

# **Imperial Q1 2021 Earnings Call**

Monday, 3<sup>rd</sup> May 2021

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Imperial Oil First Quarter 2021 Earnings conference call. At this time all participants are in listen only mode. After the speaker presentation, there will be a question and answer session. To ask a question during this time, you will need to press star one on your telephone keypad. Also, if you require any further assistance, please press star zero. I would now like to hand the conference over to your speaker today, Mr. Dave Hughes, VP of investor relations. Thank you. Please go ahead.

**Section Title**

Dave Hughes

*VP of Investor Relations, Imperial Oil*

Thank you, Jeff. And good morning, everybody. Thanks for joining us on our first quarter earnings call. With me today is our senior management and that includes Brad Corson, chairman, president, and CEO, Dan Lyons, senior vice president of 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. First thing I am going to do is read the cautionary statement. Today's comments include reference to non-GAAP financial measures, the definitions and reconciliations of these measures can be found in attachment six of our most recent press release and available on our website with the linked conference call. Today's comments may also 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 first quarter earnings press release that we issued this morning, as well as our most recent form 10K. All of those documents are available on SEDAR, EDGAR and on our website, so please refer to those.

Our usual format, we will start out with Brad offering some opening remarks. Then Dan will provide a financial update and then Brad again with an operational update. After the opening remarks, we will move to the Q&A. With that, I will turn it over to Brad.

**Section Title**

Brad Corson

*Chairman, President, CEO, Imperial Oil*

Well good morning everybody, and welcome to our first quarter of 2021 earnings call. I hope each of you and your families are doing well and continuing to stay healthy. The last time I spoke to you back in early February, we discussed what was a very challenging year for our industry, but one in which Imperial delivered very solid business results in the face of both the global pandemic and the associated economic challenges. I also noted Imperial's foundational improvements, including increased production capacity and a reduced cost structure. Over the past year, we have emphasized the priority that we were placing on making sure that we remained well positioned for the eventual recovery as we were taking steps to respond to the business environment. I am pleased to tell you that the very positive note we ended 2020 on has continued through the first quarter of 2021, despite the continued challenges brought on by the pandemic.

Over the next few minutes, Dan and I will detail the results of what was a very strong first quarter. Now let's talk about those first quarter results. Since we entered 2021, we have been facing lower than normal product demand, but have seen commodity prices and product margins strengthen. The improved market environment coupled with our continued strong operational and cost performance resulted in us delivering

our highest quarterly earnings since the third quarter of 2019 and the highest first quarter since 2018. Earnings for the quarter were \$392 million, an improvement of over \$1.5 billion versus the fourth quarter, but recall that the fourth quarter results reflected an impairment of close to \$1.2 billion related to our unconventional assets. Without this impairment, our earnings, excluding identified items, have still improved by over \$360 million versus the fourth quarter.

I would also highlight that all of our business lines delivered positive earnings this quarter, which is great to see. The first quarter also delivered significant cash flow from operating activities of over \$1 billion, reflecting strong operational performance, including the highest first quarter upstream production in 30 years, and an ongoing focus on cost reductions and efficiencies. These efforts drove significant benefits in 2020, such as production and manufacturing expense reductions of around a billion dollars. While not all of this was structural, we are committed to finding more efficiencies to offset those savings that weren't structural. We are seeing this good progress on cost reductions continue into 2021. To put that in perspective, our cash operating costs in the first quarter were almost \$70 million lower than in the first quarter of 2020.

We have talked a lot over the past year about our financial resilience, our operational strength, flexibility, and integration. I hope you will agree that our first quarter results are indicative of those strengths and provide a reason for confidence in the company's performance moving forward. Our continued strong operational performance and cash generation not only supported our ability to once again, declare a dividend for the quarter, but to significantly increase that dividend. We have paid a dividend reliably for over 100 consecutive years now and grown it each of the last 26 years. This morning, we announced a dividend of 27 cents per share, which represents a 5 cent per share increase or close to 23% increase.

Additionally, we announced an amendment to our current NCIB program to allow us to repurchase up to 4% of the outstanding shares of Imperial by the end of June, 2021, so over the next two months. Last year, we were very proud of the fact that we were able to keep paying a stable, reliable dividend in a very tough time. Today's announcements just continue to underscore not just our strong financial position and our confidence in the future, but also clearly demonstrates our ongoing commitment to returning cash to our shareholders. I will now turn it over to Dan to go through our financial performance for the quarter in more detail.

## **First Quarter Financial Performance**

Daniel Lyons

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

Thanks, Brad. Before getting into the numbers, I wanted to highlight, as Dave did at the very beginning, that we are releasing some added information this quarter, and this is by popular demand, I think in fact, from a number of you on this call. This quarter, we began publishing five additional non-GAAP measures. You will find these in attachment six at the back of the press release. The measures are cash flow from operating activities, excluding working capital, free cash flow, net income, excluding identified items, cash operating costs, unit cash costs for the upstream and by major upstream asset being Kearl, Cold Lake and Syncrude. We hope you will find this adage disclosure useful. We will refer to these measures as appropriate going forward.

