



Q2 2021 Earnings

Friday, 30th July 2021

Welcome and Introduction

Dave Hughes

VP Investor Relations

Good morning everybody. Thanks for joining us on our second quarter earnings call. I am here today with Brad Corson, Chairman, President and CEO; and as usual with Brad, is the senior management team, 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 need 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 VI of our most recent press release and available on our website with the link to this 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 second quarter earnings press release that we issued this morning as well as our most recent Form 10-K. All of those documents are available on SEDAR, EDGAR and on our website. So, I would ask you to please refer to those.

So, we are following our usual format today. Brad is going to start out offering some opening remarks and then Dan is going to provide a financial update. And then we will go back to Brad for an operational update, following which we will go into the Q&A Session.

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

Q2 Overview

Brad Corson

Chairman and CEO

Thank you, Dave. And good morning, everybody. And welcome to our second quarter 2021 earnings call. I hope each of you and your families are doing well and continuing to stay healthy. It is great to see the high levels of both first and second vaccinations we are achieving here in Canada and the significant reduction in case counts across the country. And hopefully this is bringing some sense of normalcy back to all of our lives, which is desperately needed. However, we do recognize we are not out of the woods yet, given what we are seeing globally and here in Canada, with respect to the variants.

Thinking about how to best characterize the second quarter. First on the market side, we saw another quarter of increasing commodity prices, but with continued slow recovery in demands. And from an operational perspective, we continue to deliver very strong performance.

As we talked about on our first quarter call, we had plans to execute a significant amount of maintenance this quarter. And I am pleased to say this maintenance was executed successfully. And now that most of our scheduled downtime is behind us, we are in great shape heading into the second half of the year. This is especially exciting as we have seen many of the pandemic-related restrictions in Canada lifted and are looking forward to seeing a more pronounced recovery in demands.

So, I am very pleased with the strong execution of our plans and the subsequent results this quarter. And likewise, I am very excited about the momentum we are now carrying into the second half of the year. And over the next few minutes, Dan and I will detail the results of what was a very strong second quarter for us.

So now let's turn more specifically to those second quarter results. Earnings for the quarter were \$366 million. And our cash from operating activities was \$852 million, both down slightly from the first quarter, but very much as expected, given our turnaround activities. We saw improvements in crude prices through the quarter although our ability to fully capture this improved market environment was impacted by the high level of turnaround activities that I mentioned.

We have delivered a strong first half in 2021, underpinned by the actions we took last year and are building on this year to maximize the value of our existing assets. And not only was our operating cash flow in the quarter higher than in the second quarter of 2020, it was actually higher than all four quarters of 2020 combined.

Our upstream continues to perform very well, and I will talk more about each asset in a few minutes. But I want to take just a moment now to highlight a major milestone we have achieved at Kearl. I am excited to let you know that we are implementing a new strategy this year to extend intervals between turnarounds at Kearl. Consequently, we will only have a single, annual turnaround starting this year, which we just completed, instead of the two we have typically had in the past.

So, the Kearl turnaround that was originally planned for September/October this year has now been canceled. And while we have been talking for some time about our intention to make this change, I am pleased to say we are delivering this a year ahead of schedule. And this is due to the progress we have made on our multi-year reliability improvement plans. And specifically, the work we have been doing to prepare for this capability over the last several years. Kearl's demonstrated performance gives us the confidence to accelerate our plans. And it is this type of performance that underpins our strong cash flow generation, which in turn supports our focus on shareholder returns.

During the second quarter of 2021, Imperial returned over \$1.3 billion to shareholders through share repurchases and dividend payments. This compares to just over \$900 million for all of 2020. And in June, the company announced the renewal of its share repurchase program, allowing us to repurchase up to 5% of our outstanding shares over a 12-month period ending on 28th June, 2022.

I would also like to briefly highlight the launch of the Oil Sands Pathways to Net Zero alliance. Imperial is very proud to be one of the five founding members of the alliance, which combined to account for around 90% of Canada's oil sands production. As a group, we are committed to working together along with our federal and provincial government

counterparts, with a goal to achieve net zero greenhouse gas emissions from oil sands operations by 2050.

This level of emissions reduction is clearly a significant task we have facing us. And we are looking forward to working together with our industry and government partners to overcome this challenge. It's also a further example of why Canada continues to be the best place globally to produce oil. As we have talked about in the past, Canada continues to lead all major reserve holders in all three aspects of ES&G: environmental, social and governance.

This unprecedented alliance serves to further underscore how important Canada is as a producing nation and the role we play on the global stage. First phase of this foundational project, a major carbon capture utilization and storage trunk line connected to a carbon sequestration hub, which will enable multi-sector tie in projects for expanded emissions reductions. And this is only the start, and we believe that through collaboration, Canada has what it takes to be the responsible energy provider to the world.

And with that, I will now turn it over to Dan to go through our financial performance for the quarter in more detail.

