiny, selectivity, gaining further efficiencies that ensure our competitiveness going forward.

Thanks again, William.

**Dave Hughes:** Okay. And William had a follow-up. The announcement by ExxonMobil last night was an interesting one with respect to their CO2 initiatives. What synergies do you expect to garner from this, with your relationship with ExxonMobil? And do you see some investments happening specifically as it pertains to your assets in the next three to five years?

**Brad Corson:** I think this is a really exciting announcement by ExxonMobil last night. I think we are all still working to understand that the details of that, but I think it does demonstrate the increasing importance of progressing low carbon growth opportunities and technology. And this is an increasing area of focus for ourselves at Imperial, and obviously ExxonMobil, as we both work to reduce our carbon intensity going forward.

In terms of our ability to garner benefits from that synergies, as I have talked on multiple occasions, one of the distinct advantages of the partnership we have with ExxonMobil as our majority shareholder, is that we are able to access many of their systems, their processes, their experience and their technology. And I would view this as just one more example of that, where we will be able to learn from their advances in this area, especially carbon capture and sequestration, which I think is a critical component for our industry, and certainly society, as we all look to define a path to net zero and achieve the goals of the Paris Accord.

So, I am very excited about ExxonMobil's announcement. I look forward to engaging them further as they put their organization in place and identify key opportunities for pursuit.

**Asit Sen (Bank of America):** Thanks. Good morning, everyone. Brad, you have been crystal clear about your sustaining CAPEX and multi-year growth project outlook. Just wanted to flesh out a little bit more on that. You are talking about \$1.2 billion CAPEX in 2021. And I think at the Analyst Day, you talked about \$200-300 million per year on an average growth project. Given any improvement in operating environment now there are a lot of uncertainties there, should we expect growth projects to be moved forward or you are pretty much dialed in on a \$1.2 billion CAPEX for this year?

**Brad Corson:** Yeah, thanks for that question. I think it is important to continue to reflect on the current and business environment and as I have talked in the past, our ability to adapt is quite critical as we go forward. As we sit here today, we are certainly encouraged by the price environment that we see, the growth we have seen in commodity pricing over the last couple of weeks. Certainly, that may tempt you to increase your capital and growth program for the year. But as we reflect on it, honestly, we are going to keep focused at that \$1.2 billion target level.

As we have reflected on the portfolio of projects, we think that is the prudent level, not just add pricing back in the fourth quarter of last year, but also as we sit here today, we have a five-year plan that we laid out in Investor Day and the \$1.2 billion is very consistent with that. So, I see us staying the course. We are going to continue to look for more efficiencies and we are going to continue to judge whether it makes sense to adjust those plans in any way. But given the robustness of those plans, given the uncertainty of the external environment, I think that makes sense to stay the course for now.

**Asit Sen:** Thanks Brad. My follow-up is on the KXL cancellation, and just wanted to get your broader thoughts on what it means for the industry and what it means for Imperial. I know you guys have all advantage in terms of midstream terminals and logistics, but just wanted to get your updated thoughts.

**Brad Corson:** Yeah, obviously a very important announcement I guess a week or so ago. I would say very disappointing for the industry and I would just say from my perspective, very disappointing for the country. I think it is in our best interest as an industry and as a country to ensure that there is sufficient egress opportunity for the crude that is produced here. I think it is important to have optionality in the market for the producers. So, the cancellation of the pipeline permits is quite unfortunate because of the limitations it will cause, because of the jobs that it affects. And so I am hopeful we continue to find a positive way forward.

I would say for Imperial, again, we are obviously strongly supportive of the pipeline. We do have some capacity reserved on that pipeline. Fortunately for us, we do see enough other options that we do not feel like this will cause us any constraints. But nonetheless, we prefer to maximize flexibility. And so the fact that this has been canceled is quite unfortunate.

**Asit Sen:** I appreciate the colour, thanks Brad.

**Greg Pardy (RBC Capital Markets):** Yeah, thanks. Good morning. Brad, you have made tremendous strides within the organization from the standpoint of reducing costs. You are talking about essentially about \$1 billion down year-over-year. Could you comment about

Syncrude? The bi-directional pipeline is in place now, great utilization rate in the fourth quarter, but what is the game plan at Syncrude from a cost perspective in 2021 and beyond?

**Brad Corson:** Well, thanks for your question, Greg, and good to hear from you. And first, I would say, just thanks for acknowledging the progress we have made as an organization here. I am quite proud of the entire Imperial workforce for what we have been able to deliver under some very challenging circumstances.

