



Imperial Q3 2019 Earnings Call

Friday, November 1, 2019

Introduction

Dave Hughes Name

Vice President, Investor Relations

Good morning everyone. Welcome to our third quarter earning's call. Let me start by letting you know who is in the room. We have Rich Kruger, Chairman and CEO. Brad Corson, President. John Whelan, Senior Vice President of Upstream. Daniel Lyons, Senior Vice President of Finance and Administration. Theresa Redburn, Senior Vice President of Commercial and Corporate Development.

Before we get going, I start by noting 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 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 third-quarter earnings press release that we issued this morning, as well as our most recent Form 10-K and all of these documents are available on SEDAR, EDGAR and our website, so we would ask you to please refer to them.

We will follow the same format today as we have in prior quarters. We will start with Rich offering some opening remarks and Dan is going to take us through a financial overview and then I will go back to Rich to provide some more colour on our operating performance. Once we are through our opening remarks, we will go to Q&A. With that, I will turn it over to Rich.

Opening Remarks

Rich Kruger

Chairman and CEO

Okay. Good morning. My comments up front will be pretty brief. I will really focus them on the overall pricing environment you have experienced. If you look at 2019, despite a lot of activities around the world there is quite a lot of activities around the world. Crude prices were relatively stable throughout the quarter and largely in line with where we are on a year to date basis. WTI in the quarter at \$56, consistent with year to date. Canadian light or MSW, \$52, also quite consistent with the first nine months. WCS at \$44, very much in line with the year to date. Similarly, third quarter differentials, MSW to WTI and WCS to WTI largely unchanged from the year to date averages of about -\$5 a barrel and -\$12 a barrel respectively. Year on year in absolute terms, WTI and MSW are down considerably from 2018 both relative in the third quarter as well as the first nine months. On average, light crude prices year on year down roughly \$10 to \$12 and the differentials have been on average slightly narrower or by a buck or two.

Canadian light crude prices have been generally in line with the global benchmark of Brent, which is down \$7 to \$8 on a year to date average.

All that said, the storyline in 2019 continues to be heavy crude prices with absolute WCS prices this year on par with 2018 WCS prices. This phenomenon, of course, is largely due to the effect cause earlier this year when the government of Alberta imposed mandatory production

curtailment and what that has done to artificially bump up or increase prices over the course of 2019.

I think I will just pause there and turn it over to Dan to go through our financial performance in the quarter.

Financial Performance

Daniel Lyons

Senior Vice President of Finance and Administration

Thanks Rich. Our third quarter net income was \$424 million, down \$325 million from the third quarter of 18, primarily due to lower margins in the downstream. Looking sequentially, our second quarter 2019 earnings were slightly over \$1.2 billion and included a nearly \$700 million gain from the Alberta governments corporate income tax rate induction enacted in June. Excluding this impact, third quarter net income of \$424 million was down \$126 million from the second quarter of 2019. Third quarter upstream earnings of \$209 million decreased \$87 million from the second quarter of 2019, excluding the tax impact I talked about above. Lower crude prices quarter on quarter drove this decrease. Third quarter downstream earnings of \$221 million were down \$37 million from the second quarter of 2019, primarily due to lower margins, partially offset by lower turnaround impacts and improved reliability performance.

Moving on to cash flow. Cash generated from operating activities was nearly \$1.4 billion in the third quarter, an increase of \$350 million from the second quarter of 2019. On a year to date basis, cash generated from operating activities was \$3.4 billion. An increase of \$350 million from the nine months of 2018.

It is interesting to note that for the full year 2018, we had negative working capital effects of about \$700 million and those have essentially been offset by positive working capital effects year to date 2019 of about the same quantum.

Moving on to capital expenditures. Capital expenditures in the third quarter totaled \$442 million, bringing year to date 2019 capex to \$1.4 billion. Upstream expenditures of \$975 million represent about 70% of the year to date total. Spending on key projects, Upstream and Downstream including the Kearl crusher, Aspen, albeit now ramped down, Strathcona cogen and the Alberta products pipeline totaled \$566 million year to date.

Recall that after the first quarter we modified our full year corporate capex guidance to \$1.8 billion to \$1.9 billion, down from an original \$2.3 billion to \$2.4 billion communicated in January. Our current outlook for the year is consistent with the \$1.8 billion to \$1.9 billion guidance. Looking ahead, you can anticipate guidance for 2020 capex at our investor day in Toronto on November 12. Rich?

I am going to talk about dividends and returns to shareholders more generally. In the third quarter, we paid \$169 million in dividends at \$0.22 a share, an increase from \$155 million at \$0.19 a share in the third quarter of 2018. We also continued share buybacks in the third quarter, totaling \$343 million consistent with our Toronto Stock Exchange approved NCIB program.

Our balance sheet remains strong. Total debt of \$5.2 billion, a 17% debt-to-capital ratio and we have \$1.5 billion of cash at the end of the third quarter. Earlier today we declared a fourth quarter 2019 dividend of \$0.22 per share payable in the first quarter of 2020.

Now back to you Rich.