Financial Performance

Dan Lyons

Senior VP Finance and Administration

Thanks, Brad. Getting into the financial results for the quarter, our net income in the second quarter was \$366 million, up \$892 million from the second quarter of 2020, or up almost \$1.2 billion when looking at earnings excluding identified items. This increase was driven primarily by stronger Upstream realizations and volumes and by stronger margins in the Downstream and chemicals.

Now looking sequentially, our second quarter net income of \$366 million is down \$26 million from the first quarter of this year, as higher realizations in the Upstream were more than offset by the impact of significant turnaround activity at Kearl, Syncrude, and Strathcona, which together reduced earnings by about \$400 million, as well as weaker realized margins in the Downstream.

Looking at each business line, the Upstream recorded net income of \$247 million, up about \$170 million from the first quarter's net income of \$79 million driven by higher realizations, partly offset by lower volumes as a result of turnarounds at Kearl and Syncrude.

Downstream's net income was \$60 million in the second quarter, down from \$292 million in the first quarter with the lower earnings reflecting the impact of a 55-day turnaround at Strathcona, along with lower realized margins driven by timing impacts.

Our chemicals business demonstrated continued strong performance in the second quarter earning \$109 million compared to net income of \$67 million in the first quarter, making the second quarter of this year, the highest quarterly results for our chemical business in over 30 years. These strong results continue to be driven by higher margins.

Moving on to cash flow, in the second quarter, we generated \$852 million in cash flows from operating activities or \$893 million, excluding working capital effects. Despite the execution of three major turnarounds, our free cash flow in the second quarter was \$645 million bringing our free cash flow for the year to just over \$1.5 billion, up \$2.4 billion from last year. These strong cash flows enabled us to return over \$1.3 billion to shareholders in the second quarter, mainly via share buybacks while still ending the quarter with a cash balance of almost \$800 million. Looking ahead, with our major turnarounds complete, strong commodity prices, improving product demand and continued capital discipline, we are well-positioned to generate substantial free cash flow over the remainder of the year.

Now, moving on to CAPEX, capital expenditures in the second quarter totaled \$259 million, up about a \$100 million from the first quarter, reflecting a continued ramp up in activity, including increased spend related to the Sarnia Products Pipeline in the Downstream and the Kearl in-pit tailings project in the Upstream. Consistent with our previous guidance, we continue to expect capital expenditures for the year to be about \$1.2 billion as spending continues to ramp up on the Sarnia Products Pipeline and the Kearl in-pit tailings projects and as we increased spending on volume sustainment at Cold Lake, as well as mine progression and efficiency projects at Kearl, including converting additional trucks to autonomous haul and recovering heat from Boiler Flue Gas.

Shifting to shareholder distributions, as I previously mentioned, we returned over \$1.3 billion to shareholders in second quarter, repurchasing about 29.4 million or 4% of our outstanding shares for about \$1.2 billion in May and June, and paying \$160 million in dividends in April at \$0.22 per share. On 23rd June, we announced that we would be renewing our share repurchase program as of 29th June to repurchase up to 5% or about 35.6 million of our outstanding shares over the following 12 months. And in early July, we paid our second quarter dividend of \$0.27 per share, an increase of around 23% from the first quarter dividend. Earlier today, we announced that we will pay a third quarter dividend of \$0.27 per share on October 1st. These actions demonstrate our confidence in the future and are consistent with our longstanding commitment to return surplus cash to shareholders.

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

Operational Performance

Brad Corson

Chairman and CEO

Thanks, Dan. So now let me talk about our operational performance in the second quarter.

Upstream production averaged 401,000 oil equivalent barrels a day in the second quarter, which was up 54,000 barrels per day versus the second quarter of 2020. And this represents our highest second quarter production in over 25 years. The increase was a result of very strong operating performance. And although we were in the very early stages of the pandemic in the second quarter of last year, and we are taking steps to manage production levels in a highly volatile market environment at that time, it is also notable that the second quarter of this year was a quarter where we had significant plan maintenance. Production

was down 31,000 oil equivalent barrels per day versus the first quarter of 2021, mainly due to the significant turnaround activity at Syncrude.

I will now talk in more detail about each asset, starting with Kearl.

As you may recall, last quarter's Kearl production set a best ever mark for the first quarter and that strong performance continued through the second quarter. Kearl is really delivering now. Total gross production was 255,000 barrels per day, which is actually up 4,000 barrels per day from the first quarter of 2021. This is not only the best second quarter production throughout Kearl's history, but also the second-best quarterly production ever for any quarter at this asset. What makes this even more impressive is that these records were achieved during a quarter with a major turnaround, a turnaround that was completed on time and on budget during a challenging period in the Wood Buffalo region, due to the pandemic. The highest production quarter was the fourth quarter of 2020, which was a quarter with no turnaround.