As I look at Syncrude, this is obviously a very key asset for us. And as we have talked on other occasions, there is a significant opportunity to fully leverage the owners' expertise. And in the case of the joint venture, we have worked very closely with Suncor and the other owners to identify and further plans for Suncor to become the operator, which as I mentioned and Suncor has mentioned, we believe will yield significant operational and cost benefits to the tune of \$300 million per year.

In addition to that broad strategy change, in terms of operatorship, specific investments, like the bi-directional pipeline - which has now been completed - I think will also add a significant value to that venture. And the advantage of the bi-directional pipeline is that it will provide more flexibility to Syncrude at periods where they have impacts to their mining operations or their coker.

So, broadly we expect to see strong improvement in cost performance, in reliability, performance, in upgrader utilization, and there will also be synergies that that Suncor will bring to the party as well. So, again, we look forward to 2021 as we work through the transition details. And I look forward to reporting progress on those in future quarters.

**Greg Pardy:** Thanks, Brad. Terrific. And maybe just a quick one here, but a broader question, like you have got a ton of flexibility financially, you can build cash, you could raise your dividend, you can repurchase shares. Just wondering what your appetite is these days for buybacks versus pursuing a more conservative strategy where you are replenishing cash, just given the year we have just gone through.

**Brad Corson:** Well, thanks for that question, Greg. As we have talked at Investor Day and on other occasions, certainly a key priority of ours is to maximize the cash generation, the potential of our existing assets. And that has been our focus in 2020, that will continue to be an acute area of focus in 2021. As we shared at Investor Day, given the current price environment and really across a wide range of price environments, we do see our ability to grow our cash position. And again, that is driven by the strong operational performance and cost performance that we have demonstrated and we built into our plans for this year, 2021.

And so then that will likely leave us with favourable choices to make about how we allocate that cash, that capital across a range of opportunities. Certainly, our priority is to return that cash to shareholders. And so, as is often the case, we will be evaluating the options around increasing the dividend, as we have done for now over 26 years. We will be weighing that against buyback opportunities and longer term, against other capital investments in growth projects. But, in the near-term, I think our focus will be on returning that cash to the shareholders in the form of dividends and buybacks.

**Greg Pardy:** Terrific. Thanks Brad.

**Dennis Fong (CIBC World Markets):** Good morning, everyone, and thanks for taking my questions. The first one is maybe a bit of a follow-on to Greg's question. You mentioned obviously a large focus around returning value back to shareholders via dividends and buybacks. Obviously, this is a very volatile and constantly changing environment. And you mentioned just a focus on flexibility. So, what are some of the key signs and/or conditions that could drive adjustments to your existing five-year plan? Are there any major catalysts that you are focusing in on that would allow you to focus a little bit more on growth projects versus returning value to shareholders? And what comfort levels kind of surround that situation? And I have a follow-up. Thank you.

**Brad Corson:** All right. I might ask Dan to comment a bit on that.

**Dan Lyons:** Yeah, I would say, we are committed, as we talked about at Investor Day, to capital discipline and pursuing de-bottleneck, high return, relatively low cost projects on our existing assets. So, I think that is our focus. Now, obviously we have a stable of projects that we could advance, larger projects. But that is not really our focus at this moment. We will always keep our eyes open, but I think for the foreseeable future, we are looking to generate cash, return it to shareholders. We are not looking to advance major step-out projects though. Obviously, we will keep our eyes open. Whether it is organic or inorganic, if there is an opportunity, we will be open to that, but that is not our focus at this time. And I cannot say that there is a magic formula – oil hits X or whatever - we start investing in those large projects. I think that is not really our focus now. We are looking to generate cash, return it to shareholders with what we have. We see a lot of opportunity for further growth in volumes, as well as expense reductions that will increase our cash flows.

**Brad Corson:** And, if I might, I would just add to Dan's comments again, in the near term for the next few years, we want to continue to focus on our existing assets. We see that there is significant value there. And so, for that reason, we are being very conscious about not progressing major new projects, new greenfield projects. We think that is prudent in this environment, and again, we see that there is significant value that can be captured from the existing assets. We do have opportunities for smaller, select growth opportunities and that is what we have been doing at assets like Kearl and Cold Lake, and there is examples in the downstream as well. And so that will be our focus for the next few years.

**Dennis Fong:** That is actually a really good segue to my follow-up there. So, obviously you guys have performed very well at Kearl through January and Q4. And given the strong performance, how should we be thinking about – you mentioned that there are a lot of cost savings initiatives that you believe will provide some resilience to the lower unit OPEX that you have seen at the facility. Can you talk a little bit around, what was the driving factor or the division of the driving factors between the higher throughputs versus some of the projects that you have been working on?