Operating Performance

Rich Kruger

Chairman and CEO

Very good. Let us start with the Upstream. Upstream production averaged 407,000 oil equivalent barrels a day in the third quarter. This is [up] 14,000 or 3.6% from the third quarter of a year ago. It is worth noting that the third quarter this year represented our highest third quarter production in some 30 years. We achieved this result despite significant maintenance turnarounds in the quarter at both Kearl and Syncrude. The combined impact of this work from an Imperial share was an estimated 39,000 barrels a day. 24,000 barrels a day at Kearl and about 15,000 barrels a day our share at Syncrude.

As we look to the fourth quarter, we would anticipate total production to be in the 380 to 390 kbd range. Kearl and Syncrude both coming out of major maintenance work in October and November respectively, and I will comment a bit more on those turnarounds here in a moment.

Moving to Kearl, on a gross basis we produced 224,000 barrels a day in the third quarter. This was up from 207 kbd in the second quarter and this is our second highest quarterly production on record at Kearl with last year's third quarter being the highest. You may recall during our second quarter earnings call I gave some third quarter guidance suggesting we would produce somewhere between 215,000 and 220,000 barrels a day in the third quarter at Kearl. Our actual result is up about five to ten kbd versus these earlier expectations.

Year to date, we are at 204,000 barrels a day through nine months and this puts us a couple thousand barrels a day above our nine months a year ago. Regarding the turnaround, we began a planned turnaround at one of our two plants at Kearl in the first half of September and it was successfully completed by mid-October about 33 days in total duration.

The work scope ores, slurry prep equipment overhauls, utility, froth regulatory inspections and then hydro transport line installation and water tie-ins that are activities very key for our supplemental crusher startup and its operation thereafter. Cost of the turnaround work here at Kearl was about \$70 million total, \$48 million to \$50 million our share. I mentioned the duration 30-some days. The work scope here was quite similar to the turnaround we had at this plant a year ago and earlier in the year at what we call our K2 plant in terms of duration impact. Cost a bit lower. We are getting better and better at planning and executing turnarounds.

I mentioned supplemental crushing capacity – the project. That project continues on schedule for a year-end start-up. We are coming down to the final weeks and a lot of commissioning work getting ready. This again will support 240,000 barrels a day annual production in 2020 and beyond. Given the big increase year on year, during our November 12th Investor Day, we will give a sense of what to expect on Kearl. Not only in terms of the annual average but we

will give you the kind of seasonal effect in the mining and how that occurs with first quarter being a bit lower than an annual average due to weather and other constraints. Second quarter often has some maintenance. Third quarter is when we get up and running in a big way but, we will take that 240,000 and give you kind of how we would suggest you consider that from a profiling standpoint.

Moving onto Cold Lake. Cold Lake produced 142,000 barrels a day in the quarter up 7 [kbd] from the second quarter. Relative to what I had conveyed earlier, this is about 4,000 to 5,000 barrels a day lower than the guidance a quarter ago. Largely steam management production variations and we will have much more on this in Cold Lake overall again on November 12th.

The fourth quarter, we anticipate a quarter similar to the third quarter. Although somewhat as we get later in the year, always the potential for somewhat weather dependent but at this point we would not anticipate that to be a big factor in the fourth quarter.

Continuing on with Syncrude. At 69,000 barrels a day our share in the third quarter. This was at the high end of our earlier-communicated expectations where I had mentioned a quarter ago, we anticipated 60 to 70 kbd. The turnaround work on one of Syncrude's three cokers, the 8-1 began on August 23rd as planned and it is expected to extend for about 75 days or into the first half of November. A lot of work scope here, double-digit processing units, the coker itself of course, a hydrogen plant, a lot of integrity and reliability upgrades [and] improvements. Our share of cost is a bit more than \$90 million, so this is a big bit of work. We commented in the release it impacted production about 15,000 barrels a day our share in the third quarter. We would anticipate a fourth quarter impact to be comparable to that.

As we look to the fourth quarter, we would expect production similar to the third quarter's 69,000 barrel a day. And if you roll that all together that would point to a full-year outlook of plus or minus about 74,000 barrels a day, our share. A year ago, at our Investor Day we pointed to the improvements we were striving to achieve at Syncrude and suggested a target over time of 75,000 to 80,000 barrels a day at Syncrude. We are kind of bumping up against that now in 2019.

Crude-by-rail. I thought through some of the comments I would make here, today we have even more information on what the government announced yesterday. However, I think it is important to put it into context with the government of Alberta's curtailment order over this year. Crude-by-rail economics were certainly damaged and have largely, throughout the 3rd quarter, continued to be weak. Shipments in the quarter for us declined each month from 76,000 barrels a day in July to 35,000 barrels a day in September. 52 kbd average for the quarter. In fact, our last rail shipment was made in late September and at this point based on an outlook, fourth quarter rail shipments would have been expected to decrease from the third quarter level.

Well, with TC Energy's Keystone leak government announcement yesterday, I would say the fourth quarter is – I would have more confidence saying it is to be determined at this point than giving any specificity on what we expect rail movements to be, but I do think the quarter itself and, over the course of the year, the volatility has continued to highlight this negative unintended consequence of curtailment overall.