I would also note that eight of the last nine months have been individual monthly production records for Kearl. The exception was May of this year, which was just short of the previous best ever May by around 3,000 barrels per day, due to the turnaround this year. I would say, though, I look forward to next May, when we will take another shot at that record. And at 311,000 barrels per day in June, June is now the highest production month on record for Kearl. And as of yesterday, July 29th, Kearl's production for the month has average just over 290,000 barrels per day, which puts us on track for another monthly record for the month of July. So, this strong performance just continues.

And this is the point at which I would normally be providing some comments on the second annual turnaround at Kearl. But as I mentioned earlier, we won't be having one this fall. Moving to a single turnaround per year, effectively doubling the maintenance intervals is something we have been talking about for a long while as a key part of our journey to 280,000 barrels per day. And at our Investor Day last November, we indicated that we would be taking this step in 2022. Advancing these plans by a full year is a testament to all of the work the Kearl team has done over the last few years as part of our overall reliability improvement strategy.

And so, with this in mind, and as a result of the strong performance, the asset continues to demonstrate, today, we are raising our Kearl annual production guidance for 2021 to 265,000 total gross barrels per day, which represents an increase of 10,000 total gross barrels per day relative to our earlier guidance.

I wanted to take a minute to talk about unit cash costs at Kearl, which continue to be a positive story as well. We have talked about a target unit cash cost of US\$20 per barrel, all in at Kearl and highlighted that we were very close to reaching this target late last year and with a firm commitment for this year. And we continue to focus on reducing our operating costs and are making great progress. Unit costs are down year-to-date, almost C\$3.50 per barrel versus 2020. However, I would also note that while the strong Canadian dollar is creating some pressure on this U.S. dollar equivalent, we continue to target US\$20 per barrel for full year 2021.

I am also pleased to report the start-up of the first Boiler Flue Gas heat recovery unit at Kearl. This technology will allow us to recover heat from boiler exhaust and use it to preheat process water. This is exciting as not only does this provide operating cost reductions, but it is also estimated to reduce emissions by up to the equivalent of 30,000 tons per year of carbon dioxide. And that is on a single boiler; we have five additional boilers that we plan to apply this technology to as we continue to take steps to reduce the greenhouse gas intensity of our operations. This is a great example of emissions reductions efforts that also deliver value to the bottom line.

So now let's talk about Cold Lake. Cold Lake had another strong quarter as well with production of 142,000 barrels per day. This is up 2,000 barrels per day versus the first quarter and up 19,000 barrels per day versus the second quarter of 2020.

The second quarter of 2020 had a high level of planned maintenance, whereas we had relatively light maintenance activity in the second quarter of this year, as I mentioned on our first quarter call. And while this accounts for a large part of the year-on-year increase we realized, the improved reliability and optimizations we made at Cold Lake are also contributing to the strong performance. And given this strong performance, full year production is now expected to be 135,000 barrels per day, an increase of 5,000 barrels per day over our prior guidance. I will also note that we do have some additional minor planned maintenance at the Mahihkan plant in the third quarter at Cold Lake and would estimate the production impact to be around 2,000 barrels per day over the quarter.

Now moving to Syncrude. Imperial's share of Syncrude average production was 47,000 barrels per day in the second quarter. This was down 32,000 barrels per day versus the first quarter and down 3,000 barrels per day versus the second quarter of 2020. This drop is due to the large turnaround on one of the cokers at Syncrude during the quarter. By comparison, Syncrude did not have a turnaround in the first quarter of this year. And recall the turnaround originally planned for the second quarter of 2020 was deferred due to the pandemic and did not start until later in June.

So specific to the turnaround, most of the major work was completed within the second quarter and impacted most of the quarter. However, as you recall, we talked on the first quarter call about the COVID-19 outbreak in Wood Buffalo at that time. And I would note this did impact the turnaround to some extent. The outbreak necessitated executing the work with a reduced workforce. So, there was an impact to the duration. The turnaround was completed in 95 days versus an original plan of around 80 days.

But on a very positive note, I would also highlight that the asset did leverage the new interconnecting pipeline between Syncrude and Suncor's base plant to allow the export of bitumen for the first time in the asset's history in late June, which helped mitigate some of the impact of the extended turnaround.

As we look forward, there is no more turnaround maintenance planned for the asset for the rest of the year. So we would expect to see strong production going forward. And the owners continue to focus on the transfer of operatorship and still expect this to be complete by the fourth quarter.

And just for completeness, I would note that there are no changes to the production guidance for Syncrude.

So now let's move to the downstream. We refined an average of 332,000 barrels per day in the second quarter, which was down 32,000 barrels a day versus the first quarter, but up 54,000 barrels a day versus the second quarter of last year. Utilization in the quarter was 78%, which was down from 85% in the first quarter, but up from 66% in the second quarter of 2020. The higher utilization versus the second quarter of 2020 is reflective of the demand recovery we have seen since last year. The lower utilization versus the first quarter of this year is due to the major planned turnaround at our Strathcona refinery. This turnaround started in early April and was completed on schedule and on budget by the end May. And had an overall impact on throughput of about 70,000 barrels per day in the quarter.