Getting back to the numbers, our net income for the first quarter was \$392 million up \$580 million from the first quarter of 2020, or up almost \$300 million when looking at earnings, excluding identified items. As Brad noted, looking sequentially our first quarter net income of \$392 million is up just over a billion and a half dollars from the fourth quarter and earnings excluding identified items are up about \$360 million driven by improved results across all of our business lines. Looking at performance by business line, the upstream recorded net income of \$79 million in the first quarter of 2021 compared to a net loss of \$1,192 million in the fourth quarter of 2020. Again, excluding the non-cash impairment charges of \$1,171 million in the fourth

quarter, we saw improved results of about \$100 million driven by higher realizations, partly offset by lower seasonal volumes.

Turning to the downstream, downstream net income of \$292 million in the first quarter was up \$186 million compared to the fourth quarter's net income of \$106 million mainly driven by improved margins. Our chemical business also demonstrated strong performance earning \$67 million in the first quarter of 2021 compared to \$23 million in the fourth quarter of 2020, driven primarily by higher margins. Finally, before looking at cashflow, I wanted to mention that our financial statements for the quarter reflect the impact of the termination of agreements associated with the Keystone XL pipeline project. As a result of the termination of these agreements, we recognized a liability of \$62 million as of March 31st, 2021, which resulted in an after tax charge of \$47 million to our first quarter 2021 earnings. At the same time, there was a corresponding decrease in our long-term commitments, reducing our other long-term purchase agreements by \$2.9 billion.

Looking at cash flow, cash generated from operating activities was \$1,045 million in the first quarter up \$622 million from the same period last year and up \$729 million from the fourth quarter. Our free cash flow in the first quarter was \$898 million up \$783 million from the first quarter of 2020. Finally, with these strong cash flows, our cash on hand increased from about \$800 million at the end of the year to almost \$1.5 billion at the end of the first quarter.

Moving on to CAPEX, capital expenditures in the first quarter totaled \$163 million down \$32 million from the fourth quarter. Consistent with our previous guidance, we continue to expect capital expenditures of approximately \$1.2 billion for 2021 with spending focused on the in-pit tailings project and de-bottlenecking and efficiency projects at Kearl, volume sustainment at Cold Lake and the Sarnia products pipeline in the downstream.

Shifting to shareholder distributions, in the first quarter we paid \$162 million in dividends at 22 cents per share, compared to \$164 million in the first quarter of 2020. As Brad noted earlier today, we announced a second quarter 2021 dividend payable in July of 27 cents per share, an increase of 5 cents or nearly 23% from the first quarter. As Brad also indicated, we plan to purchase up to 4% of our common shares outstanding over the next two months, consistent with our robust free cash flow. At a share price of \$34, this would represent up to about \$1 billion in purchases commencing next Wednesday and finishing by June 28, 2021.

Both of these actions are consistent with our strong financial performance, low capital requirements, confidence in the future and our longstanding commitment to return cash to shareholders. Now I will turn it back to Brad to discuss our operational performance.

## **Operational Performance**

Brad Corson

*Chairman, President, CEO, Imperial*

Thanks, Dan. I will now take a few minutes to talk about operational performance in the first quarter. Upstream production averaged 432,000 oil equivalent barrels a day in the first quarter, which was up 13,000 barrels per day versus the first quarter of 2020 and represents our highest first quarter production in 30 years. This excellent performance was driven by continued strong production at all three of our major upstream assets, Kearl, Cold Lake and Syncrude. Production was down 28,000 oil equivalent barrels per day versus the fourth quarter of 2020 in large part due to lower production at Kearl and Syncrude. This is typical and was expected as the first quarter can provide some real challenges due to winter weather, particularly in our mining operations. While we did see a very mild start to the year, the typical Northern

Alberta winter finally arrived in early February, but the impact was managed exceptionally well by our operations organizations.

Now I will talk in more detail about each asset starting with Kearl. I commented on last quarter's earnings call what a great year 2020 was for Kearl, and here we go again. I am pleased to say that Kearl's strong performance continued through the first quarter. While gross production of 251,000 barrels per day was down 33,000 barrels per day versus the fourth quarter of 2020, this was still Kearl's best ever first quarter production. In fact, it is the second best quarter ever at Kearl behind the fourth quarter of 2020. This is especially notable given the first quarter is traditionally the lowest production quarter of the year, given the challenges winter weather can introduce as I just noted and each month delivered record production. Just to be clear, it was a best ever January at Kearl, the best ever February and a best ever March at Kearl, building on our best ever October, our best ever November and our best ever December that I reported last quarter. This is just a great start to the year for Kearl. That positive momentum continues into April. April has also been a strong production month at Kearl averaging over 270,000 barrels per day so far this month. However, as you are aware, we also have a planned turnaround on one of the trains in the second quarter. That is scheduled to begin in early May and lasting until the end of May. This is consistent with our past turnaround scheduling and is expected to have an estimated production impact of around 42,000 barrels per day in the quarter. That being said with Kearl's strong performance year to date, we are well on track to achieve our previous guidance of 255,000 barrels per day for 2021.