Provincial inventories over the quarter have stayed and continued to drop a bit. You will recall late last year, at the end of the year and then largely through the first four, five months of this

year, provincial inventories were at or near tank tops, roughly 35 million barrels or so. Inventories have declined over the past several months. The most recent data that I have seen per Genscape would report inventories somewhere 23 million to 23.5 million barrels in the second half of October. That, we believe, provides the industry cushion to continue to alleviate or reduce curtailed volumes and incent additional export capacity through rail or however, and there is a lot of flex in the system that did not exist late last year, nor largely for the first several months of this year.

On 20th August, the government announced some revisions to the curtailment program, increasing the operator threshold for those subject to curtailment from 10 kbd to 20 kbd. As a result, we are one of only 16 producers in Alberta that are subject to this order.

On the Downstream, in refining, we averaged 363,000 barrels a day throughput in the quarter. This compared to 388,000 a year ago. July and August, the first couple months of the quarter, we are in the 390,000 range, September closer to 310,000 to get to that average. September was impacted by the start of a planned turnaround at our Nanticoke facility. Specifically, that work started on September 9th, part of regular periodic maintenance activities. Four large units are out of service for catalyst replacement and other general maintenance activities. The impact was an estimated 27,000 barrels a day or so in the third quarter and will be even more so in the fourth quarter – plus or minus 50,000 to 60,000 barrels a day in the fourth quarter as we complete this roughly \$90 million turnaround over roughly a 70-day duration.

That cost is a bit higher, and the 70-day duration somewhat longer, than I had suggested in the second quarter as we have had a bit more discovery work and just some challenges on workforce and productivity over it. But our current estimate would be about \$90 million and about a 70-day duration.

At Sarnia, we also had a turnaround start very late in the quarter, September 29th. This is about a 55-day activity, with restart in the second half of November. The work scope is more limited here. It is one key unit, the fluid cat cracker, with inspection and repairs. On a throughput basis, the impact is quite minimal for the third quarter, of course, and also quite small for the fourth quarter, just based on the nature of this work. Total cost of this turnaround is anticipated to be \$45 million to \$50 million, 55-day duration, and these are precisely the estimates that we had shared when we outlined, we would be going into this work during our second quarter earnings call.

A little bit of an update on the fractionation tower incident that occurred at Sarnia in early April. Work continues to replace the tower. The new tower has arrived at Sarnia in mid-October. It has been successfully lifted into place. Installation and commissioning is ongoing, and we are on target for a restart expected sometime in the first half of December. And the throughput impact of it was – I commented earlier it was about 35,000 barrels a day in the second quarter and it was about 20,000 barrels a day in the third quarter. It will have about half that impact in the fourth quarter before we are up and running in a more regular manner. The cost and margin impacts of the Sarnia tower are generally consistent with our second-quarter earnings call – what I had detailed at that point in time.

If I look out over the remainder of the year and factor in the comments I have just outlined, we would anticipate fourth quarter refining throughput, with the major turnaround work continuing and ramping up and the commissioning of the new tower at Sarnia, to be in the plus

or minus about 320,000 barrels a day range, and that would put a full-year estimate of 350,000 to 355,000 somewhere. The last time we were at that level goes back to 2016, when we had very similar high turnarounds in that year. In fact, 2019 is much higher than a typical maintenance year, with two turnarounds at Sarnia and a major turnaround at Nanticoke. I would say the good news is that we can expect lower turnaround impacts in 2020 to 2021. This is a topic for another day, but the timing in what you see this year is largely related to the periodic cycles – three-year, five-year, seven-year, whatever they happen to be – on various units at our specific refineries.

On petroleum product sales we were 488,000 barrels a day in the third quarter, up 11 kbd from the second quarter. This again is consistent with what we had earlier communicated in terms of somewhere between a 480,000 and 500,000 barrel a day expectation. The Sarnia refinery issues, in addition to the higher than the planned maintenance across our sites, is really largely behind where we were in the third quarter of this year versus where we were in the third quarter last year. The third quarter last year was a 30-year record high for us in terms of our product sales. Over the course of the third quarter, sales volumes increased coming out of planned and unplanned outages in the second quarter, but then here again they were impacted in September by the start of the turnaround in Nanticoke.

Looking over the rest of the year and the fourth quarter, I think something in the 480,000 barrel a day range would be a pretty reasonable assumption – the end of the summer driving season. If we look back over the last five years or so, a 480,000 range would be consistent with the mid-range of what we have seen in recent years' history in terms of fourth quarter sales.

With that, I would characterize the third quarter financial and operating performance as generally strong, but more particularly in the Upstream and also in terms of cash flow from operations. Upstream performance – record third quarter production, even though we have significant maintenance activities, and Downstream performance continued to recover from the Sarnia tower incident and was impacted by planned turnaround, again most notably at Nanticoke.

Q&A

Emily Chieng (Goldman Sachs): Thank you. My first question is just around the crude-by-rail, and in particular with respect to the announcement yesterday from the government. Is there a change in strategy for Imperial to increase utilization of rail, or is it still really an economic decision here? How do we think about the curtailment versus that? Thanks.