I would also highlight that Strathcona represents almost 50% of our refining capacity in the country. And so, a turnaround of this magnitude does have an impact on the downstream financial results. In addition, while on average Western Canada saw some stronger industry margins in the second quarter, the margins were lower in June, which was when Strathcona completed their turnaround and resumed full production. This impacted our ability to fully capture the stronger industry margins in the quarter. And to give you an idea of where we are now, after the successful completion of the Strathcona turnaround, overall refinery capacity utilization has increased to around 93% in the month June.

Looking forward, we do have some further planned maintenance activity later this year, but not on the same scale as the second quarter. This specifically involves a small turnaround at our Nanticoke refinery starting in mid-September and running until late October. But this is expected to have a small impact on utilization and margins in the quarter.

Petroleum product sales in the second quarter were 429,000 barrels per day, up to 15,000 barrels per day from the first quarter, and up 72,000 barrels per day versus the second quarter of 2020. The improved sales in both cases are driven by strengthening demands as the country eases many of the pandemic related restrictions although the second quarter for Canada was still limited by the pandemic and associated lockdowns. As of June, though, we were seeing industry fuel demands around 90% of normal for gasoline jet at around 50%, which is a significant improvement versus prior quarters, and now with diesel remaining close to historical levels.

Looking forward, we expect to see continued strengthening in the demand for motor gasoline. Most jurisdictions in Canada have effectively lifted their lockdowns and Canada has now surpassed the U.S. and administering first and second vaccine doses. We fully expect that this, along with the fact we are now in the summer driving season, will result in a further increase in gasoline demand in the quarter.

And finally, we also launched the redesigned Synergy Supreme premium gasoline at Esso stations across the country. This is very exciting as this new formulation will help keep engines three times cleaner and also offers enhanced engine protection.

And our chemical business continued its outstanding performance as well, delivering an impressive \$109 million earnings in the second quarter, the highest quarterly earnings in over 30 years. This also represents a significant increase of \$42 million versus the first quarter of 2021 and \$102 million higher than the second quarter of last year. Chemical volumes have continued to stay strong as have margins, which continue to be impacted by supply challenges and demands within North America.

So, to sum it up before we move to the Q&A session, the second quarter, once again, demonstrated Imperial's resilience by delivering strong financial and operating performance in a quarter where we had a significant amount of planned maintenance. And that strong performance underpins the increase in our annual production guidance by 15,000 total gross barrels per day, as well as our ability to return material amounts of cash to our shareholders.

I would also reiterate our ongoing focus on cost discipline and long-term structural enhancements. While the last year and a half has been marked by a high degree of market volatility, our attention on what we can control has ensured that we continue to maximize shareholder value. And I am looking forward to continuing along this path as the year moves forward.

So, with that, I am going to turn it back to Dave to facilitate the Q&A session. Thank you.

Q&A

Dave Hughes: Okay. Thanks, Brad. As usual, we had a few questions pre-submitted. So, I think I will start by going to a couple of them. Our first question comes from Phil Gresh at JP Morgan. One of your oil sands peers referred to approximately 10% inflation risks on CAPEX. What are you seeing here? And from an activity level perspective, how are you thinking about any potential changes to your plans from last year's Analyst Day, given the higher prices? Are you seeing any OpEx inflation headwinds?

Brad Corson: Well, thanks for that question, Phil. And let me first comment on CAPEX and then I will comment on OpEx. We do see some pressure from inflation particularly on steel prices, but it is really not having a significant impact on our overall operating and capital plans given the nature of our projects, our current activity levels and really our ability to find offsets.

For example, one of our key capital projects is the Sarnia Products Pipeline, which by its nature has a lot of steel associated with it, but here we have already purchased most of the pipe and valves required for that project. So, we really have limited exposure at this point to inflationary pressures. Another major project for us, capital project, is our Kearl in-pit tailings project. But that project mostly involves earthworks. So, there is really a limited pressure caused by steel inflation and not really material.

Now shifting a little bit to operating costs. I think it is fair to say that that we are seeing higher energy costs driven by natural gas pricing and especially compared to a year ago. So that is impacting some of our costs. But when you set that aside actually our company-wide operating costs are essentially flat with the first half of last year.

Dave Hughes: Okay. And Phil had a follow up. What is your latest thinking on temporary versus permanent OPEX savings relative to the \$1 billion you took out in 2020?

Brad Corson: Well, thanks, again for that question, Phil. And maybe just building a little bit on my earlier comment on OpEx and inflation. But first, just to remind you and everyone, last year, we were able to reduce our operating costs by about \$1 billion versus the prior year. And what we have said over the course of last year was that about 50% of that cost savings was structural. And the other 50% were more temporary or one-off type impacts. But as we moved into this year, we had a very strong focus on trying to maintain that full

\$1 billion of savings. And so, where there were things that were temporary or one-off in nature, we are working hard to offset them in all parts of our business.