Now let's talk about Cold Lake. Cold Lake also delivered strong results in the first quarter with production averaging 140,000 barrels per day. This is up 4,000 barrels per day versus the fourth quarter and flat versus the first quarter of 2020. This is the result of the ongoing, steady and reliable operations at Cold Lake, as well as some well optimizations that we have implemented. We have a relatively light turnaround scheduled for the second quarter, which will cover some routine maintenance and as such, we expect a minimal production impact in the quarter. Also of note in the quarter is the successful startup of our laser technology at the Cold Lake Mahkeses plant. Laser stands for liquid addition to steam for enhanced recovery, and is a technology developed by Imperial and first commercially deployed at our Cold Lake Mahihkan plant a few years ago. This is really exciting as not only is it expected to increase production over time, but the use of solvent technologies is a key part of our commitment to reducing the greenhouse gas intensity at our operated oil sands facilities. This technology is expected to enable up to a 25% greenhouse gas intensity reduction at Mahkeses, and is a key part of our pathway to a net zero future.

Imperial's share of Syncrude average production was 79,000 barrels per day in the first quarter, which was down 8,000 barrels per day versus the fourth quarter, but up 6,000 barrels per day versus the first quarter of 2020. The drop from the fourth quarter was again expected given the seasonality of the production while the increase versus the first quarter of 2020 helps to highlight the improvements we have been seeing with respect to overall reliability of the Syncrude operations. Now looking to the second quarter, Syncrude has a major planned turnaround that began in early April. The work is expected to last until mid-June and involves taking one of the three cokers offline for routine maintenance after a normal run and has a production impact in the second quarter of 33,000 barrels per day Imperial share. However, as I am sure you are aware, there is currently a COVID-19 related state of emergency in the municipality of Wood Buffalo. This situation is still evolving, but in light of this and the challenges currently facing the area and the city of Fort McMurray, Syncrude is currently taking steps to reduce the size of the workforce on site, but still with the objective of preserving overall schedule of the turnaround.

Now, with respect to the bi-directional pipelines, both are now in service and were actually put to use in the first quarter, allowing Syncrude to produce an incremental 2,000 barrels per day, Imperial share of Syncrude sweet premium or SSP from imported product. With respect to the status of the transfer of operatorship to Suncor, the agreement was finalized in the first quarter, and the owners are expecting the transition to be complete by the end of the third quarter of this year. Again, we remain confident in the \$300 million of synergies this change is expected to deliver to the partnership.

Now let's move to the downstream. We refined an average of 364,000 barrels per day in the first quarter, which was up 5,000 barrels a day versus the fourth quarter, but down 19,000 barrels a day versus the first

quarter of last year. Utilization in the quarter was 85%, which was flat versus fourth quarter and down from 91% in the first quarter of 2020. The lower utilization versus the first quarter of last year is indicative of the ongoing demand softness we have been seeing since the outset of the pandemic. As we continue to experience volatility in the lockdowns and reopening efforts, product demands continue to be variable and somewhat uncertain. Although it does appear that the vaccination program in Canada is gaining momentum now, which is quite positive.

Looking to the second quarter, we have a planned maintenance turnaround at our Strathcona refinery that started in early April and is expected to run through the end of May. With a turnaround such as this, the entire facility does not get shut down, so the site is still able to produce at a reduced rate. We expect the impact to be around 80,000 barrels per day in the quarter, or around an 18% impact on overall refining utilization. But as is typical for downstream turnarounds, we are able to plan well in advance and minimize product supply impacts. We would not expect to see a significant decrease in product sales, even though we will see this lower utilization. 2021 is a fairly light turnaround year for our downstream and this Strathcona turnaround represents the most significant one of the year. Having this behind us sets us up quite well for the potential demand recovery over the remainder of the year.

Petroleum product sales in the first quarter were 414,000 barrels per day, roughly flat with a fourth quarter of 2020, but down 48,000 barrels per day versus the first quarter of 2020. Again, the year on year reduction is reflective of the impact the pandemic has had on fuel demands. As a reminder, on the fourth quarter call in February, I mentioned that in January we were seeing industry demands more in the 70 to 75% of normal range for gasoline and 35 to 40% for jet, whereas diesel was close to historical levels. The rest of the quarter played out pretty consistent with those demand levels with maybe the exception of a bit of strengthening on motor gasoline demand, which now sits around 80% of historical.

Looking forward, we expect to continue to experience near term demand volatility as provincial and federal healthcare measures and travel restrictions evolve, but we remain confident in the broader recovery over time. Despite these volatile and challenging conditions, our downstream business continues to deliver very strong financial results with earnings of \$292 million in the quarter compared with \$106 million in the fourth quarter of 2020. Even as demands continued to lag normal levels, we experienced some strengthening of margins compared to the fourth quarter, which contributed to another very profitable quarter for the downstream business.

Our chemical business delivered an impressive \$67 million in earnings in the first quarter, a significant increase of \$44 million versus the fourth quarter of 2020 and \$46 million higher than the first quarter of last year. This performance was driven by strong volumes and margins, some of which resulted from tightened supply in Texas. While we continue to see some fairly healthy margins so far in the second quarter, we do expect these to return to more typical levels in the second half of 2021 as Gulf coast operations returned to normal.