Rich Kruger: Thanks, Emily. Just kind of stepping back a little bit, we have long – as opposed to curtailing production capacity, we have long supported increasing takeaway capacity, whether that is new and expanded pipelines or new and expanded crude-by-rail. That really is behind, if you go back several years, our decision to build a rail terminal in 2013. Our preference in all this is that market forces and market factors would be at play here, and that that would incent the industry to make either the necessary decisions or investments. Yesterday's announcement, it is early, we are still going through it.

I would say, in a form of a compliment to the government, they are trying to make the best of a bad situation. They are playing the cards they were dealt. The bad situation is that we are

in curtailment in the first place. I have highlighted before, multiple times, that one of the negative unintended consequence is the impact on crude-by-rail economics. With economics over the course of this year, the incentive has not been there to build new facilities and the incentive to utilize existing facilities has been highly volatile. Getting back to what was announced, we need to dig into it deeper to understand. The devil is in the details, and there are a lot of provisions in there. As I commented, we are one of only 16 companies subject to curtailment and, by my understanding, we have industry's largest rail terminal. It has been significantly underutilized, and we would prefer to use it. We will strive to maximize the value from an Imperial standpoint of the announcement and whatever it means on us.

From a strategy standpoint, everything we do is based on adding value and making money for our shareholders. That has been true in our rail utilization each and every month of this year, and I would say going forward it will be true again. We will look at it across our business – Upstream, the rail terminal itself – and the actions we take will be about maximizing value.

Emily Chieng: Just one follow-up, if I may. What is the trajectory of deferred taxes over the next couple of years? Can you remind me the level of roll-off that you are seeing?

Rich Kruger: Yes. We are going to detail a bit more of this on November 12th. However, let me ask Dan to comment today.

Dan Lyons: As you know, we have had a significant tax loss carry-forward that we have benefited from over the last few years on a cash flow basis. We expect to chew through most or all of that in the fourth quarter, so going forward, the way cash taxes work, there is a bit of a lag. We expect 2020 to be a relatively low cash tax year. However, by 2021 you will probably start seeing cash tax rates closer to the statutory tax rate as we have lost the benefit of that tax loss carry-forward.

Rich Kruger: As I said, on November 12th we are still kind of going through some of that work right now, and we can comment further on it if it is warranted.

Prashant Rao (Citigroup): Thanks for taking my question. Rich, I wanted to wish you all the best, but we will see you in November. Brad, wanted to say hello and welcome and look forward to speaking with you.

Rich Kruger: We will have his coming-out party in November when we are all in Toronto.

Prashant Rao: Sounds good. I wanted to follow up on the crude-by-rail just a little bit. I think a longer-term question here – there have been a lot of moving parts. We have had a lot of recent announcements, as you mentioned. However, two points: one, we get a lot of questions on the expectations, and I think you talked about this a little bit, for the government-contracted volumes transferring fully into the private sector, where they should have been, arguably, all along. Secondly, total ceiling capacity on rail takeaway – there has been sort of a firm number north of 500,000 barrels per day can go by rail as it gets contracted or as it starts to fill up. But, do you think now that landscape is changing, and that we are going to see the rails free up a little bit more in terms of what they bring to the table that you can bid on? Or is that static for other structural reasons?

Rich Kruger: Yes, fair question. Let me just step back briefly. When you look at rail economics, you often see in reports or in the media – there is oftentimes a reference to differentials as it relates to WTI versus WCS. What it really gets to in terms of the economic

incentive is take a like-kind barrel – take a barrel of WCS in Alberta and a barrel of WCS in the Gulf Coast and their relative valuations. That difference is what determines the incentive for various transportation modes, particularly rail. Oftentimes, I see too often folks reaching conclusions on a WTI-WCS differential. It is really not the pricing basis that we decide is rail in the money or is it not in the money. I offer that as a little bit of a tutorial.

But, now, getting back to the capacity, it has been largely reported and I think there is a general consensus that there are 500,000 to 600,000 barrels a day of the existing rail capacity. That capacity comes about in a whole host of ways – the terminal itself, are there sufficient railcars, is there sufficient people and power? It is not any one. You do not look at the nameplate of a terminal and say that is the industry rail capacity. Capacity varies over time. When it is being utilized and all the cars are in service and people are employed, that is when you get to the 500,000 and 600,000 barrels a day. But, it is not a switch that you can flip on and off. Industry more recently has been at 300,000. If there was suddenly a call on 500,000 to 600,000, there is a ramp-up required. That can vary by individual operation, whatever arrangements they have with the CPs and the CNs, and that can be on the order of several or many months. However, I think, if there was a properly incented crude-by-rail business, the consensus is that there are 500,000 to 600,000 barrels a day of existing capacity available for industry. But, you have to get that differential in a range where, not only operating on variable costs, but we all see you can make money in a crude-by-rail. That differential of WCS in the two locations has been very, very tight for the bulk of this year. You have seen parties going up and down on rail, us most notably, and it has all been on variable cost basis – what makes the most economic sense. But, you haven't seen anyone putting big new commitments behind new rail, because that differential incentive is far from what it takes for a full capital recovery of new rail.