And I am quite pleased that, we are making progress on that. And as I said, other than some of the pressures we are seeing from energy costs, especially on fuel gas purchases, other than that, we are maintaining pretty flat levels of costs versus last year, which is a significant achievement. And then of course, also important to keep in mind that while we are keeping those costs flat, we have been raising our upstream production. And so, when you look at unit cost trends, those are continuing on the downward trajectory that we talked about at Investor Day and continues to be core to our strategy to maximize value of our existing assets.

Dennis Fong (CIBC World Markets): Hi, good morning. And thank you for taking my questions. The first one really relates to Kearl. Obviously, you guys have showcased a lot of good work there, driving stronger throughput and production. Just referencing back to 2019 and 2020 investor days, you outlined, I think it was six items that could help drive production levels to 280,000 barrels a day. And in one of the previous conference calls, you kind of indicated that some of those initiatives had already been completed, which it seems like part of the driving factor to raising a full year guidance at Kearl. I was just curious as to what some of the remaining incremental projects you have left to help drive you to that 280,000 barrels a day, given your accelerated timeline of kind of switching to one turnaround a year?

Brad Corson: Yes. Thanks. Thanks for that question. And I appreciate your recognition of the great progress we are making on our journeys at Kearl. And I must say, no pun intended, but Kearl is a rockstar for us. And they just continue to deliver in so many ways ranging from reliability improvements, other volume enhancements, costs reduction initiatives, a whole range of things. And as you pointed out, we laid out a core strategy to enable us to ultimately achieve 280,000 barrels per day over a several year time frame. And there were many projects underpinning that.

A couple of that are still very much a focus of ours involve some further debottlenecking of our equipment there at Kearl, which will allow higher throughputs. We are also continuing some mining and resource optimization activities. Digital is still a key focus area for us. And so, there are still more initiatives that we are very focused on to get us to 280,000 barrels a day. But as you are also seeing we are accelerating that plan, being able to raise our guidance to 265,000, obviously puts us much closer to 280,000. And I look forward to our November Investor Day and we will give you an update on the timeline to get to 280,000 but rest assured it is going to be quicker than what we have projected in the past. Thanks for the question.

Dennis Fong: Great, thanks. And just one quick follow-up here. Just shifting over to capital allocation. Obviously, you have outlined multiple ways that you are returning cash back to shareholders through the share buyback program and your dividend, as well as continuing on a core focus capital program, which is looking at optimizing essentially your base production and kind of carrying that through this year. Obviously given the stronger oil price environment you are looking to pay back a significant amount of debt just because there are no other options at the time being for, for allocating capital.

How are you thinking about just that thought process? What do you think is an appropriate capital structure? And what are the other alternatives that you are looking at with respect to capital allocation? Thanks.

Brad Corson: Yes, good question. And Dan is here. I am going to let Dan talk about kind of our approach to capital allocation and our view as the best use of cash. But I would say, just before I turn it over to him, that we do not necessarily view it as a priority to pay down debt. We do believe there's better uses of our capital. So, I will let Dan talk about that.

Dan Lyons: Yes, I mean, our debt levels are low on an absolute basis relative to our peers. The cost is low. It is always an option, but as Brad said, it is not a priority. And as we have said at various investor days and other things pretty consistently, we remain committed to returning surplus cash to shareholders. And obviously if you look at today's commodity prices, I kind of talked a little bit about in my comments, and the production levels we have going forward, we could see – we hope to see very strong cash generation.

So, we start as always with a reliable and growing dividend. Our go-to after that to the NCIB, and we just completed the 4% amendment over a couple of months. And now we have the new one we launched for 5% over the next 12 months. And we still could grow cash balances, significantly net of all that, right.

And so, as we have said before our commitment to return surplus cash remains. And so, we have to look at other methods of share buybacks. We have to look at special dividends and we haven't made any decisions in that area. But I think the key message is we are committed to return surplus cash.

Brad Corson: Thanks for those questions.

Greg Pardy (RBC Capital Markets): Thanks. Thanks, good morning. And thanks, as always for the very thorough rundown. Most of my questions have been answered. But I guess the one to come back to the pathways to net zero which part of the quintet. Brad what is most important in your mind in terms of milestones that we should be looking for you guys since you have come out with this in early June, there is a consultation period underway. But how should we sort of grade performance here and perhaps over what timeline?

Brad Corson: Yes, thanks for the question, Greg. And the Pathways to Net Zero Alliance and our objectives there are a very high priority for us as a company and more collectively, the five of us on behalf of our industry. The undertaking is huge, it is complex. It is going to require a lot of collaboration and support. And right now, we are very focused on first of all, defining the optimum, if you will, technical solutions, what the base project will entail. And we are leveraging all of five companies' strengths there.

We are also in parallel working with provincial and federal governments to define the nature of support that we will need from them, both in terms of fiscal support for the project certainty around our investments and also access to pour space in – along the pipeline and where we see some sequestration hubs.

So, in the near term, I think, between now and the end of the year that the focus is on defining what that kind of level of support involves. And then also marrying that up with all of the physical elements of the project.