As we wrap up, I would like to highlight just a couple of items which are also noteworthy. First, Imperial recently released its updated corporate sustainability report. As you will see, this is a significant document that provides a lot of detail on what we view as the key dimensions of sustainability and how we are approaching the risks of climate change. Of particular note is the introduction of reporting scope three emissions estimates, and the actions we are taking to identify and progress viable pathways to net zero. The second item I want to mention is our Healthcare Heroes program. You may recall that back in 2020 at the outset of the pandemic, we donated \$2 million in free fuel to 80,000 healthcare workers across Canada. In the first quarter of this year, essentially at the one-year anniversary of the pandemic, we launched a similar second campaign, donating an additional \$2.5 million in free fuel. This is our way of recognizing and thanking the many healthcare workers that have now been on the front lines of this pandemic for over a year. We are so grateful for their service.

Dan mentioned the steps we are taking regarding shareholder returns. I just wanted to conclude by saying how pleased I am that the strength, the resilience and the confidence we have in our integrated business

that collectively support our stated commitment to drive shareholder value and deliver meaningful returns to our shareholders. I believe this dividend, which by the way, represents the largest increase in our history, coupled with the resumption of share buybacks does just that. Finally, I would like to, once again, thank our employees, our contractors and our business partners for their resilience, their determination and commitment to supporting us and working through what has been a very difficult time over the last 12 to 15 months. They all play critical roles in Imperial success. With that, I will turn it over to Dave for the Q&A session. Thank you.

## Q&A

**Dave Hughes:** Okay. Thanks, Brad. We have had a few questions pre submitted, so I think we will start with addressing questions from a couple of those analysts and then we will move to the live Q&A line. Brad, the first couple of questions come from Phil Gresh at JP Morgan and I will ask them both. They are both kind of related. Imperial guided to \$1.5 billion of normalized downstream and chemicals cashflow from operations at Investor Day. What is the breakdown between the two segments, and do you think this normalized cash from ops is reasonable to expect in 2021?

**Brad Corson:** Thanks for your question, Phil. If you look at our average looking back from 2009 to 2019, our downstream generated about \$1.6 billion per year in cash flow from operating activities and chemicals was around another \$200 million. I would suggest this split can also be applied to the forward looking \$1.5 billion average that we discussed at Investor Day. Now with respect to your second question, our company generated over \$1 billion in cash from operating activities in the first quarter and our downstream and chemicals business combined for about half of that amount. That gets us about a third of the way to the \$1.5 billion we referenced at Investor Day. It is certainly possible to reach it given our full year utilization guidance of 89% and continued increase in vaccination rates, but admittedly, there is still some uncertainty, but on balance we remain confident with those targets. Now notwithstanding demand impacts, our downstream and chemical business continues to benefit from structural advantages in Canada that support ongoing profitability. We are still comfortable with that guidance we have provided. I hope that answers your question, Phil.

**Dave Hughes:** Okay. Next from, Will Lacey at ATB, with the increased focus on carbon by government and investors, have you quantified the potential cost implications to the base business under the proposed carbon pricing mechanism specifically at \$170 a ton?

**Brad Corson:** Yeah. Thanks for that question, Will. First I just want to highlight that Imperial supports an economy-wide carbon tax and has long operated in jurisdictions with carbon pricing. We have actually been incorporating the cost of carbon emissions in our plans for a while now. We believe a stable carbon pricing policy provides certainty to our industry, but also accelerates innovation, technology and investment, and really can play to our strength in technological leadership as we continue to work on pathways to net zero. We are quite well positioned to operate and compete in a low carbon future, so thanks for that question.

**Dave Hughes:** So a bit of a follow-up on that one is further with discussion of the proposed tax incentives that the federal government discussed regarding carbon capture utilization and storage, how may this influence your thoughts on capital related to this? Have you discussed this in more detail with ExxonMobil and their global initiatives?

**Brad Corson:** Thanks for that follow up question, Will. In its recent budget, the federal government announced a substantial funding program for carbon capture and storage, a technology that we view as integral to enabling net zero emissions. There is still a lot to be defined in those budget details, but we very much look forward to working with the federal government and also along with the government of Alberta and our industry colleagues on the best design for that program in the coming months. This is an encouraging step to support industry efforts to advance technology to reduce greenhouse gas emissions, and Imperial is well-positioned, as I noted earlier, to capture those opportunities arising from energy transition.

With regard to ExxonMobil, as you may be aware, ExxonMobil announced in February 2021, that they have created a new business to commercialize its extensive low carbon technology portfolio. That business called ExxonMobil Low Carbon Solutions will initially focus on carbon capture and storage, one of the critical technologies required to achieve net zero emissions and the climate goals outlined in the Paris Agreement. Through Imperial's relationship with ExxonMobil, we have access to industry leading technologies, and as we develop pathways to support net zero future, we will certainly be leveraging that relationship and access from ExxonMobil. We truly believe that technology is critical to enable production

growth and emission reduction and we are exploring those next generation technologies, which when paired with carbon capture and storage, could result in incremental production with net zero emissions. It is our view that CCS has the potential to be even more commercially viable through the convergence of advanced technologies, but also with supportive Canadian policy. Thanks for that question.

**Dave Hughes:** Brad, we had just one final one from Will, and then we will go over to the live Q&A. Any comments on the implications for operations as a result of the COVID challenges in the Wood Buffalo region?