That is kind of a windy answer to your question, but we need to let market forces come into this so that differential exists in a confident way where companies like ours and others will look to either expand what they have or invest in new. I think the government continuing to relax curtailment and allow more barrels to flow is certainly a part of that. We would urge, and have urged, the government to go further. Relieve all constraints, let those barrels get into the market, let the market settle out. With inventories where they are, we think there is flex in the system to avoid a price blowout that parties would be concerned about, like happened last year. However, let the market work, and we think it will normalize in a place where rail is an ongoing and sustainable part of industry takeaway capacity, certainly until and perhaps after new pipe becomes available.

That was a long answer. I hope I got near your question.

Prashant Rao: I think there is a lot in there, and I appreciate it as always, Rich. One really quick follow-up. Looking at what you are supplying to the US downstream, there have been some reports that Exxon is looking to market the Billings refinery. Just wanted to see if you could comment maybe on what that means for your integration level and what potential impact or lack of impact that may have on where your production barrels land?

Rich Kruger: Certainly, if I start at our own refineries, - and I promise I will get to your question, but out east, Sarnia and Nanticoke, two facilities where we have a level of integration with those facilities that we can take advantage of scale processing capabilities, delivering products to the market, and there is a value in that. Strathcona, a big, high-performing stand-alone, but because of being in the same part of the world notionally as Billings, through our

relationship with ExxonMobil and commercial transactions, we have been able to use Billings at times to help in some of our marketing commitments, particularly in terms of ensuring we can provide supplies to customers while we do periodic maintenance work at Strathcona.

Projecting what Exxon may or may not do with Billings – I probably cannot go that far. But, if it were to change hands, we would continue to do what we always do and look at commercial arrangements with other parties, whether they are ExxonMobil or other third parties that would allow us to ensure we meet all our customer demands in the highest reliable manner possible while we periodically do work on our facilities. In a Billings case, that would largely have a western or a Strathcona impact.

Dennis Fong (Canaccord Genuity): Good morning, and thanks for taking my question. First thing there, Rich, it just seems, maybe reading between the lines with respect to your commentary around crude-by-rail as well as, we will call it, the government adjustment to the mandatory curtailment situation, it sounds like you view there still to be a fair amount of potential risk associated, given the fact that the curtailing program itself has not been completely alleviated. Should I translate that into how you guys feel about capital allocation and what you guys are thinking about spending on, namely potentially the Aspen project therein?

Rich Kruger: Yes. I think we need to see curtailment go away. We need to see the government out of modifying or altering the market and affecting thoughtful decisions that we make where we look and evaluate market conditions, future projections, the quality of our assets. In the oil and gas business, we readily take a whole series of risks, but what makes it hard is when there are incremental risks added that are beyond our ability to predict and/or manage for. Curtailment, as I have said before, has been one of those. With a stroke of a pen, it altered the equation.

There is a lot talked about investor confidence. I will not speak for other investors, but I will speak from Imperial Oil. For our confidence to continue to invest large amounts of capital money on growth, particularly in the Upstream – you mentioned Aspen – we need to see the government out of the business. Crude-by-rail I described, and it was moderately complimentary – it is making the best of a bad situation. Government inherited this, a long history, a lot of opinions on it. But in a sense what we worry about here is crude-by-rail and how it is being worked to get special production allowance. Are you trading one form of government involvement for another form of government involvement?

Yes, it concerns us. It is going the right direction – anything that provides incremental takeaway capacity. However, as I said, the devil is in the details. We will look at those, and, whatever the rules are, we will operate within those rules. I am not trying to give you messages between the lines yet. It is too early to predict the outcome in markets when you start changing parameters, and now another parameter has been changed. Let us just see what impact it has on the market, and we will make investments accordingly. As I say all that, I am not trying to be additionally negative to any comments I have said over the last nine months. I have been quite consistent on that, and I recognize how we got into this situation, and we just continue to hope that we get out of it as fast as possible. This government has said that my statement there is aligned with its intents, and that is what we really hope to see in as near future as it possibly can be.

Dennis Fong: Great. Then just a quick follow-up, just on the supplemental crusher, it sounds from your prepared comments like the hydro-treating component was online and that you are still expecting the supplemental crushing unit there to come on stream before the end of the year. Is there a subsequent turnaround that you have to engage in to be able to attach all of the equipment and so forth? How should we be thinking about going into year-end, especially pending colder weather and the final bits of commissioning around that piece of equipment?

Rich Kruger: Yes. No, there is not any supplemental work. In the two turnarounds we did this year, one that we just completed on one of the plants and the facilities and the other earlier in the year, we did work in those turnarounds in preparation some of the early tie-in work. We sequenced the supplemental crusher project so that we could take advantage of planned maintenance intervals to prepare for it. What we will be doing – of course, there are two new crushers, one on each of the facilities. We will be starting up one of them initially, with the other to follow shortly thereafter. When I say year-end, there are actually kind of two start-ups that occur. We are on target. Whether the first one is in the last two weeks of the year and the second one is in the first two weeks of the year, I am not quite there yet. However, they will be starting up consistent with the year-end and an ability to deliver 240,000 annual average next year, and there are no incremental turnaround activities required for those start-ups because we have already completed the necessary work in earlier turnarounds.