I will tell you in terms of where does this fit into our priority, for myself and the other four CEOs, we are meeting on a very regular basis in most cases once a week. We all have our own teams that are working together. And they are meeting multiple times a week. So, this is a huge undertaking for us. And it is obviously a multi-year, multi-decade project, but critically important that we get it set up right here in the very early months. So that is what we are working on.

Greg Pardy: Understood.

Brad Corson: I hope that helps.

Greg Pardy: So, thanks very much. As always, yes, thanks very much Brad.

Brad Corson: Okay. Thank you.

Neil Mehta (Goldman Sachs): Thank you. Brad, this question might be premature, and I recognize that it is a board decision, but you brought up the comment around a special dividend, which given the cash flow generation that I would think you would have in the back half of the year as the forward curve becomes a real possibility. As you think about the potential for special dividends, what do you think the positive cases and what do you think the risks are to the idea?

And then we have seen it is employed in a couple of different ways, some have done it in a codified framework, through a variable construct and some have opportunistically provided fixed special dividends. So, I thought I'd just create a forum for you to weigh in here on anything that is relevant as it relates to the concept.

Brad Corson: Yes, thanks for the question, Neil. And you are right, as we look through the rest of the year, we do think we are going to be in a very strong cash position. And we are going to be, I think, faced with some really positive choices. And between ourselves, the management team, and certainly with the Board, we continue to reflect on those and talk about what is the best way to deliver value to our shareholders.

But I will maybe pause there and give Dan a chance to comment maybe on some of the particulars.

Dan Lyons: Yes, thanks, Brad. Neil obviously it is a good question. And we do not have any particular religious philosophy on whether you do special dividends or buy backs, or even this variable driven you kind of referred to. But I think what we hear from our major shareholders and indeed equity analysts is there is a really a preference for reliable and growing dividend.

So, I think that that could change. If the preferences of the market change and our shareholders, we can always think about that and going to some other method of variable or what have you, but we are pretty committed to reliable and growing dividend as consistent with what our shareholders want. And so, it would be – so the variable dividend is not something where we are really pursuing at this point. And then it is more special dividends or share buy backs, and each has its pros and cons and we will make that decision with the Board as we go forward.

Neil Mehta: Thanks, guys. And then the second question is, capital spending in the first half of the year is clearly tracking well below your full year guidance. How do you feel about the full year number? Is there a downward bias to it? And to the extent you still think you are on

track for that level, remind us again, what causes the acceleration of spend in the back half of the year?

Brad Corson: Yes, it is a really good question. And first, I would just summarize by saying, we continue to be focused on the capital plans we laid out at an Investor Day. And those underpin our guidance of \$1.2 billion for this year. And we maintain confidence that we can achieve that. You are exactly right when you look at the first half of the year, we have only spent probably 35% of that \$1.2 billion. So, we are tracking behind, but we are aggressively ramping up activity on several large projects.

And so, when you look at second quarter compared to first quarter, you will see a significant ramp up. And I forget, 40%, 50% or something. And so, if you extrapolate that, that trend, I think that will give you kind of a renewed confidence and our ability to get to that \$1.2 billion and within our project portfolio are multiple projects with their own individual timelines. And some of them just happened to be more heavily weighted towards the second half of the year.

We have been actively ramping up construction activities for our Sarnia Products Pipeline, that is one of our largest projects in the Downstream and on the Upstream we are actively ramping up our construction activities at Kearl with our tailings project. And so those are two examples of where we expect to spend significantly more capital in the second half of the year relative to the first half of the year.

Now through all that, we continued to look for efficiencies, optimizations, we have a long track record of capital discipline, and so what is most important is achieving those projects kind of within the timeline and achieving the ultimate objectives. And if we can do that for slightly lower costs, actually we want to do that. And so, we are going to continue to look for that. And maybe that will result in us spending a little bit less money by the end of the year, but not with any compromise to the project objectives or timelines. So, I think we are going to be pretty close to that \$1.2 billion.

Neil Mehta: Okay. Thanks, Brad.

Dave Hughes: Okay. Brad, we have a couple more that were pre-submitted. So, I am going to go to those right now. The first one comes from a Menno Hulshof at TD. Can you quantify the impacts of the extension of the turnaround interval at Kearl in 2022 and beyond downtime unit costs, turnaround costs, etc.? Is the plan to apply this approach to other projects, if so, which ones and when?

Brad Corson: Yes. Thanks. Thanks for that question, Menno. And when you think about turnarounds and I think in Dan's remarks, he highlighted that in this last quarter, we had three major turnarounds. We had Kearl, we had Syncrude, and we had Strathcona, and the collective financial impact of those turnarounds was about \$400 million on our earnings. And all that work was necessary. It underpins the long-term safety, integrity, reliability of our operations.

But to the extent, we can figure out more effective ways to accomplish that work and extend intervals and do it at lower costs. Well, that is a huge prize for us. And that is what underpins this strategy at Kearl. And so specific to Kearl, when look historically over the last few years at our turnarounds, a single turnaround will typically impact us somewhere around

10,000 barrels a day on an annual average and that that turnaround will typically costs us \$50 million to \$70 million in costs.