**Brad Corson:** Yeah, I am glad you asked that question. First, I would just point out how very unfortunate the situation is in the Wood Buffalo region and our thoughts and prayers go out to all those individuals affected. Our focus has always been and continues to be first and foremost, the health and safety of our workforce and the communities in which we operate. We have been maintaining our strict site protocols to prevent the risk of transmission of COVID-19 and we continue to follow all the government and health authority guidance.

You heard me comment on Syncrude operations earlier in the call already, but in regards to Kearl, and certainly acknowledging that there is an escalating situation in the oil sands region around Fort McMurray, we have been successfully managing and really mitigating the transmission so far without any impact to our operations and no impact to our turnaround plans at this time. The plans that we are progressing were developed with full consideration for COVID safety precautions, and I would point out that we have been applying learnings from safely executing turnarounds in 2020. We are not only leveraging those at Kearl, but I also mentioned the Strathcona turnaround.

One addition of note, though relative to our turnarounds last year, we have now deployed rapid COVID testing for our workforce prior to them boarding planes and buses used to travel to site. This gives us one other mechanism to identify and manage any potential transmission of COVID. There have been no impacts, again, to our operations at Kearl and no impact to our current schedule for the upcoming turnaround, but we are going to continue to monitor that situation and adjust our plans as needed.

**Dave Hughes:** Okay. Operator, can we go over to the live Q&A line now, please?

**Operator:** Certainly. At this time, I would like to remind everyone in order to ask your questions, press star, then the number one on your telephone keypad. Again, that is star one on your telephone keypad. We will pause for just a moment to compile the Q&A roster. Your first question comes from the line of Greg Pardy from RBC Capital Markets. Your line is open.

**Greg Pardy (RBC Capital Markets):** Hey, thank you. Thanks and good morning, everybody. I guess first off, just thanks for the enhanced disclosure. We are definitely looking for that, so that is a great step forward. Couple of questions, I guess the first one is just on a buyback. Is there not, I almost ask this in the negative. Is there any reason not to assume that you would A, renew the buyback post June 29<sup>th</sup>, and secondly, think about repurchasing a similar order of magnitude shares of, like call it 5% or so? Just trying to better understand your thinking from that perspective?

**Brad Corson:** Yeah. Thanks for the question, Greg. First, I appreciate your recognition of the disclosures that we have added. As Dan pointed out, that has been in direct response to the feedback we have heard from you and many analysts, so pleased that we could take those steps to support your request there. In terms of the buyback and our strategy going forward, as both Dan and I commented, we find ourselves in a very strong financial position, very much driven by kind of the underlying quality of our assets, the strong kind of fundamentals associated with those, and especially the improvements we have made over the last year in production capacity, in operating expenses. When you take that combined with the strengths we have seen in the commodity market, that puts us in a favorable position with very strong cash flow generation.

As we said at Investor Day, and I have repeated on many occasions, we are very committed to returning cash to our shareholders and that underpinned our announcements today around a very material increase in our dividend and amending the share buyback program from last year for up to 4%, which I think is something like 290 million shares just over the next two months.

**Daniel Lyons:** 29.4 million.

**Brad Corson:** Right, and so that is I think a strong indication of the pathway we are on. As we look to the next share buyback timeframe, we will be clearly evaluating that, but I think it is a fair assumption that if we continue to see this strength, that we will continue to proceed with share buybacks even after this current program expires.



**Greg Pardy:** Okay, that is helpful. The second question is a little bit jumbled how I am going to ask you, but if you look at the Imperial model pre Kearl sanctioning back in 2009, it was limited CAPEX, buybacks as you have just framed, and dividend growth. What I am wondering is essentially has that model now come full circle, or when signals are appropriate, is there scope to resume upstream growth? I am just trying to get an understanding of how you are sort of thinking about reinvesting in the business versus distributions.

**Brad Corson:** Yeah, it is a good question, and I think does build on some of our discussions at Investor Day where we highlighted that are our priority focus in the near term is maximizing value from our existing assets. That is why we have been so laser focused on improving reliability, improving production, capacity, reducing operating expenses, applying capital discipline, all those things are allowing us to generate significant value. I would also point out that integral there is that capacity growth, and if you take Kearl as an example, prior to implementing the supplemental crushers, we were at volumes at or below 200,000 barrels a day. Last year you saw an increase substantially above that this year, we are now indicating 255,000 barrels a day. We have a pathway to 280.

Over just a few years' time, we will grow production from 200 to 280,000 barrels a day. An 80,000 barrel a day increase, which is on par to several growth opportunities in our portfolio, like Aspen, I think was targeted at about 75,000 barrels a day. We are achieving similar growth, but at a much lower cost and that is delivering significant value. We want to make sure we progress that strategy and maximize the value from it. We will continue to look for growth opportunities giving priority to those that generate the highest return. We do see continued de-bottlenecking opportunities at Kearl and other sites. Longer term, we will continue to revisit broader growth strategies as we look at the market, as we look at other considerations with supportive government policy, competitiveness, all those things. We have a deep inventory as with projects like Aspen and others, and we always keep an eye to M&A opportunities as well should we see some, particularly unique, strategic, accretive opportunities there.