Jon Morrison (CIBC Capital Markets): Morning, all. Rich, normally the calculations on whether to ship on rail are fairly simple in that, to your point, you have got a regional diff, and when that location differential either covers your full rail costs or variable, depending on how you want to look at it, you elect to ship or not. But, things are obviously different here with the railroad curtailment and that you get to capture an upstream netback that you otherwise would not be able to. Can you just give any sort of goalpost on how you think about what is a little bit more complex economics in this type of dynamic, because the math is not just as simple as in the money or out of the money? Any early thoughts you can give would just be helpful.

Rich Kruger: Yes. Jon, you are spot on. It does introduce another consideration, and I have seen some others' comments in it. You can describe it as it almost introduces a second market, because there are a different set of considerations. You are looking at not only how you ship, but in many cases you are looking at do you produce and ship or do you not produce, if you are talking about curtailed volume? You are more directly bringing upstream or production economics into the equation. That is really why I said earlier that, for us, we have got the big terminal, so we have got the rail capacity. We can utilize that for our own equity volumes or, if there are third parties, that it is in their economic incentive to come talk to us about their utilization. We have that ability to use the terminal as a service provider to others. Then, for our own volumes, we can look at it and we will make the same judgments that you have just kind of hit on, where it is not just in the money or out of the money, but can we or should we produce incremental barrels through the use of that terminal.

But, I would say – and of course these announcements always come out when you are busy. We had Imperial Oil's Board of Directors here, and I have been pretty busy the last 24 hours. I have got to get into the details with my team on this thing to understand that, if you do this, that precludes you from doing something else. There are those kind of provisions in this. I am not trying to predetermine an outcome because, in all honesty, I just have not – my team has

been going through it over the last 24 hours, and Brad and I need to sit down with them to get in and say, 'Okay, what does this mean to us? With whatever the rules provisions are, how do we best compete in that and make most money, whether it is providing third-party services through the use of our rail terminal and/or whether it is producing incremental barrels that would otherwise be curtailed?'. It is just too hot off the press for me to get more definitive than that.

Jon Morrison: Okay. There has been a lot of speculation about Brad's past experience in M&A with Exxon and maybe that being a precursor to Imperial pursuing more inorganic growth in Canada on a go-forward basis. Can you share any thoughts on whether people should be placing any weight into that thesis, or is M&A just part of Brad's very lengthy CV and we shouldn't overthink the recency effect?

Rich Kruger: Absolutely. Well, first of all, Brad and I have known each other for literally 30 years this year. We have worked together in many capacities, many assignments, several continents. I smile when I read that, because Brad has been with Exxon and now Imperial for 36 years. For four or five of it, he has worked in that, but I am interested in why people are not talking about his other 31 years and all of the other things he has done. I look at it – and I am smiling as I look at him. I look at his experience in that area, along with all of his other experiences over the course of 36 years, as what has positioned him to be an outstanding candidate for this job. Is that trying to be any signal that there will be more or less M&A? I think that is grasping for straws. Well, I can go beyond what I think: that was not part of the judgement and the determination from the Imperial Oil Board of Directors to elect Brad to his current position. It is the totality of his experience internationally, various parts of the business, upstream, downstream, a series of commercial roles, a series of operational roles that made him the strong candidate that he was for being named President and then succeeding me in a couple of months. On November 12th Brad is going to – as we say, we are going to unveil him. He is going to have some things to say. I think, if that question is still out there, that would be a good time that Brad can expand on it further.

Jon Morrison: Rich, even given that background, there is a lot of obviously public small conventional producers that have seen massive dislocations in their stock prices. Does that interest you from a cash and cash return opportunity of buying some of those smaller platforms that are somewhat disadvantaged right now, especially in light of the fact that you could probably tie some of that production into Strathcona and become more physically integrated? Or is your focus really on what you focused on recently, which is the heavy projects where you are the operator?

Rich Kruger: Well, our focus at the simplest level is adding value, and it is really however we can add value. We have a big integrated asset base that gives us lots of opportunities to improve performance and capture market opportunities as upstream and downstream incentives move around, particularly in interesting and volatile times like today. However, beyond that, we also have a series of internal opportunities. The upstream ones have been largely named – the Aspens, the Corners, things like that. The downstream ones, we have increasingly talked about some of the things we have been doing, particularly in the logistical area, to strengthen our ability to serve markets. However, then you look at those, and we also have and continue to look at external. You have talked about various-sized participants in the market. I think, if you look at it, you would say, 'Well, what might we be interested in adding

to our portfolio that is not in our portfolio today?'. Look at our business model and think in terms of things that are larger, longer life, high-quality resource – things that we think we can bring either our scale, our historic expertise or our existing or evolving new technology to make it even more valuable than what its current owner might have.