And then on top of that, there the lost margin associated with those barrels. So, it is a priority focus for us. That is why it is so exciting that we can announce one-year acceleration to those plans. And so, it continues to be an ongoing focus for all of our turnaround activities. How can we reduce the timeline, reduce the financial impact, but I would say that for our other assets, those plans and approaches are quite optimized. We have been working at those for many, many years. And so, I do not think there is much applicability there, most of our other turnarounds are on a longer interval already. But we are going to continue to look for more opportunities, but Kearn is the big prize and that is why so exciting to announce that today.

Dave Hughes: The next question is turnaround related as well, but in the Downstream, it comes from Manav Gupta at Credit Suisse. Help us better understand the impact of downtime at Strathcona refinery. How much was the throughput lower? What was the total expense of the turnaround and what was the opportunity cost?

Brad Corson: Yes, thanks. And again, I appreciate why there is so much focus on the turnaround. So same for us as for you, in terms of Strathcona again, it is our largest refinery of the three that we have representing about 50% of our refining capacity. That particular turnaround at Strathcona was 55-56 days in duration. So nearly two months of the quarter had an impact of about 70,000 barrels per day. And then the financial impact was around \$90 million in terms of both costs and margin impacts. So, a pretty significant impact to us, but again, one that is quite important for us to accomplish that work and now have it behind us as we look to the future.

Dave Hughes: Okay. We have a question from Phil Skolnick, Eight Capital. How do your Montney assets fit with the corporate strategy?

Brad Corson: Well thanks for that question, Phil. Our corporate strategy is very much focused on maximizing the value of our existing assets. And so, thinking about major growth in the Montney is not a current priority for us. We have very purposely put our focus on our core oil sand assets, and looking to further drive down costs, improving reliability, the low-cost debottlenecks and we have demonstrated our ability to generate significant value from that. And so given that, we are continuing to, if you will, prioritize, where the unconventional assets fit in our portfolio, there are elements of that asset that are performing very well, delivering a lot of value to us. And we are going to continue to advance some of those opportunities.

But I would say, they are lower on our priority list relative to our core oil sands properties. But we take a long-term view, we have a lot of acreage in the unconventional plays. And so we are going to continue to reflect on them, continue to update that opportunity space, see how it fits in the market. And we will continue to keep those strategies current. But for now, our priority is really on the oil sands.

Dave Hughes: Okay. And we have one final question that was pre-submitted around the sustainability of chemical margins. And that came from Phil Gresh at JP Morgan. So, on chemicals, how are you thinking about the pace of margin normalization?

Brad Corson: Well, first, I would just reiterate, it was a very strong quarter for chemicals. As I mentioned, \$109 million of net income and that compares quite favorably to \$78 million of net income for all of 2020. And also compares quite favorably to \$108 million for all of 2019, so a very strong quarter for us, the highest and in 30 years. And it is really being underpinned by a few fundamentals.

I mean, first of all, we have an advantage chemicals business. So, we have a low costs, we have structural advantages driven by our integration with the Sarnia refinery, our access to readily available feed stocks close proximity to key customers to market our products, all those things put us in an advantage position.

And then on top of that, though, what we have seen is, some impacts from the winter storms down south and outages, and some of the Gulf Coast facilities, that has put pressure on the supply side of the market. And then on top of that, as the economy is recovering from COVID, we are seeing an increased demand for polyethylene and consumer goods related to that. And so all those things together are creating a very strong market environment. As we look longer term, into the second half of the year and approaching year end, I do expect there will be probably some normalization of pricing, but very difficult to speculate on what that is going to look like, in terms of dollar per ton.

But probably some normalization kind of given some of those impacts are more seasonal in nature and longer term, I think, this is a very cyclical business. There will be new sources of supply coming on the market and all those things will have an impact. But again, we still feel very good about where we are and the advantages we have with our business. And as we looked even to the end of 2020, I think it is going to continue to be very strong for us.

Dave Hughes: Okay. Operator, can I turn it back to you, please?

Operator: Sure. And we have a follow-up question from Dennis Fong from CIBC World Markets. Your line is open, sir.

Dennis Fong: Hey, thanks for taking my follow-up questions. I have two here. One is just on the Boiler Flue Gas projects. So, you have rolled it out to one particular boiler and indicated there's five incremental that you can look at installing the new technology on. What is the timeframe of that potential installation, as well as, are there any other locations throughout your portfolio that you can look at applying that. And then secondarily, if you would not mind providing a bit of update as to where you are at with respect to the Grand Rapids project. Thanks.

Brad Corson: Yes. First on the Boiler Flue Gas, you are right. We completed one, we have five additional ones that we are in the process of phasing into our Kearl operations. We would expect that it will take probably two to three years to complete all of those. Because we need to time it with downtime on those pieces of equipment and we want to be very orderly in the implementation. But a very positive project, as I mentioned, not only cost advantages, but also emissions advantages. So that will – we look forward to implementing that and it is part of our pathway to a 10% reduction in our greenhouse gas intensity between now and 2023.