**Greg Pardy:** Very good. Thanks very much.

**Brad Corson:** Thanks, Greg.

**Operator:** Your next question comes from the line of Neil Mehta from Goldman Sachs. Your line is open.

**Carly Davenport (Goldman Sachs):** Hi, good morning. This is Carly Davenport on for Neil. Congrats on a good quarter. The first question was just around the downstream. You highlighted reduced demand due to COVID as driving the sequentially lower sales during the quarter, so can you just talk about your outlook for the demand recovery in Canada, maybe what you are seeing real-time on the ground, and then if there are any key milestones to look out for there?

**Brad Corson:** Yeah. Thanks for the question, Carly. I would frame that response by really pointing to the volatility that we have been seeing, and I noted some of the current demands that we are seeing where the diesel demand is mostly in line with where we were back pre pandemic levels. We still see a softening in gasoline, motor gasoline currently in that 80% of normal demand, and that is very much reflective of just personal mobility around the country, which has been very impacted by this third wave of COVID cases across all the country, and so that is having an impact. Then most severely impacted has been jet fuel demand, which is currently only 35 to 40% of normal levels.

I would contrast what we are seeing in Canada as starkly different than the US. In the US, personal mobility is in many cases returning to more normal levels. There is a lot of domestic travel in the airports in the US, but in Canada, a very different situation with COVID because of this third wave, re-introduction of restrictions in many of the provinces, all of that is restricting mobility and impacting demand. We do expect that that demand will recover as the year progresses. Canada is actively progressing vaccination campaigns across the country. We see the momentum picking up and we believe that coupled with good behaviors and restrictions will allow those COVID cases to significantly reduce over time, allowing mobility to resume to more typical levels that will allow demand to grow again back to pre-pandemic levels, especially motor gasoline. Jet demand will probably take even longer depending on kind of how businesses react and how business travel returns for long haul flights. Continued, So continued volatility, continued uncertainty, but we do see a pathway for demand recovery over time as the year progresses.

**Carly Davenport:** Great. That is helpful context. Then the follow-up is just a housekeeping item. When we were looking at the cashflow for the quarter, it looks like the cashflow statement shows \$125 million inflow from kind of an other item. Could you just walk through what items are reflected there?

**Brad Corson:** Yeah. Thanks for that. I am going to let Dan answer that question.

**Daniel Lyons:** Carly, this quarter kind of what I talked about earlier with these non-GAAP measures including cashflow from operating activities, excluding working capital. In the past in our press release in the attachments, we have sort of lumped working capital and some other things together. This quarter going forward, we split them out and we put working capital on a separate line because obviously working capital is quite volatile it can swing a lot quarter to quarter. The other items or other things that flow through the income statement that are non-cash, I mean, a good example would be pension related expenses that we run through net income but are not cash. That is an example of what's in that other line, but there is a number of items in there, but there are obviously things that run through income that are not cash that are not working capital. We thought working capital based on feedback we have gotten, folks want to call it out separately. That is what we have done.

**Carly Davenport:** Great. Thanks for taking the questions.

**Operator:** Your next question comes from the line of Menno Hulshof from TD Securities. Your line is open.

**Menno Hulshof (TD Securities):** Thanks for taking my question and good morning, everyone. I just have one, you touched on the laser project at Cold Lake, but could you just elaborate on where things stand operationally and what the next couple of years could look like for laser specifically? I guess my follow up there would be whether there is anything that could drive your 25% intensity reduction target higher over time?

**Brad Corson:** Yeah, thanks for that question, Menno. As I mentioned on the call, we have now started up laser at Mahkeses. We are quite excited about that. That has been a multi-year initiative for us, as I mentioned previously deployed that Mahihkan, now Mahkeses. It is part of our cyclic steam cycling program, so it takes multiple years to achieve kind of full benefits from it. Over that period, we are going to continue to evaluate its effectiveness. We are going to continue to look for further deployment opportunities and that gives us line of sight to what's the optimum applications for laser, but equally important is the fact that we are continuing to develop and look for application of other solvent technologies that also provide the potential for not just up to 25% reduction in greenhouse gas intensity, but some technologies we are looking at could achieve up to 90% reduction.

Again, this is very much kind of an evolving effort by our technologists, but also our operations teams to take all the steps we can to further reduce greenhouse gas intensity. We have achieved, as you may be aware already, 20% reduction in our greenhouse gas intensity since 2013. We have a stated objective, a commitment to reduce our greenhouse gas intensity by another 10% by 2023. As I mentioned, we are continuing to look for what are the further steps even beyond that ultimately allow us to progress at a net zero pathway.

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

**Operator:** Your next question comes from the line of Chris Tillett from Barclays. Your line is open.

**Chris Tillett (Barclays):** Hi, guys. Good morning. Thanks for taking my call. I guess first for me would be on the cost breakout for the upstream assets. Are you able to provide any color, I guess, specifically at Kearn, how much of that looks like \$35 million year over year is what you would classify as sustainable or just otherwise due to operational changes?