And then can you also discuss a little bit around some of the smaller economic projects that you referred to? How could those potentially contribute to extending the timing between turnarounds and/or improving the uptime on an annual basis at Kearl? Thank you.

**Brad Corson:** Well, thanks for that question. I like talking about Kearl, it is such a positive story. When I think about the expense reductions we have made there, we have reduced that

unit cost by about 25% this year and we have got intense focus on continuing that pathway to \$US20 per barrel cost. And I am hopeful that we will continue to do even better in that regard.

And as I think about what has contributed to higher production rates, what has contributed to lower expenses, there is a wide range of things. Certainly, the supplemental crushers have had a big impact on improving our reliability. But on top of that, we brought intense focus to every dollar we spend at that site to ensure that it is necessary, it is value accretive. We are employing technology through things like autonomous haul trucks that reduce our cost by up to \$1 per barrel. We are also using other technology around drones, for example; Simon has talked about that at Investor Day - allows us to be more effective and efficient with many inspections.

So, those are just a few but it is really the collection of a lot of things that allow us to deliver those higher volumes and the unit costs. And the good news is we are not done. We have a whole inventory of additional smaller-scale projects, lower-cost initiatives that I believe will continue to contribute to higher volumes and lower costs.

In addition, we are looking quite closely at moving to a single planned turnaround per year by 2022. That again is another example of being able to extend the run time between turnarounds, which will increase our volume and productivity and also lower annual costs. And then, of course, there continue to be other debottlenecking activities that we will look to. And as we have stated, what we are really working towards longer term is 280,000 barrels per day, annual average. So, our guidance for this year, for 2021, is 255,000 barrels a day. So, we have still a ways to go to get to 280,000. But we have a whole inventory of projects to get us there. So, I am confident we will achieve that with time.

**Dave Hughes:** Brad, we are going to go back to a couple of the pre-submitted questions now. First one comes from Manav Gupta at Credit Suisse. We did mention this in the opening remarks but maybe just to reiterate. Can you talk about the performance of Syncrude during the quarter? Is the bi-directional project complete and how does it benefit the asset?

**Brad Corson:** Thanks for that question, Manav and I think maybe between my remarks and one of the recent questions, I probably answered most of that. But just to reiterate, the construction work on the bi-directional pipeline was completed in the fourth quarter, and we have started to transfer product in the pipeline as needed. So, we are starting to see some benefits from that.

And the way we derive benefit from that, you may recall there is actually two pipelines: one that handles bitumen the other that has handles sour fluids. And so the one that handles bitumen supports us by giving us flexibility to import bitumen during periods of mine downtime but also gives us the flexibility to export bitumen when the coker is down. And then and then the sour fluids pipeline will allow us to import fluids when our coker is down. So, again, just having that flexibility during periods of both scheduled and unscheduled downtime will ultimately increase the reliability, the throughput and profitability of Syncrude. So, we are excited about it.

**Dave Hughes:** Okay. Manav had a follow-up. Are you impacted in any way if the Dakota access pipeline is forced to shut down?

**Brad Corson:** Yeah, it is a good question. We are not directly impacted if DAPL were to shut down because we do not transport any crude on that pipeline to feed our refineries. However, there could be indirect implications because a shutdown could force Bakken producers to seek other egress alternatives, which could impact regional light crude oil differentials. And under most scenarios, you would probably imagine that those differentials would widen and that would benefit our refineries because we do run predominantly light crude feedstocks. So, we are obviously keeping a close look at this as we have for the last many months as there has been some uncertainty around this pipeline.

**Dave Hughes:** All right. And a question from Bennie Wong of Morgan Stanley. How do you think about Imperial's competitive position today with increased market supply and demand volatility, intense ESG focus and consolidating Canadian energy and oil sand space? How is this going to evolve and what will differentiate the Imperial story in your mind versus peers also focused on the same?

**Brad Corson:** Well, in summary, I would say we are highly confident in our ability to compete in this marketplace. And that is driven by a wide range of factors. It starts with our assets, the quality of those assets. As I have talked on many occasions, we benefit by a high level of integration and our ability to capture synergies with that integration. The relationship with ExxonMobil, I think provides us a competitive advantage. And then, when you think about what we have achieved this year in terms of cost reductions, capital discipline and production enhancements, which all together have allowed us to significantly lower our breakeven costs, and so that is what ultimately will allow us to compete and win, I believe.