If you think in that framework, those would be the kinds of things we would be interested in. We are less likely to be interested in things where it is simply a price play, where we are betting prices are going to be X and somebody else is betting they are going to be 0.8X, so do that. It is things where we can take it and add value above and beyond what others could be. I get this question quite often. I cannot point to, 'Well, look at what we have done or bought in the market over the last few years.' I think you can interpret that as, as we have looked at things, and as we look at what we have, we are comfortable with what we have and its value today and for future investments, and we have not found anything out there that we just felt we have had to have. Now, does that change in the future? That is a bit more speculation. But, we always have our ears to the ground, our nose to the ground in terms of looking for opportunities that can add value.

Benny Wong (Morgan Stanley): Thanks. I have just got a couple questions around some of the pipelines we are seeing in the news. One is the Keystone. Obviously, we have had a disruption there. Just cannot remember whether you guys are actually a shipper on that. How does that impact your business in any way? The second one, I think we have seen some positive court rulings out of Michigan pushing back efforts to decommission Line 5. From your perspective, has that cleared a risk around that pipeline?

Rich Kruger: Thanks, Benny. Base Keystone, we have all read over the last couple days what has happened in the TC line – I guess it was Tuesday night, things like that. We are all - industry, we are all very interested in what TC concludes and then wants to do about it. It is a material part of the takeaway capacity. I have said before, we ship, we have contracted space. I do not think I have ever detailed exactly how much, but it is important not only to industry but important to us specifically. When something like that happens in a system that is tight, it is all hands on deck for what do you do to keep barrels flowing, whether those are barrels that are upstream equity barrels or whether those are barrels that we have purchased or are moving for delivery to third parties in downstream businesses. Not knowing what the situation is on Base Keystone – how long it may be offline – what our typical approach is we look at tiers of preparation. What can we do in the immediate, in the next several days, and what can we do if this is something that goes on longer than that? We have got fingers crossed that it is not something of a longer duration, but I think it comes back to pointing out the absolute necessity of added takeaway capacity out of Canada. That is why, whether that is expansion of Line 3, whether that is TMX, whether that is Keystone XL, Canada and industry and each of our participants need that. I think this highlights that one. Going back to your original question, yes we do move barrels on Base Keystone.

The positive news out of Michigan – the state court ruled on the legality of continued operation of Line [5]. I think I also saw that the attorney-general is contemplating further appealing that. Line 5 is important to us. It is important to many others as well, not only north of the border but south of the border. I think I will leave any specific comments on that to Enbridge and its dealings with the state of Michigan, but in today's world we take all positive news with a smile on our face, and I smiled when I read that one.

Benny Wong: Great, I appreciate those thoughts. The follow-up question is really on Cold Lake, which does not usually get a lot of airtime. Just wanted to get a high-level update around that asset there. If I remember correctly, that was an asset that a couple years ago experienced fluid excursions, and that was moderating volumes there. Is that kind of situation already passed that? Or could that be an area where we could see higher volumes with relatively little spend going forward?

Rich Kruger: Yes. On November 12th, John Whelan, our Senior VP Upstream, is going to give a pretty deep dive into Cold Lake, not only current performance but where we expect going forward. What you commented on relates to Nabiye, the most recent expansion to Cold Lake, and what we experienced with steam injection, pressures in volumes and some of the – I call it the caprock or the top seal, in not being able to put as much or as high a pressure steam in the ground as our original plan, for fear that that steam would not stay there – that it would go to the shallower Grand Rapids reservoir. That has been an issue from the beginning. It continues to be an issue. What I would say is, at the risk of doing not nearly as good a job as John will do, if I can hold off the further conversation on that to November 12th, I can commit to you that John will take you through good detail on it – where we are, what we are doing, and then, most importantly, what you can expect going forward in terms of production operations at Cold Lake, not only quarter by quarter but over the next several years. I might be tempted to go further, but we have been so busy on the quarterly call and all this that we are working on that November 12th presentation as we speak. I cannot go much further, because – I am smiling, looking at John – it is a work in progress right now.

Benny Wong: Great. We will look forward to that investor day. Thank you.

Operator: Thank you. Our next question comes from the line of Mike Dunn with GMP FirstEnergy. Your line is now open.

Mike Dunn (GMP FirstEnergy): Thanks. Good morning, everyone. Rich, just wondering if you could provide an estimate of how much you think Imperial's gross production of bitumen at Kearl and Cold Lake has been restricted due to curtailments this year. Second question, unrelated, I have never asked this before of you or your predecessors, but can you just walk us through a little bit what the process is like in terms of the nomination and acceptance of a new CEO at Imperial? I guess the tenure is typically of several years, but just wondering if there are candidates that are brought to the Board and the Board decides, or if it is more of a mutual discussion between Imperial, Exxon and Imperial's Board?