**Brad Corson:** Yeah. Thanks for the question, Chris. I do not have that detail in front of me, but what I would tell you about Kearn's expenses, of course, we see some seasonality in those costs, as I mentioned, due to weather considerations and as we move into the second quarter, there will be turnaround considerations. You will see some volatility from quarter to quarter in those asset level metrics. I think most importantly is to talk about the pathway that we are on for significant reductions in Kearn's operating costs. Over the last, you go back to 2019, Kearn's unit operating costs were around \$28 per barrel on a US all-in basis. We have made significant improvements in that last year, driving it down to something in the \$22 range. What we laid out at Investor Day was a commitment and a plan to achieve \$20 a barrel this year. Whereas you may see some noise in those numbers from quarter to quarter, what is most important is the pathway we are on and the commitment we have made to achieve \$20 annual average for this year.

**Chris Tillett:** Okay. I guess maybe just to clarify, you do expect that 20 to be an annual average and not just sort of a benchmark you might hit by the end of the year?

**Brad Corson:** Correct. Annual average.

**Chris Tillett:** Got it. Okay. Thanks for that. Then maybe just turning downstream for a second here, thanks for the commentary thus far on the outage at Strathcona. I guess just in terms of the product sales there that are occurring while the asset is under maintenance, from a mix perspective, how much of that is

already locked in, or I guess in other words, is it fair to assume that the product mix there during the maintenance period will be similar to the sort of what we have seen through the first quarter so far?

**Brad Corson:** Well, as I commented, one of the advantages of our downstream program is we plan these turnarounds many months in advance. Through that, we will build inventory that will allow us to maintain our product supply commitments because those relationships are critically important to us. In the case of Strathcona, we have taken those same steps, and hence, we will be able to fulfill all our supply commitments. I do not have a readily available how much of that is already locked in versus might be variable and opportunistic in nature. I think largely it is going to follow a pattern you have seen in the past, so kind of looking to this quarter and last year.

**Chris Tillett:** Yeah. Okay. Thanks for that. Then just last for me, appreciate all the commentary from the prior question in reference to buybacks. I guess would just be curious to hear your thoughts or understand where your heads are at in terms of to the extent that there may or may not be a secondary offering coming. Is that something that Imperial may be interested in or would the preference be more sort of open market purchases?

**Brad Corson:** Dan, do you want to comment on that?

**Daniel Lyons:** Yeah, look, open-market purchases through the NCIB are our go-to move. It is a very efficient way to repurchase shares, but prices are strong, they could get stronger. Obviously, our intentions, as we have said for a long time, are to return surplus cash to shareholders. We have a reliable and growing dividend, beyond that, share buyback is the next tool. To the extent the NCIB is tapped out, if we are in that situation and the cash flows are strong, we will certainly look at other options.

**Chris Tillett:** Understood. Okay. That is very helpful, guys. Thank you very much.

**Operator:** There are no more questions at this time. Presenters, you may continue.

**Dave Hughes:** Okay. Thank you, operator. We did have two more questions pre-submitted that I guess we can wrap up with. They came from Manav Gupta at Credit Suisse. Now Manav's first question is with respect to refine product demand in Canada, and Brad, I think you answered that question in response to Carly Davenport's question a few minutes ago, so maybe we will just wrap up with Manav's second question. There is again some noise on Enbridge line five. Do you think the line can continue to operate?

**Brad Corson:** Well, that is a good question, Manav, and I know it is something we have talked about on prior occasions. Obviously, the situation we are watching very closely. Line five is a critical piece of infrastructure supplying the entire Ontario Eastern region of Canada, but also with implications to the US, specifically for Imperial, we move crude to Sarnia and Nanticoke through that line. I think as I mentioned on the last call, we have put contingency plans in place to address a scenario of a line five shut down, and we continue to refresh those scenarios. But I would say, and most importantly, we consider that to be a low probability. That infrastructure is so critical, and when you look at the underlying legal case around shutting it down, we just do not see that is supportable and we think kind of cooler minds will prevail and that line will stay in service. We are quite pleased to see that the Canadian government has recognized the value of that line and are clearly engaging with governmental counterparts in the US to ensure that that supply security is maintained. Again, there is a low probability, but should it happen, we will be prepared.

**Dave Hughes:** All right, that is it for the questions. I guess on that note, on behalf of the management team here with us, I would like to thank everybody for joining us this morning. As always, if you have any further questions or want to have any follow-up discussions, please do not hesitate to reach out to the IR team here. With that, I wish everybody a good weekend and stay safe.

**Operator:** Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

[END OF TRANSCRIPT]

**Attachment VI****Non-GAAP financial measures**

Certain measures included in this document are not prescribed by U.S. Generally Accepted Accounting Principles (GAAP). These measures constitute “non-GAAP financial measures” under Securities and Exchange Commission Regulation G. Reconciliation of these non-GAAP financial measures to the most comparable GAAP measure, and other information required by this regulation have been provided. Non-GAAP measures do not have a standardized definition and as such, may not be directly comparable to measures presented by other companies, and should not be considered a substitute for GAAP financial measures.