**Dave Hughes:** Right. And that is it for the pre-submitted questions.

**Carly Davenport (Goldman Sachs):** Thanks for taking the questions. My first one was just around Line 5 and appreciate the color earlier on DAPL. Are there any thoughts you can provide around how you expect the process to shake out and also any contingency plans that you have been working on in the event of a shut-in?

**Brad Corson:** Yeah. Carly, thanks for that question. Very different from DAPL. Obviously, Line 5 is a critical piece of infrastructure for us. We continue to watch those developments very closely. While we think a shutdown of that pipeline is very low probability, we are developing appropriate contingency plans that would allow us to supply our refineries in Ontario –that would be in Sarnia Nanticoke – with alternate sources of crude both through the sea way, as well as through other pipelines and rail alternatives that are available.

So, again, we are watching it very closely. We are optimistic there will not be any impacts. We just saw in the news yesterday where there were some permits approved for the new line that will be constructed over the next few years to replace the line in question. So, we are watching that very carefully, but we are ensuring we have adequate contingency plans in place as well.

**Carly Davenport:** Great. Thanks for that. And then the follow-up is just a quick one on crude by rail. WCS differentials have been bouncing around this \$13 to \$14 level under WTI. So can you just talk about your views on the economics of rail at current levels and how you see Imperial's rail program trending throughout the year?

**Brad Corson:** Well, I think as we look at those differentials, it is in the range of being economic for some increase in rail movements. As you look back at last year, obviously there has been

a lot of volatility in the rail movements, from highs earlier last year of, I do not know, 300,000 barrels a day or something for industry almost to two to zero or de minimis levels in the third, fourth quarter. But with the differentials widening, I think we are starting to see increased movements by rail. I do not have the current industry number, but I think it is probably 150,000-175,000 barrels per day, in that range. For Imperial, we also are starting to ramp up some movements on rail. In the near-term we are probably at the 30,000-40,000 barrel a day range. And obviously we will continue to assess the economics of that going forward.

As we look at inventory levels in Canada, we have seen builds in inventory over the last few months as production has been restored and most turnarounds completed. But even currently, we are still at very manageable levels, something probably just shy of 30 million barrels, whereas we have seen, as an industry, highs of 37 million barrels last year. So, there is a lot of flexibility around rail, around storage, around pipelines. And so that is keeping the system well in balance and I think has also reinforced the decision by the government to remove curtailment, which we are very supportive of.

**Carly Davenport:** Great. Thank you.

**Menno Hulshof (TD securities):** Thanks for taking my questions. So just a two-part follow-up to William's question on Exxon's low carbon push through CCS. So first off, can you comment on whether Canada is on Exxon's list of 20 CCS opportunities globally? And I am talking about the list of 20 that was talked about in the press release.

And then to take it back to Imperial, can you just give us a quick refresh on the top one or two priorities in driving down your own carbon intensity and where you think you could surprise the market on that front in the coming years?

**Brad Corson:** Yeah, thanks for that question. And as I said at the outset, quite excited by that announcement. I have not seen the explicit list of 20 project opportunities that were cited, so I cannot comment specifically. What I can share with you though, is from an Imperial perspective, we do see that CCS as an integral part of a pathway to net zero. And so it is something that is certainly on our radar screen, something that we are evaluating. Theresa talked about this at our last Investor Day. So, as you would expect, in the coming weeks and months, we will be engaging ExxonMobil to further understand what their priority projects are and how any of our Canadian opportunities may fit into that.

In the near term, our focus is very much on reducing the greenhouse gas intensity of our operations. We have a very clear goal and commitment in place to reduce that intensity of our oil sands by a further 10% by 2023. We have already achieved a 20% reduction relative to where we were in 2013. And now we were planning an additional 10% by the time we get to 2023. And we are doing that through both enhanced technologies around in-situ operations, but also looking at ways to reduce emissions from our operations, including boiler flue gas projects. And then more broadly for Imperial, as you are aware, we recently completed a cogeneration project at Strathcona. We already have biofuels as a component of our product slate and in our refining operations, but clearly, as we look at the impacts of the recently announced government clean fuel standard, or clean fuel regulation, we are going to continue to further technologies that will allow us to achieve those objectives. And again, partnering with ExxonMobil to see what benefit we can derive from their initiatives will be a part of our platform going forward.



**Menno Hulshof:** Thanks a lot, Brad.

**Dave Hughes:** So, that concludes our call this morning. And as always, if you have any follow-up questions or want to have any further discussion, please do not hesitate to reach out to the IR team. And with that, I will conclude by thanking everybody for joining us this morning.

[END OF TRANSCRIPT]