Rich Kruger: Sure. Mike, those two questions are kind of opposite ends of the spectrum, my friend. One is very specific, but I like it. Thank you, Mike. The first one – recall, in the curtailment world the orders are issued by operator. We are the operator for both Cold Lake and Kearl, so we get a production allocation each month that is combined for those two assets, and we have the flexibility to decide which asset how much within the construct of that curtailed order. That gives us flexibility. I have not talked about actual volumes that we have not produced throughout the year very intentionally, because what we have been doing is we have been looking at, when we do work, what work we do and how can we sequence that to minimize the volume impact because of the flexibility of two large assets, significant maintenance activities at each asset, and how can we dovetail those in a world where you are getting month-by-month quotas, not quarters or six months or annual, so you are having to optimize month by month. I have not gotten into explicitly what limits that has had to us on production, and I

prefer not to. What we have done is we worked awfully hard to minimize those impacts. That is not to say that curtailment has had a minimal effect on us at all. It is had a big effect on us in terms of the added work of doing things that might not have been the preferred plan so that we can minimize the negative effects on it.

Now, the process on my replacement – I am coming up on seven years. I think it is important to note, in Imperial's history, including me, there have been two non-Canadian CEOs. It is not the norm, and Brad will make the third. I think, when you get three in a row, folks assume that is a trend. That may or may not say anything about the future. It is important to note, as a publicly traded company with an independent Board of Directors, it is the Imperial Oil Board's responsibility and decision for senior management executive succession planning. It is that group that makes the decision on who is in my job and, when it is time for me to move on, who replaces me. That dialogue of course would look at individuals within Imperial – their readiness, their capabilities. If the Board wants to broaden that, we have the benefit of this unique relationship with ExxonMobil. Because of ExxonMobil's ownership in Imperial, they are obviously very interested and would likely have thoughts on who the best individuals in the job would be.

In this particular case, the Board engaged with ExxonMobil. That is not something that just happened over a month or so. I can attest to it, because I have been a part of it. That has happened over a period of time. I had a significant input in that, which I am very pleased on that, because my interest is what is in the best interest of Imperial Oil for the long term. As I have kind of insinuated, I am really pleased that it is Brad. I have known him forever. We are not only professional colleagues but we're personal friends. I have the utmost respect in his capabilities. I think what we have been working on for the last month and a half now, and what we will do for the next two months, is to make that as smooth, effective transition as possible. Brad has participated now in two full Board meetings, and he met the Board months ago before that. That is helping not only on the internal aspect of it, but we have been spending time with major investors. November 12th will be a big day. Increasingly we have been spending time outside the company to also ensure that part of the transition is as smooth and effective as possible.

Mike Dunn: Thanks, Rich, and I will see you folks in a couple of weeks.

Rich Kruger: Thanks, Mike.

Asit Sen (Bank of America): Thanks. Good morning. Rich, I had a quick question on whether you have any thoughts on the merits of a diluent recovery unit or DRU. Any thoughts on the economics that you might have worked on? Any advantage that you see, particularly given your rail footprint infrastructure and relationship with Exxon?

Rich Kruger: Sure. This is something that, a few years back, we talked about it a bit more, and I would say it was probably a little bit higher on our priority list in terms of working it. Then, as I have described before, there are so many assumptions on a DRU, and a lot of the economics of it depend on the differences between big numbers – when you start taking one big number, subtract another big number, what is left? What I am talking about is transportation rates. If you ship something without the diluent, you are shipping, in round numbers, 75% of the barrel without having to transport the diluent.

You are looking at, 'Well, what are diluent costs and availability?', and then you are looking at, when you get that product, whether it is neat bitumen or diluted bitumen, to refiners, what is its worth in the market? What are refiners willing to pay for it? What can they get out of it? Over the last couple of years, all of these inputs that go into a DRU economic evaluation – it has been a bit of a jump ball on so many things - transportation, rail versus availability of pipe, cost of rail, economic incentive of rail versus cost, and economic incentive on pipe, refining – you think about the US Gulf Coast market, availability of heavy crude supplies from other sources. There have been so many variables in this thing that I would say, right now, a detailed evaluation of DRU is not at the top of our work plan. That is not to say it will not be at some point in time, but it is not today. You rightly point out we have a rail asset, and that is a very valuable asset and that can be very valuable whether it is shipping diluted bitumen or neat bitumen. It is something we will continue to look at, but I think it is safe to say I would not hold my breath anticipating any big announcement on a DRU in the foreseeable future. If that is something that we start getting serious about, we will start talking about it well in advance of a final decision.

Asit Sen: Appreciate the color, Rich. Thanks.

Rich Kruger: Well, thank you for your questions and your time today. I made reference several times to November 12th. I was not trying to necessarily kick the can down the road, but we look forward to hopefully seeing many of you in person, and others if you are not in person, on the line. We have got a fulsome day planned, and we will get into not only our business of today but our outlook for the future and our plans in great detail.

I have also commented – I jokingly said it will be Brad's coming-out party a little bit. He and I have been spending a lot of time together. I did not think it was fair to put him into the mix on the call today, but you can expect to meet him and hear from him on November 12th and thereafter. Thank you very much and hope to see you soon.

Dave Hughes: Thanks, everybody. As always, if you have any further questions, do not hesitate to contact the Investor Relations team here. Thank you.

[END OF TRANSCRIPT]