**Cash flows from (used in) operating activities excluding working capital**

Cash flows from (used in) operating activities excluding working capital is the total cash flows from operating activities less the changes in operating assets and liabilities in the period. Management believes it is useful for investors to consider these numbers in comparing the underlying performance of the company’s business across periods when there are significant period-to-period differences in the amount of changes in working capital. Changes in working capital is equal to “Changes in operating assets and liabilities” as disclosed in the company’s Consolidated statement of cash flows and in Attachment II of this document. This measure assesses the cash flows at an operating level, and as such, does not include proceeds from asset sales as defined in Cash flows from operating activities and asset sales in the Frequently Used Terms section of the company’s annual Form 10-K.

	Three Months	
millions of Canadian dollars	<b>2021</b>	2020
Cash flows from (used in) operating activities	<b>1,045</b>	423
Less changes in working capital		
Changes in operating assets and liabilities	<b>(23)</b>	(188)
<b>Cash flows from (used in) operating activities excl. working capital</b>	<b>1,068</b>	611

**Free cash flow**

Free cash flow is cash flow from operating activities less additions to property, plant and equipment and equity company investments plus proceeds from asset sales. This measure is used to evaluate cash available for financing activities (including but not limited to dividends and share purchases) after investment in the business.

	Three Months	
millions of Canadian dollars	<b>2021</b>	2020
Cash flows from (used in) operating activities	<b>1,045</b>	423
Cash flows from (used in) investing activities		
Additions to property, plant and equipment	<b>(167)</b>	(310)
Proceeds from asset sales	<b>7</b>	9
Loans to equity companies - net	<b>13</b>	(7)
<b>Free cash flow</b>	<b>898</b>	115

**Net income (loss) excluding identified items**

Net income (loss) excluding identified items is total net income (loss) excluding individually significant non-operational events with an absolute corporate total earnings impact of at least \$100 million in a given quarter. The net income (loss) impact of an identified item for an individual segment may be less than \$100 million when the item impacts several segments. Management believes it is useful for investors to consider these figures in comparing the underlying performance of the company's business across periods when one, or both, periods include identified items. All identified items are presented on an after-tax basis.

millions of Canadian dollars	Three Months	
	2021	2020
Net Income (loss) (U.S. GAAP)	392	(188)
Less identified items included in Net income (loss)		
Non-cash inventory valuation (lower of cost or market)	-	(281)
Subtotal of identified items	-	(281)
<b>Net income (loss) excluding identified items</b>	<b>392</b>	<b>93</b>

**Cash operating costs (cash costs)**

Cash operating costs consist of (1) Production and manufacturing, (2) Selling and general and (3) Exploration, from the company's Consolidated statement of income, and as disclosed in Attachment III of this document. The sum of these income statement lines serve as an indication of cash operating costs and do not reflect the total cash expenditures of the company. This measure is useful for investors to understand the company's efforts to optimize cash through disciplined expense management.

**Reconciliation of cash operating costs**

millions of Canadian dollars	Three Months	
	2021	2020
<b>From Imperial's Consolidated statement of Income</b>		
Total expenses	6,486	6,945
Less:		
Purchases of crude oil and products	3,887	4,226
Federal excise taxes and fuel charge	404	451
Depreciation and depletion	494	473
Non-service pension and postretirement benefit	11	30
Financing	14	19
<b>Total cash operating costs</b>	<b>1,676</b>	<b>1,746</b>

**Components of cash operating costs**

millions of Canadian dollars	Three Months	
	2021	2020
<b>From Imperial's Consolidated statement of Income</b>		
Production and manufacturing	1,485	1,579
Selling and general	189	166
Exploration	2	1
<b>Cash operating costs</b>	<b>1,676</b>	<b>1,746</b>
Upstream	1,111	1,109
Downstream	459	589
Chemicals	75	88
Corporate/Eliminations	31	(40)
<b>Cash operating costs</b>	<b>1,676</b>	<b>1,746</b>

**Unit cash operating cost (unit cash costs)**

Unit cash operating costs (unit cash costs) are calculated using total gross oil-equivalent production, and are calculated for the Upstream segment, as well as the major Upstream assets. This measure is useful for investors to understand the expense management efforts of the company's major assets as a component of the overall Upstream segment. Unit cash operating cost, as used by management, does not directly align with the definition of "Average unit production costs" as set out by the U.S. Securities and Exchange Commission (SEC), and disclosed in the company's SEC Form 10-K.

	Three Months							
	2021				2020			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	1,109	455	260	333	1,108	490	234	308
Selling and general	-	-	-	-	-	-	-	-
Exploration	2	-	-	-	1	-	-	-
<b>Cash operating costs</b>	<b>1,111</b>	<b>455</b>	<b>260</b>	<b>333</b>	<b>1,109</b>	<b>490</b>	<b>234</b>	<b>308</b>
Gross oil-equivalent production (thousands of barrels per day)	432	178	140	79	419	160	140	73
<b>Unit cash operating cost (\$/oeb)</b>	<b>28.58</b>	<b>28.40</b>	<b>20.63</b>	<b>46.84</b>	29.09	33.65	18.37	46.36
USD converted at the YTD average forex 2021 US\$0.79; 2020 US\$0.74	<b>22.57</b>	<b>22.44</b>	<b>16.30</b>	<b>37.00</b>	21.52	24.90	13.59	34.31

(a) Upstream includes Kearl, Cold Lake, Imperial's share of Syncrude and other.