And then in terms of Grand Rapids, we have a lot of activity underway at Cold Lake. And I would say more recently, we have shifted our focus to optimizing our existing assets at Cold Lake with some in field drilling and further optimization of production. That is driving those

great volumes that you are seeing at Cold Lake. And the reason that we were able to increase our guidance by 5,000 barrels a day.

So that has been our priority in the near-term to accelerate volumes, but we are keeping obviously a very clear line of sight on some longer-term project opportunities like Grand Rapids. So, we are continuing to pace that project in our portfolio. And when we get to Investor Day, we will give kind of a more wholesome update. But we have made progress on that project and we continued to see that it is going to add a lot of long-term value. But again, equally important as what we are doing that with Nabiye and the base Cold Lake, which is also adding the near-term volumes, which are very profitable right now.

Dennis Fong: Thank you.

Closing Remarks

Dave Hughes

VP Investor Relations

Dave Hughes: I guess that then concludes our second quarter earnings call. On behalf of the management team here, thank you very much for joining us today. If you have any further questions or want to continue any discussions, please do not hesitate to reach out and contact the Investor Relations team. Thank you very much.

[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.

millions of Canadian dollars	Second Quarter		Six Months	
	2021	2020	2021	2020
Cash flows from (used in) operating activities	852	(816)	1,897	(393)
Less changes in working capital				
Changes in operating assets and liabilities	(41)	(241)	(64)	(429)
Cash flows from (used in) operating activities excl. working capital	893	(575)	1,961	36

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.

millions of Canadian dollars	Second Quarter		Six Months	
	2021	2020	2021	2020
Cash flows from (used in) operating activities	852	(816)	1,897	(393)
Cash flows from (used in) investing activities				
Additions to property, plant and equipment	(241)	(205)	(408)	(515)
Proceeds from asset sales	35	40	42	49
Loans to equity companies - net	(1)	(7)	12	(14)
Free cash flow	645	(988)	1,543	(873)

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	Second Quarter		Six Months	
	2021	2020	2021	2020
Net Income (loss) (U.S. GAAP)	366	(526)	758	(714)
Less identified items included in Net income (loss)				
Non-cash inventory valuation (lower of cost or market)	-	281	-	-
Subtotal of identified items	-	281	-	-
Net income (loss) excluding identified items	366	(807)	758	(714)

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	Second Quarter		Six Months	
	2021	2020	2021	2020
From Imperial's Consolidated statement of Income				
Total expenses	7,576	4,403	14,062	11,348
Less:				
Purchases of crude oil and products	4,867	2,115	8,754	6,341
Federal excise taxes and fuel charge	465	369	869	820
Depreciation and depletion	450	413	944	886
Non-service pension and postretirement benefit	10	30	21	60
Financing	13	17	27	36
Total cash operating costs	1,771	1,459	3,447	3,205

Components of cash operating costs

millions of Canadian dollars	Second Quarter		Six Months	
	2021	2020	2021	2020
From Imperial's Consolidated statement of Income				
Production and manufacturing	1,569	1,273	3,054	2,852
Selling and general	200	183	389	349
Exploration	2	3	4	4
Cash operating costs	1,771	1,459	3,447	3,205
Upstream	1,168	887	2,279	1,996
Downstream	499	478	958	1,067
Chemicals	68	67	143	155
Corporate/Eliminations	36	27	67	(13)
Cash operating costs	1,771	1,459	3,447	3,205

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.

	Second Quarter							
	2021				2020			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	1,166	461	254	391	884	355	234	243
Selling and general	-	-	-	-	-	-	-	-
Exploration	2	-	-	-	3	-	-	-
Cash operating costs	1,168	461	254	391	887	355	234	243
Gross oil-equivalent production (thousands of barrels per day)	401	181	142	47	347	135	123	50
Unit cash operating cost (\$/oeb)	32.01	27.99	19.66	91.42	28.09	28.90	20.91	53.41
USD converted at the quarterly average forex	25.93	22.67	15.92	74.05	20.22	20.81	15.06	38.46

2021 US\$0.81; 2020 US\$0.72

	Six Months							
	2021				2020			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	2,275	916	514	724	1,992	845	468	551
Selling and general	-	-	-	-	-	-	-	-
Exploration	4	-	-	-	4	-	-	-
Cash operating costs	2,279	916	514	724	1,996	845	468	551
Gross oil-equivalent production (thousands of barrels per day)	417	180	141	63	383	147	131	61
Unit cash operating cost (\$/oeb)	30.19	28.12	20.14	63.49	28.63	31.58	19.63	49.63
USD converted at the YTD average forex	24.15	22.50	16.11	50.79	20.90	23.05	14.33	36.23

2021 US\$0.80; 2020 US\$0.73

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